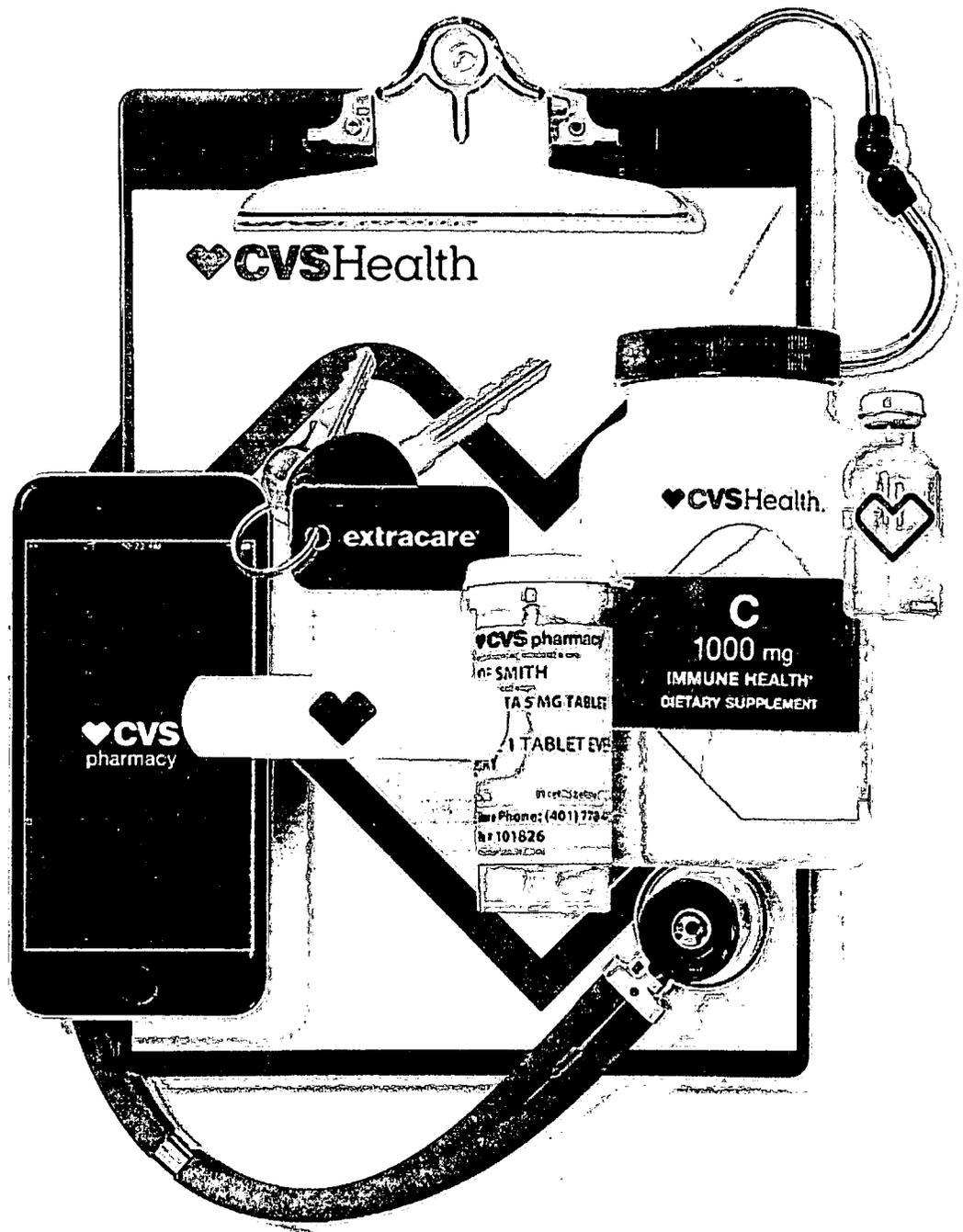


## **Exhibit 10-A**

**CVS Health's 2016 Annual Report to  
Stockholders (including audited  
consolidated Financial Statements and  
the independent public accounting  
firm's report thereon) as well and CVS  
Health Form 10-K Filed with the SEC  
For Fiscal Year Ended December 31,  
2016**

# Health is where the heart is.

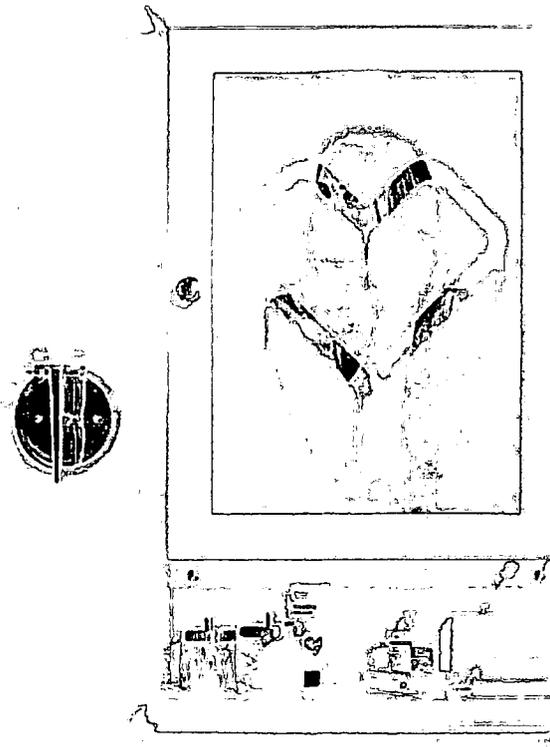


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# We deliver value to all health care stakeholders.

The CVS Health “heart mark” is a ubiquitous presence across our enterprise, representing the unique value we provide to patients, payors, and providers alike. We accomplish this through our unmatched suite of leading assets and our success at integrating them to offer innovative health care solutions. This annual report describes some of the ways in which our model allows us to enhance access, improve health outcomes, and lower overall health care costs, while positioning CVS Health for long-term growth. We think you will agree that health really is where the heart is when seeking affordable, accessible, and effective care.

---



## Our solutions reflect evolving health care needs.

In an era of rising costs, CVS Health is the optimal partner to deliver savings and help improve outcomes for all health care stakeholders.

In our retail pharmacies, innovations such as first-fill counseling, our signature Pharmacy Advisor® program, and ScriptSync® are just a few of the ways in which we drive best-in-class adherence rates and help improve outcomes for patients. Meanwhile, CVS Caremark® draws on a broad range of capabilities to manage costs for PBM clients. They include our

leadership in providing solutions to ensure that the patients we serve have access to the right drug at the lowest cost. We have led the way in formulary innovations and were the first PBM to exclude high-cost drugs from our formulary in favor of less expensive clinical equivalents. Specialty patients drive a large portion of health care costs, a trend that



Pharmacy Advisor has increased adherence by nearly

**10%**



Cost management solutions have lowered client trend to an average of only

**3.2%**



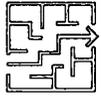
**\$9 billion**

in aggregate client savings driven by managed formularies since 2012

will accelerate as the population ages. To reduce costs and improve outcomes, CVS Specialty™ has moved well beyond a basic specialty offering. Our enhanced care management model includes, among other things, more than 250 rare-disease nurses, comorbidity management, symptom management, and social support. This high level of patient engagement results in fewer emergency room visits and hospitalizations and can produce up to an 11 percent reduction in the overall health care costs associated with a given managed condition.

## Complex patient and market issues require a broad set of interventions

### Patient Issues



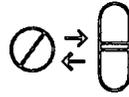
Clinical complexity



Multi-drug regimens



Spend across pharmacy and medical benefits



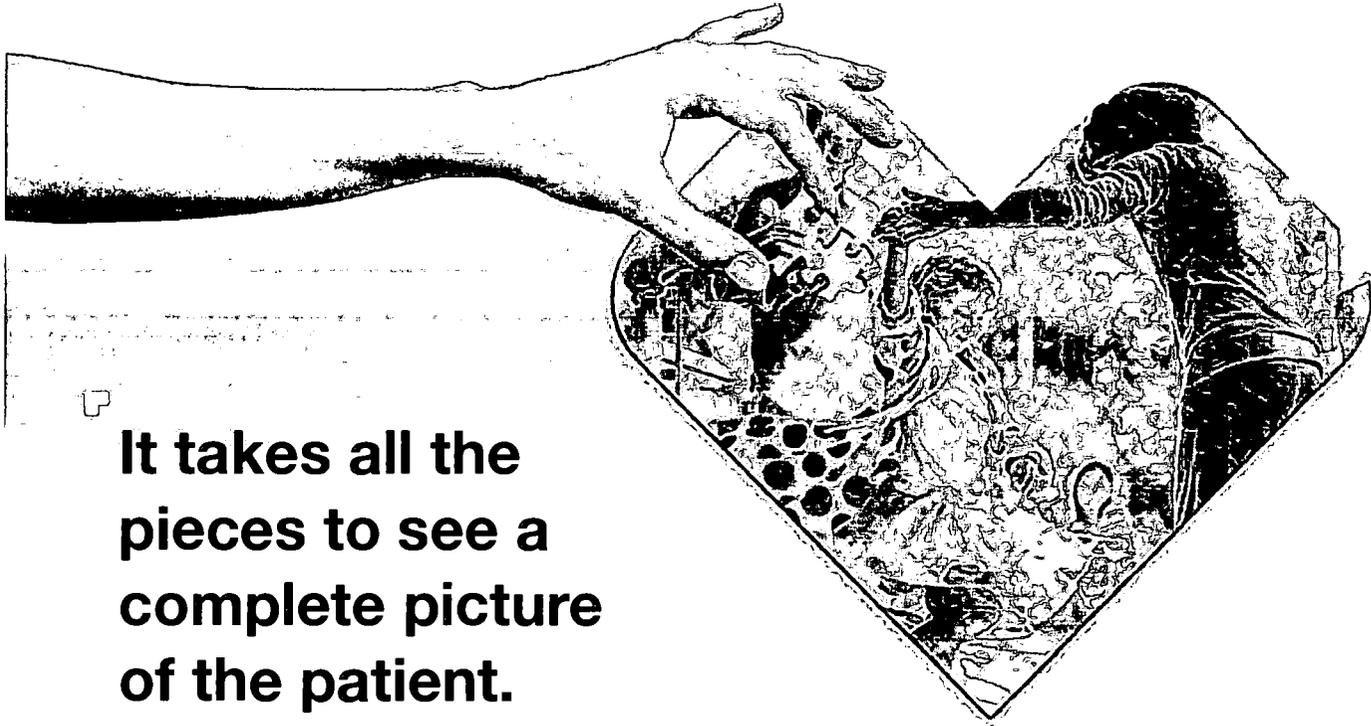
Biosimilars



Pipeline of new drugs and indications



Emerging specialty provider models

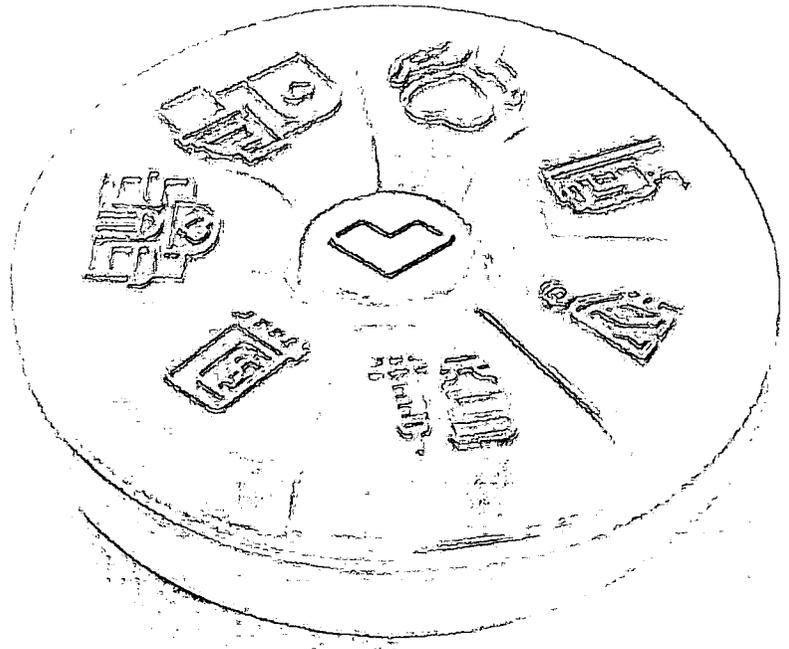


**It takes all the pieces to see a complete picture of the patient.**

Through our integrated assets, we offer exclusive programs that provide an enhanced member experience and better results.

Take Maintenance Choice<sup>®</sup>, which offers PBM plan members the option of receiving their 90-day prescriptions by mail or by picking them up at their local CVS Pharmacy<sup>®</sup> location. The number of people enrolled continues to increase because of its convenience and ability to improve adherence rates. Specialty Connect<sup>®</sup> offers a similar benefit to patients with prescriptions for complex specialty medications. Through our Health Engagement Engine<sup>™</sup>, we seamlessly aggregate data from across the enterprise and other payor sources and combine

it with our clinical research to identify opportunities for improving clinical care. That enables our 36,000 pharmacists and clinicians to have important conversations with patients that help lead to better health outcomes and lower costs for payors. And regardless of the channel a patient chooses, our pharmacists have access to a single, unified record for prescriptions and care. Our digital assets are integrated as well, allowing patients to download a single app to manage all their prescription needs, including retail, mail, and specialty.



□ **We leverage our full circle of care for partners.**

We can partner with all PBMs and health plans, leveraging our enterprise assets and capabilities to meet their individual needs.

The winners in pharmacy care will be those who keep patients the healthiest and deliver the greatest overall health care value. With CVS Pharmacy as the anchor of our suite of enterprise assets, we offer a compelling value proposition—especially in an era of consumer-directed health care. With our menu of pharmacy, long-term care, MinuteClinic, and infusion services, CVS Pharmacy can be the partner of choice for health plans and *all* PBMs, not just our own. Our new strategic relationship with OptumRx is a great example. In addition to a 90-day

in-store prescription offering, we will activate Health Tag messaging at point of sale and provide ExtraCare® health cards that offer savings to OptumRx members. In another example that highlights how we can partner with a non-PBM client, we used a combination of our retail assets and clinical programs to drive adherence and improve the client's Medicare Part D quality ratings. We integrated the client's clinical rules engine into our workflow so our pharmacists could counsel their members, implemented ScriptSync, and delivered clinical counseling through our call centers.



**2.4 billion**

adjusted prescriptions dispensed or managed annually



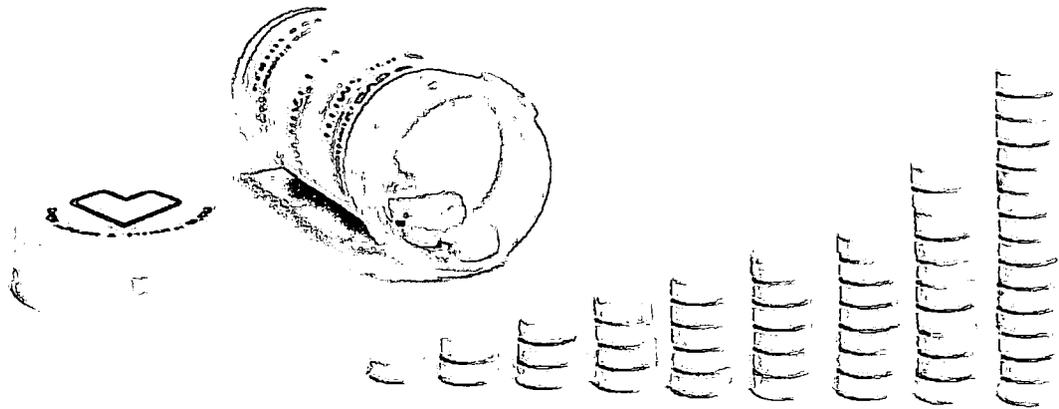
**80%**

of Medicare lives we serve are in either four- or five-star plans



**2 million+**

patients have enrolled in ScriptSync since its inception



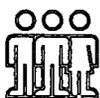
□ **We see significant opportunity for long-term growth.**

We are focused on maximizing shareholder value through long-term growth, strong cash flow, and a disciplined approach to capital allocation.

CVS Health's ability to aggregate lives and increase share across our enterprise dispensing channels—including retail, specialty, and long-term care—are cornerstones of our strategy for sustainable growth. Through CVS Caremark's unique cost management and clinical capabilities, our covered lives have increased by more than 40 percent in just the past four years. We will continue to execute with excellence and drive efficiencies across our enterprise to remain a low-cost provider—and one that delivers exceptional service to patients. A streamlining

initiative now underway is expected to result in a total of nearly \$3 billion in savings from 2017 through 2021. Our integrated model also provides a platform for developing innovative clinical solutions to support patients along all stages of the care continuum. Through it all, we'll operate with an enterprise mindset rather than focusing on the success of any one business. And thanks to the substantial cash that CVS Health generates, we can return significant value to shareholders through acquisitions and other strategic investments, dividends, and share repurchases.

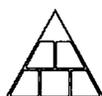
**Our strategic business imperatives**



Aggregate lives



Grow share



Execute with excellence



Drive innovation

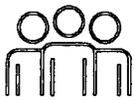


Enterprise focus



# Nurturing our communities is at the heart of what we do.

The three pillars of our *Prescription for a Better World* provide the framework for CVS Health's social responsibility initiatives.



**\$90 million+**  
in community investments



**\$1 billion+**  
spent on diverse suppliers



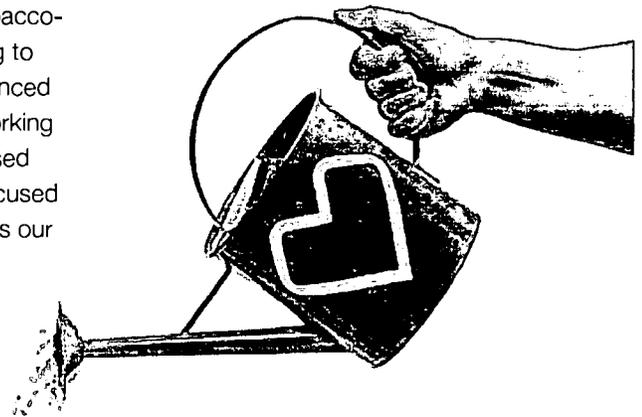
**56**  
metric tons of unused medications collected



**\$113M**  
worth of free medical services through Project Health

Through *Health in Action*, we donated more than \$90 million in charitable contributions, colleague volunteerism, gifts in-kind, and other community investments in 2016. The CVS Health Foundation and American Cancer Society awarded grants to 20 U.S. colleges and universities in 2016 as part of our Tobacco-Free Generation Campus Initiative. This \$3.6 million multi-year program will help accelerate and expand the implementation of 100 percent smoke- and tobacco-free campus policies. Turning to *Planet in Balance*, we announced this past year that we are working toward setting a science-based emission-reduction target focused on reducing emissions across our

supply chain. As a *Leader in Growth*, we've formed the GREENTEAM Colleague Resource Group with the goal of making environmental sustainability a relevant part of every colleague's role and responsibility. The link between human health and the health of our planet is becoming increasingly apparent, and the GREENTEAM inspires our colleagues to advance our leadership in this area.



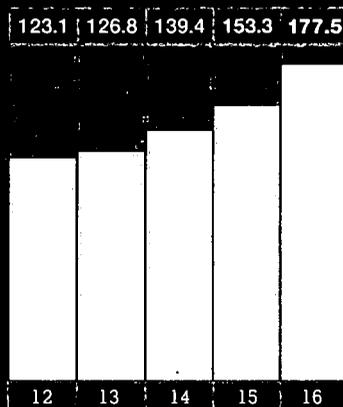
# Financial highlights

(in millions, except per share figures)	2016	2015	% change
Net revenues	\$ 177,526	\$ 153,290	15.8%
Operating profit	\$ 10,338	\$ 9,454	9.3%
Net income	\$ 5,319	\$ 5,239	1.5%
Diluted EPS from continuing operations	\$ 4.91	\$ 4.62	6.2%
Free cash flow*	\$ 8,075	\$ 6,456	25.1%
Stock price at year-end	\$ 78.91	\$ 97.77	-19.3%
Market capitalization at year-end	\$ 84,153	\$ 107,635	-21.8%

\* Free cash flow is defined as net cash provided by operating activities less net additions to properties and equipment (i.e., additions to property and equipment plus proceeds from sale-leaseback transactions).

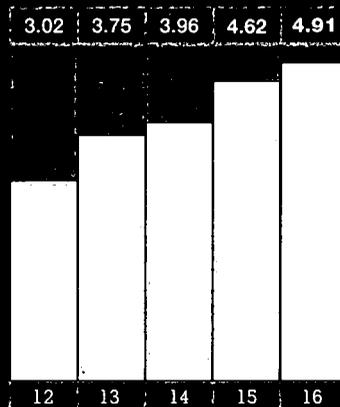
## Net revenue

in billions of dollars



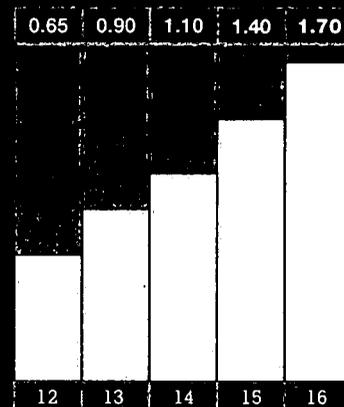
## Diluted EPS from continuing operations

in dollars



## Annual cash dividends

in dollars per common share



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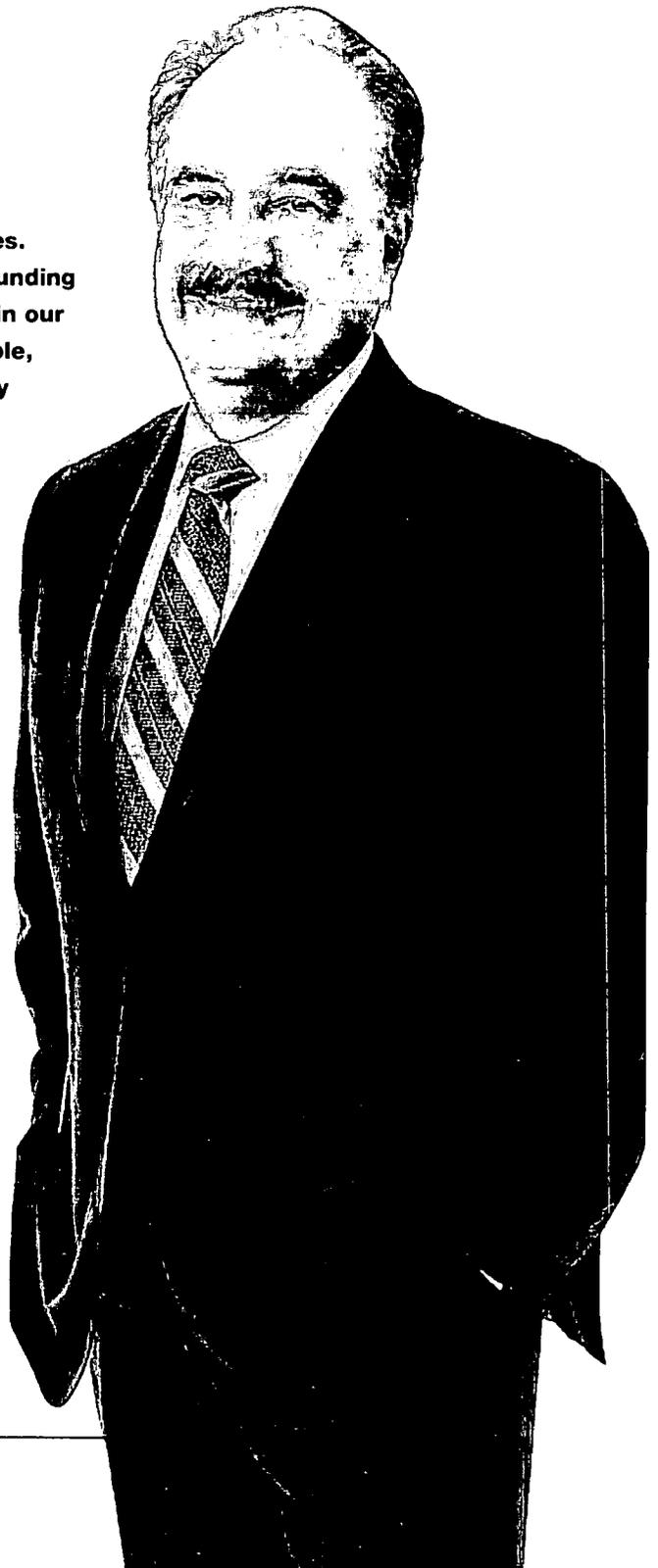
Dear Fellow Shareholders:

**Health care continues to evolve rapidly in the United States. Despite the ongoing changes as well as uncertainty surrounding health care reform, CVS Health believes that the winners in our industry will be those who drive more affordable, accessible, and effective care. We are uniquely positioned to meet any challenges head on and pivot as needed to address any policy changes.**

We continue to have the most extensive suite of enterprise assets, each of which would be a market leader on a standalone basis. Yet what really sets them apart is our ability, largely through technology, to integrate pharmacy care from the payor to the provider to the patient. Our success at integrating our assets enables us to offer innovative services and to deliver additional value to stakeholders. Products such as Maintenance Choice® and Specialty Connect® are unmatched in the marketplace. They remain the gold standard in giving patients choice while also delivering substantial savings to payors. Moreover, with our truly integrated assets, we have a full view of each patient and a single patient record for prescriptions and care regardless of the CVS Health channel used.

