ANHEUSER-BUSCH COMPANIES, INC.
Form DEFA14A
July 02, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
SCHEDULE 14A
(Rule 14A-101)
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
þ Soliciting Materials Pursuant to Section 240.14a-12

Anheuser-Busch Companies, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

On July 2, 2008, Anheuser-Busch, Incorporated posted on a website accessible by its employees and its wholesalers and distributed to its wholesalers by a private broadcast satellite network a video presentation by David A. Peacock, its Vice President-Marketing. A transcript of the presentation is attached.

Anheuser-Busch Companies, Inc. (the Company) and its directors and certain executive officers may be deemed to be participants in the solicitation of consent revocations from stockholders in connection with a consent solicitation by InBev nv/sa to remove and replace the Board of Directors of the Company (the Consent Solicitation). The Company plans to file a consent revocation statement with the Securities and Exchange Commission (the SEC) in connection with the solicitation of written consents in connection with the Consent Solicitation (the Consent Revocation Statement). Information regarding the names of the Company s directors and executive officers and their respective interests in the Company by security holdings or otherwise is set forth in the Company s proxy statement relating to the 2008 annual meeting of stockholders, which may be obtained free of charge at the SEC s website at http://www.sec.gov and the Company s website at http://www.anheuser-busch.com. Additional information regarding the interests of such potential participants will be included in the Consent Revocation Statement and other relevant documents to be filed with the SEC in connection with the Consent Solicitation.

Promptly after filing its definitive Consent Revocation Statement with the SEC, the Company will mail the definitive Consent Revocation Statement and a form of WHITE consent revocation card to each stockholder entitled to deliver a written consent in connection with the Consent Solicitation. WE URGE INVESTORS TO READ THE CONSENT REVOCATION STATEMENT (INCLUDING ANY SUPPLEMENTS THERETO) AND ANY OTHER RELEVANT DOCUMENTS THAT THE COMPANY WILL FILE WITH THE SEC WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Stockholders will be able to obtain, free of charge, copies of the Consent Revocation Statement and any other documents filed by the Company with the SEC in connection with the Consent Solicitation at the SEC s website at http://www.sec.gov, at the Company s website at http://www.anheuser-busch.com or by contacting Morrow & Co., LLC at (800) 662-5200.

Forward-looking Statements

This filing contains forward-looking statements regarding the company s expectations concerning its future operations, earnings and prospects. On the date the forward-looking statements are made, the statements represent the company s expectations, but the company s expectations concerning its future operations, earnings and prospects may change. The company s expectations involve risks and uncertainties (both favorable and unfavorable) and are based on many assumptions that the company believes to be reasonable, but such assumptions may ultimately prove to be inaccurate or incomplete, in whole or in part.

Accordingly, there can be no assurances that the company s expectations and the forward-looking statements will be correct. Important factors that could cause actual results to differ (favorably or unfavorably) from the expectations stated in this release include, among others, changes in the pricing environment for the company s products; changes in U.S. demand for malt beverage products, including changes in U.S. demand for other alcohol beverages; changes in consumer preference for the company s malt beverage products; changes in the distribution for the company s malt beverage products; changes in the cost of marketing the company s malt beverage products; regulatory or legislative changes, including changes in beer excise taxes at either the federal or state level and changes in income taxes; changes in the litigation to which the company is a party; changes in raw materials prices; changes in packaging materials costs; changes in energy costs; changes in the financial condition of the company s suppliers; changes in interest rates; changes in foreign currency exchange rates; unusual weather conditions that could impact beer consumption in the U.S.; changes in attendance and consumer spending patterns for the company s theme park operations; changes in demand for aluminum beverage containers; changes in the company s international beer business or in the beer business of the company s international equity partners; changes in the economies of the countries in which the company, its international beer business or its international equity partners operate; future acquisitions or divestitures by the company, including effects on its credit rating; changes resulting from transactions among the company s global or domestic competitors; and the effect of stock market conditions on the company s share repurchase program. Anheuser-Busch disclaims any obligation to update or revise any of these forward-looking statements. Additional risk factors concerning the company can be found in the company s most recent Form 10-K.

Transcript of video presentation by David A. Peacock
Vice President-Marketing, Anheuser-Busch, Incorporated

The last few weeks have been interesting times here at Anheuser-Busch as our board was assessing the merits of InBev s proposal. Our Board of Directors found the proposal too low compared to other transactions and compared to the value created by our own strategic plan.

We thoroughly reviewed numerous analysis with our board and with independent advisers and at the end, the value was just too low.

Many of you wholesalers look at EBITDA multiples, which is the total value of your business divided by your earnings before interest, taxes, depreciation and amortization. Companies like ours also look at that measure. And when you look at what InBev was offering or claiming to offer at 12 times, it was too low. They were rounding up from our 2007 actual multiple of 11 $^{1}/2$ times. If you project forward to 2008 the multiple was actually 10 $^{1}/2$ times. When you compare that multiple to other beer transactions and to other transactions of leading consumer product companies with iconic brands, you can see that at the end of the day it was just too low.

Beyond that our board of directors spent a lot of time in a lot of meetings assessing this offer and you have to understand that this board is comprised of some of the greatest business leaders in the United States today. People who have run companies like AT&T, J.P. Morgan, Ikon Office Solutions, Baxter Pharmaceuticals and Enterprise Rent-a-Car.

They spent rigorous time with independent advisors and with management to make their assessment. They considered everything about our company, our iconic brands Budweiser, one of the world s most valuable consumer brands and Bud Light, the world s largest selling beer. Our 50 share position in the United States, the world s most profitable beer market by far. The portfolio of leading brands, not just the Bud family but the Mich family. Our sub-premium portfolio, which leads that category. And most importantly, our high focused world class distribution system.

They considered the equity investments we have and strategic partnerships with companies like Group Modelo where we ve been able to participate in the growth of the Mexican beer market, again, one of the world s most profitable beer markets and at least internationally, benefit from their iconic brand Corona.

We also have an equity position in Tsingtao, which has become a very successful company in China as the leading premium brewer in that market, which is the fastest growing beer market in the world.

Our own business in China has benefited from the partnership with Tsingtao as we deliver good profits and strong growth. And we re expanding the Budweiser brand to more than 100 markets even as we speak.

Budweiser beyond just China and Mexico is sold in 80 countries around the world. So when we talk about global presence, Budweiser truly is a global brand and is one of the most revered American brands worldwide.
So at Anheuser-Busch, what our board came to the conclusion on is that our business is built on brands. We have investments and partnerships to provide an environment for enhanced brand growth globally. We have innovation that helps grow our top line here in the United States.
Now let s talk a little bit about what we ve done in the past year and a half or so to improve our long term outlook. We ve broadened our portfolio, bringing in popular imported brands, craft brands in our alliance brand portfolio, as well as launching new products like Bud Light Lime, Land Shark, Chelada and Shock Top. We transformed our selling system, reorganizing the five regions with their very independent business units with very good people running them.
We ve got a major consumer segmentation project that we ve talked to you about in great detail that has helped us better understand what messages we need behind our cores brands and just how we can expand our core brands using a mega brand strategy. Bud Light Lime is an example of this in a successful way.
We ve also increased our media plan and focused it more in programming that we know resonates with our consumers. Our media spending is up 15% in 2008 with a lot of that increase occurring this summer when people are buying beer most.
Now how are all these initiatives paying off right now? Well, if we look at our second quarter to date we see our total sales to retailers are up 8/10 of a percent. The A-B produced STR s are up 6/10 of a percent. IRI volume share is up 8/10 of a point and IRI dollar share is up over a share point. These are remarkable results that are a testament to the team that is Anheuser-Busch and our distributors.
We talked about how important innovation is here in the United States and Bud Light Lime is a great example of this, achieving almost a share point and a half in our industry and well on its way to two full share points, even at a higher price than Bud Light.
But that s not our only success story. Land Shark and Bud and Bud Light Chelada represent almost half a share point in IRI accounts with pricing that is 70% greater than Bud Light. And we ve got an exciting new product in Budweiser American Ale coming this October
Now we continue to see commodity cost pressures in our business and they re impacting all major food and beverage companies. There s also unprecedented diesel fuel prices that is impacting you the wholesaler. So we ve got pricing plans for this fall with 95% of our price actions occurring in September and October, over 85% our volume. We project, and we told analysts that we would see 4% or greater revenue per barrel growth this year and next year when you take our price increases, discount reduction and favorable mix from our successful higher margin new products. This is very important for all of us because it helps you with your fuel costs and some of your personnel costs and it certainly helps us with our commodity cost pressures.
We always talk about the three C s when it comes to pricing; consumer, cost, competition.