We think of our CVS Pharmacy® locations as the “front door of health care.” They give us a significant advantage in the marketplace as the *retailization* of health care continues, with consumer-directed health plans putting more incentive into the hands of patients to make cost-effective decisions regarding their health. Our research has found that face-to-face interactions are two to three times more effective than other interactions at increasing adherence and improving health outcomes. Importantly, CVS Health also owns the last mile in the delivery of care. Our unmatched touch points—from retail and mail to specialty, medical clinics, long-term care, and infusion—put us in direct contact with health care consumers every day.

**Larry J. Merlo**  
President and Chief Executive Officer



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This letter will provide additional insight into these topics as well as update you on our results across the enterprise. We have many accomplishments to look back on, including a successful PBM selling season, superior specialty growth, and the progress we made at integrating the 2015 acquisitions of Omnicare and the pharmacies and clinics of Target. We also excelled at managing rising drug costs—or “trend.” As always, I’ll start with a brief overview of CVS Health’s financial performance and outlook.

---

**Free cash flow totaled \$8.1 billion in 2016, and we returned \$6.3 billion to shareholders through dividends and share repurchases during the year.**

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Robust cash flow provides a strong platform for future growth

In 2016, we benefited from our ongoing focus on the three key financial pillars that we consider essential to maximizing shareholder value:

- Driving productive, long-term growth;
- Generating significant levels of free cash flow; and
- Optimizing capital allocation.

Net revenues for the year increased nearly 16 percent to a record \$177 billion, while adjusted earnings per share (EPS) rose 13 percent to \$5.84. The compound annual growth rate in operating profit and adjusted EPS puts us at the high end of the steady state growth targets we introduced in 2013.

We experienced strong organic prescription growth across the enterprise in 2016, augmented by the Omnicare and Target acquisitions. Moreover, the successful CVS Caremark® PBM selling season of 2015 led to growth in our membership base and claims in 2016.

That said, we do expect to experience some headwinds in the near term that will slow earnings growth in 2017, driven primarily by pharmacy network changes announced late in 2016 that are causing some retail prescriptions to migrate out of our pharmacies. Additionally, our entire

industry is facing uncertainty surrounding health care reform. All of these factors contributed to a 19 percent decline in CVS Health’s stock price in 2016, although we have still outperformed both the S&P 500 Index and the Dow Jones Industrial Average on a five- and 10-year basis.

We have already developed a four-point plan that will help us generate more robust levels of earnings growth in the years ahead. First, we will leverage our enterprise capabilities and CVS Pharmacy’s compelling retail value proposition to partner more broadly with other PBMs and health plans. Our recent announcement that OptumRx members now have the option to fill their 90-day prescriptions at a CVS Pharmacy is just one example.

Second, we will continue to innovate to bring new, integrated PBM products to market that capitalize on the benefits inherent in our integrated model. Take Maintenance Choice, which gives plan members the option of receiving their 90-day prescriptions in the mail or through in-store pickup. Its latest iteration, now in the pilot phase, brings convenience to the next level by offering same-day delivery within two to three hours to a member’s home or workplace.

Third, we have launched an enterprise streamlining initiative that we expect to result in nearly \$3 billion in cumulative savings by 2021. It includes enhancing the efficiency of our shared services functions, optimizing our pharmacy delivery platform, and rationalizing our store footprint. As part of the latter, we expect to close approximately 70 stores in 2017. Many are located close to our CVS Pharmacy locations within Target stores.

Finally, we have significant cash generation capabilities that provide us with a variety of ways to grow and return value to shareholders. Free cash flow totaled \$8.1 billion in 2016, and we returned \$6.3 billion to shareholders through dividends and share repurchases during the year. After increasing our quarterly dividend by 21 percent for 2016, our board of directors has approved an additional 18 percent increase for 2017. That marks our 14th consecutive year of increasing the dividend. We will also continue to repurchase shares, taking advantage of the recent decline in our stock price. Through dividends and share repurchases, we expect to allocate more than \$7 billion in 2017 to enhancing total returns for shareholders.

As exemplified by Omnicare and Target, we also use our cash flow for strategic acquisitions and other ventures that supplement our existing asset base and provide a platform for long-term growth. We will continue to identify

such opportunities in the future, always taking a disciplined approach to deploying capital. With well-laddered debt maturities and a high triple-B credit rating, we have a healthy balance sheet that provides flexibility and allows us to maximize shareholder value for the long term. In fact, we took advantage of the favorable interest rate environment in 2016 to reduce long-term debt levels and the associated interest expense.

PBMs are a key part of the solution to reining in rising drug prices

Before discussing CVS Caremark's performance, I want to address the ongoing rhetoric around drug pricing. New launches at elevated price points and increasing prices of older drugs have contributed to a sense that government interventions are necessary. Some market participants have attempted to paint PBMs as "middle men" in the pharmacy supply chain, taking outsized profits at the expense of patients and payors. This is simply not true. PBMs are the solution, not the problem. That's why both public and private payors continue to count on PBMs as indispensable partners that help to manage their drug trend.

Numerous evaluations from the Federal Trade Commission, Congressional Budget Office, and other government agencies have consistently concluded that PBMs operate in a highly efficient market and drive real savings to the health

care economy. And CVS Caremark's array of cost management solutions have helped to reduce client costs, from an unmanaged gross trend of 11 percent to a managed trend of only 3.2 percent in 2016. In addition, a recent industry study showed that every dollar invested in PBM services returned \$6 in savings for clients and members. So, the value of PBMs is quantitatively pretty clear.

Now, it is a bigger challenge to negotiate lower prices when there is basically a single product in a category. So, we will continue to encourage the need to create competition within therapeutic classes as a solution to reducing the cost of drugs; whether it's clearing out the FDA backlog of potential drug approvals, many of which are generics, or increasing the speed to market of new biosimilar agents.

High satisfaction rates, integrated offerings, and trend management capabilities are driving growth in CVS Caremark's book of business

CVS Caremark's integrated model continued to resonate in the marketplace, helping us achieve strong top- and bottom-line growth in 2016. In a highly competitive 2017 selling season, gross new business wins totaled \$7.9 billion. That represents more than half of all revenue from clients that switched PBMs. Health plans accounted for approximately two-thirds of our wins, with employers, unions, and government entities comprising the rest.

## We own the last mile of care through our unmatched patient touchpoints



**Retail Pharmacy**



**Mail**



**Specialty**



**Retail Clinics**



**Long-Term Care**



**Infusion**



**No matter the road, we can shape behavior and drive outcomes**

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With our 97 percent retention rate, net new business for 2017 totaled \$4.4 billion. This new business provides an important platform to grow dispensing across the enterprise. As an example, let's look at payors that came on board in 2015. While their members filled 8.4 million retail prescriptions in one of our channels before these payors were clients, we expect their members to fill more than 29 million scripts through one of our channels in 2017. That will be an important driver of share gains.

Payors have different reasons for choosing CVS Caremark, from our high client and member satisfaction scores to our ability to control trend. We accomplish the latter in a variety of ways. Among them, CVS Health has been the industry leader in formulary innovations. In 2012, we became the first PBM to exclude high-cost drugs from our formulary in favor of less expensive clinical equivalents. In 2017, we will continue to lead the market in formulary strategy with the inclusion of biosimilars as a key component as well as a new indication-based formulary. We are also monitoring hyperinflationary drug pricing on a real-time basis, enabling rapid response to help reduce the impact on our clients.

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**The complexity of the market and the growing impact of specialty pharmacy on overall drug spending make our integrated PBM/specialty model more relevant than ever.**

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Complementing our partnership with health plans, we have broad expertise in government programs. SilverScript® is the nation's largest Medicare Part D (Med D) Prescription Drug Plan (PDP), and we are proud that it earned four stars on the government's annual quality measurement system for the second consecutive year.

SilverScript began 2017 with 5.5 million captive PDP lives, including Employee Group Waiver Plans, up 10 percent from the previous year. We serve and support a total of 12.3 million lives under management when you include the Med D and MA-PD offerings of more than 40 of our health plan clients. We provide these clients with operational and

consultative services that include making formulary and plan design recommendations. That has helped improve their star ratings and enabled them to grow faster than the market. While the Med D market has averaged 4.8 percent annual growth since 2013, our clients have seen their Med D membership rise by 7.6 percent.

CVS Specialty's unique capabilities help us address the increasing complexity in the industry's fastest-growing sector

Revenue from the specialty prescriptions we dispense and manage grew to \$50 billion in 2016. That is a 27 percent increase over 2015. Since 2013, our dispensed specialty revenue has grown at a compound annual growth rate of 26 percent, compared with 22 percent for the industry. Specialty remains the industry's fastest-growing sector, and our 28 percent share of the market leads our competitors by a wide margin.

Many factors have contributed to our strong performance. Payors value our capabilities in price as well as utilization and site of care management. And our NovoLogix® technology platform allows us to manage all specialty medications, including those paid under the medical benefit. Even our most sophisticated health plan clients who have been managing specialty on their own can realize incremental savings when they take advantage of our full range of management tools.

The complexity of the market and the growing impact of specialty pharmacy on overall drug spending make our integrated PBM/specialty model more relevant than ever. Adherence has risen by 11.4 percent among those enrolled in Specialty Connect®. Like Maintenance Choice, this product offers specialty patients the option of having their medications delivered by mail or to their CVS Pharmacy location for pick-up. Specialty Connect users choose the latter option 54 percent of the time.

Access to new drugs has also played an important role in our performance. Some of these drugs have had limited distribution, and manufacturers can be discriminating evaluators when choosing specialty pharmacy partners. We have secured access to 30 of the 35 limited distribution products generally used in our channels and that have launched in the past two years. That success is a testament to the level of service our specialty pharmacy offers. In 2017, we are rolling out an enhanced specialty model that will further streamline the entire prescription process for physicians and patients while lowering costs for payors.

---

CVS Pharmacy's industry-leading care programs and high adherence rates make us a valuable strategic partner

CVS Pharmacy same store prescription volumes rose by 3.6 percent in 2016, with same store pharmacy sales up 3.2 percent. With front store same store sales declining by 1.5 percent, total same store sales increased by 1.9 percent. CVS Pharmacy locations now fill more than 1 billion prescriptions annually, and we have captured a 23.8 percent share of U.S. retail prescriptions. Size, scale, and expertise matter in health care. We have more than 9,600 locations with 27,000 retail pharmacists and 73,000 pharmacy technicians who help patients get on—and stay on—their medications.

Non-adherence costs the U.S. health care system hundreds of billions of dollars each year. Our deep clinical expertise and industry-leading care programs drive best-in-class adherence rates. For example, we have demonstrated better adherence results than our key competitors for patients with diabetes, hypertension, and high cholesterol. Innovations such as first-fill counseling, our signature Pharmacy Advisor® program, and ScriptSync® are just a few of the programs that are driving these improved health outcomes.

The market innovations we are driving through our retail pharmacy's integration with CVS Caremark have certainly played an important role in our growth. That said, it's worth noting that 55 percent of retail prescription growth since 2013 has been driven by share gains with other payors. They value the clinical solutions/capabilities that CVS Pharmacy brings to market to keep their members healthy.

We are successfully leveraging the Omnicare and Target acquisitions; MinuteClinic continues to enhance our value proposition

Now let me bring you up to date on our Omnicare and Target acquisitions. I'll start with Omnicare, the nation's leading provider of pharmacy services to the long-term care market. Omnicare dispenses approximately 100 million scripts annually to more than 1 million patients. We are using our retail footprint and extensive operational expertise to help improve efficiency and productivity in Omnicare's core business of serving skilled nursing facilities. For example, 77 percent of Omnicare's customers live within three miles of a CVS Pharmacy. That means we can fill prescriptions for them much more quickly in emergency situations. We have several initiatives underway as well to accelerate growth in the assisted living and independent living markets.

Moving on to Target, last year's acquisition of its nearly 1,700 pharmacies expanded our retail footprint by more than 20 percent. It also gave us a presence in new regions such as Seattle, Denver, Portland, and Salt Lake City. We have successfully completed the integration and are now focused on converting more of Target's 30 million weekly guests into CVS Pharmacy customers. We are making good progress and moving in the right direction, with script performance improving versus prior quarters. This is driven by the strength of our patient care programs as well as Maintenance Choice.

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**Our deep clinical expertise and industry-leading care programs drive best-in-class adherence rates for our patients.**

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The Target deal included the acquisition of nearly 80 retail clinics that we have since rebranded as MinuteClinic locations. In total, we operate more than 1,100 clinics across 33 states, three times more than our next-largest competitor. And MinuteClinic's nearly 3,000 nurse practitioners and physician assistants have logged more than 34 million patient visits to date.

MinuteClinic enhances the CVS Pharmacy value proposition in a variety of ways. Perhaps most importantly, it is up to 80 percent less expensive than other sites of care, such as the emergency room. In 2017, approximately 4 million CVS Caremark plan members will have an opportunity to benefit from the MinuteClinic Savings Strategy program. This integrated offering provides PBM members with reduced or zero co-pays. MinuteClinic is also partnering with health systems on population health strategies and engaging patients through a convenient and consumer-friendly experience. In fact, MinuteClinic and the Department of Veterans Affairs recently partnered to expand access to high-quality and convenient health care services for veterans in Northern California.

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Health and Beauty, ExtraCare®, and digital initiatives drive front store performance

In the front of the store, we have focused on ways of enhancing the pharmacy experience and driving profitable margin growth for the enterprise. Our emphasis on health and beauty—categories closely tied to pharmacy—helped us accomplish both. Health and beauty offer profit margins that are higher than the average of other front-store categories, and sales have grown at a compound annual growth rate of 3.5 percent since 2011. We also continued to have success with store brands, which offer higher margins than national brands and now comprise more than 22 percent of front-store sales. We believe that their penetration rate can reach 25 percent in the coming years.

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**Our digital offerings complement and leverage our brick-and-mortar locations to make the shopping experience even more convenient.**

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Among other front store initiatives, we have continued to shift our promotional dollars from mass circulars to digital and personalized offers. In particular, we have focused on the top 30 percent of customers that account for 75 percent of our margins. The ExtraCare loyalty program, now in its 19th year, helps us identify and engage these higher-value shoppers.

Our digital offerings complement and leverage our brick-and-mortar locations to make the shopping experience even more convenient. As an example, we launched CVS Curbside in roughly 4,000 stores across 40 markets in late 2016. With this new service, customers can use the CVS smartphone app to have purchases delivered to their car when they pull up to the store. For parents with young children or people with mobility issues, we believe that this is a compelling offering. We expect to add a similar option for pharmacy as well.

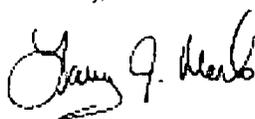
Our social responsibility initiatives include a major anti-tobacco effort

No discussion of CVS Health would be complete without acknowledging the broad and ambitious social responsibility initiatives underway across the enterprise. You can read about them in detail in our comprehensive 2016 corporate social responsibility (CSR) report, which will be available in May. I'll mention just a couple here.

We completed the removal of tobacco products from our stores in 2014. Through the *Be the First* initiative we launched in 2016, we have made a five-year, \$50 million commitment to help people lead tobacco-free lives. We are supporting education, advocacy, tobacco control, and healthy behavior programming in partnership with organizations uniquely positioned to tackle this public health challenge. In addition to our tobacco-related efforts, through Project Health we have provided more than \$113 million worth of free health services, such as biometric screenings and health insurance education, at select CVS Pharmacy locations throughout the United States and Puerto Rico. These efforts support our corporate purpose of helping people on their path to better health.

In closing, I want to thank our board of directors, our shareholders, and the 250,000 colleagues who have played a significant role in CVS Health's achievements. Because of them, we are able to deliver a compelling business model that offers benefits in savings, accessibility, and outcomes across the health care spectrum. If you haven't done so already, I encourage you to read the rest of this report to learn more about our unique capabilities.

Sincerely,



Larry J. Merlo  
President and Chief Executive Officer

February 9, 2017

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# 2016

## Financial Report

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# 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

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its subsidiaries (collectively, "Coram"). With Specialty Connect<sup>®</sup>, 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<sup>®</sup> 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<sup>®</sup> Pharmacy Services, Caremark<sup>®</sup>, CVS Caremark<sup>™</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Accordant<sup>®</sup>, SilverScript<sup>®</sup>, Coram<sup>®</sup>, CVS Specialty<sup>™</sup>, NovoLogix<sup>®</sup>, Navarro<sup>®</sup> 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<sup>®</sup>. 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<sup>®</sup> 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<sup>®</sup>, 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<sup>®</sup>, CVS<sup>®</sup>, CVS Pharmacy y más<sup>®</sup>, Longs Drugs<sup>®</sup>, Navarro Discount Pharmacy<sup>®</sup> and Drogeria Onofre<sup>™</sup> names, 38 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy<sup>™</sup>, CarePlus<sup>®</sup> and CVS Pharmacy<sup>®</sup> names, and 1,139 retail health care clinics

# Management's Discussion and Analysis

## of Financial Condition and Results of Operations

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

		YEAR ENDED DECEMBER 31,		
IN MILLIONS, EXCEPT PER SHARE AMOUNTS		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.

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- 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.

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

Interest expense, net for the years ended December 31 consisted of the following:

IN MILLIONS	2016	2015	2014
Interest expense	\$ 1,078	\$ 859	\$ 615
Interest income	(20)	(21)	(15)
Interest expense, net	\$ 1,058	\$ 838	\$ 600

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:

IN MILLIONS	Pharmacy Services Segment <sup>(1)(2)</sup>	Retail/LTC Segment <sup>(2)</sup>	Corporate Segment	Intersegment Eliminations <sup>(2)</sup>	Consolidated Totals
<b>2016:</b>					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit <sup>(3)</sup>	5,901	23,738	—	(782)	28,857
Operating profit (loss) <sup>(4)(5)(6)</sup>	4,672	7,281	(894)	(721)	10,338
<b>2015:</b>					
Net revenues	\$ 100,363	\$ 72,007	\$ —	\$ (19,080)	\$ 153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit (loss) <sup>(5)(6)</sup>	3,989	7,130	(1,037)	(628)	9,454
<b>2014:</b>					
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.

# Management's Discussion and Analysis

## of Financial Condition and Results of Operations

### Pharmacy Services Segment

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

IN MILLIONS	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 <sup>(2)</sup>	\$ 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 <sup>(1)</sup>	\$ 42,783	\$ 37,828	\$ 31,081
Pharmacy network <sup>(2)</sup>	\$ 76,848	\$ 62,240	\$ 57,122
Other	\$ 332	\$ 295	\$ 237
Pharmacy claims processed:			
Total	1,230.0	1,011.9	932.0
Mail choice <sup>(1)</sup>	89.5	85.7	82.4
Pharmacy network <sup>(2)</sup>	1,140.5	926.2	849.6
Generic dispensing rate:			
Total	85.4%	83.7%	82.2%
Mail choice <sup>(1)</sup>	78.2%	76.4%	74.6%
Pharmacy network <sup>(2)</sup>	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.

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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

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

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:

IN MILLIONS	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
Net revenues	\$ 81,100	\$ 72,007	\$ 67,798
Gross profit <sup>(1)</sup>	\$ 23,738	\$ 21,992	\$ 21,277
Gross profit % of net revenues	29.3%	30.5%	31.4%
Operating expenses <sup>(2)</sup>	\$ 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) <sup>(3)</sup>	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) <sup>(3)</sup>	18.6%	10.2%	5.2%
Same store sales increase (decrease) <sup>(4)</sup> :			
Total	1.9%	1.7%	2.1%
Pharmacy	3.2%	4.5%	4.8%
Front Store <sup>(5)</sup>	(1.5)%	(5.0)%	(4.0)%
Prescription volume (90 Day = 3 prescriptions) <sup>(3)</sup>	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.

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

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.

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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.

# Management's Discussion and Analysis

## of Financial Condition and Results of Operations

### 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:

IN MILLIONS	YEAR ENDED DECEMBER 31,		
	2016	2015	2014
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	\$ 912	\$ (22)	\$ (1,608)

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:

	2016 <sup>(2)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
Total stores (beginning of year)	9,665	7,866	7,702
New and acquired stores <sup>(1)</sup>	132	1,833	187
Closed stores <sup>(1)</sup>	(47)	(34)	(23)
Total stores (end of year)	9,750	9,665	7,866
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		
Authorization Date	Authorized	Remaining
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

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## Management's Discussion and Analysis

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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.

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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

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

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.

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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.

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Below is a summary of our significant contractual obligations as of December 31, 2016:

IN MILLIONS	Total	PAYMENTS DUE BY PERIOD			
		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 <sup>(1)</sup>	1,737	—	—	—	1,737
Long-term debt	25,204	21	4,350	5,050	15,783
Interest payments on long-term debt <sup>(2)</sup>	11,385	916	1,724	1,480	7,265
Other long-term liabilities reflected in our consolidated balance sheet	806	76	377	112	241
	\$ 67,811	\$ 3,552	\$ 11,171	\$ 10,738	\$ 42,350

(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.

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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.

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

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.

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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

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

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.

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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,

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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.

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## 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.

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# Management's Discussion and Analysis

## of Financial Condition and Results of Operations

### 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.*

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- *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.*

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- *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.

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## 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

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# Report of Ernst & Young LLP, 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.

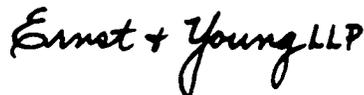
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material 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.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script.

Boston, Massachusetts  
February 9, 2017

# Consolidated Statements of Income

YEAR ENDED DECEMBER 31,

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2016	2015	2014
Net revenues	<b>\$ 177,526</b>	\$ 153,290	\$ 139,367
Cost of revenues	<b>148,669</b>	126,762	114,000
Gross profit	<b>28,857</b>	26,528	25,367
Operating expenses	<b>18,519</b>	17,074	16,568
Operating profit	<b>10,338</b>	9,454	8,799
Interest expense, net	<b>1,058</b>	838	600
Loss on early extinguishment of debt	<b>643</b>	—	521
Income before income tax provision	<b>8,637</b>	8,616	7,678
Income tax provision	<b>3,317</b>	3,386	3,033
Income from continuing operations	<b>5,320</b>	5,230	4,645
Income (loss) from discontinued operations, net of tax	<b>(1)</b>	9	(1)
Net income	<b>5,319</b>	5,239	4,644
Net income attributable to noncontrolling interest	<b>(2)</b>	(2)	—
Net income attributable to CVS Health	<b>\$ 5,317</b>	\$ 5,237	\$ 4,644
Basic earnings per share:			
Income from continuing operations attributable to CVS Health	<b>\$ 4.93</b>	\$ 4.65	\$ 3.98
Income (loss) from discontinued operations attributable to CVS Health	<b>\$ —</b>	\$ 0.01	\$ —
Net income attributable to CVS Health	<b>\$ 4.93</b>	\$ 4.66	\$ 3.98
Weighted average shares outstanding	<b>1,073</b>	1,118	1,161
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	<b>\$ 4.91</b>	\$ 4.62	\$ 3.96
Income (loss) from discontinued operations attributable to CVS Health	<b>\$ —</b>	\$ 0.01	\$ —
Net income attributable to CVS Health	<b>\$ 4.90</b>	\$ 4.63	\$ 3.96
Weighted average shares outstanding	<b>1,079</b>	1,126	1,169
Dividends declared per share	<b>\$ 1.70</b>	\$ 1.40	\$ 1.10

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

IN MILLIONS	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

	DECEMBER 31,	
IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2016	2015
<b>Assets:</b>		
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
<b>Total current assets</b>	<b>31,042</b>	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
<b>Total assets</b>	<b>\$ 94,462</b>	\$ 92,437
<b>Liabilities:</b>		
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
<b>Total current liabilities</b>	<b>26,250</b>	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
<b>Shareholders' equity:</b>		
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)
<b>Total CVS Health shareholders' equity</b>	<b>36,830</b>	37,196
Noncontrolling interest	4	7
<b>Total shareholders' equity</b>	<b>36,834</b>	37,203
<b>Total liabilities and shareholders' equity</b>	<b>\$ 94,462</b>	\$ 92,437

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

YEAR ENDED DECEMBER 31,

IN MILLIONS	2016	2015	2014
<b>Cash flows from operating activities:</b>			
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)
<b>Net cash provided by operating activities</b>	<b>10,069</b>	<b>8,412</b>	<b>8,137</b>
<b>Cash flows from investing activities:</b>			
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
<b>Net cash used in investing activities</b>	<b>(2,470)</b>	<b>(13,420)</b>	<b>(4,045)</b>
<b>Cash flows from financing activities:</b>			
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)	—
<b>Net cash (used in) provided by financing activities</b>	<b>(6,689)</b>	<b>5,006</b>	<b>(5,694)</b>
Effect of exchange rate changes on cash and cash equivalents	2	(20)	(6)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>912</b>	<b>(22)</b>	<b>(1,608)</b>
Cash and cash equivalents at the beginning of the year	2,459	2,481	4,089
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 3,371</b>	<b>\$ 2,459</b>	<b>\$ 2,481</b>
<b>Reconciliation of net income to net cash provided by operating activities:</b>			
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
<b>Net cash provided by operating activities</b>	<b>\$ 10,069</b>	<b>\$ 8,412</b>	<b>\$ 8,137</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

IN MILLIONS	SHARES YEAR ENDED DECEMBER 31,			DOLLARS YEAR ENDED DECEMBER 31,		
	2016	2015	2014	2016	2015	2014
<b>Common stock:</b>						
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
<b>Treasury stock:</b>						
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)
<b>Shares held in trust:</b>						
Balance at beginning and end of year	(1)	(1)	(1)	\$ (31)	\$ (31)	\$ (31)
<b>Capital surplus:</b>						
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
<b>Retained earnings:</b>						
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
<b>Accumulated other comprehensive loss:</b>						
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)
<b>Total CVS Health shareholders' equity</b>				<b>\$ 36,830</b>	<b>\$ 37,196</b>	<b>\$ 37,958</b>
<b>Noncontrolling interest:</b>						
Beginning of year				\$ 7	\$ 5	\$ —
Business combinations				—	1	5
Capital contributions				1	2	—
Net income attributable to noncontrolling interest <sup>(1)</sup>				1	1	—
Distributions				(5)	(2)	—
End of year				\$ 4	\$ 7	\$ 5
<b>Total shareholders' equity</b>				<b>\$ 36,834</b>	<b>\$ 37,203</b>	<b>\$ 37,963</b>

(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.

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# 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 Drogaria Onofre™ retail stores and online through CVS.com®, Navarro.com and Onofre.com.br.

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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 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.

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## Notes to Consolidated Financial Statements

- 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.

**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:

IN MILLIONS	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	\$ 286	\$ 161	\$ 256

**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:

IN MILLIONS	2016	2015
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
	22,802	21,036
Accumulated depreciation and amortization	(12,627)	(11,181)
Property and equipment, net	\$ 10,175	\$ 9,855

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.

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## Notes to Consolidated Financial Statements

**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:

IN MILLIONS	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.

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.

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- 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).

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## Notes to Consolidated Financial Statements

### 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

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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.

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.

## Notes to Consolidated Financial Statements

**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:

IN MILLIONS	2016	2015	2014
Interest expense	\$ 1,078	\$ 859	\$ 615
Interest income	(20)	(21)	(15)
Interest expense, net	\$ 1,058	\$ 838	\$ 600

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:

IN MILLIONS	YEAR ENDED DECEMBER 31, 2016 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	2	13	15
Net other comprehensive income	38	2	13	53
<b>Balance, December 31, 2016</b>	<b>\$ (127)</b>	<b>\$ (5)</b>	<b>\$ (173)</b>	<b>\$ (305)</b>

IN MILLIONS	YEAR ENDED DECEMBER 31, 2015 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	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.

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.

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## Notes to Consolidated Financial Statements

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.

Below is a summary of the results of discontinued operations for the years ended December 31:

IN MILLIONS	2016	2015	2014
Income (loss) from discontinued operations	\$ (2)	\$ 15	\$ (1)
Income tax expense	1	(6)	—
Income (loss) from discontinued operations, net of tax	\$ (1)	\$ 9	\$ (1)

**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 ASUs 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:

IN MILLIONS	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

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## Notes to Consolidated Financial Statements

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, 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.

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.

## Notes to Consolidated Financial Statements

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.

IN MILLIONS, EXCEPT PER SHARE DATA	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.

### 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:

IN MILLIONS	
Accounts receivable	\$ 2
Inventories	467
Property and equipment	9
Intangible assets	490
Goodwill	900
Total cash consideration	\$ 1,868

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.

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2016 and 2015:

IN MILLIONS	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 <sup>(1)</sup>	(1)	(1)	(2)
Balance, December 31, 2015	21,685	16,421	38,106
Acquisitions	—	126	126
Foreign currency translation adjustments	—	17	17
Other <sup>(1)</sup>	(48)	48	—
<b>Balance, December 31, 2016</b>	<b>\$ 21,637</b>	<b>\$ 16,612</b>	<b>\$ 38,249</b>

(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.

## Notes to Consolidated Financial Statements

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:

IN MILLIONS	
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:

IN MILLIONS	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
	<b>\$ 19,006</b>	<b>\$ (5,495)</b>	<b>\$ 13,511</b>	<b>\$ 18,587</b>	<b>\$ (4,709)</b>	<b>\$ 13,878</b>

### 4 | Share Repurchase Programs

The following share Repurchase Programs were authorized by the Company's Board of Directors:

IN BILLIONS	Authorized	Remaining
Authorization Date		
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

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number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the 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.

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

## 5 | Borrowings and Credit Agreements

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

IN MILLIONS	2016	2015
Short-term debt		
Commercial paper	\$ 1,874	\$ —
Long-term debt		
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

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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 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.

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## Notes to Consolidated Financial Statements

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 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:

IN MILLIONS	
2017	\$ 1,916
2018	3,521
2019	872
2020	2,774
2021	2,326
Thereafter	16,317
<b>Total</b>	<b>\$ 27,726</b>

## 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 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	2016	2015	2014
Minimum rentals	<b>\$ 2,418</b>	\$ 2,317	\$ 2,320
Contingent rentals	<b>35</b>	34	36
	<b>2,453</b>	2,351	2,356
Less: sublease income	<b>(24)</b>	(22)	(21)
	<b>\$ 2,429</b>	\$ 2,329	\$ 2,335

## Notes to Consolidated Financial Statements

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2016:

IN MILLIONS	Capital Leases	Operating Leases <sup>(1)</sup>
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 <sup>(2)</sup>	1,314	\$ 27,346
Less: imputed interest	(666)	
Present value of capital lease obligations	\$ 648	

(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:

IN MILLIONS	2016	2015
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	\$ 844	\$ 844

## Notes to Consolidated Financial Statements

IN MILLIONS	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	624	613
Funded status	\$ (220)	\$ (231)

The components of net periodic benefit costs for the years ended December 31 are shown below:

IN MILLIONS	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	\$ 27	\$ 19	\$ 21

### 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.

FAIR VALUE OF PLAN ASSETS AT DECEMBER 31, 2016

IN MILLIONS	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

IN MILLIONS	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:

IN MILLIONS	
2017 <sup>(1)</sup>	\$ 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.

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## Notes to Consolidated Financial Statements

### 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.

### 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:

IN MILLIONS	2016	2015	2014
Stock options <sup>(1)</sup>	\$ 79	\$ 90	\$ 103
Restricted stock awards <sup>(2)</sup>	143	140	62
Total stock-based compensation	\$ 222	\$ 230	\$ 165

(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 <sup>(1)</sup>	0.88%	0.71%	0.75%
Expected volatility <sup>(2)</sup>	20.64%	13.92%	14.87%
Risk-free interest rate <sup>(3)</sup>	0.45%	0.11%	0.08%
Expected life (in years) <sup>(4)</sup>	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 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.

## Notes to Consolidated Financial Statements

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2016.

UNITS IN THOUSANDS	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 <sup>(1)</sup>	1.62%	1.37%	1.47%
Expected volatility <sup>(2)</sup>	17.22%	18.07%	19.92%
Risk-free interest rate <sup>(3)</sup>	1.24%	1.24%	1.35%
Expected life (in years) <sup>(4)</sup>	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.

The following table is a summary of the Company's stock option activity for the year ended December 31, 2016:

SHARES IN THOUSANDS	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
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		
<b>Outstanding at December 31, 2016</b>	<b>23,275</b>	<b>\$ 68.60</b>	<b>3.69</b>	<b>\$ 427,311,414</b>
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:

IN MILLIONS	2016	2015	2014
Current:			
Federal	\$ 2,803	\$ 3,065	\$ 2,581
State	511	555	495
	<b>3,314</b>	3,620	3,076
Deferred:			
Federal	5	(180)	(43)
State	(2)	(54)	—
	<b>3</b>	(234)	(43)
Total	<b>\$ 3,317</b>	\$ 3,386	\$ 3,033

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:

	2016	2015	2014
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	<b>38.4%</b>	39.3%	39.5%

## Notes to Consolidated Financial Statements

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:

IN MILLIONS	2016	2015
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	1,668	1,801
Deferred tax liabilities:		
Depreciation and amortization	(5,882)	(6,018)
Total deferred tax liabilities	(5,882)	(6,018)
Net deferred tax liabilities	\$ (4,214)	\$ (4,217)

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:

IN MILLIONS	2016	2015	2014
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	\$ 307	\$ 338	\$ 188

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.

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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 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.

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## Notes to Consolidated Financial Statements

### 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.

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.

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- *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 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.

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## Notes to Consolidated Financial Statements

- *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 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 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.

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## Notes to Consolidated Financial Statements

- **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.

The following table is a reconciliation of the Company's business segments to the consolidated financial statements:

IN MILLIONS	Pharmacy Services Segment <sup>(1)(2)</sup>	Retail/LTC Segment <sup>(2)</sup>	Corporate Segment	Intersegment Eliminations <sup>(2)</sup>	Consolidated Totals
<b>2016:</b>					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit <sup>(3)</sup>	5,901	23,738	—	(782)	28,857
Operating profit <sup>(4)(5)(6)</sup>	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
<b>2015:</b>					
Net revenues	100,363	72,007	—	(19,080)	153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit <sup>(5)(6)</sup>	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
<b>2014:</b>					
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<sup>®</sup> 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

## 13 | Earnings Per Share

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

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	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)

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<b>2016:</b>					
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

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
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 <sup>(1)</sup>	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 <sup>(1)</sup>	\$ 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.

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# Report of Ernst & Young LLP, 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.

*Ernst + Young LLP*

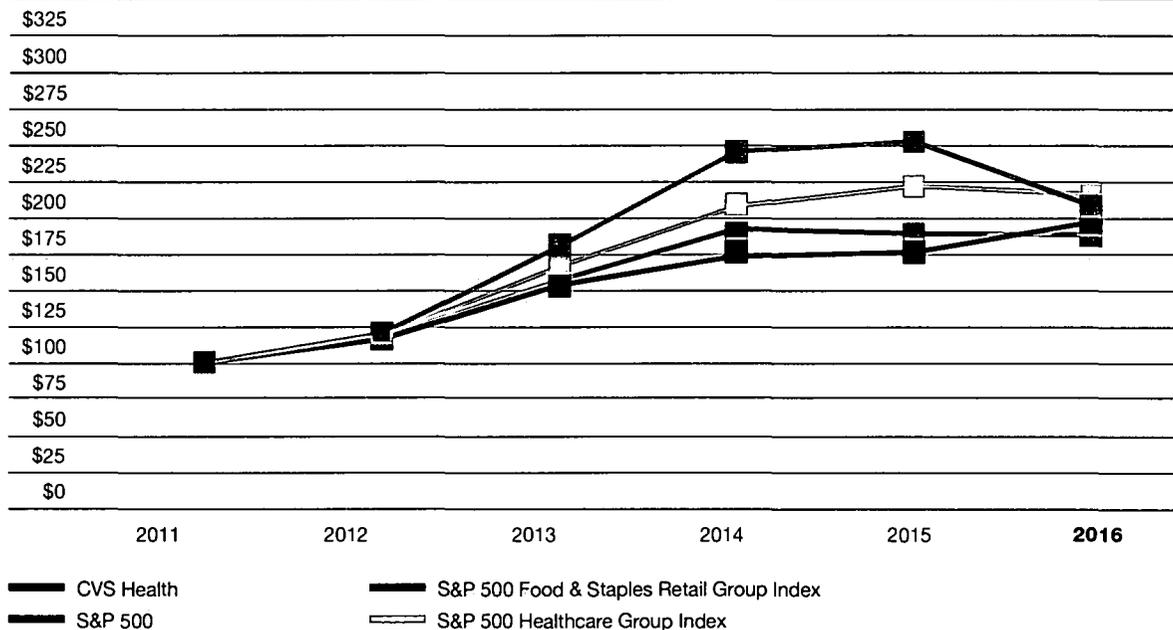
Boston, Massachusetts  
February 9, 2017

## Stock Performance Graph

The following graph shows changes over the past five-year period in the value of \$100 invested in: (1) our common stock; (2) S&P 500 Index; (3) S&P 500 Food and Staples Retailing Industry Group Index, which currently includes seven retail companies; (4) S&P 500 Healthcare Sector Group Index, which currently includes 56 health care companies.

### Relative Total Returns Since 2011 – Annual

DECEMBER 31, 2011 TO DECEMBER 31, 2016



	YEAR END						1 YR CAGR 2015-16	3 YR CAGR 2013-16	5 YR CAGR 2011-16
	2011	2012	2013	2014	2015	2016			
CVS Health	\$100	\$120	\$181	\$247	\$254	\$209	-17.8%	4.9%	15.9%
S&P 500 <sup>(1)</sup>	\$100	\$116	\$154	\$174	\$177	\$198	11.9%	8.8%	14.6%
S&P 500 Food & Staples Retail Group Index <sup>(2)</sup>	\$100	\$118	\$157	\$193	\$190	\$189	-0.8%	6.4%	13.6%
S&P 500 Healthcare <sup>(3)</sup>	\$100	\$118	\$167	\$209	\$223	\$217	-2.7%	9.2%	16.8%

Note: Analysis assumes reinvestment of dividends.

(1) Includes CVS Health.

(2) Includes seven companies: (COST, CVS, KR, SY, WBA, WFM, WMT).

(3) Includes 56 companies.

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

# Shareholder Information

## Officers

Larry J. Merlo  
President and Chief Executive Officer

Lisa G. Bisaccia  
Executive Vice President and  
Chief Human Resources Officer

Eva C. Boratto  
Executive Vice President—Controller  
and Chief Accounting Officer

Troyen A. Brennan, M.D.  
Executive Vice President and  
Chief Medical Officer

David M. Denton  
Executive Vice President and  
Chief Financial Officer

Helena B. Foulkes  
Executive Vice President and  
President—CVS Pharmacy

Stephen J. Gold  
Executive Vice President and  
Chief Information Officer

J. David Joyner  
Executive Vice President, Sales and  
Account Services—CVS Caremark

Robert O. Kraft  
Executive Vice President and  
President—Omnicare

Thomas M. Moriarty  
Executive Vice President, Chief Policy  
Officer and General Counsel

Jonathan C. Roberts  
Executive Vice President and  
Chief Operating Officer

Andrew J. Sussman, M.D.  
Executive Vice President, Clinical Services  
and Associate Chief Medical Officer

Nancy R. Christal  
Senior Vice President—Investor Relations

Carol A. DeNale  
Senior Vice President and Treasurer

David A. Falkowski  
Senior Vice President and  
Chief Compliance Officer

John P. Kennedy  
Senior Vice President and Chief Tax Officer

Colleen M. McIntosh  
Senior Vice President, Corporate Secretary  
and Assistant General Counsel

Thomas S. Moffatt  
Vice President, Assistant Secretary and  
Assistant General Counsel

### OFFICERS' CERTIFICATIONS

The Company has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as Exhibits 31.1 and 31.2 to our annual report on Form 10-K for the fiscal year ended December 31, 2016. After our 2016 annual meeting of stockholders, the Company, filed with the New York Stock Exchange the CEO certification regarding its compliance with the NYSE corporate governance listing standards as required by NYSE Rule 303A.12(a).

## Directors

Richard M. Bracken <sup>(1) (2)</sup>  
Former Chairman and Chief Executive Officer  
HCA Holdings, Inc.

C. David Brown II <sup>(1) (2)</sup>  
Chairman of the Firm  
Broad and Cassel

Alecia A. DeCoudreaux <sup>(2) (4)</sup>  
Former President  
Mills College

Nancy-Ann M. DeParle <sup>(2) (4)</sup>  
Partner  
Consonance Capital Partners, LLC

David W. Dorman <sup>(1) (3)</sup>  
Chairman of the Board  
CVS Health Corporation

Anne M. Finucane <sup>(1) (3)</sup>  
Vice Chairman  
Bank of America Corporation

Larry J. Merlo  
President and Chief Executive Officer  
CVS Health Corporation

Jean-Pierre Millon <sup>(2) (4)</sup>  
Former President and Chief Executive Officer  
PCS Health Services, Inc.

Richard J. Swift <sup>(4)</sup>  
Former Chairman, President and Chief  
Executive Officer  
Foster Wheeler Ltd.

William C. Weldon <sup>(1) (3)</sup>  
Former Chairman and Chief Executive Officer  
Johnson & Johnson

Tony L. White <sup>(2) (3)</sup>  
Former Chairman, President and  
Chief Executive Officer  
Applied Biosystems, Inc.

<sup>(1)</sup> Member of the Nominating and  
Corporate Governance Committee

<sup>(2)</sup> Member of the Patient Safety and  
Clinical Quality Committee

<sup>(3)</sup> Member of the Management Planning  
and Development Committee

<sup>(4)</sup> Member of the Audit Committee

## Shareholder Information

Corporate Headquarters  
CVS Health Corporation  
One CVS Drive, Woonsocket, RI 02895  
(401) 765-1500

Annual Shareholders' Meeting  
May 10, 2017  
CVS Health Corporate Headquarters

Stock Market Listing  
The New York Stock Exchange  
Symbol: CVS

Transfer Agent and Registrar  
Questions regarding stock holdings, certificate  
replacement/transfer, dividends and address  
changes should be directed to:

Wells Fargo Shareowner Services  
P.O. Box 64874  
St. Paul, MN 55164-0874  
Toll-free: (877) CVS-PLAN (287-7526)  
International: +1 (651) 450-4064  
Email: stocktransfer@wellsfargo.com  
Website: www.shareowneronline.com

Direct Stock Purchase/Dividend  
Reinvestment Program  
Shareowner Services Plus Plan<sup>SM</sup> provides a  
convenient and economical way for you to  
purchase your first shares or additional shares  
of CVS Health common stock. The program is  
sponsored and administered by Wells Fargo  
Bank, N.A. For more information, including an  
enrollment form, please contact Wells Fargo  
Bank, N.A. at (877) 287-7526.

Financial and Other Company  
Information

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

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

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



**WE ARE**  
**A pharmacy innovation company**

**OUR STRATEGY**  
**Reinventing pharmacy**

**OUR PURPOSE**  
**Helping people on their path to better health**

**OUR VALUES**  
**Innovation**  
**Collaboration**  
**Caring**  
**Integrity**  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 31, 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**

**New York Stock Exchange**

Title of each class

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$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<sup>®</sup> locations, to introducing unique programs to help control costs for our clients at CVS Caremark<sup>®</sup>, to innovating how care is delivered to our patients with complex conditions through CVS Specialty<sup>™</sup>, to improving pharmacy care for the senior community through Omnicare<sup>®</sup>, or by expanding access to high-quality, low-cost care at CVS MinuteClinic<sup>®</sup>.

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<sup>®</sup> Pharmacy Services, Caremark<sup>®</sup>, CVS Caremark<sup>®</sup>, CarePlus CVS Pharmacy<sup>™</sup>, CVS Specialty<sup>™</sup>, Accordant<sup>®</sup>, SilverScript<sup>®</sup>, NovoLogix<sup>®</sup>, Coram<sup>®</sup>, Navarro<sup>®</sup> 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<sup>®</sup>, 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<sup>®</sup>, 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<sup>®</sup>, Navarro.com<sup>™</sup> and Onofre.com.br<sup>™</sup>, 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<sup>®</sup>, CVS<sup>®</sup>, CVS Pharmacy y más<sup>®</sup>, Longs Drugs<sup>®</sup>, Navarro Discount Pharmacy<sup>®</sup> and Drogeria Onofre<sup>™</sup> 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<sup>®</sup>. 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<sup>®</sup> and NeighborCare<sup>®</sup> 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 <sup>(1)</sup>		
	2016	2015	2014
Prescription drugs <sup>(2)</sup>	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<sup>®</sup> 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<sup>™</sup> 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<sup>®</sup> 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<sup>™</sup> 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<sup>®</sup>, CarePlus CVS Pharmacy<sup>™</sup> or CVS Pharmacy<sup>®</sup> 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<sup>™</sup> 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<sup>®</sup>, 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, McdImpact 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	<u>7,998</u>	<u>1,674</u>	<u>152</u>	<u>38</u>	<u>23</u>	<u>13</u>	<u>4</u>	<u>84</u>	<u>9,986</u>
Brazil	<u>37</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>37</u>
Total	<u>8,035</u>	<u>1,674</u>	<u>152</u>	<u>38</u>	<u>23</u>	<u>13</u>	<u>4</u>	<u>84</u>	<u>10,023</u>

### **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:

**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 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.

<b>Fiscal Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
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
<b>Statement of operations data:</b>					
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	<u>\$ 5,317</u>	<u>\$ 5,237</u>	<u>\$ 4,644</u>	<u>\$ 4,592</u>	<u>\$ 3,864</u>
<b>Per common share data:</b>					
<b>Basic earnings per common share:</b>					
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
<b>Diluted earnings per common share:</b>					
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
<b>Balance sheet and other data:</b>					
Total assets <sup>iii</sup>	\$ 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 <sup>(1)</sup>	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) <sup>(1)</sup>
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.

Exhibit	Description
2.1*	Agreement and Plan of Merger dated as of November 1, 2006 among, the Registrant, Caremark Rx, Inc. and Twain MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement No. 333-139470 on Form S-4 filed December 19, 2006).
2.2*	Amendment No. 1 dated as of January 16, 2007 to the Agreement and Plan of Merger dated as of November 1, 2006 among the Registrant, Caremark Rx, Inc. and Twain Merger Sub Corp. (incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.3*	Waiver Agreement dated as of January 16, 2007 between the Registrant and Caremark Rx, Inc. with respect to the Agreement and Plan Merger dated as of November 1, 2006 by and between Registrant and Caremark Rx, Inc (incorporated by reference to Exhibit 2.3 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.4*	Amendment to Waiver Agreement, dated as of February 12, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated February 13, 2007; Commission File No. 001-01011).
2.5*	Amendment to Waiver Agreement, dated as of March 8, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the 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.





**CREDIT AGREEMENT**

**by and among**

**CVS HEALTH CORPORATION,  
THE LENDERS PARTY HERETO,**

**and**

**BARCLAYS BANK PLC,  
as Administrative Agent**

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**Dated as of January 3, 2017**

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**BARCLAYS BANK PLC,  
as Sole Lead Arranger and Sole Bookrunner**

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## EXHIBITS

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Exhibit	D	Form of Opinion of Counsel to the Borrower
Exhibit	E	Form of Assignment and Assumption

(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:

<b>Pricing Level</b>	<b>ABR Advances</b>	<b>Eurodollar Advances</b>	<b>Facility Fee</b>
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 delegate) 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(c).