Cost environment is escalating. We believe that environment is going to require competition to follow and we believe the consumers are seeing higher price increases in other categories than 4%, so our 4% range should be accepted by consumers.

We expect to see slight gross margin increases in 2008, but in 2009 much greater gross margin increases as we implement some cost reductions, which I ll get into in a moment. Our operating margin will improve even more as we leverage GNA efficiencies to drive overall improved operating performance.

Now, we want to talk about a renewed cost discipline at Anheuser-Busch. We ve effectively managed cost relative to our US competitors for years. But these high commodity costs require us to look at our business differently. We now have a goal for our Blue Ocean program which was $500 million. It is now $1 billion in savings with 75% of it occurring in 2008 and 2009.

Now we ve already revised employee incentive programs to more closely align bonuses with operating performance. And we ve enacted a zero overhead growth approach with our staff groups. But we re going to go a lot deeper than that as we look at cost of goods sold and GNA as far as opportunities to drive savings and efficiency within our business.

We have announced an early retirement program in the third quarter of this year with a target of reducing our salaried head count 10 to 15%. We currently have over 8500 salaried employees at Anheuser-Busch, so we expect anywhere from 850 to 1300 positions to be eliminated through this program. There ll be a one time cost recognized in the fourth quarter for this program in the $300 million dollar range.

And as I said earlier, we also have a zero overhead growth program being implemented across our staff groups today.

Part of our plan assumes lower capital spending targets. We re going to reduce our capital spending from our original plans this year by $100 million and next year by $200 million. And we expect capital as a percent of sales to average in the 3 1/2 to 4% range going forward. This will

drive significant operating cash flow growth in 2009 versus 2007 and even greater free cash flow growth for Anheuser-Busch.

Now we ll also see improved dividends as we project forward. We grow our dividends with earnings. And as we increase our earnings projections in the next few years, our dividends will grow likewise.

We re going to also increase our share repurchase as part of our commitment behind this plan. We re going to commit to buying back shares because we know the money s going to be there because we are committed to delivering on this plan.

We re going to move the lower end of our cash flow as a total debt target and we expect share repurchases in 2008 to be $3 billion and in 2009 to be as much as $4 billion as we look for efficient ways to return cash to our shareholders.

Now this will help us lead to Anheuser-Busch beer company growing profits 8% over the next five years, significantly exceeding our prior guidance of three to 5%. Share of repurchases, corporate and other non-beer subsidiaries will add another two to three percentage points to our earnings per share growth.

We were very, very clear with Wall Street in that we project $3.13 per share in EPS target for 2008 and in 2009 $3.90 per share or up nearly 25% as we realize the benefit from a favorable revenue environment and we look to reduce our costs. We also expect double digit per share growth in the remaining three years of our five year plan built off of $3.90 base.

So in summary, we ve undertaken a series of initiatives in the last two years to better position the company for long term growth. We re starting to see those results today.

The strategic plan is aggressive, but we are very confident we can deliver it or even exceed it. It is driven by actions that are largely in our control and the assumptions are realistic in areas where we don t control, like volume delivery. We expect our volume to grow, but we expect our market share to be flat in our plan. So for those of us in the sales and marketing area or for you, our distributor partners, we need to exceed the expectations in our plan of flat market share.

We cannot accept flat market share. We have to grow our volume more rapidly than the industry and we must grow share. If we grow share, we will deliver a performance above the plan we just presented, a plan that has been widely accepted by Wall Street.

In the end, InBev s proposal significantly undervalues the unique assets of Anheuser-Busch and its long-term earnings and cash flow projections.

We basically announced a new Anheuser-Busch; one focused on results today and over the long term. But some things aren t going to change at Anheuser-Busch. We will not sacrifice our core tenets. We will not compromise product quality. We will continue to value our people as they add value every day in everything they do. We will continue to invest behind our brands and in innovation. We will continue to behave in a socially and environmentally responsible manner. And we will continue to build on shareholder value. And this company remains open to any idea or any alternative that provides full and certain value for our shareholders.

Ladies and gentlemen, this is a unique time for our company and this is a unique time for you, our distributor partners. We need to all come together and focus on competing in the marketplace every day as aggressively as possible to exceed the plan that we have laid out and the plan that our board of directors deemed as providing greater value than the offer made by InBev. Thank you.

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Net cash used in financing activities

(206

)

	(811)
Net increase in cash and cash equivalents	801
	21
Cash and cash equivalents at beginning of period	1,427
	1,086
Cash and cash equivalents at end of period	$ 2,228
	$ 1,107

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

Net income	$ 1,527	$ 1,591

Adjustments required to reconcile net income to net cash provided by operating activities:

Depreciation and amortization	765	726
Stock-based compensation	65	75
Deferred income taxes and other non-cash items	129	(20)
Change in operating assets and liabilities, net of effects of acquisitions:		

Accounts receivable, net	(472)	356
Inventories	584	(46)
Other current assets	(164)	(31)
Other assets	(62)	(4)

Accounts payable and claims and discounts payable

722

(286

)

Accrued expenses

54

(617

)

Other long-term liabilities

(75

)

(32

)

Net cash provided by operating activities

$

3,073

$

1,712

See accompanying notes to condensed consolidated financial statements.

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Part I	Item 1

CVS Caremark Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of CVS Caremark Corporation and its majority owned subsidiaries (CVS Caremark or the Company) have been prepared, in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. In accordance with such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted, although the Company believes the disclosures included herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, which are included in Exhibit 13 to the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K).

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Because of the influence of various factors on the Company s operations, including business combinations, certain holidays and other seasonal influences, net income for any interim period may not be comparable to the same interim period in previous years or necessarily indicative of income for the full fiscal year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Fair Value of Financial Instruments

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.

As of June 30, 2011, the carrying value of cash and cash equivalents, short-term investments, accounts receivable and short-term debt approximated their fair value due to the short-term nature of these financial instruments. The Company invests in money market funds, commercial paper and time deposits that are classified as cash and cash equivalents within the accompanying condensed 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. The Company s short-term investments consist of certificates of deposit with initial maturities of greater than three months when purchased. These investments, which are classified within Level 1 of the fair value hierarchy, are carried at historical cost, which approximated fair value at June 30, 2011. The carrying amount and estimated fair value of the Company s total long-term debt was $11.1 billion and $11.8 billion, respectively, as of June 30, 2011. The fair value of the Company s total long-term debt was estimated based on rates currently offered to the Company for debt with identical terms and maturities, which is

considered Level 1 of the fair value hierarchy. There were no outstanding derivative financial instruments as of June 30, 2011 and December 31, 2010.

New Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 requires entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income in either (1) a single continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that are required to be reported in other comprehensive income. The ASU is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company is still evaluating which of the two alternatives it will apply in reporting comprehensive income. Neither alternative is expected to have a material impact on the Company s consolidated results of operations and neither alternative will have an impact on the Company s financial condition or cash flows.

Note 2 Acquisition

On April 29, 2011, the Company acquired the Medicare prescription drug business of Universal American Corp. (the UAM Medicare Part D Business) for approximately $1.3 billion. The UAM Medicare Part D Business offers prescription drug plan benefits to Medicare beneficiaries throughout the United States through its Community CCRxsm prescription drug plan. The fair value of assets acquired and liabilities assumed were $2.4 billion and $1.1 billion, respectively. The allocation of the purchase price as of April 29, 2011 is preliminary and is based on information that was available to management at the time the condensed consolidated financial statements were prepared, accordingly, the allocation may change. The Company s results of operations and cash flows include the UAM Medicare Part D Business beginning on April 29, 2011.

Note 3 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. On May 2, 2008, Linens Holding Co. and certain affiliates, which operated Linens n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company s loss from discontinued operations for the three months ended June 30, 2011 and June 30, 2010 consisted of $1 million ($2 million, net of a $1 million income tax benefit) of lease-related costs. The Company s loss from discontinued operations for the six months ended June 30, 2011 consisted of $2 million ($3 million, net of a $1 million income tax benefit) of lease-related costs, compared to $3 million ($5 million, net of a $2 million income tax benefit) of lease-related costs in the prior year period.