*“United States Tax Compliance Certificate”*: as defined in Section 3.10(c)(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 (i), (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 (c) 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 (1) 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, (1) any Loan or the use of the proceeds thereof, (1) 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 (1) 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 (1) 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), (1) 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), (1) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (1) to any other party hereto, (1) 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

008330-0373-Active.20553774

CVS Health Corporation 2017 Credit Agreement

**2017 CREDIT AGREEMENT**

**EXHIBIT A**

**LIST OF COMMITMENTS**

<b>Lender</b>	<b>Commitment Amount</b>
Barclays Bank PLC	\$2,500,000,000
<b>TOTAL</b>	<b>\$2,500,000,000</b>

008330-0373-Active.20553774

CVS Health Corporation List of Commitments

# **CVS HEALTH CORPORATION**

## **DEFERRED COMPENSATION PLAN**

Amended and Restated Effective November 1, 2016

CVS HEALTH CORPORATION

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Deferred 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 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 1<sup>st</sup> 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 (7<sup>th</sup>) 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 (7<sup>th</sup>) 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.

**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**

<b>Measurement</b>	<b>Percent Weight</b>	<b>Measurement Tool</b>	<b>Achievement Measured Against</b>	<b>Modifier</b>
Operating Profit	80%	Earnings Before Interest and Taxes ("EBIT")	2016 EBIT Goal	CEO & Committee Discretion <sup>(1)</sup> 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

<sup>(1)</sup> 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 15<sup>th</sup> of the month, the month will not be included in the proration calculations, and if the death occurs after the 15<sup>th</sup> 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 (7<sup>th</sup>) 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 15<sup>th</sup> 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 15<sup>th</sup> 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 15<sup>th</sup> 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 (7<sup>th</sup>) 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

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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 (5<sup>th</sup>) 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 (10<sup>th</sup>) 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 (2<sup>nd</sup>) 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 (90<sup>th</sup>) 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 (90<sup>th</sup>) 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 15<sup>th</sup> 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 (7<sup>th</sup>) 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 (\$.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.

<b>Participant:</b>	<b>Larry Merlo</b>
<b>Employee ID:</b>	<b>XXXXXX</b>
<b>Shares:</b>	<b>XXXXXX</b>
<b>Option Price:</b>	<b>\$XXX.XX</b>

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 \$XXX.XX.

<b>Participant:</b>	<b>Larry J. Merlo</b>
<b>Employee ID:</b>	<b>XXXXXX</b>
<b>RSUs (#):</b>	<b>XXXXX</b>

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(c)(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**.

<b>Participant:</b>	<b>Jonathan C. Roberts</b>
<b>Employee ID:</b>	<b>XXXXX</b>
<b>RSUs (#):</b>	<b>21,465</b>

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.

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.

(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

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.

c. **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 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

XXXXXXXXXX  
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<sup>®</sup> locations, to introducing unique programs to help control costs for our clients at CVS Caremark<sup>®</sup>, to innovating how care is delivered to our patients with complex conditions through CVS Specialty<sup>™</sup>, to improving pharmacy care for the senior community through Omnicare<sup>®</sup>, or by expanding access to high-quality, low-cost care at CVS MinuteClinic<sup>®</sup>.

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<sup>®</sup> 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<sup>®</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Navarro<sup>®</sup> 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<sup>®</sup>, 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<sup>®</sup> 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<sup>®</sup> Pharmacy Services, Caremark<sup>®</sup>, CVS Caremark<sup>™</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Accordant<sup>®</sup>, SilverScript<sup>®</sup>, Coram<sup>®</sup>, CVS Specialty<sup>™</sup>, NovoLogix<sup>®</sup>, Navarro<sup>®</sup> 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<sup>®</sup>. 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<sup>®</sup> 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<sup>®</sup>, 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<sup>®</sup>, CVS<sup>®</sup>, CVS Pharmacy y más<sup>®</sup>, Longs Drugs<sup>®</sup>, Navarro Discount Pharmacy<sup>®</sup> and Drogeria Onofre<sup>™</sup> names, 38 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy<sup>™</sup>, CarePlus<sup>®</sup> and CVS Pharmacy<sup>®</sup> names, and 1,139 retail health care clinics operating under the MinuteClinic<sup>®</sup> name (of which 1,132 were located in our retail pharmacy stores or Target stores), and our online retail websites, CVS.com<sup>®</sup>, 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<sup>®</sup> and NeighborCare<sup>®</sup> 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

<i>In millions, except per share amounts</i>	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 <sup>(1)(2)</sup>	Retail/LTC Segment <sup>(2)</sup>	Corporate Segment	Intersegment Eliminations <sup>(2)</sup>	Consolidated Totals
2016:					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit <sup>(3)</sup>	5,901	23,738	—	(782)	28,857
Operating profit (loss) <sup>(4)(5)(6)</sup>	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) <sup>(5)(6)</sup>	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<sup>®</sup> 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 <sup>(1)</sup>	\$ 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 <sup>(1)</sup>	\$ 42,783	\$ 37,828	\$ 31,081
Pharmacy network <sup>(2)</sup>	\$ 76,848	\$ 62,240	\$ 57,122
Other	\$ 332	\$ 295	\$ 237
Pharmacy claims processed:			
Total	1,230.0	1,011.9	932.0
Mail choice <sup>(1)</sup>	89.5	85.7	82.4
Pharmacy network <sup>(2)</sup>	1,140.5	926.2	849.6
Generic dispensing rate:			
Total	85.4%	83.7%	82.2%
Mail choice <sup>(1)</sup>	78.2%	76.4%	74.6%
Pharmacy network <sup>(2)</sup>	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<sup>®</sup> claims filled at retail, as well as prescriptions filled at our retail pharmacies under the Maintenance Choice<sup>®</sup> 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 <sup>(1)</sup>	\$ 23,738	\$ 21,992	\$ 21,277
Gross profit % of net revenues	29.3 %	30.5 %	31.4 %
Operating expenses <sup>(2)</sup>	\$ 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) <sup>(3)</sup>	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) <sup>(4)</sup>	18.6 %	10.2 %	5.2 %
Same store sales increase (decrease) <sup>(4)</sup> :			
Total	1.9 %	1.7 %	2.1 %
Pharmacy	3.2 %	4.5 %	4.8 %
Front Store <sup>(5)</sup>	(1.5)%	(5.0)%	(4.0)%
Prescription volume (90 Day = 3 prescriptions) <sup>(4)</sup>	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>	Year Ended December 31,		
	2016	2015	2014
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	\$ 912	\$ (22)	\$ (1,608)

*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:

	2016 <sup>(1)</sup>	2015 <sup>(2)</sup>	2014 <sup>(2)</sup>
Total stores (beginning of year)	9,665	7,866	7,702
New and acquired stores <sup>(1)</sup>	132	1,833	187
Closed stores <sup>(1)</sup>	(47)	(34)	(23)
Total stores (end of year)	9,750	9,665	7,866
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**

<b><u>Authorization Date</u></b>	<b><u>Authorized</u></b>	<b><u>Remaining</u></b>
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 <sup>(1)</sup>	1,737	—	—	—	1,737
Long-term debt	25,204	21	4,350	5,050	15,783
Interest payments on long-term debt <sup>(2)</sup>	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<sup>®</sup>, is comprised of two components, ExtraSavings<sup>™</sup> and ExtraBucks<sup>®</sup> 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
<b>Assets:</b>		
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
<b>Liabilities:</b>		
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
<b>Shareholders' equity:</b>		
<b>CVS Health shareholders' equity:</b>		
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
<b>Cash flows from operating activities:</b>			
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)
<b>Net cash provided by operating activities</b>	<b>10,069</b>	<b>8,412</b>	<b>8,137</b>
<b>Cash flows from investing activities:</b>			
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
<b>Net cash used in investing activities</b>	<b>(2,470)</b>	<b>(13,420)</b>	<b>(4,045)</b>
<b>Cash flows from financing activities:</b>			
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)	—
<b>Net cash (used in) provided by financing activities</b>	<b>(6,689)</b>	<b>5,006</b>	<b>(5,694)</b>
Effect of exchange rate changes on cash and cash equivalents	2	(20)	(6)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>912</b>	<b>(22)</b>	<b>(1,608)</b>
Cash and cash equivalents at the beginning of the year	2,459	2,481	4,089
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 3,371</b>	<b>\$ 2,459</b>	<b>\$ 2,481</b>
<b>Reconciliation of net income to net cash provided by operating activities:</b>			
Net income	\$ 5,319	\$ 5,239	\$ 4,644
<b>Adjustments required to reconcile net income to net cash provided by operating activities:</b>			
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)
<b>Change in operating assets and liabilities, net of effects from acquisitions:</b>			
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
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See accompanying notes to consolidated financial statements.

**Consolidated Statements of Shareholders' Equity**

<b>In millions</b>	<b>Shares</b>			<b>Dollars</b>		
	<b>Year Ended December 31,</b>			<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Common stock:</b>						
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	<u>1,705</u>	<u>1,699</u>	<u>1,691</u>	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 17</u>
<b>Treasury stock:</b>						
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	<u>(643)</u>	<u>(597)</u>	<u>(550)</u>	<u>\$ (33,452)</u>	<u>\$ (28,886)</u>	<u>\$ (24,078)</u>
<b>Shares held in trust:</b>						
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>
<b>Capital surplus:</b>						
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				<u>\$ 31,618</u>	<u>\$ 30,948</u>	<u>\$ 30,418</u>
<b>Retained earnings:</b>						
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				<u>\$ 38,983</u>	<u>\$ 35,506</u>	<u>\$ 31,849</u>
<b>Accumulated other comprehensive loss:</b>						
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				<u>\$ (305)</u>	<u>\$ (358)</u>	<u>\$ (217)</u>
Total CVS Health shareholders' equity				<u>\$ 36,830</u>	<u>\$ 37,196</u>	<u>\$ 37,958</u>
<b>Noncontrolling interest:</b>						
Beginning of year				\$ 7	\$ 5	\$ —
Business combinations				—	1	5
Capital contributions				1	2	—
Net income attributable to noncontrolling interest <sup>(1)</sup>				1	1	—
Distributions				(5)	(2)	—
End of year				<u>\$ 4</u>	<u>\$ 7</u>	<u>\$ 5</u>
Total shareholders' equity				<u>\$ 36,834</u>	<u>\$ 37,203</u>	<u>\$ 37,963</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<sup>®</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Navarro<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> Pharmacy Services, Caremark<sup>®</sup>, CVS Caremark<sup>™</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Accordant<sup>®</sup>, SilverScript<sup>®</sup>, Coram<sup>®</sup>, CVS Specialty<sup>™</sup>, NovoLogix<sup>®</sup>, Navarro<sup>®</sup> 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<sup>®</sup>, CVS<sup>®</sup>, CVS Pharmacy y más<sup>®</sup>, Longs Drugs<sup>®</sup>, Navarro Discount Pharmacy<sup>®</sup> and Drogeria Onofre<sup>™</sup> retail stores and online through CVS.com<sup>®</sup>, Navarro.com and Onofre.com.br.

The RLS also provides health care services through its MinuteClinic<sup>®</sup> 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<sup>®</sup>. 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<sup>®</sup>, 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<sup>®</sup> and NeighborCare<sup>®</sup> 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:

<u><i>In millions</i></u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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:

<u><i>In millions</i></u>	<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
Leaschold 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:

<u><i>In millions</i></u>	<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>

## Notes to Consolidated Financial Statements (continued)

### 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 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

## 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<sup>®</sup>, is comprised of two components, ExtraSavings<sup>™</sup> and ExtraBucks<sup>®</sup> 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>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>

**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 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	2	13	15
Net other comprehensive income	38	2	13	53
Balance, December 31, 2016	\$ (127)	\$ (5)	\$ (173)	\$ (305)

	Year Ended December 31, 2015 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	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:

<u>In millions</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income (loss) from discontinued operations	\$ (2)	\$ 15	\$ (1)
Income tax expense	1	(6)	—
Income (loss) from discontinued operations, net of tax	\$ (1)	\$ 9	\$ (1)

**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:

<u>In millions</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
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<sup>®</sup>. 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:

<i>(In millions)</i>	
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	<u>\$ 9,645</u>

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:

#### 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. 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 <sup>(1)</sup>	(1)	(1)	(2)
Balance, December 31, 2015	21,685	16,421	38,106
Acquisitions	—	126	126
Foreign currency translation adjustments	—	17	17
Other <sup>(1)</sup>	(48)	48	—
Balance, December 31, 2016	<u>\$ 21,637</u>	<u>\$ 16,612</u>	<u>\$ 38,249</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 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
	<u>\$ 19,006</u>	<u>\$ (5,495)</u>	<u>\$ 13,511</u>	<u>\$ 18,587</u>	<u>\$ (4,709)</u>	<u>\$ 13,878</u>

**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:

<u>In millions</u>	<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:

<u>In millions</u>	<u>Capital Leases</u>	<u>Operating Leases<sup>(1)</sup></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 <sup>(2)</sup>	<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:

<u><i>In millions</i></u>	<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)**

<u><i>In millions</i></u>	<u>2016</u>	<u>2015</u>
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:

<u><i>In millions</i></u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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:

*In millions*

2017 <sup>(1)</sup>	\$	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 <sup>(1)</sup>	\$ 79	\$ 90	\$ 103
Restricted stock awards <sup>(2)</sup>	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 <sup>(1)</sup>	0.88%	0.71%	0.75%
Expected volatility <sup>(2)</sup>	20.64%	13.92%	14.87%
Risk-free interest rate <sup>(3)</sup>	0.45%	0.11%	0.08%
Expected life (in years) <sup>(4)</sup>	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	<u>4,875</u>	<u>\$ 55.56</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 \$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 <sup>(1)</sup>	1.62%	1.37%	1.47%
Expected volatility <sup>(2)</sup>	17.22%	18.07%	19.92%
Risk-free interest rate <sup>(3)</sup>	1.24%	1.24%	1.35%
Expected life (in years) <sup>(4)</sup>	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:

<u>Shares in thousands</u>	<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	<u>12,196</u>	\$ 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:

<u>In millions</u>	<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:

<u><i>In millions</i></u>	<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:

<u><i>In millions</i></u>	<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 <sup>(1)(2)</sup>	Retail/LTC Segment <sup>(2)</sup>	Corporate Segment	Intersegment Eliminations <sup>(2)</sup>	Consolidated Totals
2016:					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit <sup>(3)</sup>	5,901	23,738	—	(782)	28,857
Operating profit <sup>(4)(5)(6)</sup>	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 <sup>(5)(6)</sup>	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<sup>®</sup> 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	<u>\$ 5,291</u>	<u>\$ 5,202</u>	<u>\$ 4,626</u>
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	<u>1,079</u>	<u>1,126</u>	<u>1,169</u>
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)**

<u><i>In millions, except per share amounts</i></u>	<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

<u><i>In millions, except per share amounts</i></u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
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 <sup>(1)</sup>	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	<u>\$ 5,317</u>	<u>\$ 5,237</u>	<u>\$ 4,644</u>	<u>\$ 4,592</u>	<u>\$ 3,864</u>
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 <sup>(1)</sup>	\$ 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)<sup>(1)</sup>  
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)  
CVS Pharmacy, Inc. (a Rhode Island corporation)<sup>(2)</sup>  
Omnicare, Inc. (a Delaware corporation)<sup>(3)</sup>  
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 Drogeria 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 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

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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/ DAVID M. DENTON

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David M. Denton  
Executive Vice President and Chief Financial Officer

**Document and Entity  
Information - USD (\$)**

**12 Months Ended**

**Dec. 31, 2016      Feb. 03, 2017      Jun. 30, 2016**

**Document and Entity Information**

<u>Entity Registrant Name</u>	CVS HEALTH CORP		
<u>Entity Central Index Key</u>	0000064803		
<u>Document Type</u>	10-K		
<u>Document Period End Date</u>	Dec. 31, 2016		
<u>Amendment Flag</u>	false		
<u>Current Fiscal Year End Date</u>	--12-31		
<u>Entity Well-known Seasoned Issuer</u>	No		
<u>Entity Voluntary Filers</u>	No		
<u>Entity Current Reporting Status</u>	Yes		
<u>Entity Filer Category</u>	Large Accelerated Filer		
<u>Entity Public Float</u>			\$ 101,661,618,666
<u>Entity Common Stock, Shares Outstanding</u>		1,025,699,605	
<u>Document Fiscal Year Focus</u>	2016		
<u>Document Fiscal Period Focus</u>	FY		

**Consolidated Statements of  
Income - USD (\$)  
shares in Millions, \$ in  
Millions**

**12 Months Ended**

**Dec. 31,  
2016                  Dec. 31,  
2015                  Dec. 31,  
2014**

**Income Statement [Abstract]**

<u>Net revenues</u>	\$ 177,526	\$ 153,290	\$ 139,367
<u>Cost of revenues</u>	148,669	126,762	114,000
<u>Gross profit</u>	28,857	26,528	25,367
<u>Operating expenses</u>	18,519	17,074	16,568
<u>Operating profit</u>	10,338	9,454	8,799
<u>Interest expense, net</u>	1,058	838	600
<u>Loss on early extinguishment of debt</u>	643	0	521
<u>Income before income tax provision</u>	8,637	8,616	7,678
<u>Income tax provision</u>	3,317	3,386	3,033
<u>Income from continuing operations</u>	5,320	5,230	4,645
<u>Income (loss) from discontinued operations, net of tax</u>	(1)	9	(1)
<u>Net income</u>	5,319	5,239	4,644
<u>Net income attributable to noncontrolling interest</u>	(2)	(2)	0
<u>Net income attributable to CVS Health</u>	\$ 5,317	\$ 5,237	\$ 4,644
<b><u>Basic earnings per share:</u></b>			
<u>Income from continuing operations attributable to CVS Health (in dollars per share)</u>	\$ 4.93	\$ 4.65	\$ 3.98
<u>Loss from discontinued operations attributable to CVS Health (in dollars per share)</u>	0.00	0.01	0.00
<u>Net income attributable to CVS Health (in dollars per share)</u>	\$ 4.93	\$ 4.66	\$ 3.98
<u>Weighted average common shares outstanding (in shares)</u>	1,073	1,118	1,161
<b><u>Diluted earnings per share:</u></b>			
<u>Income from continuing operations attributable to CVS Health (in dollars per share)</u>	\$ 4.91	\$ 4.62	\$ 3.96
<u>Loss from discontinued operations attributable to CVS Health (in dollars per share)</u>	0.00	0.01	0.00
<u>Net income attributable to CVS Health (in dollars per share)</u>	\$ 4.90	\$ 4.63	\$ 3.96
<u>Weighted average common shares outstanding (in shares)</u>	1,079	1,126	1,169
<u>Dividends declared per common share (in dollars per share)</u>	\$ 1.700	\$ 1.40	\$ 1.10

**Consolidated Statements of  
Comprehensive Income -  
USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Statement of Comprehensive Income [Abstract]**

<u>Net income</u>	\$ 5,319	\$ 5,239	\$ 4,644
<b><u>Other comprehensive income (loss):</u></b>			
<u>Foreign currency translation adjustments, net of tax</u>	38	(100)	(35)
<u>Net cash flow hedges, net of tax</u>	2	2	4
<u>Pension and other postretirement benefits, net of tax</u>	13	(43)	(37)
<u>Net other comprehensive income (loss)</u>	53	(141)	(68)
<u>Comprehensive income</u>	5,372	5,098	4,576
<u>Comprehensive income attributable to noncontrolling interest</u>	(2)	(2)	0
<u>Comprehensive income attributable to CVS Health</u>	\$ 5,370	\$ 5,096	\$ 4,576

**Consolidated Balance Sheets**  
**- USD (\$)**  
**\$ in Millions**

	<b>Dec. 31,</b>	<b>Dec. 31,</b>
	<b>2016</b>	<b>2015</b>
<b><u>Assets:</u></b>		
<u>Cash and cash equivalents</u>	\$ 3,371	\$ 2,459
<u>Short-term investments</u>	87	88
<u>Accounts receivable, net</u>	12,164	11,888
<u>Inventories</u>	14,760	14,001
<u>Other current assets</u>	660	722
<u>Total current assets</u>	31,042	29,158
<u>Property and equipment, net</u>	10,175	9,855
<u>Goodwill</u>	38,249	38,106
<u>Intangible assets, net</u>	13,511	13,878
<u>Other assets</u>	1,485	1,440
<u>Total assets</u>	94,462	92,437
<b><u>Liabilities:</u></b>		
<u>Accounts payable</u>	7,946	7,490
<u>Claims and discounts payable</u>	9,451	7,653
<u>Accrued expenses</u>	6,937	6,829
<u>Short-term debt</u>	1,874	0
<u>Current portion of long-term debt</u>	42	1,197
<u>Total current liabilities</u>	26,250	23,169
<u>Long-term debt</u>	25,615	26,267
<u>Deferred income taxes</u>	4,214	4,217
<u>Other long-term liabilities</u>	1,549	1,542
<u>Commitments and contingencies (Note 11)</u>	0	0
<u>Redeemable noncontrolling interest</u>	0	39
<b><u>Shareholders' equity:</u></b>		
<u>Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding</u>	0	
<u>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</u>	17	17
<u>Treasury stock, at cost: 643 shares at December 31, 2016 and 597 shares at December 31, 2015</u>	(33,452)	(28,886)
<u>Shares held in trust: 1 share at December 31, 2016 and 2015</u>	(31)	(31)
<u>Capital surplus</u>	31,618	30,948
<u>Retained earnings</u>	38,983	35,506
<u>Accumulated other comprehensive income (loss)</u>	(305)	(358)
<u>Total CVS Health shareholders' equity</u>	36,830	37,196
<u>Noncontrolling interest</u>	4	7
<u>Total shareholders' equity</u>	36,834	37,203
<u>Total liabilities and shareholders' equity</u>	\$ 94,462	\$ 92,437

**Consolidated Balance Sheets**  
**(Parenthetical) - \$ / shares**

**Dec. 31, 2016 Dec. 31, 2015**

**Statement of Financial Position [Abstract]**

<u>Preferred Stock, par value (in dollars per share)</u>	\$ 0.01	\$ 0.01
<u>Preferred Stock, shares authorized (in shares)</u>	100,000.0	100,000.0
<u>Preferred Stock, shares issued (in shares)</u>	0	0
<u>Preferred Stock, shares outstanding (in shares)</u>	0	0
<u>Common Stock, par value (in dollars per share)</u>	\$ 0.01	\$ 0.01
<u>Common Stock, shares authorized (in shares)</u>	3,200,000,000	3,200,000,000
<u>Common Stock, shares issued (in shares)</u>	1,705,000,000	1,699,000,000
<u>Common Stock, shares outstanding (in shares)</u>	1,061,000,000	1,101,000,000
<u>Treasury Stock, shares (in shares)</u>	643,000,000	597,000,000
<u>Shares held in trust: 1 share at December 31, 2016 and 2015 (in shares)</u>	1,000,000	1,000,000

**Consolidated Statements of  
Cash Flows - USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31,      Dec. 31,      Dec. 31,  
2016            2015            2014**

**Cash flows from operating activities:**

<u>Cash receipts from customers</u>	\$ 172,310	\$ 148,954	\$ 132,406
<u>Cash paid for inventory and prescriptions dispensed by retail network pharmacies</u>	(142,511)	(122,498)	(105,362)
<u>Cash paid to other suppliers and employees</u>	(15,550)	(14,162)	(15,344)
<u>Interest received</u>	20	21	15
<u>Interest paid</u>	(1,140)	(629)	(647)
<u>Income taxes paid</u>	(3,060)	(3,274)	(2,931)
<u>Net cash provided by operating activities</u>	10,069	8,412	8,137

**Cash flows from investing activities:**

<u>Purchases of property and equipment</u>	(2,224)	(2,367)	(2,136)
<u>Proceeds from sale-leaseback transactions</u>	230	411	515
<u>Proceeds from sale of property and equipment and other assets</u>	37	35	11
<u>Acquisitions (net of cash acquired) and other investments</u>	(539)	(11,475)	(2,439)
<u>Purchase of available-for-sale investments</u>	(65)	(267)	(157)
<u>Maturity of available-for-sale investments</u>	91	243	161
<u>Net cash used in investing activities</u>	(2,470)	(13,420)	(4,045)

**Cash flows from financing activities:**

<u>Increase (decrease) in short-term debt</u>	1,874	(685)	685
<u>Proceeds from issuance of long-term debt</u>	3,455	14,805	1,483
<u>Repayments of long-term debt</u>	(5,943)	(2,902)	(3,100)
<u>Purchase of noncontrolling interest in subsidiary</u>	(39)	0	0
<u>Payment of contingent consideration</u>	(26)	(58)	0
<u>Dividends paid</u>	(1,840)	(1,576)	(1,288)
<u>Proceeds from exercise of stock options</u>	224	299	421
<u>Excess tax benefits from stock-based compensation</u>	72	127	106
<u>Repurchase of common stock</u>	(4,461)	(5,001)	(4,001)
<u>Other</u>	(5)	(3)	0
<u>Net cash (used in) provided by financing activities</u>	(6,689)	5,006	(5,694)
<u>Effect of exchange rate changes on cash and cash equivalents</u>	2	(20)	(6)
<u>Net increase (decrease) in cash and cash equivalents</u>	912	(22)	(1,608)
<u>Cash and cash equivalents at the beginning of the year</u>	2,459	2,481	4,089
<u>Cash and cash equivalents at the end of the year</u>	3,371	2,459	2,481

**Reconciliation of net income to net cash provided by operating activities:**

<u>Net income</u>	5,319	5,239	4,644
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**Adjustments required to reconcile net income to net cash provided by operating activities:**

<u>Depreciation and amortization</u>	2,475	2,092	1,931
<u>Stock-based compensation</u>	222	230	165
<u>Loss on early extinguishment of debt</u>	643	0	521
<u>Deferred income taxes and other noncash items</u>	153	(266)	(58)

**Change in operating assets and liabilities, net of effects from acquisitions:**

<u>Accounts receivable, net</u>	(243)	(1,594)	(737)
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<u>Inventories</u>	(742)	(1,141)	(770)
<u>Other current assets</u>	35	355	(383)
<u>Other assets</u>	(43)	2	9
<u>Accounts payable and claims and discounts payable</u>	2,189	2,834	1,742
<u>Accrued expenses</u>	59	765	1,060
<u>Other long-term liabilities</u>	2	(104)	13
<u>Net cash provided by operating activities</u>	\$ 10,069	\$ 8,412	\$ 8,137

Consolidated Statements of Shareholders' Equity - USD (\$) shares in Thousands, \$ in Millions	Total	Common Stock	Treasury Stock	Shares Held in Trust	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Parent	Noncontrolling Interest
<u>Balance at beginning of year (in shares) at Dec. 31, 2013</u>		1,680,000	500,000						
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>									
<u>Exercised (in shares)</u>		11,000							
<u>Purchase of treasury shares (in shares)</u>			(51,000)						
<u>Employee stock purchase plan issuances (in shares)</u>			1,000						
<u>Balance at end of year (in shares) at Dec. 31, 2014</u>		1,691,000	550,000	1,000					
<u>Beginning of year at Dec. 31, 2013</u>	\$ 17		\$ (20,169)		\$ 29,777	\$ 28,493	\$ (149)		\$ 0
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>									
<u>Stock options exercised and issuance of stock awards</u>	0								
<u>Purchase of treasury shares</u>			(4,001)						
<u>Employee stock purchase plan issuances</u>			92						
<u>Stock option activity, stock awards and other</u>					535				
<u>Excess tax benefit on stock options and stock awards</u>					106				
<u>2015 accelerated share repurchase not settled until 2016</u>					0				
<u>Net income attributable to noncontrolling interest</u>						4,644		0	[1]
<u>Common stock dividends</u>						(1,288)			
<u>Foreign currency translation adjustments, net of tax</u>	\$ (35)						(35)		
<u>Net cash flow hedges, net of tax</u>	4						4		
<u>Pension and other postretirement benefits, net of tax</u>	(37)						(37)		
<u>Business combinations</u>								5	
<u>Capital contributions</u>								0	
<u>Distributions</u>								0	
<u>End of year at Dec. 31, 2014</u>	37,963	\$ 17	\$ (24,078)	\$ (31)	30,418	31,849	(217)	\$ 37,958	5
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>									
<u>Changes in inventory accounting principles (Note 2)</u>					0				
<u>Exercised (in shares)</u>		8,000							

<u>Purchase of treasury shares (in shares)</u>			(48,000)					
<u>Employee stock purchase plan issuances (in shares)</u>			1,000					
<u>Balance at end of year (in shares) at Dec. 31, 2015</u>	1,699,000	597,000	1,000					
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>								
<u>Stock options exercised and issuance of stock awards</u>	\$ 0							
<u>Purchase of treasury shares</u>			\$ (4,856)					
<u>Employee stock purchase plan issuances</u>			48					
<u>Stock option activity, stock awards and other</u>					533			
<u>Excess tax benefit on stock options and stock awards</u>					142			
<u>2015 accelerated share repurchase not settled until 2016</u>					(145)			
<u>Net income attributable to noncontrolling interest</u>					5,237		1	[1]
<u>Common stock dividends</u>					(1,576)			
<u>Foreign currency translation adjustments, net of tax</u>	(100)					(100)		
<u>Net cash flow hedges, net of tax</u>	2					2		
<u>Pension and other postretirement benefits, net of tax</u>	(43)					(43)		
<u>Business combinations</u>							1	
<u>Capital contributions</u>							2	
<u>Distributions</u>							(2)	
<u>End of year at Dec. 31, 2015</u>	37,203	\$ 17	\$ (28,886)	\$ (31)	30,948	35,506	(358)	37,196
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>								
<u>Net income attributable to redeemable noncontrolling interest</u>	\$ 1							
<u>Changes in inventory accounting principles (Note 2)</u>						(4)		
<u>Exercised (in shares)</u>	4,328	6,000						
<u>Purchase of treasury shares (in shares)</u>			(47,000)					
<u>Employee stock purchase plan issuances (in shares)</u>			1,000					
<u>Balance at end of year (in shares) at Dec. 31, 2016</u>	1,705,000	643,000	1,000					
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>								
<u>Stock options exercised and issuance of stock awards</u>	\$ 0							
<u>Purchase of treasury shares</u>			\$ (4,606)					

<u>Employee stock purchase plan issuances</u>		40						
<u>Stock option activity, stock awards and other</u>					449			
<u>Excess tax benefit on stock options and stock awards</u>					76			
<u>2015 accelerated share repurchase not settled until 2016</u>					145			
<u>Net income attributable to noncontrolling interest</u>					5,317		1	[1]
<u>Common stock dividends</u>					(1,840)			
<u>Foreign currency translation adjustments, net of tax</u>	\$ 38					38		
<u>Net cash flow hedges, net of tax</u>	2					2		
<u>Pension and other postretirement benefits, net of tax</u>	13					13		
<u>Business combinations</u>							0	
<u>Capital contributions</u>							1	
<u>Distributions</u>							(5)	
<u>End of year at Dec. 31, 2016</u>	36,834	\$ 17	\$ (33,452)	\$ (31)	\$ 31,618	38,983	\$ (305)	\$ 36,830 \$ 4
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>								
<u>Net income attributable to redeemable noncontrolling interest</u>	\$ 1							
<u>Changes in inventory accounting principles (Note 2)</u>					\$ 0			

[1] Excludes \$1 million attributable to redeemable noncontrolling interest in 2016 and 2015 (See Note 1 "Significant Accounting Policies").

**Significant Accounting  
Policies**

**12 Months Ended  
Dec. 31, 2016**

**Accounting Policies [Abstract]**

**Significant Accounting Policies**

**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<sup>®</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Navarro<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> Pharmacy Services, Caremark<sup>®</sup>, CVS Caremark<sup>™</sup>, CarePlus CVS Pharmacy<sup>™</sup>, Accordant<sup>®</sup>, SilverScript<sup>®</sup>, Coram<sup>®</sup>, CVS Specialty<sup>™</sup>, NovoLogix<sup>®</sup>, Navarro<sup>®</sup> 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<sup>®</sup>, CVS<sup>®</sup>, CVS Pharmacy y más<sup>®</sup>, Longs Drugs<sup>®</sup>, Navarro Discount Pharmacy<sup>®</sup> and Drogeria Onofre<sup>™</sup> retail stores and online through CVS.com<sup>®</sup>, Navarro.com and Onofre.com.br.

The RLS also provides health care services through its MinuteClinic<sup>®</sup> 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<sup>®</sup>. 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, 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<sup>®</sup>, 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<sup>®</sup> and NeighborCare<sup>®</sup> 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.

**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><u>In millions</u></i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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.

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

<u><i>In millions</i></u>	<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	<u>(12,627)</u>	<u>(11,181)</u>
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:

<u><i>In millions</i></u>	<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 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).

#### *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<sup>®</sup>, is comprised of two components, ExtraSavings<sup>™</sup> and ExtraBucks<sup>®</sup> 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.

*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:

*In millions*

2016

2015

2014

Interest expense	\$ 1,078	\$ 859	\$ 615
Interest income	(20)	(21)	(15)
Interest expense, net	<u>\$ 1,058</u>	<u>\$ 838</u>	<u>\$ 600</u>

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 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	2	13	15
Net other comprehensive income	38	2	13	53
Balance, December 31, 2016	<u>\$ (127)</u>	<u>\$ (5)</u>	<u>\$ (173)</u>	<u>\$ (305)</u>

	Year Ended December 31, 2015 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	2	13	15
Net other comprehensive income (loss)	(100)	2	(43)	(141)
Balance, December 31, 2015	<u>\$ (165)</u>	<u>\$ (7)</u>	<u>\$ (186)</u>	<u>\$ (358)</u>

(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 \$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.

Below is a summary of the results of discontinued operations for the years ended December 31:

<u>In millions</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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:

As  
Previously

<i>In millions</i>	<u>Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
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 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.

## Acquisitions

12 Months Ended

Dec. 31, 2016

### Business Combinations

#### [Abstract]

#### Acquisitions

#### 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<sup>®</sup>. 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.

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	<u>\$ 9,645</u>

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.

#### ***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:

<b><i>In millions</i></b>	
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.

**Goodwill and Other  
Intangibles**

**12 Months Ended  
Dec. 31, 2016**

**Goodwill and Intangible  
Assets Disclosure [Abstract]**

**Goodwill and Other Intangibles**

**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.

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		Total
	Services	Retail/LTC	
Balance, December 31, 2014	\$ 21,234	\$ 6,908	\$ 28,142
Acquisitions	452	9,554	10,006
Foreign currency translation adjustments	—	(40)	(40)
Other <sup>(1)</sup>	(1)	(1)	(2)
Balance, December 31, 2015	21,685	16,421	38,106
Acquisitions	—	126	126
Foreign currency translation adjustments	—	17	17
Other <sup>(1)</sup>	(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:

<b><u>In millions</u></b>	
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
	<u>\$ 19,006</u>	<u>\$ (5,495)</u>	<u>\$ 13,511</u>	<u>\$ 18,587</u>	<u>\$ (4,709)</u>	<u>\$ 13,878</u>

## Share Repurchase Programs

12 Months Ended

Dec. 31, 2016

### Payments for Repurchase of Equity [Abstract]

#### Share Repurchase Programs

#### Share Repurchase Programs

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</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.

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.

**Borrowing and Credit  
Agreements**

**12 Months Ended  
Dec. 31, 2016**

**Debt Disclosure [Abstract]**

**Borrowing and Credit  
Agreements**

**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.

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 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:

<u>In millions</u>		
2017	\$	1,916
2018		3,521
2019		872
2020		2,774
2021		2,326
Thereafter		16,317
Total	\$	<u>27,726</u>

## Leases

12 Months Ended

Dec. 31, 2016

### Leases | Abstract

#### Leases

#### 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 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<sup>(1)</sup></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 <sup>(2)</sup>	<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.

## Medicare Part D

12 Months Ended

Dec. 31, 2016

### Receivables [Abstract]

#### Medicare Part D

#### 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.

**Pension Plans and Other  
Postretirement Benefits**

**12 Months Ended  
Dec. 31, 2016**

**Compensation and Retirement  
Disclosure [Abstract]**

**Pension Plans and Other  
Postretirement Benefits**

**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>

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>
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>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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.

<i>In millions</i>	<b>Fair value of plan assets at December 31, 2016</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

<b>Fair value of plan assets at December 31, 2015</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and money market funds	\$ 10	\$ —	\$ —	\$ 10
Fixed income funds	4	484	—	488
Equity mutual funds	115	—	—	115
<b>Total assets at fair value</b>	<b>\$ 129</b>	<b>\$ 484</b>	<b>\$ —</b>	<b>\$ 613</b>

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><u>In millions</u></i>	
2017 <sup>(1)</sup>	\$ 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.

#### **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.

## Stock Incentive Plans

12 Months Ended

Dec. 31, 2016

### Disclosure of Compensation Related Costs, Share-based Payments [Abstract]

#### Stock Incentive Plans

#### 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 <sup>(1)</sup>	\$ 79	\$ 90	\$ 103
Restricted stock awards <sup>(2)</sup>	143	140	62
Total stock-based compensation	\$ 222	\$ 230	\$ 165

(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 <sup>(1)</sup>	0.88%	0.71%	0.75%
Expected volatility <sup>(2)</sup>	20.64%	13.92%	14.87%
Risk-free interest rate <sup>(3)</sup>	0.45%	0.11%	0.08%
Expected life ( <i>in years</i> ) <sup>(4)</sup>	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 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>	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
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	<u>4,875</u>	<u>\$ 55.56</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 \$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:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Dividend yield <sup>(1)</sup>	1.62%	1.37%	1.47%
Expected volatility <sup>(2)</sup>	17.22%	18.07%	19.92%
Risk-free interest rate <sup>(3)</sup>	1.24%	1.24%	1.35%
Expected life (in years) <sup>(4)</sup>	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.

The following table is a summary of the Company's stock option activity for the year ended December 31, 2016:

<u>Shares in thousands</u>	<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

**Income Taxes**

**12 Months Ended**

**Dec. 31, 2016**

**Income Tax Disclosure**

**[Abstract]**

**Income Taxes**

**Income Taxes**

The income tax provision for continuing operations consisted of the following for the years ended December 31:

<u><i>In millions</i></u>	<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>

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:

<u><i>In millions</i></u>	<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	1,668	1,801
Deferred tax liabilities:		
Depreciation and amortization	(5,882)	(6,018)
Total deferred tax liabilities	(5,882)	(6,018)
Net deferred tax liabilities	\$ (4,214)	\$ (4,217)

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	\$ 307	\$ 338	\$ 188

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 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.

**Commitments and  
Contingencies**

**12 Months Ended  
Dec. 31, 2016**

**Commitments and  
Contingencies Disclosure**  
**[Abstract]**

**Commitments and Contingencies**      **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 *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 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 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 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.

## Segment Reporting

12 Months Ended

Dec. 31, 2016

### Segment Reporting [Abstract]

#### Segment Reporting

#### 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.

The following table is a reconciliation of the Company's business segments to the consolidated financial statements:

<i>In millions</i>	Pharmacy Services Segment <sup>(1)(2)</sup>	Retail/LTC Segment <sup>(2)</sup>	Corporate Segment	Intersegment Eliminations <sup>(2)</sup>	Consolidated Totals
2016:					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit <sup>(3)</sup>	5,901	23,738	—	(782)	28,857
Operating profit <sup>(4)(5)(6)</sup>	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 <sup>(5)(6)</sup>	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<sup>SM</sup> 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.

## Earnings Per Share

12 Months Ended

Dec. 31, 2016

### Earnings Per Share [Abstract]

#### Earnings Per Share

#### 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>2016</u>	<u>2015</u>	<u>2014</u>
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	<u>\$ 5,291</u>	<u>\$ 5,202</u>	<u>\$ 4,626</u>
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	<u>1,079</u>	<u>1,126</u>	<u>1,169</u>
Earnings per share from continuing operations:			
Basic	\$ 4.93	\$ 4.65	\$ 3.98
Diluted	\$ 4.91	\$ 4.62	\$ 3.96

Quarterly Financial  
Information (Unaudited)

12 Months Ended  
Dec. 31, 2016

Quarterly Financial Information  
Disclosure [Abstract]

Quarterly Financial Information  
(Unaudited)

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

<i>In millions, except per share amounts</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
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

**Significant Accounting  
Policies (Policies)**

**12 Months Ended  
Dec. 31, 2016**

**Accounting Policies [Abstract]**

**Principles of Consolidation**

**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**

**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**

**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** - 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 and Long-term  
Investments**

**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.

**Fair Value of Financial  
Instruments**

**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.

**Foreign Currency Translation and  
Transactions**

**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** - 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.

#### Inventories

**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 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.

#### Goodwill and Other Indefinitely-lived Assets

**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.

#### Intangible 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.

#### Impairment of Long-lived 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

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.

#### Revenue Recognition

##### **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 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).

#### *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<sup>®</sup>, is comprised of two components, ExtraSavings<sup>™</sup> and ExtraBucks<sup>®</sup> 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.

## Cost of Revenues

### **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.

## Vendor Allowances and Purchase Discounts

### **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

**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

**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.

#### Advertising Costs

**Advertising costs** - Advertising costs are expensed when the related advertising takes place.

#### Shares Held in Trust

**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 Loss

**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.

#### Stock-based Compensation

**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

**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 \$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.

#### Related Party Transactions

**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

**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

**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.

## Earnings Per Common Share

**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 Pronouncement

**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.

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, 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.

**Significant Accounting  
Policies (Tables)**

**12 Months Ended  
Dec. 31, 2016**

**Accounting Policies [Abstract]**

**Activity in allowance for doubtful trade  
accounts receivable**

The activity in the allowance for doubtful accounts receivable for the years ended December 31 is as follows:

<i>In millions</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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>

**Components of property and  
equipment**

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

<i>In millions</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
Leaschold 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>

**Reconciliation of the changes in the  
redeemable noncontrolling interest**

Below is a summary of the changes in redeemable noncontrolling interest for the years ended December 31:

<i>In millions</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>

**Interest Income and Interest Expense**

The following are the components of net interest expense for the years ended December 31:

<i>In millions</i>	<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>

**Schedule of Accumulated Other  
Comprehensive Income (Loss) by  
Component**

Changes in accumulated other comprehensive income (loss) by component are shown below:

<i>In millions</i>	<u>Year Ended December 31, 2016<sup>1)</sup></u>			
	<u>Foreign Currency</u>	<u>Losses on Cash Flow Hedges</u>	<u>Pension and Other Postretirement Benefits</u>	<u>Total</u>
Balance, December 31, 2015	\$ (165)	\$ (7)	\$ (186)	\$ (358)
Other comprehensive income before reclassifications	38	—	—	38
Amounts reclassified from accumulated				

other comprehensive income <sup>(2)</sup>	—	2	13	15
Net other comprehensive income	38	2	13	53
Balance, December 31, 2016	<u>\$ (127)</u>	<u>\$ (5)</u>	<u>\$ (173)</u>	<u>\$ (305)</u>

	Year Ended December 31, 2015 <sup>(1)</sup>			
	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 <sup>(2)</sup>	—	2	13	15
Net other comprehensive income (loss)	(100)	2	(43)	(141)
Balance, December 31, 2015	<u>\$ (165)</u>	<u>\$ (7)</u>	<u>\$ (186)</u>	<u>\$ (358)</u>

(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.

### Discontinued Operations Results

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>

### Schedule of New Accounting Pronouncements and Changes in Accounting Principles

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

**Acquisitions (Table)**

**12 Months Ended**

**Dec. 31, 2016**

Omnicare, Inc.

**Business Acquisition [Line Items]**

**Schedule of Recognized Identified Assets Acquired and Liabilities Assumed**

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	<u>\$ 9,645</u>

**Business Acquisition, Pro Forma Information**

*(In millions, except per share data)*

	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

**Target Pharmacy Acquisition**

**Business Acquisition [Line Items]**

**Schedule of Recognized Identified Assets Acquired and Liabilities Assumed**

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	<u>900</u>
Total cash consideration	<u>\$ 1,868</u>

**Goodwill and Other  
Intangibles (Tables)**

**12 Months Ended  
Dec. 31, 2016**

**Goodwill and Intangible Assets**

**Disclosure [Abstract]**

**Goodwill by Segment**

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 <sup>(1)</sup>	(1)	(1)	(2)
Balance, December 31, 2015	21,685	16,421	38,106
Acquisitions	—	126	126
Foreign currency translation adjustments	—	17	17
Other <sup>(1)</sup>	(48)	48	—
Balance, December 31, 2016	\$ 21,637	\$ 16,612	\$ 38,249

(1) "Other" represents immaterial purchase accounting adjustments for acquisitions.

**Anticipated Annual Amortization for  
Intangible Assets**

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

**Summary of the Company's intangible  
assets**

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

**Share Repurchase Programs**  
**Share Repurchase Programs**  
**(Tables)**

**12 Months Ended**  
**Dec. 31, 2016**

Equity | Abstract |

Share Repurchase Programs

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</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	—	

**Borrowing and Credit  
Agreements (Tables)**

**12 Months Ended  
Dec. 31, 2016**

**Debt Disclosure [Abstract]**

**Summary of the Company's  
borrowings**

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

<u><i>In millions</i></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

**Schedule of Maturities of Long-term Debt**

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:

<u><i>In millions</i></u>		
2017	\$	1,916
2018		3,521
2019		872

2020	2,774
2021	2,326
Thereafter	<u>16,317</u>
Total	<u>\$ 27,726</u>

## Leases (Tables)

12 Months Ended

Dec. 31, 2016

### Leases [Abstract]

#### Summary of net rental expense for operating leases

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>	2016	2015	2014
Minimum rentals	\$ 2,418	\$ 2,317	\$ 2,320
Contingent rentals	35	34	36
	2,453	2,351	2,356
Less: sublease income	(24)	(22)	(21)
	\$ 2,429	\$ 2,329	\$ 2,335

#### Summary of future minimum lease payments under capital and operating leases

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2016:

<i>In millions</i>	Capital Leases	Operating Leases <sup>(1)</sup>
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 <sup>(2)</sup>	1,314	\$ 27,346
Less: imputed interest	(666)	
Present value of capital lease obligations	\$ 648	

- (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.

**Pension Plans and Other  
Postretirement Benefits  
Pension Plans and Other  
Postretirement Benefits  
(Tables)**

**12 Months Ended**

**Dec. 31, 2016**

**Compensation and Retirement  
Disclosure [Abstract]**

**Schedule of Changes in Projected Benefit  
Obligation**

The following tables outline the change in benefit obligations and plan assets over the comparable periods:

<i>In millions</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>

**Schedule of Changes in Fair Value of Plan  
Assets**

<i>In millions</i>	<u>2016</u>	<u>2015</u>
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>

**Schedule of Net Benefit Costs**

The components of net periodic benefit costs for the years ended December 31 are shown below:

<i>In millions</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
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>

**Schedule of Allocation of Plan Assets**

The following tables show the fair value allocation of plan assets by asset category as of December 31, 2016 and 2015.

<i>In millions</i>	<b>Fair value of plan assets at December 31, 2016</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
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**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>

Schedule of Expected Benefit Payments

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:

*In millions*

2017 <sup>(1)</sup>	\$ 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.

**Stock Incentive Plans  
(Tables)**

**12 Months Ended  
Dec. 31, 2016**

**Disclosure of Compensation Related  
Costs, Share-based Payments**

**[Abstract]**

**Schedule of share-based compensation,  
activity**

The following table is a summary of stock-based compensation for each of the respective periods:

<i>In millions</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Stock options <sup>(1)</sup>	\$ 79	\$ 90	\$ 103
Restricted stock awards <sup>(2)</sup>	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.

**Summary of the assumptions used to value  
the ESPP awards**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Dividend yield <sup>(1)</sup>	0.88%	0.71%	0.75%
Expected volatility <sup>(2)</sup>	20.64%	13.92%	14.87%
Risk-free interest rate <sup>(3)</sup>	0.45%	0.11%	0.08%
Expected life ( <i>in years</i> ) <sup>(4)</sup>	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.

**Summary of the restricted stock unit and  
restricted share award activity**

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2016.

<i>Units in thousands</i>	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
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	<u>4,875</u>	<u>\$ 55.56</u>

**Black-Scholes option pricing model,  
assumptions**

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>2016</u>	<u>2015</u>	<u>2014</u>
Dividend yield <sup>(1)</sup>	1.62%	1.37%	1.47%
Expected volatility <sup>(2)</sup>	17.22%	18.07%	19.92%
Risk-free interest rate <sup>(1)</sup>	1.24%	1.24%	1.35%
Expected life ( <i>in years</i> ) <sup>(4)</sup>	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.