Note 4 Segment Reporting

The Company has three segments: Pharmacy Services, Retail Pharmacy and Corporate. 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 Pharmacy 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 Pharmacy Services segment provides a full range of pharmacy benefit management (PBM) services including mail order pharmacy services, specialty pharmacy services, plan design consultation and administration, formulary management and claims processing. The Company s customers are primarily employers, insurance companies, unions, government employee groups, managed care organizations, other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company, Accendo Insurance Company, and Pennsylvania Life Insurance Company subsidiaries, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government s Medicare Part D program. The Pharmacy Services business operates under the CVS Caremark Pharmacy Services®, Caremark®, CVS Caremark , CarePlus CVS/pharmacy , CarePlus , RxAmerica®, Accordant® and TheraCom® names. As of June 30, 2011, the Pharmacy Services segment operated 31 retail specialty pharmacy stores, 13 specialty mail order pharmacies and four mail service pharmacies located in 23 states, Puerto Rico and the District of Columbia.

The Retail Pharmacy segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy® and Longs Drug® retail stores and online through CVS.com®. As of June 30, 2011, the Retail Pharmacy segment included 7,266 retail drugstores, of which 7,210 operated a pharmacy, the online retail website, CVS.com, 32 retail apothecary pharmacies and 598 retail health care clinics. The retail drugstores are located in 41 states, Puerto Rico and the District of Columbia operating primarily under the CVS/pharmacy or Longs Drug names. The retail health care clinics operate under the MinuteClinic® name, of which 588 are located within CVS/pharmacy stores. MinuteClinics utilize nationally recognized medical protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations. The clinics are staffed by board-certified nurse practitioners and physician assistants who provide access to affordable care without appointment.

The Corporate segment provides management and administrative services to support the Company. The Corporate segment consists of certain aspects of our executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance departments.

In millions	Pharmacy Services Segment(1)	Retail Pharmacy Segment	Corporate Segment	Intersegment Eliminations(2)	Consolidated Totals
Three Months Ended					
June 30, 2011:					
Net revenues	$ 14,589	$ 14,826	$ —	$ (2,786)	$ 26,629
Gross profit	729	4,408	—	(42)	5,095
Operating profit (loss)	454	1,240	(162)	(42)	1,490
June 30, 2010:					
Net revenues	$ 11,840	$ 14,311	$ —	$ (2,144)	$ 24,007
Gross profit	821	4,229	—	(30)	5,020
Operating profit (loss)	591	1,096	(156)	(30)	1,501
Six Months Ended					
June 30, 2011:					
Net revenues	$ 28,603	$ 29,413	$ —	$ (5,507)	$ 52,509
Gross profit	1,368	8,555	—	(77)	9,846
Operating profit (loss)	851	2,336	(309)	(77)	2,801
June 30, 2010:					
Net revenues	$ 23,677	$ 28,289	$ —	$ (4,199)	$ 47,767
Gross profit	1,603	8,216	—	(53)	9,766
Operating profit (loss)	1,130	2,125	(291)	(53)	2,911
Total assets:					
June 30, 2011	$ 35,089	$ 29,049	$ 1,924	$ (575)	$ 65,487
December 31, 2010	32,254	28,927	1,439	(451)	62,169
Goodwill:					
June 30, 2011(3)	$ 19,896	$ 6,801	$ —	$ —	$ 26,697
December 31, 2010	18,868	6,801	—	—	25,669

(1) Net revenues of the Pharmacy Services segment include approximately $1.9 billion and $1.6 billion of retail co-payments for the three months ended June 30, 2011 and 2010, respectively, as well as $4.1 billion and $3.4 billion of retail co-payments for the six months ended June 30, 2011 and 2010, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services segment customers, through the Company s intersegment activities (such as the Maintenance Choice program), elect to pick-up their maintenance prescriptions at Retail Pharmacy segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. As a result, both the Pharmacy Services and the Retail Pharmacy segments include the following results associated with this activity: net revenues of $626 million and $430 million for the three months ended June 30, 2011 and 2010, respectively, and $1.2 billion and $770 million for the six months ended June 30, 2011 and 2010, respectively; gross profit and operating profit of $42 million and $30 million for the three months ended June 30, 2011 and

2010, respectively, and $77 million and $53 million for the six months ended June 30, 2011 and 2010, respectively.

(3) The increase in the Pharmacy Services segment goodwill from December 31, 2010 to June 30, 2011 relates to the acquisition of the UAM Medicare Part D Business.

Note 5 Long-Term Debt

On May 12, 2011, the Company issued $550 million of 4.125% unsecured senior notes due May 15, 2021 and issued $950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the 2011 Notes). The 2011 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 2011 Notes will be used to repay commercial paper borrowings and certain other corporate debt, and used for general corporate purposes.

Note 6 Share Repurchase Program

On June 14, 2010, the Company s Board of Directors authorized a new share repurchase program for up to $2.0 billion of outstanding common stock (the 2010 Repurchase Program). The share repurchase authorization, which was effective immediately and expires at the end of 2011, permits the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2010 Repurchase Program may be modified, extended or terminated by the Board of Directors at any time. During the three and six months ended June 30, 2011, the Company repurchased an aggregate of 13.3 million and 27.5 million shares of common stock for approximately $504 million and $971 million, respectively, pursuant to the 2010 Repurchase Program. During 2010, the Company did not make any share repurchases under the 2010 Repurchase Program.

Note 7 Stock-Based Compensation

Compensation expense related to stock options, which includes the 2007 Employee Stock Purchase Plan for the three and six months ended June 30, 2011 totaled $24 million and $55 million, respectively, compared to $34 million and $65 million for the three and six months ended June 30, 2010, respectively. Compensation expense related to restricted stock awards for the three and six months ended June 30, 2011 totaled $5 million and $10 million, respectively, compared to $6 million and $11 million for the three and six months ended June 30, 2010, respectively. During the three months ended June 30, 2011, the Company granted 12 million stock options with a weighted average fair value of $9.32 and a weighted average exercise price of $34.97. The Company had 66 million stock options outstanding as of June 30, 2011 with a weighted average exercise price of $32.53 and a weighted average contractual term of 4.3 years.

Note 8 Interest Expense

The following are the components of net interest expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2011	2010	2011	2010
Interest expense	$ 149	$ 136	$ 284	$ 265
Interest income	(1)	(1)	(2)	(2)
Interest expense, net	$ 148	$ 135	$ 282	$ 263

Note 9 Comprehensive Income

The following are the components of comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2011	2010	2011	2010
Net income	$ 815	$ 821	$ 1,527	$ 1,591
Net cash flow hedges, net of tax	(10)	(3)	(10)	(2)
Pension adjustment, net of tax				4
Comprehensive income	805	818	1,517	1,593
Comprehensive loss attributable to noncontrolling interest	1		2	1
Comprehensive income attributable to CVS Caremark	$ 806	$ 818	$ 1,519	$ 1,594

Note 10 Earnings Per Share

Basic earnings per common share attributable to CVS Caremark is computed by dividing: (i) net income attributable to CVS Caremark by (ii) the weighted average number of common shares outstanding in the period (the Basic Shares).