Summary of the Company's stock option activity

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>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2015	24,341	\$ 42.17		
Granted	4,343	\$ 104.62		
Exercised	(4,328)	\$ 42.07		
Forfeited	(768)	\$ 85.34		
Expired	<u>(313)</u>	\$ 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

**Income Taxes (Tables)**

**12 Months Ended  
Dec. 31, 2016**

**Income Tax Disclosure [Abstract]**

Schedule of income tax provision for continuing operations 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>

Reconciliation of the statutory income tax rate to the Company's effective income tax rate for continuing operations

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>

Summary of the significant components of the Company's deferred tax assets and liabilities

The following table is a summary of the components of the Company's deferred tax assets and liabilities as of December 31:

<i>In millions</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>

Reconciliation of the beginning and ending amount of unrecognized tax benefits

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

<i>In millions</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>

## Segment Reporting (Tables)

**12 Months Ended**  
**Dec. 31, 2016**

### Segment Reporting [Abstract]

#### Reconciliation of the Company's business segments to the consolidated financial statements

The following table is a reconciliation of the Company's business segments to the consolidated financial statements:

<i>In millions</i>	<u>Pharmacy Services Segment<sup>(1)(2)</sup></u>	<u>Retail/LTC Segment<sup>(2)</sup></u>	<u>Corporate Segment</u>	<u>Intersegment Eliminations<sup>(2)</sup></u>	<u>Consolidated Totals</u>
2016:					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit <sup>(1)</sup>	5,901	23,738	—	(782)	28,857
Operating profit <sup>(4)(5)(6)</sup>	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 <sup>(5)(6)</sup>	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<sup>SM</sup> 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.

Earnings Per Share (Tables)

12 Months Ended

Dec. 31, 2016

Earnings Per Share [Abstract]

Reconciliation of basic and diluted earnings per common 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>2016</u>	<u>2015</u>	<u>2014</u>
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	<u>\$ 5,291</u>	<u>\$ 5,202</u>	<u>\$ 4,626</u>
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	<u>1,079</u>	<u>1,126</u>	<u>1,169</u>
Earnings per share from continuing operations:			
Basic	\$ 4.93	\$ 4.65	\$ 3.98
Diluted	\$ 4.91	\$ 4.62	\$ 3.96

Quarterly Financial  
Information (Unaudited)  
(Tables)

12 Months Ended  
Dec. 31, 2016

Quarterly Financial Information  
Disclosure [Abstract]

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

<i>In millions, except per share amounts</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
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

Significant Accounting Policies - Description of Business (Details)	Dec. 16, 2015	12 Months Ended
	clinic state pharmacy	Dec. 31, 2016 clinic Suite state Center condition Branch segment drugstore pharmacy
<b><u>Segment reporting information</u></b>		
<u>Number of reportable segments   segment</u>		3
<u>Pharmacy Services Segment</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of pharmacies (more than 68,000)</u>		68,000
<u>Number of chain pharmacies</u>		41,000
<u>Number of independent pharmacies</u>		27,000
<u>Number of conditions for integrated disease management   condition</u>		18
<u>Centers of excellence for infusion and enteral services   Center</u>		3
<u>Number of states pharmacies operated   state</u>		41
<u>Pharmacy Services Segment   Specialty stores</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of pharmacies (more than 68,000)</u>		23
<u>Pharmacy Services Segment   Specialty mail order</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of pharmacies (more than 68,000)</u>		13
<u>Pharmacy Services Segment   Mail service</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of pharmacies (more than 68,000)</u>		4
<u>Pharmacy Services Segment   Infusion and Enteral Branches</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of infusion and enteral branches   Branch</u>		84
<u>Pharmacy Services Segment   Ambulatory Infusion Suites</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of infusion and enteral branches   Suite</u>		73
<u>Retail/LTC Segment</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of states pharmacies operated   state</u>		49
<u>Number of drugstores</u>		9,709
<u>Number of LTC spoke pharmacies   drugstore</u>		152
<u>Number of LTC hub pharmacies   drugstore</u>		32
<u>Retail/LTC Segment   MinuteClinic</u>		
<b><u>Segment reporting information</u></b>		
<u>Number of drugstores   clinic</u>		1,139
<u>Retail/LTC Segment   Minute Clinic Within C V S Pharmacy Stores</u>		

**Segment reporting information**

Number of drugstores | clinic 1,053

Retail/LTC Segment | Minute Clinic within Target Stores

**Segment reporting information**

Number of drugstores | clinic 79

Retail/LTC Segment | Minute Clinic in Corporate Campuses or Other Locations

**Segment reporting information**

Number of drugstores | clinic 7

Retail/LTC Segment | Pharmacy

**Segment reporting information**

Number of drugstores 7,980

Target Pharmacy Acquisition | Retail/LTC Segment

**Segment reporting information**

Number of states pharmacies operated | state 47

Number of pharmacies acquired 1,672 1,674

Number of clinics acquired | clinic 79

**Significant Accounting  
Policies - Fair Value of  
Financial Instruments  
(Details)  
\$ in Billions**

**Dec. 31, 2016  
USD (\$)**

**Accounting Policies [Abstract]**

Carrying amount of long-term debt \$ 25.7

Estimated fair value of long-term debt \$ 26.5

**Significant Accounting  
Policies - Accounts  
Receivable (Details) - USD  
(\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Allowance for Doubtful Accounts Receivable |Roll Forward|**

<u>Beginning balance</u>	\$ 161	\$ 256	\$ 256
<u>Additions charged to bad debt expense</u>	221	216	185
<u>Write-offs charged to allowance</u>	(96)	(311)	(185)
<u>Ending balance</u>	\$ 286	\$ 161	\$ 256

**Significant Accounting  
Policies - Property and  
Equipment (Details) - USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, gross</u>	\$ 22,802	\$ 21,036	
<u>Accumulated depreciation and amortization</u>	(12,627)	(11,181)	
<u>Property and equipment, net</u>	10,175	9,855	
<u>Property and equipment under capital leases</u>	547	528	
<u>Capital leases, accumulated depreciation</u>	119	97	
<u>Depreciation expense</u>	1,700	1,500	\$ 1,400
<u>Leaschold Improvements</u>			

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, gross</u>	4,494	4,015	
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Land

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, gross</u>	1,734	1,635	
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Building and Building Improvements

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, gross</u>	3,226	3,168	
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Fixtures and Equipment

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, gross</u>	10,956	10,001	
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Software

**Property, Plant and Equipment [Line Items]**

<u>Property and equipment, gross</u>	\$ 2,392	\$ 2,217	
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Minimum | Building

**Property, Plant and Equipment [Line Items]**

<u>Estimated useful life (in years)</u>	10 years		
---	----------	--	--

Minimum | Building Improvements

**Property, Plant and Equipment [Line Items]**

<u>Estimated useful life (in years)</u>	10 years		
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Minimum | Leaschold Improvements

**Property, Plant and Equipment [Line Items]**

<u>Estimated useful life (in years)</u>	10 years		
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Minimum | Furniture and Fixtures

**Property, Plant and Equipment [Line Items]**

<u>Estimated useful life (in years)</u>	3 years		
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Minimum | Equipment

**Property, Plant and Equipment [Line Items]**

<u>Estimated useful life (in years)</u>	3 years		
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Minimum | Software and Software Development Costs

**Property, Plant and Equipment [Line Items]**

<u>Estimated useful life (in years)</u>	3 years		
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Maximum | Building

**Property, Plant and Equipment [Line Items]**

Estimated useful life (in years) 40 years

Maximum | Building Improvements

**Property, Plant and Equipment [Line Items]**

Estimated useful life (in years) 40 years

Maximum | Leasehold Improvements

**Property, Plant and Equipment [Line Items]**

Estimated useful life (in years) 40 years

Maximum | Furniture and Fixtures

**Property, Plant and Equipment [Line Items]**

Estimated useful life (in years) 10 years

Maximum | Equipment

**Property, Plant and Equipment [Line Items]**

Estimated useful life (in years) 10 years

Maximum | Software and Software Development Costs

**Property, Plant and Equipment [Line Items]**

Estimated useful life (in years) 10 years

**Significant Accounting  
Policies - Intangible Assets  
(Details)**

**12 Months Ended  
Dec. 31, 2016**

Purchased Customer Contracts and Relationships | Minimum

**Finite-Lived Intangible Assets |Line Items|**

Finite-Lived intangible asset, useful life (in years) 9 years

Purchased Customer Contracts and Relationships | Maximum

**Finite-Lived Intangible Assets |Line Items|**

Finite-Lived intangible asset, useful life (in years) 20 years

Customer Lists

**Finite-Lived Intangible Assets |Line Items|**

Finite-Lived intangible asset, useful life (in years) 10 years

Significant Accounting Policies - Redeemable Noncontrolling Interest and Revenue Recognition (Details) \$ in Millions	12 Months Ended			
	Dec. 31, 2016 USD (\$) component	Dec. 31, 2015 USD (\$)	Aug. 31, 2015	Aug. 18, 2015
<b><u>Redeemable Noncontrolling Interest [Line Items]</u></b>				
<u>Number of components   component</u>	2			
<b><u>Redeemable Noncontrolling Interest, Equity, Carrying Amount [Abstract]</u></b>				
<u>Beginning balance</u>	\$ 7			
<u>Net income attributable to noncontrolling interest</u>	1	\$ 1		
<u>Ending balance</u>	4	7		
<u>Omnicare, Inc.</u>				
<b><u>Redeemable Noncontrolling Interest [Line Items]</u></b>				
<u>Percentage of voting interests acquired</u>			73.00%	100.00%
<b><u>Redeemable Noncontrolling Interest, Equity, Carrying Amount [Abstract]</u></b>				
<u>Beginning balance</u>	39	0		
<u>Acquisition of noncontrolling interest</u>	0	39		
<u>Net income attributable to noncontrolling interest</u>	1	1		
<u>Distributions</u>	(2)	(1)		
<u>Purchase of noncontrolling interest</u>	(39)	0		
<u>Reclassification to capital surplus in connection with purchase of noncontrolling interest</u>	1	0		
<u>Ending balance</u>	\$ 0	\$ 39		

**Significant Accounting  
Policies - Facility Opening,  
Advertising Costs, Interest  
Expense, and Shares Held in  
Trust (Details) - USD (\$)  
shares in Millions, \$ in  
Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Accounting Policies [Abstract]**

<u>Billing duration (in days)</u>	30 days		
<u>Long-term portion of lease obligations associated with facility closings</u>	\$ 181	\$ 217	
<u>Advertising costs, net of vendor funding</u>	216	221	\$ 212
<u>Interest expense, net of capitalized interest</u>	1,078	859	615
<u>Interest income</u>	(20)	(21)	(15)
<u>Interest expense), net</u>	1,058	838	600
<u>Capitalized interest</u>	\$ 13	\$ 12	\$ 19
<u>Shares held in employee trust (in shares)</u>	1	1	

**Significant Accounting  
Policies - Accumulated Other  
Comprehensive Income  
(Details) - USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015**

**Accounting Policies [Abstract]**

<u>AOCI related to pension and postretirement plans, pre -tax</u>	\$ 284	\$ 305
<u>AOCI related to pension and postretirement plans, after -tax</u>	173	186
<u>Net impact on cash flow hedges, pre -tax</u>	9	14
<u>Net impact on cash flow hedges, after -tax</u>	5	7
<u>Foreign currency translation adjustment, net of tax</u>	127	165

**AOCI Attributable to Parent, Net of Tax [Roll Forward]**

<u>Stockholders' equity attributable to parent, beginning balance</u>	37,196	
<u>Stockholders' equity attributable to parent, ending balance</u>	36,830	37,196

Foreign Currency

**AOCI Attributable to Parent, Net of Tax [Roll Forward]**

<u>Stockholders' equity attributable to parent, beginning balance</u>	(165)	(65)
<u>Other comprehensive income before reclassifications</u>	38	(100)
<u>Amounts reclassified from accumulated other comprehensive income</u>	0	0
<u>Net other comprehensive income</u>	38	(100)
<u>Stockholders' equity attributable to parent, ending balance</u>	(127)	(165)

Losses on Cash Flow Hedges

**AOCI Attributable to Parent, Net of Tax [Roll Forward]**

<u>Stockholders' equity attributable to parent, beginning balance</u>	(7)	(9)
<u>Other comprehensive income before reclassifications</u>	0	0
<u>Amounts reclassified from accumulated other comprehensive income</u>	2	2
<u>Net other comprehensive income</u>	2	2
<u>Stockholders' equity attributable to parent, ending balance</u>	(5)	(7)

Pension and Other Postretirement Benefits

**AOCI Attributable to Parent, Net of Tax [Roll Forward]**

<u>Stockholders' equity attributable to parent, beginning balance</u>	(186)	(143)
<u>Other comprehensive income before reclassifications</u>	0	(56)
<u>Amounts reclassified from accumulated other comprehensive income</u>	13	13
<u>Net other comprehensive income</u>	13	(43)
<u>Stockholders' equity attributable to parent, ending balance</u>	(173)	(186)

AOCI Attributable to Parent

**AOCI Attributable to Parent, Net of Tax [Roll Forward]**

<u>Stockholders' equity attributable to parent, beginning balance</u>	(358)	(217)
<u>Other comprehensive income before reclassifications</u>	38	(156)
<u>Amounts reclassified from accumulated other comprehensive income</u>	15	15
<u>Net other comprehensive income</u>	53	(141)
<u>Stockholders' equity attributable to parent, ending balance</u>	\$ (305)	\$ (358)

<b>Significant Accounting Policies - Stock-based Compensation and Variable Interest Entity (Details) \$ in Millions</b>	<b>1 Months Ended</b>	<b>12 Months Ended</b>			
	<b>Jul. 31, 2014</b>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Dec. 31, 2014</b>	<b>Oct. 31, 2014 payment</b>
<u>Variable Interest Entity, Primary Beneficiary   Terms of Generic Sourcing Venture</u>					
<b><u>Variable Interest Entity [Line Items]</u></b>					
<u>Ownership percentage by noncontrolling owners</u>		50.00%			
<u>Ownership percentage by parent</u>		50.00%			
<u>Initial contractual term (in years)</u>	10 years				
<u>Number of quarterly payments due (in quarterly payments)   payment</u>					39
<u>Increase in contractual obligation payment received   \$ Minimum</u>		\$ 163	\$ 122	\$ 26	
<b><u>Share-based Compensation Arrangement by Share -based Payment Award [Line Items]</u></b>					
<u>Requisite service period of the stock award (in years)</u>		3 years			
<u>Maximum</u>					
<b><u>Share-based Compensation Arrangement by Share -based Payment Award [Line Items]</u></b>					
<u>Requisite service period of the stock award (in years)</u>		5 years			

Significant Accounting Policies - Related Party Transactions (Details) \$ in Millions	12 Months Ended		
	Dec. 31, 2016 USD (\$) state	Dec. 31, 2015 USD (\$)	Dec. 31, 2014 USD (\$)
<b><u>Related Party Transaction [Line Items]</u></b>			
<u>Expenses from transactions with related party</u>	\$ 39	\$ 50	\$ 50
<u>Charitable contribution to the CVS foundation</u>	32		\$ 25
<u>Equity Method Investee</u>			
<b><u>Related Party Transaction [Line Items]</u></b>			
<u>Other revenues from transactions with related party</u>	\$ 140	\$ 25	
<u>Heartland Healthcare Services</u>			
<b><u>Related Party Transaction [Line Items]</u></b>			
<u>Number of states in which entity operates   state</u>	4		

**Significant Accounting  
Policies - Discontinued  
Operations and Earnings per  
Common Share (Details) -  
USD (\$)  
shares in Millions, \$ in  
Millions**

**3 Months Ended**

**12 Months Ended**

	<b>Dec. 31, 2016</b>	<b>Sep. 30, 2016</b>	<b>Jun. 30, 2016</b>	<b>Mar. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Sep. 30, 2015</b>	<b>Jun. 30, 2015</b>	<b>Mar. 31, 2015</b>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Dec. 31, 2014</b>
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**Accounting Policies [Abstract]**

Income (loss) from discontinued  
operations

\$ (2) \$ 15 \$ (1)

Income tax expense

1 (6) 0

Income (loss) from discontinued  
operations, net of tax

\$ 0 \$ (1) \$ 0 \$ 0 \$ (1) \$ 10 \$ 0 \$ 0 \$ (1) \$ 9 \$ (1)

Antidilutive securities excluded from  
computation of earnings per share (in  
shares)

6.7 2.7 2.1

**Significant Accounting  
Policies - New Accounting  
Pronouncements (Details) -  
USD (\$)  
\$ in Millions**

**Dec. 31, 2016 Dec. 31, 2015**

**New Accounting Pronouncements or Change in Accounting Principle [Line Items]**

<u>Total current assets</u>	\$ 31,042	\$ 29,158
<u>Total assets</u>	94,462	92,437
<u>Deferred tax liabilities - noncurrent</u>	4,214	4,217
<u>Total liabilities and shareholders' equity</u>	\$ 94,462	92,437

Adjustments for New Accounting Principle, Early Adoption

**New Accounting Pronouncements or Change in Accounting Principle [Line Items]**

<u>Deferred income taxes</u>		0
<u>Total current assets</u>		29,158
<u>Total assets</u>		92,437
<u>Deferred tax liabilities - noncurrent</u>		4,217
<u>Total liabilities and shareholders' equity</u>		92,437

Adjustments for New Accounting Principle, Early Adoption | Scenario, Previously Reported

**New Accounting Pronouncements or Change in Accounting Principle [Line Items]**

<u>Deferred income taxes</u>		1,220
<u>Total current assets</u>		30,378
<u>Total assets</u>		93,657
<u>Deferred tax liabilities - noncurrent</u>		5,437
<u>Total liabilities and shareholders' equity</u>		93,657

Adjustments for New Accounting Principle, Early Adoption | Scenario, Adjustment

**New Accounting Pronouncements or Change in Accounting Principle [Line Items]**

<u>Deferred income taxes</u>		(1,220)
<u>Total current assets</u>		(1,220)
<u>Total assets</u>		(1,220)
<u>Deferred tax liabilities - noncurrent</u>		(1,220)
<u>Total liabilities and shareholders' equity</u>		\$ (1,220)



<u>Redeemable noncontrolling interest</u>	(39)		
<u>Goodwill, expected tax deductible</u>	\$ 400		
<u>Weighted average useful life (in years)</u>	18 years 9 months		
<u>Acquisition related costs</u>			70
<u>Net revenues</u>		2,600	
<u>Net income</u>		\$ 61	
<b><u>Business Acquisition, Pro Forma Information:</u></b>			
<u>Total revenues</u>			156,798 144,836
<u>Income from continuing operations</u>			\$ 5,277 \$ 4,522
<u>Basic earnings per share from continuing operations (in dollars per share)</u>			\$ 4.70 \$ 3.88
<u>Diluted earnings per share from continuing operations (in dollars per share)</u>			\$ 4.66 \$ 3.85
<u>Restructuring costs</u>			\$ 135
<u>Omnicare, Inc.   Retail/LTC Segment</u>			
<b><u>Fair Values of Assets Acquired and Liabilities Assumed:</u></b>			
<u>Goodwill</u>	\$ 8,700		
<u>Omnicare, Inc.   Pharmacy Services Segment</u>			
<b><u>Fair Values of Assets Acquired and Liabilities Assumed:</u></b>			
<u>Goodwill</u>	400		
<u>Omnicare, Inc.   Customer Relationships</u>			
<b><u>Fair Values of Assets Acquired and Liabilities Assumed:</u></b>			
<u>Intangible assets</u>	\$ 3,900		
<u>Weighted average useful life (in years)</u>	19 years 1 month		
<u>Omnicare, Inc.   Trade Names</u>			
<b><u>Fair Values of Assets Acquired and Liabilities Assumed:</u></b>			
<u>Intangible assets</u>	\$ 74		
<u>Weighted average useful life (in years)</u>	2 years 11 months		

12 Months Ended

Acquisitions - Target Pharmacy Acquisition (Details)	Dec. 16, 2015 USD (\$) clinic state pharmacy	Dec. 31, 2016 USD (\$) state pharmacy	Dec. 31, 2015 USD (\$)	Dec. 31, 2014 USD (\$)
<b><u>Business Acquisition [Line Items]</u></b>				
<u>Contingent consideration, liability</u>		\$ 0		
<b><u>Assets Acquired:</u></b>				
<u>Goodwill</u>		\$ 38,249,000,000	\$ 38,106,000,000	\$ 28,142,000,000
<u>Retail/LTC Segment</u>				
<b><u>Business Acquisition [Line Items]</u></b>				
<u>Number of states pharmacies operated   state</u>		49		
<b><u>Assets Acquired:</u></b>				
<u>Goodwill</u>		\$ 16,612,000,000	16,421,000,000	\$ 6,908,000,000
<u>Target Pharmacy Acquisition</u>				
<b><u>Business Acquisition [Line Items]</u></b>				
<u>Consideration transferred</u>	\$ 1,900,000,000			
<u>Contingent consideration, liability</u>	\$ 60,000,000			
<u>Contingent consideration, liability term (in years)</u>	3 years			
<b><u>Assets Acquired:</u></b>				
<u>Accounts receivable</u>	\$ 2,000,000			
<u>Inventories</u>	467,000,000			
<u>Property and equipment</u>	9,000,000			
<u>Intangible assets</u>	490,000,000			
<u>Goodwill</u>	900,000,000			
<u>Total cash consideration</u>	\$ 1,868,000,000			
<u>Acquisition related costs</u>			\$ 26,000,000	
<u>Target Pharmacy Acquisition   Customer Relationships</u>				
<b><u>Assets Acquired:</u></b>				
<u>Finite-Lived intangible asset, useful life (in years)</u>	13 years			
<u>Target Pharmacy Acquisition   Retail/LTC Segment</u>				
<b><u>Business Acquisition [Line Items]</u></b>				
<u>Number of pharmacies acquired   pharmacy</u>	1,672	1,674		
<u>Number of states pharmacies operated   state</u>	47			
<u>Number of clinics acquired   clinic</u>	79			

<b>Goodwill and Other Intangibles - Goodwill (Details) - USD (\$)</b>	<b>9 Months Ended</b>	<b>12 Months Ended</b>	
	<b>Sep. 30, 2016</b>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
<b><u>Goodwill [Line Items]</u></b>			
<u>Goodwill, impairment loss</u>	\$ 0		
<b><u>Goodwill [Roll Forward]</u></b>			
<u>Goodwill, beginning balance</u>	38,106,000,000	\$ 38,106,000,000	\$ 28,142,000,000
<u>Acquisitions</u>		126,000,000	10,006,000,000
<u>Foreign currency translation adjustments</u>		17,000,000	(40,000,000)
<u>Other</u>		0	(2,000,000)
<u>Goodwill, ending balance</u>		38,249,000,000	38,106,000,000
<b><u>Pharmacy Services Segment</u></b>			
<b><u>Goodwill [Roll Forward]</u></b>			
<u>Goodwill, beginning balance</u>	21,685,000,000	21,685,000,000	21,234,000,000
<u>Acquisitions</u>		0	452,000,000
<u>Foreign currency translation adjustments</u>		0	0
<u>Other</u>		(48,000,000)	(1,000,000)
<u>Goodwill, ending balance</u>		21,637,000,000	21,685,000,000
<b><u>Retail/LTC Segment</u></b>			
<b><u>Goodwill [Roll Forward]</u></b>			
<u>Goodwill, beginning balance</u>	\$ 16,421,000,000	16,421,000,000	6,908,000,000
<u>Acquisitions</u>		126,000,000	9,554,000,000
<u>Foreign currency translation adjustments</u>		17,000,000	(40,000,000)
<u>Other</u>		48,000,000	(1,000,000)
<u>Goodwill, ending balance</u>		\$ 16,612,000,000	\$ 16,421,000,000