Diluted earnings per common share attributable to CVS Caremark is computed by dividing: (i) net income attributable to CVS Caremark by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase approximately 34.6 million and 29.2 million shares of common stock were outstanding, but were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2011, respectively, because the options exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. For the same reason, options to purchase approximately 36.9 million and 46.7 million shares of common stock were outstanding, but were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2010, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions, except per share amounts	2011	2010	2011	2010
Numerators for earnings per common share calculations:				
Income from continuing operations	$ 816	$ 822	$ 1,529	$ 1,594
Net loss attributable to noncontrolling interest	1		2	1
Income from continuing operations attributable to CVS Caremark	817	822	1,531	1,595
Loss from discontinued operations, net of tax	(1)	(1)	(2)	(3)
Net income attributable to CVS Caremark, basic and diluted	$ 816	$ 821	$ 1,529	$ 1,592
Denominators for earnings per common share calculations:				
Weighted average common shares, basic	1,355	1,359	1,359	1,372
Effect of dilutive securities:				
Stock options	7	8	8	7
Restricted stock units	2	2	1	2
Weighted average common shares, diluted	1,364	1,369	1,368	1,381
Basic earnings per common share:				
Income from continuing operations attributable to CVS Caremark	$ 0.60	$ 0.61	$ 1.13	$ 1.16
Loss from discontinued operations attributable to CVS Caremark				
Net income attributable to CVS Caremark	$ 0.60	$ 0.61	$ 1.13	$ 1.16
Diluted earnings per common share:				
Income from continuing operations attributable to CVS Caremark	$ 0.60	$ 0.60	$ 1.12	$ 1.15
Loss from discontinued operations attributable to CVS Caremark	—	—	—	—
Net income attributable to CVS Caremark	$ 0.60	$ 0.60	$ 1.12	$ 1.15

Note 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 indemnified the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations. As of June 30, 2011, the Company guaranteed approximately 84 such store leases (excluding the lease guarantees related to Linens n Things, which are discussed in Note 3 previously in this document), with the maximum remaining lease term extending through 2021. Management believes the ultimate disposition of any of the remaining guarantees will not have a material adverse effect on the Company s consolidated financial condition, results of operations or future cash flows.

Legal Matters

The Company cannot predict with certainty the timing or outcome of the legal matters described below, but we do not believe that any of these matters will have a material adverse effect on the Company s business, operating results or financial condition. However, the Company can give no assurances that our business, operating results or financial condition will not be materially adversely affected, or that we will not be required to materially change our business practices, based on (i) adverse developments or outcomes in any of the matters described below, (ii) enactment of new health care or other laws or regulations; (iii) interpretation or application of existing laws or regulations, as they may relate to our business or to the pharmacy services or retail pharmacy industry; (iv) pending or future federal or state governmental investigations or enforcement actions related to our business or to the pharmacy services or retail pharmacy industry; or (v) adverse developments or outcomes in other pending or future legal proceedings, including sealed and unsealed qui tam actions, affecting us or affecting the pharmacy services or retail pharmacy industry.

We believe that our business practices comply in all material respects with applicable laws and regulations, and we are vigorously defending the actions described below.

Caremark (the term Caremark being used herein to generally refer to any one or more of the PBM subsidiaries of the Company, as applicable) is a defendant in a *qui tam* lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks monetary damages and alleges that Caremark s processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark s adjudication platforms violates applicable federal or state false claims acts and fraud statutes. The United States and the States of Texas, Tennessee, Florida, Arkansas, Louisiana and California intervened in the lawsuit, but Tennessee and Florida withdrew from the lawsuit in August 2006 and May 2007, respectively. In April 2009, the State of Texas filed a purported civil enforcement action against Caremark for injunctive relief, damages and civil penalties in Travis County, Texas alleging that Caremark violated the Texas Medicaid Fraud Prevention Act and other state laws based on our processing of Texas Medicaid claims on behalf of PBM clients. The claims and issues raised in this lawsuit are related to the claims and issues pending in the federal *qui tam* lawsuit described above.

In December 2007, the Company received a document subpoena from the Office of Inspector General, United States Department of Health and Human Services (OIG), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. In October 2009 and October 2010, the Company received civil investigative demands from the Office of the Attorney General of the State of Texas requesting, respectively, information produced under this OIG subpoena, and other information related to the processing of Medicaid claims. The civil investigative demands state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two of Caremark s adjudication platforms. The Company has been producing documents on a rolling basis in response to the requests for information contained in the OIG subpoena and in these civil investigative demands. The Company cannot predict with certainty the timing or outcome of any review of such information.

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

Various lawsuits have been filed alleging that Caremark has violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in Pennsylvania federal court, seeking treble damages and injunctive relief. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc. filed a putative class action complaint in Alabama federal court against Caremark and two PBM competitors, seeking treble damages and injunctive relief. The North Jackson Pharmacy case was transferred to Illinois federal court, and the Bellevue case

was sent to arbitration based on contract terms between the pharmacies and Caremark. The Bellevue arbitration was then stayed by the parties pending developments in the North Jackson Pharmacy court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were both transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed the decision which vacated the order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration of the Bellevue case. Motions for class certification in the coordinated cases within the multidistrict litigation, including the North Jackson Pharmacy case, remain pending. The consolidated action is now known as the In Re Pharmacy Benefit Managers Antitrust Litigation.

In August 2009, the Company was notified by the Federal Trade Commission (the FTC) that it is conducting a non-public investigation under the Federal Trade Commission Act into certain of the Company s business practices. In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies are conducting a multi-state investigation of the Company regarding issues similar to those being investigated by the FTC. At this time, 24 states, the District of Columbia, and the County of Los Angeles are known to be participating in this multi-state investigation. The Company has been cooperating in these investigations, and has provided documents and other information as requested. The Company is not able to predict with certainty the timing or outcome of these investigations. However, it remains confident that its business practices and service offerings (which are designed to reduce health care costs and expand consumer choice) are being conducted in compliance with the antitrust laws.

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

Since March 2009, the Company has been named in a series of putative collective and class action lawsuits filed in federal courts around the country, purportedly on behalf of current and former assistant store managers working in the Company s stores at various locations outside California. The lawsuits allege that the Company failed to pay overtime to assistant store managers as required under the Fair Labor Standards Act (FLSA) and under certain state statutes. The lawsuits also seek other relief, including liquidated damages, punitive damages, attorneys fees, costs and injunctive relief arising out of the state and federal claims for overtime pay. Notice was issued to over 13,000 current and former assistant store managers offering them the opportunity to opt in to certain of the FLSA collective actions and about 2,000 have elected to participate in these lawsuits. The Company has aggressively challenged both the merits of the lawsuits and the allegation that the cases should be certified as class or collective actions. In light of the cost and uncertainty involved in this litigation, however, the Company has negotiated an agreement with plaintiffs counsel on the key terms of a global settlement. Any final resolution of these matters will be subject to approval by a court, and as yet the parties have not finalized a settlement agreement or submitted any agreement for court approval. The Company has established legal reserves related to these matters at June 30, 2011 to cover the estimated settlement payments.

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 our pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company continues to respond to this request for information and has been producing responsive documents on a rolling basis. We cannot predict with certainty the timing or outcome of any reviews by the government of such information.

In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. A derivative lawsuit is a lawsuit filed by a shareholder purporting to assert claims on behalf of a corporation against directors and officers of the corporation. This lawsuit includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. The Company

believes these lawsuits are without merit, and the Company plans to defend them vigorously. The Company received a subpoena dated February 28, 2011 from the Securities and Exchange Commission (SEC) requesting, among other corporate records, information relating to public disclosures made by the Company in 2009 concerning its PBM and Medicare Part D businesses and information concerning ownership and transactions in the Company s securities by certain officers of the Company. The Company is cooperating with these requests for information and has been providing documents and other information to the SEC as requested.

In addition to the legal matters described above, the Company is also a party to other legal proceedings and inquiries arising in the normal course of its business, none of which is expected to be material to the Company.

Part I	Item 1

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

CVS Caremark Corporation:

We have reviewed the condensed consolidated balance sheet of CVS Caremark Corporation (the Company) as of June 30, 2011, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2011 and 2010. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CVS Caremark Corporation as of December 31, 2010, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended not presented herein, and in our report dated February 18, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

August 4, 2011

Boston, Massachusetts

Part I	Item 2

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

Overview of Our Business

CVS Caremark Corporation (CVS Caremark , the Company , we or us), together with its subsidiaries, is the largest pharmacy health care provid in the United States. As a fully integrated pharmacy services company, we believe we can drive value for our customers by effectively managing pharmaceutical costs and improving health care outcomes through our pharmacy benefit management (PBM), mail order and specialty pharmacy division, CVS Caremark Pharmacy Services® (Caremark); our approximately 7,300 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online pharmacy, CVS.com®.

We currently have three reportable segments: Pharmacy Services, Retail Pharmacy and Corporate.

Pharmacy Services Segment

Our Pharmacy Services segment provides a full range of PBM services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. Our clients are primarily employers, insurance companies, unions, government employee groups, managed care organizations and other sponsors of health benefit plans and individuals throughout the United States. As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies and national network of approximately 65,000 retail pharmacies (which include our CVS/pharmacy stores) to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

Our specialty pharmacies support individuals that require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark® and CarePlus CVS/pharmacy® names. We also provide health management programs, which include integrated disease management for 28 conditions, through our strategic alliance with Alere, L.L.C. and our Accordant® health management offering. In addition, through our SilverScript Insurance Company, Accendo Insurance Company, and Pennsylvania Life Insurance Company subsidiaries, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government s Medicare Part D program. The Pharmacy Services business operates under the CVS Caremark Pharmacy Services®, Caremark®, CVS Caremark , CarePlus CVS/pharmacy , RxAmerica®, Accordant® and TheraCom® names. As of June 30, 2011, the Pharmacy Services segment operated 31 retail specialty pharmacy stores, 13 specialty mail order pharmacies and four mail service pharmacies located in 23 states, Puerto Rico and the District of Columbia.

On April 29, 2011, we acquired the Medicare prescription drug business of Universal American Corp. (the UAM Medicare Part D Business) for approximately $1.3 billion. The UAM Medicare Part D Business offers prescription drug plan benefits to Medicare beneficiaries throughout the United States through its Community CCRxsm prescription drug plan. Subsequent to this acquisition, we now provide Medicare benefits to over 3 million beneficiaries.

Retail Pharmacy Segment

Our Retail Pharmacy segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy® and Longs Drugs® retail stores, our CarePlus and CarePlus CVS/pharmacy onsite stores and apothecaries, and online through CVS.com. Our Retail Pharmacy segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 20,000 retail pharmacists. Our Retail Pharmacy segment also provides health care services through our MinuteClinic health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, and deliver vaccinations. As of June 30, 2011, our Retail Pharmacy segment included 7,266 retail drugstores (of which 7,210 operated a pharmacy) located in 41 states, the District of Columbia, and Puerto Rico operating primarily under the CVS/pharmacy or Longs Drugs names, our online retail website, CVS.com, 32 retail apothecary pharmacy stores and 598 retail health care clinics operating under the MinuteClinic name (of which 588 were located in CVS/pharmacy stores).

Corporate Segment

The Corporate segment provides management and administrative services to support the Company. The Corporate segment consists of certain aspects of our executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance departments.

Results of Operations

The following discussion explains the material changes in our results of operations for the three and six months ended June 30, 2011 and 2010, and the significant developments affecting our financial condition since December 31, 2010. We strongly recommend that you read our audited consolidated financial statements and footnotes and Management s Discussion and Analysis of Financial Condition and Results of Operations included as Exhibit 13 to our Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K) along with this report.

Summary of the Condensed Consolidated Financial Results:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2011	2010	2011	2010
Net revenues	$ 26,629	$ 24,007	$ 52,509	$ 47,767
Cost of revenues	21,534	18,987	42,663	38,001
Gross profit	5,095	5,020	9,846	9,766
Operating expenses	3,605	3,519	7,045	6,855
Operating profit	1,490	1,501	2,801	2,911
Interest expense, net	148	135	282	263
Income before income tax provision	1,342	1,366	2,519	2,648
Income tax provision	526	544	990	1,054
Income from continuing operations	816	822	1,529	1,594
Loss from discontinued operations, net of tax	(1)	(1)	(2)	(3)
Net income	815	821	1,527	1,591
Net loss attributable to noncontrolling interest	1		2	1
Net income attributable to CVS Caremark	$ 816	$ 821	$ 1,529	$ 1,592

Net Revenues

Net revenues increased $2.6 billion, or 10.9% and $4.7 billion, or 9.9% in the three and six months ended June 30, 2011, respectively, as compared to the prior year periods. Net revenues were positively impacted by revenue associated with our previously announced long-term contract to provide PBM services to a large health insurance carrier, which became effective January 1, 2011, activity resulting from our acquisition of the UAM Medicare Part D Business, as well as the positive same store and new store sales in our Retail Pharmacy segment.

Please see the section entitled Segment Analysis below for additional information regarding net revenues.

Gross Profit

Gross profit dollars increased $75 million, or 1.5% and $80 million, or 0.8% in the three and six months ended June 30, 2011, respectively, as compared to the prior year periods. Gross profit as a percentage of net revenues decreased 180 basis points to 19.1% and 170 basis points to 18.8% in the three and six months ended June 30, 2011, respectively, as compared to the prior year periods. Gross profit as a percentage of net revenues decreased due to a decline in gross profit margins in the Pharmacy Services segment.

Please see the section entitled Segment Analysis below for additional information regarding gross profit.

Operating Expenses

Operating expenses increased $86 million, or 2.4% and $190 million, or 2.8% in the three and six months ended June 30, 2011, as compared to the prior year periods. Operating expenses as a percent of net revenues improved 110 basis points to 13.5% and 90 basis points to 13.4% in the three and six months ended June 30, 2011 as compared to 14.7% and 14.4% in the prior year periods, respectively. The increase in operating expenses in the three and six months ended June 30, 2011 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year period, as well as costs associated with changes designed to streamline our Pharmacy Services segment, and expenses associated with the acquisition and integration of the UAM Medicare Part D Business.

Please see the section entitled Segment Analysis below for additional information regarding operating expenses.

Interest Expense, net

Interest expense, net increased $13 million and $19 million in the three and six months ended June 30, 2011, respectively, as compared to the prior year periods. This increase resulted from a higher average interest rate during the periods as the Company shifted from short-term debt to long-term debt.

For additional information on our financing activities, please see the Liquidity and Capital Resources section later in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Income Tax Provision

Our effective income tax rate was 39.2% and 39.3% for the three and six months ended June 30, 2011, respectively, compared to 39.8% for both the three and six months ended June 30, 2010. The fluctuation in the effective income tax rate is primarily related to changes in state tax expense.

Loss from Discontinued Operations

Loss from discontinued operations for the three months ended June 30, 2011 and 2010 consisted of $1 million ($2 million, net of a $1 million income tax benefit) of lease-related costs.

Loss from discontinued operations for the six months ended June 30, 2011 consisted of $2 million ($3 million, net of a $1 million income tax benefit) of lease-related costs, compared to $3 million ($5 million, net of a $2 million income tax benefit) of lease-related costs in the prior year period. The decrease in the loss from discontinued operations is primarily related to ongoing adjustments to sub-lease assumptions as a result of

changes in the economy and the commercial real estate market.

See Notes 3 and 11 to the condensed consolidated financial statements for additional information about our lease guarantees.

Net Loss Attributable to Noncontrolling Interest

Net loss attributable to noncontrolling interest represents the minority shareholders portion of the net loss from our majority owned subsidiary, Generation Health, Inc. The net loss attributable to noncontrolling interest for the three and six months ended June 30, 2011 was approximately $1 million and $2 million, respectively, as compared to the three and six months ended June 30, 2010 of approximately $1 million.

Segment Analysis

We evaluate the performance of our Pharmacy Services and Retail Pharmacy segments based on net revenue, gross profit and operating profit before the effect of nonrecurring charges and gains and certain intersegment activities. We evaluate the performance of our Corporate segment based on operating expenses before the effect of nonrecurring charges and gains and certain intersegment activities. The following is a reconciliation of our segments to the condensed consolidated financial statements:

In millions	Pharmacy Services Segment(1)	Retail Pharmacy Segment	Corporate Segment	Intersegment Eliminations(2)	Consolidated Totals
Three Months Ended					
June 30, 2011:					
Net revenues	$ 14,589	$ 14,826	$ —	$ (2,786)	$ 26,629
Gross profit	729	4,408	—	(42)	5,095
Operating profit (loss)	454	1,240	(162)	(42)	1,490
June 30, 2010:					
Net revenues	$ 11,840	$ 14,311	$ —	$ (2,144)	$ 24,007
Gross profit	821	4,229	—	(30)	5,020
Operating profit (loss)	591	1,096	(156)	(30)	1,501
Six Months Ended					
June 30, 2011:					
Net revenues	$ 28,603	$ 29,413	$ —	$ (5,507)	$ 52,509
Gross profit	1,368	8,555	—	(77)	9,846
Operating profit (loss)	851	2,336	(309)	(77)	2,801
June 30, 2010:					
Net revenues	$ 23,677	$ 28,289	$ —	$ (4,199)	$ 47,767
Gross profit	1,603	8,216	—	(53)	9,766
Operating profit (loss)	1,130	2,125	(291)	(53)	2,911

(1) Net revenues of the Pharmacy Services segment include approximately $1.9 billion and $1.6 billion of retail co-payments for the three months ended June 30, 2011 and 2010, respectively, as well as $4.1 billion and $3.4 billion of retail co-payments for the six months ended June 30, 2011 and 2010, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services segment customers, through the Company s intersegment activities (such as the Maintenance Choice program), elect to pick-up their maintenance prescriptions at Retail Pharmacy segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. As a result, both the Pharmacy Services and the Retail Pharmacy segments include the following results associated with this activity: net revenues of $626 million and $430 million for the three months ended June 30, 2011 and 2010, respectively, and $1.2 billion and $770 million for the six months ended June 30, 2011 and 2010, respectively; gross profit and operating profit of $42 million and $30 million for the three months ended June 30, 2011 and 2010, respectively, and $77 million and $53 million for the six months ended June 30, 2011 and 2010, respectively.