Goodwill and Other Intangibles - Intangible Assets (Details) - USD (\$)	9 Months Ended	12 Months Ended		
	Sep. 30, 2016	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
<b><u>Intangible assets</u></b>				
<u>Amortization expense related to finite-lived intangible assets</u>		\$ 795,000,000	\$ 611,000,000	\$ 518,000,000
<b><u>Anticipated annual amortization expenses</u></b>				
<u>2017</u>		780,000,000		
<u>2018</u>		748,000,000		
<u>2019</u>		704,000,000		
<u>2020</u>		534,000,000		
<u>2021</u>		473,000,000		
<b><u>Finite-Lived Intangible Assets, Net [Abstract]</u></b>				
<u>Intangible assets, gross carrying amount</u>		19,006,000,000	18,587,000,000	
<u>Intangible assets, accumulated amortization</u>		(5,495,000,000)	(4,709,000,000)	
<u>Intangible assets, net carrying amount</u>		\$ 13,511,000,000	13,878,000,000	
<u>Weighted Average</u>				
<b><u>Intangible assets</u></b>				
<u>Finite-Lived intangible asset, useful life (in years)</u>		15 years 6 months		
<u>Customer contracts and relationships and covenants not to compete</u>				
<b><u>Finite-Lived Intangible Assets, Net [Abstract]</u></b>				
<u>Intangible assets, gross carrying amount</u>		\$ 11,485,000,000	10,594,000,000	
<u>Intangible assets, accumulated amortization</u>		(4,802,000,000)	(4,092,000,000)	
<u>Intangible assets, net carrying amount</u>		\$ 6,683,000,000	6,502,000,000	
<u>Customer contracts and relationships and covenants not to compete   Weighted Average</u>				
<b><u>Intangible assets</u></b>				
<u>Finite-Lived intangible asset, useful life (in years)</u>		15 years 6 months		
<u>Favorable leases and other</u>				
<b><u>Finite-Lived Intangible Assets, Net [Abstract]</u></b>				
<u>Intangible assets, gross carrying amount</u>		\$ 1,123,000,000	1,595,000,000	
<u>Intangible assets, accumulated amortization</u>		(693,000,000)	(617,000,000)	
<u>Intangible assets, net carrying amount</u>		\$ 430,000,000	978,000,000	
<u>Favorable leases and other   Weighted Average</u>				
<b><u>Intangible assets</u></b>				
<u>Finite-Lived intangible asset, useful life (in years)</u>		15 years 10 months		
<u>Trademarks (indefinitely-lived)</u>				
<b><u>Intangible assets</u></b>				
<u>Impairment of intangible assets, indefinite-lived</u>	\$ 0			
<u>Indefinite-lived intangible assets</u>		\$ 6,400,000,000	6,400,000,000	
<b><u>Finite-Lived Intangible Assets, Net [Abstract]</u></b>				
<u>Intangible assets, gross carrying amount</u>		6,398,000,000	6,398,000,000	

Intangible assets, net carrying amount

\$ 6,398,000,000

\$  
6,398,000,000

12 Months Ended

Share Repurchase Programs (Details)	Jan. 06, 2017 \$ / shares shares	Aug. 29, 2016 USD (\$) agreement	Dec. 11, 2015 USD (\$)	Jan. 02, 2015 USD (\$)	12 Months Ended		Nov. 02, 2016 USD (\$)
					Dec. 31, 2016 USD (\$) shares	Dec. 31, 2015 USD (\$) shares	
<u>August 29, 2016</u>							
<b>Share repurchases</b>							
<u>Number of agreements   agreement</u>		2					
<u>Amount under ASR agreement</u>		\$ 3,600,000,000.0					
<u>December 11, 2015</u>							
<b>Share repurchases</b>							
<u>Amount under ASR agreement</u>			\$ 725,000,000.0				
<u>ASR, shares received as a percent of notional amount</u>							
<u>Shares repurchased under ASR agreement (in shares)   shares</u>							
<u>ASR, shares to be received at end of program as a percent of notional amount</u>							
<u>ASR, settlement receipt (payment)</u>			(580,000,000)				
<u>Transfer of shares to treasury stock value</u>			\$ (145,000,000)				
<u>January 02, 2015 [Member]</u>							
<b>Share repurchases</b>							
<u>Amount under ASR agreement</u>				\$ 2,000,000,000.0			
<u>ASR, shares received as a percent of notional amount</u>							
<u>Shares repurchased under ASR agreement (in shares)   shares</u>							
<u>ASR, shares to be received at end of program as a percent of notional amount</u>							
<u>ASR, settlement receipt (payment)</u>				1,600,000,000			
<u>Transfer of shares to treasury stock value</u>				\$ (400,000,000)			
<u>2016 Repurchase Program</u>							
<b>Share repurchases</b>							
<u>Share repurchase program, authorized amount</u>							\$ 15,000,000,000.0
<u>Amount available for repurchases</u>				\$ 15,000,000,000			
<u>2014 Repurchase Program</u>							
<b>Share repurchases</b>							
<u>Share repurchase program, authorized amount</u>							
<u>Amount available for repurchases</u>				\$ 3,200,000,000	\$ 7,700,000,000		
<u>Repurchase of common stock (in shares)   shares</u>				47,500,000			
<u>Repurchase of common stock</u>				\$ 4,500,000,000			
<u>Share Repurchase Program 2016 and 2014</u>							
<b>Share repurchases</b>							
<u>Amount available for repurchases</u>				18,200,000,000			
<u>2013 Repurchase Program</u>							

**Share repurchases**

Share repurchase program,  
authorized amount

Amount available for  
repurchases

0

2012 Repurchase Program

**Share repurchases**

Share repurchase program,  
authorized amount

Amount available for  
repurchases

\$ 0

2014 and 2013 Repurchase  
Programs

**Share repurchases**

Amount available for  
repurchases

\$

12,700,000,000

Repurchase of common stock (in  
shares) | shares

48,000,000

Repurchase of common stock

\$

5,000,000,000

2013 and 2012 Repurchase  
Programs

**Share repurchases**

Repurchase of common stock (in  
shares) | shares

51,400,000

Repurchase of common stock

\$

4,000,000,000

Subsequent Event | August 29,  
2016

**Share repurchases**

ASR, shares received as a  
percent of notional amount

80.00%

Shares repurchased under ASR  
agreement (in shares) | shares

36,100,000

Common stock price of shares  
repurchased under ASR  
agreement with Barclays (in  
dollars per share) | \$ / shares

\$ 80.34

ASR, shares to be received at  
end of program as a percent of  
notional amount

20.00%

ASR, maximum number of  
shares (in shares) | shares

90,100,000.0

**Borrowing and Credit  
Agreements - Schedule of  
Long-term Debt Instruments  
(Details) - USD (\$)  
\$ in Millions**

**Dec. 31, 2016 Dec. 31, 2015**

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 27,726	\$ 27,694
<u>Debt premiums</u>	33	39
<u>Debt discounts and deferred financing costs</u>	(228)	(269)
<u>Long-term debt, net of premiums, discounts and deferred costs</u>	27,531	27,464
<u>Short-term debt (commercial paper)</u>	(1,874)	0
<u>Current portion of long-term debt</u>	(42)	(1,197)
<u>Long-term debt</u>	25,615	26,267

1.2% senior notes due 2016

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	0	\$ 750
<u>Interest rate, stated percentage</u>		1.20%

6.125% senior notes due 2016

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	0	\$ 421
<u>Interest rate, stated percentage</u>		6.125%

5.75% senior notes due 2017

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	0	\$ 1,080
<u>Interest rate, stated percentage</u>		5.75%

1.9% senior notes due 2018

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 2,250	\$ 2,250
<u>Interest rate, stated percentage</u>	1.90%	

2.25% senior notes due 2018

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 1,250	1,250
<u>Interest rate, stated percentage</u>	2.25%	

2.25% senior notes due 2019

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 850	850
<u>Interest rate, stated percentage</u>	2.25%	

6.6% senior notes due 2019

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 0	\$ 394
<u>Interest rate, stated percentage</u>		6.60%

2.8% senior notes due 2020

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 2,750	\$ 2,750
<u>Interest rate, stated percentage</u>	2.80%	

4.75% senior notes due 2020

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 0	\$ 450
<u>Interest rate, stated percentage</u>		4.75%

2.125% senior notes due 2021

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 1,750	\$ 0
<u>Interest rate, stated percentage</u>	2.125%	

4.125% senior notes due 2021

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 550	550
<u>Interest rate, stated percentage</u>	4.125%	

2.75% senior notes due 2022

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 1,250	1,250
<u>Interest rate, stated percentage</u>	2.75%	

3.5% senior notes due 2022

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 1,500	1,500
<u>Interest rate, stated percentage</u>	3.50%	

4.75% senior notes due 2022

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 399	400
<u>Interest rate, stated percentage</u>	4.75%	

4% senior notes due 2023

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 1,250	1,250
<u>Interest rate, stated percentage</u>	4.00%	

3.375% senior notes due 2024

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 650	650
<u>Interest rate, stated percentage</u>	3.375%	

5% senior notes due 2024

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 299	300
<u>Interest rate, stated percentage</u>	5.00%	

3.875% senior notes due 2025

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 2,828	3,000
<u>Interest rate, stated percentage</u>	3.875%	

2.875% senior notes due 2026

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 1,750	0
<u>Interest rate, stated percentage</u>	2.875%	

6.25% senior notes due 2027

**Debt Instrument [Line Items]**

<u>Total debt principal</u>	\$ 372	453
<u>Interest rate, stated percentage</u>	6.25%	
<u>3.25% senior exchange debentures due 2035</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 1	5
<u>Interest rate, stated percentage</u>	3.25%	
<u>4.875% senior notes due 2035</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 652	2,000
<u>Interest rate, stated percentage</u>	4.875%	
<u>6.125% senior notes due 2039</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 447	734
<u>Interest rate, stated percentage</u>	6.125%	
<u>5.75% senior notes due 2041</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 133	493
<u>Interest rate, stated percentage</u>	5.75%	
<u>5.3% senior notes due 2043</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 750	750
<u>Interest rate, stated percentage</u>	5.30%	
<u>5.125% senior notes due 2045</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 3,500	3,500
<u>Interest rate, stated percentage</u>	5.125%	
<u>Capital lease obligations</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 648	644
<u>Other</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	23	20
<u>Commercial paper</u>		
<b><u>Debt Instrument [Line Items]</u></b>		
<u>Total debt principal</u>	\$ 1,874	\$ 0

**Borrowing and Credit  
Agreements - Additional  
Information (Details) - USD  
(S)**

Jan. 03, 2017 Jul. 27, 2016 May 31, 2016 May 16, 2016 Jul. 20, 2015 May 20, 2015 Sep. 04, 2014 Aug. 01, 2014

**Debt Instrument |Line Items|**

Loss on early extinguishment of  
debt

Proceeds from issuance of senior  
long-term debt

\$ 1,500,000

Carrying amount of long -term  
debt

Omnicare, Inc.

**Debt Instrument |Line Items|**

Notes assumed

Convertible debt

Repayments of debt

Carrying amount of long -term  
debt

Commercial paper

**Debt Instrument |Line Items|**

Weighted average interest rate

Bridge Loan

**Debt Instrument |Line Items|**

Bridge loan

\$  
13,000,000,000  
\$ 52,000,000

Loan processing fee

5.75% senior notes due 2017

**Debt Instrument |Line Items|**

Interest rate, stated percentage

5.75%

6.25% senior notes due 2027

**Debt Instrument |Line Items|**

Interest rate, stated percentage

6.25%

6.125% senior notes due 2039

**Debt Instrument |Line Items|**

Interest rate, stated percentage

6.125%

5.75% senior notes due 2041

**Debt Instrument |Line Items|**

Interest rate, stated percentage

5.75%

Senior notes 1.900% due in  
2018, 2.800% due in 2020,  
3.500% due in 2022, 4.875%  
due in 2035, and 5.125% due in  
2045

**Debt Instrument |Line Items|**

Debt instrument, face amount

\$ 15,000,000,000

2.25% senior notes due 2019

**Debt Instrument |Line Items|**

Debt instrument, face amount

\$ 850,000

Interest rate, stated percentage

2.25%

3.375% senior notes due 2024

**Debt Instrument |Line Items|**

Debt instrument, face amount

\$ 650,000

Interest rate, stated percentage

3.375%

6.25% senior notes due in 2027  
and 6.125% due in 2039 and  
5.75 Percent Due in 2041 and  
5.75 Percent Due in 2017

**Debt Instrument |Line Items|**

Redemption premium

\$ 490,000,000

<u>Loss on early extinguishment of debt</u>	521,000,000
<u>Extinguishment of debt amount tender offer</u>	2,000,000,000.0
<u>Write-off of unamortized deferred financing charges</u>	1,500,000
<u>Extinguishment of debt tender fees</u>	26,000,000
<u>Unsecured Backup Credit Facilities</u>	\$ 5,000,000
<b><u>Debt Instrument  Line Items </u></b>	
<u>Commitment fee percentage</u>	
<u>Long-term line of credit</u>	
<u>Unsecured Backup Credit Facilities   Unsecured Backup Credit Facility Expiring May 2018</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Maximum borrowing capacity</u>	
<u>Line of credit facility term (in years)</u>	
<u>Unsecured Backup Credit Facilities   Unsecured Backup Credit Facility Expiring July 2019</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Maximum borrowing capacity</u>	
<u>Line of credit facility term (in years)</u>	
<u>Unsecured Backup Credit Facilities   Unsecured Backup Credit Facility Expiring July 1, 2020</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Maximum borrowing capacity</u>	
<u>Line of credit facility term (in years)</u>	
<u>Line of Credit   Revolving Credit Facility   Subsequent Event</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Maximum borrowing capacity</u>	\$ 2,500,000,000.0
<u>Commitment fee percentage</u>	0.03%
<u>Borrowing capacity reduction 1</u>	\$ 750,000,000
<u>Borrowing capacity reduction 2</u>	\$ 500,000,000
<u>Unsecured Debt</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Proceeds from issuance of senior long-term debt</u>	14,800,000,000
<u>Unsecured Debt   2.125% senior notes due 2021</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 1,750,000,000.00
<u>Interest rate, stated percentage</u>	2.125%
<u>Unsecured Debt   2.875% senior notes due 2026</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 1,750,000,000.00
<u>Interest rate, stated percentage</u>	2.875%
<u>Unsecured Debt   2016 Notes</u>	

<b><u>Debt Instrument  Line Items </u></b>	
<u>Proceeds from issuance of debt</u>	\$ 3,500,000,000
<u>Unsecured Debt   4.875% senior notes due 2035</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 2,000,000,000
<u>Interest rate, stated percentage</u>	4.875%
<u>Unsecured Debt   3.875% senior notes due 2025</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 3,000,000,000
<u>Interest rate, stated percentage</u>	3.875%
<u>Unsecured Debt   1.9% senior notes due 2018</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 2,250,000,000.00
<u>Interest rate, stated percentage</u>	1.90%
<u>Unsecured Debt   2.8% senior notes due 2020</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 2,750,000,000.00
<u>Interest rate, stated percentage</u>	2.80%
<u>Unsecured Debt   3.5% senior notes due 2022</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 1,500,000,000.0
<u>Interest rate, stated percentage</u>	3.50%
<u>Unsecured Debt   5.125% senior notes due 2045</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Debt instrument, face amount</u>	\$ 3,500,000,000.0
<u>Interest rate, stated percentage</u>	5.125%
<u>Senior Notes   5.75% senior notes due 2017</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Interest rate, stated percentage</u>	5.75%
<u>Senior Notes   6.6% senior notes due 2019</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Interest rate, stated percentage</u>	6.60%
<u>Senior Notes   4.75% senior notes due 2020</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Interest rate, stated percentage</u>	4.75%
<u>Senior Notes   Maximum Tender Offer Notes</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Authorized face amount to be repurchased</u>	\$ 2,250,000,000.00
<u>Repurchased face amount</u>	\$ 1,500,000,000.0
<u>Senior Notes   6.25% senior notes due 2027</u>	
<b><u>Debt Instrument  Line Items </u></b>	
<u>Interest rate, stated percentage</u>	6.25%
<u>Senior Notes   6.125% senior notes due 2039</u>	
<b><u>Debt Instrument  Line Items </u></b>	

<u>Interest rate, stated percentage</u>		6.125%
<u>Senior Notes   5.75% senior notes due 2041</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Interest rate, stated percentage</u>		5.75%
<u>Senior Notes   5% senior notes due 2024</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Debt instrument, face amount</u>		
<u>Interest rate, stated percentage</u>		5.00%
<u>Senior Notes   5% senior notes due 2024   Omnicare, Inc.</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Carrying amount of long -term debt</u>		
<u>Senior Notes   4.750% senior notes due in 2022</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Debt instrument, face amount</u>		
<u>Interest rate, stated percentage</u>		4.75%
<u>Senior Notes   4.750% senior notes due in 2022   Omnicare, Inc.</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Carrying amount of long -term debt</u>		
<u>Senior Notes   4.875% senior notes due 2035</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Interest rate, stated percentage</u>		4.875%
<u>Senior Notes   3.875% senior notes due 2025</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Interest rate, stated percentage</u>		3.875%
<u>Senior Notes   Any and All Notes</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Repurchased face amount</u>	\$	
		1,100,000,000
<u>Redemption premium</u>		97,000,000
<u>Write off of deferred debt issuance cost</u>	\$	4,000,000
<u>Loss on early extinguishment of debt</u>		
<u>Senior Notes   The Notes</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Redemption premium</u>		\$ 486,000,000
<u>Write off of deferred debt issuance cost</u>		50,000,000
<u>Payments of debt extinguishment costs</u>		\$ 6,000,000
<u>Loss on early extinguishment of debt</u>		
<u>Convertible Debt   Omnicare, Inc.</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Notes assumed</u>		
<u>Loans Payable   Omnicare, Inc.</u>		
<b><u>Debt Instrument  Line Items </u></b>		
<u>Repayments of debt</u>		

Enhanced Capital Advantage

Preferred Securities

**Debt Instrument [Line Items]**

Repayment of ECAPS

**Borrowing and Credit  
Agreements - Debt  
Maturities (Details) - USD (\$)** Dec. 31, 2016 Dec. 31, 2015  
\$ in Millions

**Debt Disclosure [Abstract]**

<u>2017</u>	\$ 1,916	
<u>2018</u>	3,521	
<u>2019</u>	872	
<u>2020</u>	2,774	
<u>2021</u>	2,326	
<u>Thereafter</u>	16,317	
<u>Total debt</u>	\$ 27,726	\$ 27,694

Leases - Additional Information (Details) \$ in Millions	12 Months Ended		
	Dec. 31, 2016 USD (\$) Center	Dec. 31, 2015 USD (\$)	Dec. 31, 2014 USD (\$)
<b><u>Operating Leased Assets [Line Items]</u></b>			
Capital lease obligations		\$ 300	
Proceeds from sale-leaseback transactions	\$ 230	\$ 411	\$ 515
<u>Retail and mail order locations, distribution centers and corporate offices</u>			
<b><u>Operating Leased Assets [Line Items]</u></b>			
Number of distribution centers leased   Center	11		
<u>Retail and mail order locations, distribution centers and corporate offices  </u>			
<u>Minimum</u>			
<b><u>Operating Leased Assets [Line Items]</u></b>			
Non-cancelable operating leases, initial term (in years)	15 years		
<u>Retail and mail order locations, distribution centers and corporate offices  </u>			
<u>Maximum</u>			
<b><u>Operating Leased Assets [Line Items]</u></b>			
Non-cancelable operating leases, initial term (in years)	25 years		
<u>Equipment and other assets   Minimum</u>			
<b><u>Operating Leased Assets [Line Items]</u></b>			
Non-cancelable operating leases, initial term (in years)	3 years		
<u>Equipment and other assets   Maximum</u>			
<b><u>Operating Leased Assets [Line Items]</u></b>			
Non-cancelable operating leases, initial term (in years)	10 years		

**Leases - Schedule of Rent  
Expense (Details) - USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Leases [Abstract]**

<u>Minimum rentals</u>	\$ 2,418	\$ 2,317	\$ 2,320
<u>Contingent rentals</u>	35	34	36
<u>Gross lease rental expense</u>	2,453	2,351	2,356
<u>Less: sublease income</u>	(24)	(22)	(21)
<u>Net lease rental expense</u>	\$ 2,429	\$ 2,329	\$ 2,335

**Leases - Schedule of Future  
Minimum Lease Payments  
(Details)  
\$ in Millions**

**Dec. 31, 2016  
USD (\$)**

**Capital Leases**

<u>2017</u>	\$ 74
<u>2018</u>	72
<u>2019</u>	71
<u>2020</u>	71
<u>2021</u>	70
<u>Thereafter</u>	956
<u>Total future lease payments</u>	1,314
<u>Less: imputed interest</u>	(666)
<u>Present value of capital lease obligations</u>	648

**Operating Leases**

<u>2017</u>	2,458
<u>2018</u>	2,361
<u>2019</u>	2,209
<u>2020</u>	2,040
<u>2021</u>	1,910
<u>Thereafter</u>	16,368
<u>Total future lease payments</u>	27,346
<u>Minimum sublease rentals due in future under non-cancelable subleases</u>	176
<u>Obligation in excess of future minimum payments</u>	\$ 1,700

**Pension Plans and Other  
Postretirement Benefits -  
Additional Information  
(Details)  
\$ in Millions**

**12 Months Ended**

Sep. 30, 2015 Plan	Dec. 31, 2016 USD (\$) Plan	Dec. 31, 2015 USD (\$) Plan	Dec. 31, 2014 USD (\$) Plan
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**Compensation and Retirement Disclosure [Abstract]**

<u>Employer's contributions under defined contribution plans</u>	\$ 295	\$ 251	\$ 238
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**Defined Benefit Plan Disclosure [Line Items]**

<u>Number of defined benefit plans   Plan</u>	7	7	9
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Multiemployer Plans, Pension

**Defined Benefit Plan Disclosure [Line Items]**

<u>Period contributions</u>	\$ 15	\$ 14	\$ 14
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Pension Plans

**Defined Benefit Plan Disclosure [Line Items]**

<u>Settlement loss</u>	\$ 0	\$ 0	3
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<u>Discount rate</u>	4.00%	4.25%	
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<u>Employer contributions</u>	\$ 25	\$ 22	42
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<u>Estimated future employer contributions in next fiscal year</u>	39		
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<u>Benefit obligation</u>	844	844	796
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<u>Net periodic pension cost</u>	\$ 27	\$ 19	\$ 21
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Pension Plans | Level 1

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>	7.00%	21.00%	
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Pension Plans | Level 2

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>	93.00%	79.00%	
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Pension Plans | Fixed Income Securities

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>	94.00%	79.00%	
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Pension Plans | Equity Securities

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>	5.00%	19.00%	
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Pension Plans | Money Market Funds

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>	1.00%	2.00%	
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Pension Plans | Minimum

**Defined Benefit Plan Disclosure [Line Items]**

<u>Settlement loss</u>	\$ 175		
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<u>Expected long-term rate of return on plan assets</u>	4.00%	5.75%	
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<u>Rate of compensation increase</u>	4.00%	4.00%	
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Pension Plans | Minimum | Fixed Income Securities

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>	80.00%		
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Pension Plans | Minimum | Equity Securities

**Defined Benefit Plan Disclosure [Line Items]**

<u>Actual plan asset allocations percent</u>		0.00%		
<u>Pension Plans   Maximum</u>				
<b><u>Defined Benefit Plan Disclosure [Line Items]</u></b>				
<u>Settlement loss</u>		\$ 225		
<u>Expected long-term rate of return on plan assets</u>		5.50%	6.75%	
<u>Rate of compensation increase</u>		6.00%	6.00%	
<u>Pension Plans   Maximum   Fixed Income Securities</u>				
<b><u>Defined Benefit Plan Disclosure [Line Items]</u></b>				
<u>Actual plan asset allocations percent</u>		100.00%		
<u>Pension Plans   Maximum   Equity Securities</u>				
<b><u>Defined Benefit Plan Disclosure [Line Items]</u></b>				
<u>Actual plan asset allocations percent</u>		20.00%		
<u>Tax Qualified Pension Plans, Defined Benefit</u>				
<b><u>Defined Benefit Plan Disclosure [Line Items]</u></b>				
<u>Number of defined benefit plans   Plan</u>	4	2	2	4
<u>Discount rate</u>		3.09%	3.25%	
<u>Unfunded Nonqualified Supplemental Retirement Plans</u>				
<b><u>Defined Benefit Plan Disclosure [Line Items]</u></b>				
<u>Number of defined benefit plans   Plan</u>		5	5	5
<u>Other Postretirement Benefit Plan</u>				
<b><u>Defined Benefit Plan Disclosure [Line Items]</u></b>				
<u>Period contributions</u>		\$ 52	\$ 60	\$ 58
<u>Benefit obligation</u>		24	33	
<u>Net periodic pension cost</u>		\$ 1	\$ 2	\$ 1

**Pension Plans and Other  
Postretirement Benefits -  
Change in Benefit Obligation  
(Details) - Pension Plans -  
USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Defined Benefit Plan, Change in Benefit Obligation [Roll Forward]**

<u>Benefit obligation at beginning of year</u>	\$ 844	\$ 796	
<u>Acquisition</u>	0	8	
<u>Interest cost</u>	27	31	\$ 32
<u>Actuarial loss</u>	13	45	
<u>Benefit payments</u>	(37)	(36)	
<u>Settlements</u>	(3)	0	
<u>Benefit obligation at end of year</u>	\$ 844	\$ 844	\$ 796