Pharmacy Services Segment

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

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2011	2010	2011	2010
Net revenues	$ 14,589	$ 11,840	$ 28,603	$ 23,677
Gross profit	729	821	1,368	1,603
Gross profit % of net revenues	5.0%	6.9%	4.8%	6.8%
Operating expenses	275	230	517	473
Operating expense % of net revenues	1.9%	1.9%	1.8%	2.0%
Operating profit	454	591	851	1,130
Operating profit % of net revenues	3.1%	5.0%	3.0%	4.8%
Net revenues(1):				
Mail choice(2)	$ 4,753	$ 4,111	$ 9,288	$ 8,189
Pharmacy network(3)	9,737	7,630	19,114	15,300
Other	99	99	201	188
Pharmacy claims processed(1):				
Total	191.8	144.3	367.0	291.7
Mail choice(2)	17.8	16.0	35.3	31.5
Pharmacy network(3)	174.0	128.3	331.7	260.2
Generic dispensing rate(1):				
Total	74.1%	71.0%	73.9%	70.7%
Mail choice(2)	64.6%	61.0%	64.2%	59.9%
Pharmacy network(3)	75.0%	72.2%	74.9%	71.9%
Mail choice penetration rate	22.6%	25.9%	23.3%	25.4%

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

(2) Mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims, as well as 90-day claims filled at retail under the Maintenance Choice program.

(3) Pharmacy network is defined as claims filled at retail pharmacies, including our retail drugstores, but excluding Maintenance Choice activity.

Net Revenues

Net revenues increased $2.7 billion, or 23.2%, to $14.6 billion in the three months ended June 30, 2011, as compared to the prior year period. The increase in net revenues was primarily due to the addition of the previously announced long-term contract with a large health insurance carrier, which became effective on January 1, 2011, as well as new activity resulting from our acquisition of the UAM Medicare Part D Business.

- Our mail choice claims processed increased 11.3% to 17.8 million claims in the three months ended June 30, 2011, compared to 16.0 million claims in the prior year period. The increase in mail choice claim volume was primarily due to the addition of the previously announced long-term contract with a large health insurance carrier, which became effective on January 1, 2011.

- Our average revenue per mail choice claim increased by 3.6%, compared to the prior year period. This increase was primarily due to drug cost inflation, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.

- Our mail choice generic dispensing rate increased to 64.6% in the three months ended June 30, 2011, compared to 61.0% in the prior year period. This increase was primarily due to new generic prescription drug introductions and our continuous effort to encourage plan members to use generic prescription drugs when they are available.

- Our pharmacy network claims processed increased 35.6% to 174.0 million claims in the three months ended June 30, 2011, compared to 128.3 million claims in the prior year period. The increase in the pharmacy network

claim volume was primarily due to the addition of the previously announced long-term contract with a large health insurance carrier. Additionally, we experienced higher claims activity associated with our Medicare Part D program as a result of our acquisition of the UAM Medicare Part D Business completed during the quarter, as well as an increase in covered lives under our legacy Medicare Part D program.

- Our average revenue per pharmacy network claim processed decreased 5.9%, as compared to the prior year period. This decrease was primarily due to the impact of increases in the percentage of generic prescription drugs dispensed, changes in client pricing, and the impact of our acquisition of the UAM Medicare Part D Business, partially offset by our previously announced long-term contract with a large health insurance carrier which became effective on January 1, 2011

- Our pharmacy network generic dispensing rate increased to 75.0% in the three months ended June 30, 2011, compared to 72.2% in the prior year period. This increase was primarily due to new generic prescription drug introductions and our continuous effort to encourage plan members to use generic prescription drugs when they are available.

Net revenues increased $4.9 billion, or 20.8%, to $28.6 billion in the six months ended June 30, 2011, as compared to the prior year period. The increase in net revenues was primarily due to the addition of the previously announced long-term contract with a large health insurance carrier, which became effective on January 1, 2011, as well as new activity resulting from our acquisition of the UAM Medicare Part D Business.

- Our mail choice claims processed increased 12.1% to 35.3 million claims in the six months ended June 30, 2011, compared to 31.5 million claims in the prior year period. The increase in mail choice claim volume was primarily due to the addition of the previously announced long-term contract with a large health insurance carrier, which became effective on January 1, 2011.

- Our average revenue per mail choice claim increased by 1.0%, compared to the prior year period. This increase was primarily due to drug cost inflation, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.

- Our mail choice generic dispensing rate increased to 64.2% in the six months ended June 30, 2011, compared to 59.9% in the prior year period. This increase was primarily due to new generic prescription drug introductions and our continuous effort to encourage plan members to use generic prescription drugs when they are available.

- Our pharmacy network claims processed increased 27.5% to 331.7 million claims in the six months ended June 30, 2011, compared to 260.2 million claims in the prior year period. The increase in the pharmacy network claim volume was primarily due to the addition of the previously announced long-term contract with a large health insurance carrier. Additionally, we experienced higher claims activity associated with our Medicare Part D program as a result of our acquisition of the UAM Medicare Part D Business completed during the second quarter and increases in covered lives under our legacy Medicare Part D program.

- Our average revenue per pharmacy network claim processed decreased 2.0%, as compared to the prior year period. This decrease was primarily due to increases in the percentage of generic prescription drugs dispensed and changes in client pricing, partially offset by the positive impact of our previously announced long-term contract with a large health insurance carrier which became effective on January 1, 2011, as well as drug cost inflation.

- Our pharmacy network generic dispensing rate increased to 74.9% in the six months ended June 30, 2011, compared to 71.9% in the prior year period. This increase was primarily due to new generic prescription drug introductions and our continuous effort to encourage plan members to use generic prescription drugs when they are available.

Gross Profit

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 national pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of our mail service pharmacies, customer service operations and related information technology support.

Gross profit decreased $92 million, or 11.2%, to $729 million in the three months ended June 30, 2011, as compared to the prior year period. Gross profit as a percentage of net revenues was 5.0% in the three months ended June 30, 2011, compared to 6.9% in the prior year period. Gross profit decreased $235 million, or 14.7%, to $1.4 billion in the six months ended June 30, 2011, as compared to the prior year period. Gross profit as a percentage of net revenues was 4.8% in the six months ended June 30, 2011, compared to 6.8% in the prior year period. The decrease in gross profit dollars was primarily driven by pricing compression relating to contract renewals, and in particular the renewal of a large government client contract that took effect during the third quarter of 2010. The decrease in gross profit as a percentage of net revenues was driven by the aforementioned client pricing compression, as well as the profitability associated with our previously announced long-term contract with a large health insurance carrier which became effective on January 1, 2011. This decrease in gross profit dollars as well as gross profit as a percentage of net revenues was partially offset by the above mentioned increases in our generic dispensing rates in the three and six months ended June 30, 2011, as compared to the prior year periods.

As you review our Pharmacy Services segment s performance in this area, we believe you should consider the following important information that impacted the three and six month periods ended June 30, 2011:

- Our gross profit dollars and gross profit as a percentage of net revenues continued to be impacted by our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the purchase discounts we received from manufacturers, wholesalers and retail pharmacies. In particular, competitive pressures in the PBM industry has caused us and other PBMs to continue to share a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes retail network differential or spread . We expect these trends to continue.

- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 74.1% and 73.9% in the three and six months ended June 30, 2011, respectively, compared to our generic dispensing rate of 71.0% and 70.7% in the prior year periods, respectively. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan members to use generic drugs when they are available.

Operating Expenses

Operating expenses in our Pharmacy Services segment include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and specialty pharmacy store and administrative payroll, employee benefits and occupancy costs.

Operating expenses increased $45 million to $275 million, or 1.9% as a percentage of net revenues in the three months ended June 30, 2011, compared to $230 million, or 1.9% as a percentage of net revenues in the prior year period. The increase in operating expenses is primarily related to costs associated with changes designed to streamline our business, expenses associated with the acquisition and integration of the UAM Medicare Part D Business, as well as normal operating expenses of the UAM Medicare Part D Business, partially offset by disciplined expense controls.

Operating expenses increased $44 million to $517 million, or 1.8% as a percentage of net revenues in the six months ended June 30, 2011, compared to $473 million, or 2.0% as a percentage of net revenues in the prior year period. The increase in operating expenses is primarily

related to costs associated with changes designed to streamline our business, expenses associated with the acquisition and integration of the UAM Medicare Part D Business, as well as normal operating expenses of the UAM Medicare Part D Business, partially offset by disciplined expense controls.

Retail Pharmacy Segment

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

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2011	2010	2011	2010
Net revenues	$14,826	$14,311	$29,413	$28,289
Gross profit	4,408	4,229	8,555	8,216
Gross profit % of net revenues	29.7%	29.6%	29.1%	29.0%
Operating expenses	3,168	3,133	6,219	6,091
Operating expense % of net revenues	21.4%	21.9%	21.1%	21.5%
Operating profit	1,240	1,096	2,336	2,125
Operating profit % of net revenues	8.4%	7.7%	7.9%	7.5%
Net revenue increase:				
Total	3.6%	3.7%	4.0%	3.6%
Pharmacy	3.9%	4.2%	4.5%	4.4%
Front store	3.0%	2.8%	2.9%	2.0%
Same store sales increase (decrease):				
Total	2.0%	2.1%	2.3%	2.2%
Pharmacy	2.6%	2.9%	3.1%	3.3%
Front store	0.8%	0.4%	0.6%	(0.2)%
Generic dispensing rate	75.6%	72.7%	75.4%	72.4%
Pharmacy % of total revenues	67.9%	67.6%	68.5%	68.0%
Third party % of pharmacy revenue	97.7%	97.2%	97.6%	97.2%
Retail prescriptions filled	162.4	157.5	328.0	314.8

As of June 30, 2011, we operated 7,266 retail drugstores compared to 7,109 retail drugstores on June 30, 2010.

Net Revenues

Net revenues increased $515 million, or 3.6%, to $14.8 billion in the three months ended June 30, 2011, as compared to the prior year period. This increase was primarily driven by a same store sales increase of 2.0% and net revenues from new stores, which accounted for approximately 130 basis points of our total net revenue percentage increase in the three months ended June 30, 2011. Net revenues increased $1.1 billion, or 4.0%, to $29.4 billion in the six months ended June 30, 2011, as compared to the prior year period. This increase was primarily driven by a same store sales increase of 2.3% and net revenues from new stores, which accounted for approximately 140 basis points of our total net revenue percentage increase in the six months ended June 30, 2011.

As you review our Retail Pharmacy segment s performance in this area, we believe you should consider the following important information that impacted the three and six month periods ended June 30, 2011:

- Pharmacy revenues continued to benefit from incremental prescription volume associated with our Maintenance Choice program. Pharmacy same store sales rose 2.6% and 3.1% in the three and six months ended June 30, 2011, respectively, as compared to the prior year periods. The three months ended June 30, 2011 includes a positive impact from Maintenance Choice of approximately 160 basis points on a net basis, (i.e., a positive impact of approximately 190 basis points on a gross basis, net of approximately 30 basis points from the conversion of 30-day prescriptions at retail to 90-day prescriptions under the Maintenance Choice program).

- Pharmacy revenues continue to be negatively impacted by the conversion of brand named drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 170 and 210 basis points for the three and six months ended June 30, 2011, respectively, due to recent generic introductions. In addition, our pharmacy growth has also been adversely affected by the lack of significant new brand named drug introductions, higher consumer co-payments and co-insurance arrangements, and an increase in the number of over-the-counter remedies that were historically only available by prescription.

• Pharmacy revenue growth continued to benefit from the introduction of a prescription drug benefit under Medicare Part D, our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many baby boomers are now in their fifties and sixties and are consuming a greater number of prescription drugs. In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

Gross Profit

Gross profit in our Retail Pharmacy segment includes net revenues less the cost of merchandise sold in the period and the related purchasing costs, warehousing costs, delivery costs and actual and estimated inventory losses.

Gross profit increased $179 million, or 4.2%, to $4.4 billion in the three months ended June 30, 2011, as compared to the prior year period. Gross profit as a percentage of net revenues increased to 29.7% in the three months ended June 30, 2011, compared to 29.6% in the prior year period. Our average gross profit on front store revenues is generally higher than our average gross profit on pharmacy revenues. The increase in gross profit as a percentage of revenue was primarily driven by an increase in private label sales as a percentage of our front store revenues, partially offset by lower pharmacy margins. Front store revenues as a percentage of total revenues for the three months ended June 30, 2011 was 32.1%, as compared to 32.4% in the prior year period. Pharmacy revenues as a percentage of total revenues for the three months ended June 30, 2011 were 67.9%, compared to 67.6% in the prior year period.

Gross profit increased $339 million, or 4.1%, to $8.6 billion in the six months ended June 30, 2011, as compared to the prior year period. Gross profit as a percentage of net revenues increased to 29.1% in the six months ended June 30, 2011, compared to 29.0% in the prior year period. Our average gross profit on front store revenues is generally higher than our average gross profit on pharmacy revenues. The slight increase in gross profit as a percentage of revenue was primarily driven by margin improvements in our front store due to a positive shift in the sales mix of our private label products. Front store revenues as a percentage of total revenues for the six months ended June 30, 2011 was 31.5%, as compared to 32.0% in the prior year period. Pharmacy revenues as a percentage of total revenues for the six months ended June 30, 2011 were 68.5%, compared to 68.0% in the prior year period.

As you review our Retail Pharmacy segment s performance in this area, we believe you should consider the following important information that impacted the three and six month period ended June 30, 2011:

• Sales to customers covered by third party insurance programs are a significant component of our retail pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party revenues were 97.7% and 97.6% in the three and six months ended June 30, 2011, respectively, compared to 97.2% in both prior year periods. We expect this trend to continue.

• Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs. In the event this trend continues, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted.

- The increased use of generic drugs has positively impacted our gross profit margins 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

Operating expenses in our Retail Pharmacy segment include store payroll, store employee benefits, occupancy costs, selling expenses, advertising expenses, depreciation and amortization expense and certain administrative expenses.

Operating expenses increased $35 million to $3.2 billion, or 21.4% as a percentage of net revenues, in the three months ended June 30, 2011, as compared to $3.1 billion, or 21.9% as a percentage of net revenues, in the prior year period. Operating expenses increased $128 million to $6.2 billion, or 21.1% as a percentage of net revenues, in the six months ended June 30, 2011, as compared to $6.1 billion, or 21.5% as a percentage of net revenues, in the prior year period. The improvement in operating expenses as a percentage of net revenues for the three and six months ended June 30, 2011 was primarily due to improved expense leverage from our same store sales growth, and expense control initiatives.

Corporate Segment

Operating Expenses

Operating expenses in our Corporate segment include executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance departments. Operating expenses increased $6 million, or 3.8%, to $162 million and $18 million, or 6.2%, to $309 million in the three and six months ended June 30, 2011, respectively, as compared to the prior year period. The increase in operating expenses was primarily related to higher payroll and benefit related costs, and increases in depreciation.

Liquidity and Capital Resources

The majority of our cash and cash equivalents at any given time represent cash in transit and amounts set aside in our insurance subsidiaries to pay claims. We maintain a level of liquidity sufficient to allow us to cover our cash needs in the short-term. Over the long-term, we manage our cash and capital structure to maximize shareholder return, strengthen our financial position and maintain flexibility for future strategic initiatives. We continuously assess our working capital needs, debt and leverage levels, capital expenditure requirements, dividend payouts, potential share repurchases and future investments or acquisitions. We believe our operating cash flows, commercial paper program, sale-leaseback program, as well as any potential future borrowings, will be sufficient to fund these future payments and long-term initiatives.