**Pension Plans and Other  
Postretirement Benefits -  
Change in Plan Assets  
(Details) - Pension Plans -  
USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Defined Benefit Plan, Change in Fair Value of Plan Assets**

<u>Fair value of plan assets at the beginning of the year</u>	\$ 613	\$ 635	
<u>Acquisitions</u>	0	5	
<u>Actual return on plan assets</u>	26	(13)	
<u>Employer contributions</u>	25	22	\$ 42
<u>Benefit payments</u>	(37)	(36)	
<u>Settlements</u>	(3)	0	
<u>Fair value of plan assets at the end of the year</u>	624	613	\$ 635
<u>Funded status</u>	\$ (220)	\$ (231)	

**Pension Plans and Other  
Postretirement Benefits -  
Components of Net Periodic  
Benefit Cost (Details) -  
Pension Plans - USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Defined Benefit Plan Disclosure [Line Items]**

<u>Interest cost</u>	\$ 27	\$ 31	\$ 32
<u>Expected return on plan assets</u>	(32)	(33)	(31)
<u>Amortization of net loss</u>	32	21	16
<u>Settlement loss</u>	0	0	3
<u>Service cost</u>	0	0	1
<u>Net periodic pension cost</u>	\$ 27	\$ 19	\$ 21

**Pension Plans and Other  
Postretirement Benefits - Fair  
Value Allocation of Plan  
Assets (Details) - Pension  
Plans - USD (\$)  
\$ in Millions**

**Dec. 31, 2016 Dec. 31, 2015 Dec. 31, 2014**

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	\$ 624	\$ 613	\$ 635
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Level 1

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	44	129	
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Level 2

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	580	484	
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Level 3

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	0	0	
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Cash and money market funds

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	8	10	
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Cash and money market funds | Level 1

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	8	10	
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Cash and money market funds | Level 2

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	0	0	
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Cash and money market funds | Level 3

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	0	0	
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Fixed income funds

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	583	488	
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Fixed income funds | Level 1

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	3	4	
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Fixed income funds | Level 2

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	580	484	
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Fixed income funds | Level 3

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	0	0	
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Equity mutual funds

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	33	115	
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Equity mutual funds | Level 1

**Defined Benefit Plan Disclosure [Line Items]**

<u>Fair value of plan assets</u>	33	115
<u>Equity mutual funds   Level 2</u>		
<b><u>Defined Benefit Plan Disclosure  Line Items </u></b>		
<u>Fair value of plan assets</u>	0	0
<u>Equity mutual funds   Level 3</u>		
<b><u>Defined Benefit Plan Disclosure  Line Items </u></b>		
<u>Fair value of plan assets</u>	\$ 0	\$ 0

**Pension Plans and Other  
Postretirement Benefits -  
Expected Future Benefit  
Payments (Details) - Pension  
Plans  
\$ in Millions**

**Dec. 31, 2016  
USD (\$)**

**Defined Benefit Plan Disclosure [Line Items]**

<u>2017</u>	\$ 39
<u>2018</u>	52
<u>2019</u>	50
<u>2020</u>	49
<u>2021</u>	61
<u>Thereafter</u>	\$ 236

**Stock Incentive Plans -  
Schedule of Stock-based  
Compensation (Details) -  
USD (\$)  
\$ in Millions**

**12 Months Ended**

**Dec. 31,      Dec. 31,      Dec. 31,  
2016            2015            2014**

**Share-based Compensation Arrangement by Share -based Payment Award  
[Line Items]**

<u>Compensation expense related to share -based compensation Stock Options and ESPP</u>	\$ 222	\$ 230	\$ 165
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**Share-based Compensation Arrangement by Share -based Payment Award  
[Line Items]**

<u>Compensation expense related to share -based compensation Restricted Stock</u>	79	90	103
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**Share-based Compensation Arrangement by Share -based Payment Award  
[Line Items]**

<u>Compensation expense related to share -based compensation Restricted Stock   Executive Officer</u>	\$ 143	140	\$ 62
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**Share-based Compensation Arrangement by Share -based Payment Award  
[Line Items]**

<u>Compensation expense related to share -based compensation</u>		\$ 38	
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**Stock Incentive Plans -  
Additional Information  
(Details) - USD (\$)  
\$ / shares in Units, \$ in  
Millions**

**12 Months Ended**

**Dec. 31, 2016      Dec. 31,  
2015      Dec. 31,  
2014**

**Compensation**

<u>Recognized tax benefit on compensation expense</u>	\$ 22	\$ 26	\$ 33
<u>Excess tax benefits from stock -based compensation</u>	72	127	106
<u>Proceeds from exercise of stock options</u>	224	299	421
<u>Total intrinsic value of options exercised</u>	244	394	372

**Restricted Stock**

**Compensation**

<u>Total fair value of restricted shares vested</u>	\$ 218	\$ 164	\$ 57
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**Restricted Stock Units (RSUs)**

**Compensation**

<u>Granted (in shares)</u>	1,992,000	2,695,000	2,708,000
<u>Granted (in dollars per share)</u>	\$ 103.26	\$ 100.81	\$ 73.60
<u>Unrecognized compensation expense related to unvested options</u>	\$ 327		
<u>Unrecognized compensation expense related to unvested options, period of recognition (in years)</u>	2 years 3 months 15 days		

**Options Granted, Beginning from 2011**

**Compensation**

<u>Exercisable period (in years)</u>	4 years
<u>Expiration period for options granted (in years)</u>	7 years

**Employee Stock Option**

**Compensation**

<u>Unrecognized compensation expense related to unvested options</u>	\$ 79		
<u>Unrecognized compensation expense related to unvested options, period of recognition (in years)</u>	1 year 9 months 16 days		
<u>Fair value of options vested</u>	\$ 298	\$ 334	\$ 292
<u>Unvested options to vest over the requisite service period (in shares)</u>	\$ 11		

**Employee Stock Purchase Plan 2007**

**Compensation**

<u>Maximum number of shares that can be purchased under ESPP (in shares)</u>	30,000,000		
<u>Employee purchase price, percentage of fair market value of ordinary shares</u>	90.00%	85.00%	
<u>Shares of common stock purchased for ESPP (in shares)</u>	1,000,000		
<u>Average price of shares of common stock purchased for ESPP (in dollars per share)</u>	\$ 84.68		
<u>Shares available for future grants under the ICP (in shares)</u>	12,000,000		

**Equity Incentive Plan 2010**

**Compensation**

<u>Maximum number of shares that can be purchased under ESPP (in shares)</u>	74,000,000
<u>Shares available for future grants under the ICP (in shares)</u>	18,000,000

**Minimum**

**Compensation**

<u>Requisite service period of the stock award (in years)</u>	3 years
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Maximum

Compensation

Requisite service period of the stock award (in years)

5 years

**Stock Incentive Plans -  
Schedule of Valuation  
Assumptions of ESPP  
(Details) - \$ / shares**

**12 Months Ended**

**Dec. 31,      Dec. 31,      Dec. 31,  
2016            2015            2014**

Employee Stock Purchase Plan

**Share-based Compensation Arrangement by Share -based Payment Award**

**[Line Items]**

<u>Dividend yield</u>	0.88%	0.71%	0.75%
<u>Expected volatility</u>	20.64%	13.92%	14.87%
<u>Risk-free interest rate</u>	0.45%	0.11%	0.08%
<u>Expected life (in years)</u>	6 months	6 months	6 months
<u>Weighted-average grant date fair value (in dollars per share)</u>	\$ 14.98	\$ 18.72	\$ 13.74

Employee Stock Purchase Plan 2007

**Share-based Compensation Arrangement by Share -based Payment Award**

**[Line Items]**

<u>Offering period for stock purchase plan (in months)</u>	6 months
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**Stock Incentive Plans -  
Schedule of Restricted Stock  
and RSU Activity (Details) -  
Restricted Unit and  
Restricted Share Award  
shares in Thousands**

**12 Months Ended**

**Dec. 31, 2016  
\$ / shares  
shares**

**Units**

<u>Nonvested at beginning of year (in shares)   shares</u>	5,418
<u>Granted (in shares)   shares</u>	1,992
<u>Vested (in shares)   shares</u>	(2,219)
<u>Forfeited (in shares)   shares</u>	(316)
<u>Nonvested at end of year (in shares)   shares</u>	4,875

**Weighted Average Grant Date Fair Value**

<u>Nonvested at beginning of year (in dollars per share)   \$ / shares</u>	\$ 59.22
<u>Granted (in dollars per share)   \$ / shares</u>	103.26
<u>Vested (in dollars per share)   \$ / shares</u>	102.47
<u>Forfeited (in dollars per share)   \$ / shares</u>	89.71
<u>Nonvested at end of year (in dollars per share)   \$ / shares</u>	\$ 55.56

**Stock Incentive Plans - Fair  
Value of Options Using  
Black-Scholes (Details) -  
Employee Stock Option - \$ /  
shares**

**12 Months Ended**

**Dec. 31, 2016      Dec. 31, 2015      Dec. 31,  
2014**

**Share-based Compensation Arrangement by Share -based Payment**

**Award [Line Items]**

<u>Dividend yield</u>	1.62%	1.37%	1.47%
<u>Expected volatility</u>	17.22%	18.07%	19.92%
<u>Risk-free interest rate</u>	1.24%	1.24%	1.35%
<u>Expected life (in years)</u>	4 years 2 months 9 days	4 years 2 months 12 days	4 years
<u>Weighted-average grant date fair value (in dollars per share)</u>	\$ 13.00	\$ 14.01	\$ 11.04

**Stock Incentive Plans -  
Schedule of Stock Option  
Activity (Details) - USD (\$)  
\$/ shares in Units, shares in  
Thousands**

**12 Months Ended**

**Dec. 31, 2016      Dec. 31,  
2015**

**Share-based Compensation Arrangement by Share -based Payment Award, Options,  
Outstanding [Roll Forward]**

<u>Outstanding at the beginning of the period (in shares)</u>	24,341	
<u>Granted (in shares)</u>	4,343	
<u>Exercised (in shares)</u>	(4,328)	
<u>Forfeited (in shares)</u>	(768)	
<u>Expired (in shares)</u>	(313)	
<u>Outstanding at the end of the period (in shares)</u>	23,275	24,341
<u>Options exercisable (in shares)</u>	12,196	
<u>Options vested and expected to vest end of the period (in shares)</u>	22,734	

**Share-based Compensation Arrangement by Share -based Payment Award, Options,  
Outstanding, Weighted Average Exercise Price [Abstract]**

<u>Outstanding at the beginning of the period (in dollars per share)</u>	\$ 42.17	
<u>Granted (in dollars per share)</u>	104.62	
<u>Exercised (in dollars per share)</u>	42.07	
<u>Forfeited (in dollars per share)</u>	85.34	
<u>Expired (in dollars per share)</u>	39.73	
<u>Outstanding at the end of the period (in dollars per share)</u>	68.60	\$ 42.17
<u>Exercisable at end of period (in dollars per share)</u>	49.22	
<u>Vested and expected to vest (in dollars per share)</u>	\$ 67.86	

**Share-based Compensation Arrangement by Share -based Payment Award, Options,  
Additional Disclosures [Abstract]**

<u>Weighted average remaining contractual term, options outstanding (in years)</u>	3 years 8 months 10 days
<u>Weighted average remaining contractual term, options exercisable (in years)</u>	2 years 4 months 6 days
<u>Weighted average remaining contractual term, options vested and expected to vest (in years)</u>	3 years 7 months 22 days
<u>Aggregate intrinsic value, options outstanding</u>	\$ 427,311,414
<u>Aggregate intrinsic value, options exercisable</u>	375,563,490
<u>Aggregate intrinsic value, options vested and expected to vest</u>	\$ 426,628,851

Income Taxes (Details) - USD (\$) \$ in Millions	12 Months Ended		
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
<b>Current:</b>			
<u>Federal</u>	\$ 2,803	\$ 3,065	\$ 2,581
<u>State</u>	511	555	495
<u>Total current income tax provision</u>	3,314	3,620	3,076
<b>Deferred:</b>			
<u>Federal</u>	5	(180)	(43)
<u>State</u>	(2)	(54)	0
<u>Total deferred income tax provision</u>	3	(234)	(43)
<u>Total</u>	\$ 3,317	\$ 3,386	\$ 3,033
<b><u>Reconciliation of the statutory income tax rate to the Company's effective income tax rate</u></b>			
<u>Statutory income tax rate</u>	35.00%	35.00%	35.00%
<u>State income taxes, net of federal tax benefit</u>	4.10%	4.00%	4.30%
<u>Other</u>	(0.70%)	0.30%	0.20%
<u>Effective income tax rate</u>	38.40%	39.30%	39.50%
<b><u>Deferred tax assets:</u></b>			
<u>Lease and rents</u>	\$ 375	\$ 378	
<u>Inventory</u>	57	99	
<u>Employee benefits</u>	400	359	
<u>Allowance for doubtful accounts</u>	301	279	
<u>Retirement benefits</u>	65	105	
<u>Net operating loss and capital loss carryforwards</u>	125	115	
<u>Deferred income</u>	144	83	
<u>Other</u>	336	498	
<u>Valuation allowance</u>	(135)	(115)	
<u>Total deferred tax assets</u>	1,668	1,801	
<b><u>Deferred tax liabilities:</u></b>			
<u>Depreciation and amortization</u>	(5,882)	(6,018)	
<u>Total deferred tax liabilities</u>	(5,882)	(6,018)	
<u>Net deferred tax liabilities</u>	(4,214)	(4,217)	
<b><u>Reconciliation of the beginning and ending amount of unrecognized tax benefits</u></b>			
<u>Beginning balance</u>	338	188	\$ 117
<u>Additions based on tax positions related to the current year</u>	68	57	32
<u>Additions based on tax positions related to prior years</u>	70	122	70
<u>Reductions for tax positions of prior years</u>	(100)	(11)	(15)
<u>Expiration of statutes of limitation</u>	(22)	(13)	(15)
<u>Settlements</u>	(47)	(5)	(1)
<u>Ending balance</u>	307	338	188
<u>Interest recognized related to unrecognized tax benefits</u>	10	5	\$ 6
<u>Accrued interest and penalties related to unrecognized tax benefits</u>	30	\$ 16	
<u>Unrecognized tax benefits that would impact effective tax rate</u>	\$ 276		



Commitments and Contingencies (Details) \$ in Millions	1 Months Ended						
	Oct. 29, 2010 USD (\$) plaintiff	Oct. 31, 2016 USD (\$) pharmacy	Sep. 30, 2015 pharmacy	Mar. 31, 2010 state	Feb. 28, 2006 director class_action_complaint officer	Oct. 31, 2003 pharmacy class_action_complaint	Dec. 31, 2016 lease
<b>Loss contingencies</b>							
<u>Number of store leases guaranteed   lease</u>							87
<u>Number of pharmacies filing putative action   pharmacy</u>						2	
<u>New claims filed, number   class action complaint</u>						3	
<u>Number of pharmacies indicated in subpoena   pharmacy Omnicare, Inc.</u>		8					
<b>Loss contingencies</b>							
<u>New claims filed, number   class action complaint</u>					2		
<u>Number of officers named in lawsuit   officer</u>					3		
<u>Number of directors named in lawsuit   director</u>					2		
<u>Multi-state Investigation</u>							
<b>Loss contingencies</b>							
<u>Number of states participating in multi-state investigation   state</u>				28			
<u>Banigan and Templin v. Organon USA, Inc., Omnicare, Inc. and PharMerica Corporation   Omnicare, Inc.</u>							
<b>Loss contingencies</b>							
<u>Litigation settlement, amount</u>	\$ 23.0						
<u>Number of plaintiffs   plaintiff Omnicare's Nationwide Billing Practices, Pure Service Pharmacy   Omnicare, Inc.</u>	2						
<b>Loss contingencies</b>							
<u>Litigation settlement, amount</u>	\$ 1.5						
<u>Auto Label Verification   Omnicare, Inc.</u>							
<b>Loss contingencies</b>							
<u>Litigation settlement, amount</u>	8.0						
<u>Controlled Substances Act</u>							
<b>Loss contingencies</b>							
<u>Litigation settlement, amount</u>	\$ 5.0						

Segment Reporting (Details) \$ in Millions	3 Months Ended								12 Months Ended		
	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
	USD (\$)	USD (\$)	USD (\$)	USD (\$)	USD (\$)	USD (\$)	USD (\$)	USD (\$)	USD (\$) segment	USD (\$)	USD (\$)
<b><u>Segment reporting information</u></b>											
<u>Number of segments   segment</u>									3		
<u>Net revenues</u>	\$ 45,971	\$ 44,615	\$ 43,725	\$ 43,215	\$ 41,145	\$ 38,644	\$ 37,169	\$ 36,332	\$ 177,526	\$ 153,290	\$ 139,367
<u>Gross profit</u>	7,606	7,492	7,015	6,744	7,301	6,661	6,402	6,164	28,857	26,528	25,367
<u>Operating profit</u>	2,995	\$ 2,817	\$ 2,350	\$ 2,176	\$ 2,729	\$ 2,331	\$ 2,262	\$ 2,132	10,338	9,454	8,799
<u>Depreciation and amortization</u>									2,475	2,092	1,931
<u>Additions to property and equipment</u>									2,279	2,367	2,136
<u>Operating Segments   Pharmacy Services Segment</u>											
<b><u>Segment reporting information</u></b>											
<u>Net revenues</u>									119,963	100,363	88,440
<u>Gross profit</u>									5,901	5,227	4,771
<u>Operating profit</u>									4,672	3,989	3,514
<u>Depreciation and amortization</u>									714	654	630
<u>Additions to property and equipment</u>									295	359	308
<u>Net revenues, retail co-payments</u>									10,500	8,900	8,100
<u>Litigation settlement, amount</u>									88		
<u>Operating Segments   Retail/LTC Segment</u>											
<b><u>Segment reporting information</u></b>											
<u>Net revenues</u>									81,100	72,007	67,798
<u>Gross profit</u>									23,738	21,992	21,277
<u>Operating profit</u>									7,281	7,130	6,762
<u>Depreciation and amortization</u>									1,642	1,336	1,205
<u>Additions to property and equipment</u>									1,732	1,883	1,745
<u>Acquisition related costs</u>									46		
<u>Asset impairment charges</u>	\$ 34								34		
<u>Operating Segments   Retail/LTC Segment   Operating Income (Loss)</u>											
<b><u>Segment reporting information</u></b>											
<u>Acquisition related costs</u>									281	64	
<u>Operating Segments   Corporate Segment</u>											
<b><u>Segment reporting information</u></b>											
<u>Net revenues</u>									0	0	0

<u>Gross profit</u>	0	0	0
<u>Operating profit</u>	(894)	(1,037)	(796)
<u>Depreciation and amortization</u>	119	102	96
<u>Additions to property and equipment</u>	252	125	83
<u>Acquisition related costs</u>	10	156	
<u>Payments for legal settlements</u>		90	
<u>Intersegment Eliminations</u>			
<b><u>Segment reporting information</u></b>			
<u>Net revenues</u>	(23,537)	(19,080)	(16,871)
<u>Gross profit</u>	(782)	(691)	(681)
<u>Operating profit</u>	(721)	(628)	(681)
<u>Depreciation and amortization</u>	0	0	0
<u>Additions to property and equipment</u>	\$ 0	\$ 0	\$ 0
<u>Customer Concentration Risk   Sales Revenue, Net</u>			
<b><u>Segment reporting information</u></b>			
<u>Concentration risk, percentage</u>	11.20%		
<u>Geographic Concentration Risk   United States   Sales Revenue, Net</u>			
<b><u>Segment reporting information</u></b>			
<u>Concentration risk, percentage</u>	99.00%		
<u>Geographic Concentration Risk   United States   Long-lived Assets</u>			
<b><u>Segment reporting information</u></b>			
<u>Concentration risk, percentage</u>	99.00%		

Earnings Per Share (Details) - USD (\$) \$ / shares in Units, shares in Millions, \$ in Millions	3 Months Ended								12 Months Ended		
	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
<b><u>Numerator for earnings per share calculation:</u></b>											
<u>Income from continuing operations</u>	\$ 1,707	\$ 1,542	\$ 924	\$ 1,147	\$ 1,500	\$ 1,237	\$ 1,272	\$ 1,221	\$ 5,320	\$ 5,230	\$ 4,645
<u>Income allocated to participating securities</u>									(27)	(26)	(19)
<u>Net income attributable to noncontrolling interest</u>									(2)	(2)	0
<u>Income from continuing operations attributable to common stockholders</u>									\$ 5,291	\$ 5,202	\$ 4,626
<b><u>Denominator for earnings per share calculation:</u></b>											
<u>Weighted average shares, basic (in shares)</u>									1,073	1,118	1,161
<u>Effect of dilutive securities (in shares)</u>									6	8	8
<u>Weighted average shares, diluted (in shares)</u>									1,079	1,126	1,169
<b><u>Earnings per share from continuing operations:</u></b>											
<u>Earnings per share, basic (in dollars per share)</u>	\$ 1.60	\$ 1.44	\$ 0.86	\$ 1.04	\$ 1.35	\$ 1.10	\$ 1.13	\$ 1.08	\$ 4.93	\$ 4.65	\$ 3.98
<u>Earnings per share, diluted (in dollars per share)</u>	\$ 1.59	\$ 1.43	\$ 0.86	\$ 1.04	\$ 1.34	\$ 1.10	\$ 1.12	\$ 1.07	\$ 4.91	\$ 4.62	\$ 3.96

Quarterly Financial Information (Unaudited) (Details) - USD (\$) \$/ shares in Units, \$ in Millions	3 Months Ended								12 Months Ended		
	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
<b>Quarterly financial information</b>											
<u>Net revenues</u>	\$ 45,971	\$ 44,615	\$ 43,725	\$ 43,215	\$ 41,145	\$ 38,644	\$ 37,169	\$ 36,332	\$ 177,526	\$ 153,290	\$ 139,367
<u>Gross profit</u>	7,606	7,492	7,015	6,744	7,301	6,661	6,402	6,164	28,857	26,528	25,367
<u>Operating profit</u>	2,995	2,817	2,350	2,176	2,729	2,331	2,262	2,132	10,338	9,454	8,799
<u>Income from continuing operations</u>	1,707	1,542	924	1,147	1,500	1,237	1,272	1,221	5,320	5,230	4,645
<u>Income (loss) from discontinued operations, net of tax</u>	0	(1)	0	0	(1)	10	0	0	(1)	9	(1)
<u>Net income attributable to CVS Health</u>	\$ 1,707	\$ 1,540	\$ 924	\$ 1,146	\$ 1,498	\$ 1,246	\$ 1,272	\$ 1,221	\$ 5,317	\$ 5,237	\$ 4,644
<b>Basic earnings per share:</b>											
<u>Income from continuing operations attributable to CVS Health (in dollars per share)</u>	\$ 1.60	\$ 1.44	\$ 0.86	\$ 1.04	\$ 1.35	\$ 1.10	\$ 1.13	\$ 1.08	\$ 4.93	\$ 4.65	\$ 3.98
<u>Income (loss) from discontinued operations attributable to CVS Health (in dollars per share)</u>	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.01	0.00
<u>Net income attributable to CVS Health (in dollars per share)</u>	1.60	1.44	0.86	1.04	1.35	1.11	1.13	1.08	4.93	4.66	3.98
<b>Diluted earnings per share:</b>											
<u>Income from continuing operations attributable to CVS Health (in dollars per share)</u>	1.59	1.43	0.86	1.04	1.34	1.10	1.12	1.07	4.91	4.62	3.96
<u>Income (loss) from discontinued operations attributable to CVS Health (in dollars per share)</u>	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.01	0.00
<u>Net income attributable to CVS Health (in dollars per share)</u>	1.59	1.43	0.86	1.04	1.34	1.11	1.12	1.07	4.90	4.63	3.96
<u>Dividends per share (in dollars per share)</u>	0.425	0.425	0.425	0.425	0.35	0.35	0.35	0.35	1.700	1.40	\$ 1.10
<b>High</b>											
<b>Diluted earnings per share:</b>											
<u>NYSE Stock Price (in dollars per share)</u>	88.8	98.06	106.1	104.05	105.29	113.45	106.47	104.56	106.1	113.45	
<b>Low</b>											
<b>Diluted earnings per share:</b>											
<u>NYSE Stock Price (in dollars per share)</u>	\$ 73.53	\$ 88.99	\$ 93.21	\$ 89.65	\$ 91.56	\$ 95.12	\$ 98.74	\$ 94.16	\$ 73.53	\$ 91.56	