Net cash provided by operating activities was $3.1 billion in the six months ended June 30, 2011, compared to $1.7 billion in the six months ended June 30, 2010. This increase was related to improvements in inventory and accounts payable management, and growth in claims payable, partially offset by increased accounts receivable compared to the prior year period.

Net cash used in investing activities was $2.1 billion in the six months ended June 30, 2011, compared to $0.9 billion in the six months ended June 30, 2010. The $1.2 billion increase in cash used in investing activities was primarily due to the cash paid to acquire the UAM Medicare Part D Business which closed on April 29, 2011. Gross capital expenditures totaled $0.7 billion in the six months ended June 30, 2011,

compared to $0.9 billion in the six months ended June 30, 2010. In the six months ended June 30, 2011, we opened 98 new retail drugstores and one new retail specialty pharmacy store while we closed 14 retail drugstores, two retail specialty pharmacy stores, one retail apothecary pharmacy store and five specialty mail order pharmacies. In addition, we relocated 67 retail drugstores. In 2011, for the full year, we plan to open a total of approximately 225 to 250 new or relocated retail drugstores.

Net cash used in financing activities was $0.2 billion in the six months ended June 30, 2011, compared to net cash used in financing activities of $0.8 billion in the six months ended June 30, 2010. Net cash used in financing activities was primarily due to the repayment of debt and repurchases of common stock partially offset by the issuance of $1.5 billion in long-term debt.

On May 12, 2011, we issued $550 million of 4.125% unsecured senior notes due May 15, 2021 and issued $950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the 2011 Notes). The 2011 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at our option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2011 Notes will be used to repay commercial paper borrowings and certain other corporate debt, and be used for general corporate purposes.

On June 14, 2010, our Board of Directors authorized a new share repurchase program for up to $2.0 billion of our outstanding common stock (the 2010 Repurchase Program). The share repurchase authorization, which was effective immediately and expires at the end of 2011, permits us to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2010 Repurchase Program may be modified, extended or terminated by the Board of Directors at any time. During the six months ended June 30, 2011, we repurchased 27.5 million shares for approximately $1.0 billion pursuant to the 2010 Repurchase Program.

We had no commercial paper borrowings outstanding as of June 30, 2011. In connection with our commercial paper program, we maintain a $1.25 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012, a $1.0 billion, three-year unsecured back-up credit facility, which expires on May 27, 2013, and a $1.25 billion, four-year unsecured back-up credit facility which expires on May 12, 2015. The credit facilities allow for borrowings at various rates depending on our public debt ratings and require us to pay a quarterly facility fee of approximately 0.1%, regardless of usage. As of June 30, 2011, we had no outstanding borrowings against the back-up credit facilities.

Our back-up credit facilities, unsecured senior notes and enhanced capital advantaged preferred securities 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 June 30, 2011, our long-term debt was rated Baa2 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.

Off-Balance Sheet Arrangements

In connection with executing operating leases, we provide a guarantee of the lease payments. We also finance a portion of our new store development through sale-leaseback transactions, which involve selling stores to unrelated parties and then leasing the stores back under leases that qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with accounting principles generally accepted in the United States of America (GAAP), such operating leases are not reflected in our condensed consolidated balance sheet. We refer you to the Notes to Consolidated Financial Statements on pages 66 and 74 of our Annual Report to Stockholders included as Exhibit 13 to our 2010 Form 10-K for a detailed discussion of these guarantees.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with GAAP, which requires management to make certain estimates and apply judgments. We base our estimates and judgments on historical experience, current trends and other factors that management believes to be important at the time the condensed consolidated financial statements are prepared. On a regular basis, we review our accounting policies and how they are applied and disclosed in our condensed consolidated financial statements.

While we believe that the historical experience, current trends and other factors considered support the preparation of our condensed consolidated financial statements in conformity with GAAP, actual results could differ from our estimates and such differences could be material. For a full description of our critical accounting policies, please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Annual Report on Form 10-K.

Cautionary Statement Concerning Forward-Looking Statements

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

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

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

Our business is affected by the economy in general including changes in consumer purchasing power, preferences and/or spending patterns. These changes could affect drug utilization trends, the number of covered lives and the financial health of our PBM clients. Further, 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 future sale-leaseback transactions under acceptable terms;

Our ability to realize the anticipated long-term strategic benefits from our integrated pharmacy services model;

Our ability to realize the planned benefits associated with our acquisition of the UAM Medicare Part D Business in accordance with the expected timing;

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

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

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

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

Risks related to our inability to earn and retain purchase discounts and/or rebates from pharmaceutical manufacturers and to earn and retain retail network differential or spread ;

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

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

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

Risks related to the Patient Protection and Affordable Care Act, the Health Care and Education Reconciliation Act and other health care reform laws and the regulations promulgated under those laws;

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2011, the Company had no derivative financial instruments or derivative commodity instruments in place and believes its exposure to market risk associated with other financial instruments, principally interest rate risk inherent in its debt portfolio, is not material.

Item 4. 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 Securities Exchange Act Rules 13a-15 (f) and 15d-15(f)) as of June 30, 2011, have concluded that as of such date the Company s disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Changes in internal control over financial reporting: There have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities Exchange Act Rule 13a-15 or Rule 15d-15 that occurred in the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II		Item 1

Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2010. The following discussion is limited to certain recent developments concerning our legal proceedings and should be read in conjunction with those earlier reports.

1. Since March 2009, the Company has been named in a series of putative collective and class action lawsuits filed in federal courts around the country, purportedly on behalf of current and former assistant store managers working in the Company s stores at various locations outside California. The lawsuits allege that the Company failed to pay overtime to assistant store managers as required under the Fair Labor Standards Act (FLSA) and under certain state statutes. The lawsuits also seek other relief, including liquidated damages, punitive damages, attorneys fees, costs and injunctive relief arising out of the state and federal claims for overtime pay. Notice was issued to over 13,000 current and former assistant store managers offering them the opportunity to opt in to certain of the FLSA collective actions and about 2,000 have elected to participate in these lawsuits. The Company has aggressively challenged both the merits of the lawsuits and the allegation that the cases should be certified as class or collective actions. In light of the cost and uncertainty involved in this litigation, however, the Company has negotiated an agreement with plaintiffs counsel on the key terms of a global settlement. Any final resolution of these matters will be subject to approval by a court, and as yet the parties have not finalized a settlement agreement or submitted any agreement for court approval. The Company has established legal reserves related to these matters at June 30, 2011 to cover the estimated settlement payments.

Part II		**Item 2**

Unregistered Sales of Equity Securities and Use of Proceeds

(c) Stock Repurchases

The following table presents the total number of shares purchased in the three months ended June 30, 2011, the average price paid per share and the approximate dollar value of shares that still could have been purchased at the end of the applicable fiscal period, pursuant to the 2010 Repurchase Program.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2011 through April 30, 2011	63,808	$ 33.51	63,808	$ 1,530,922,269
May 1, 2011 through May 31, 2011	3,408,507	$ 38.25	3,408,507	$ 1,400,551,588
June 1, 2011 through June 30, 2011	9,851,140	$ 37.72	9,851,140	$ 1,029,010,380

Part II		**Item 6**

Exhibits

Item 6. Exhibits

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.

3.1*	Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference to Exhibit 3.1 to 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(Commission File No. 001-01001)].
3.1B*	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 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 the Registrant s Current Report on Form 8-K dated May 12, 2010 (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 May 13, 2011 (Commission File No. 001-01011)].
10.1	Four-Year Credit Agreement dated as of May 12, 2011 by and among the Registrant, the lenders party hereto, 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 New York Mellon, as Administrative Agent.
15.1	Letter re: Unaudited Interim Financial Information.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the CVS Caremark Corporation Quarterly Report on Form 10-Q for the three months ended June 30, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) related Footnotes to the Condensed Consolidated Financial Statements.

Signatures:

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

CVS Caremark Corporation

(Registrant)

/s/ David M. Denton

David M. Denton

Executive Vice President and

Chief Financial Officer

August 4, 2011