

## STATE SETTLEMENT AGREEMENT

### I. PARTIES

This Settlement Agreement (“Agreement”) is entered into between the State of California (“the State” or “California”) and CVS Pharmacy, Inc., and its subsidiaries and affiliates that operate retail pharmacy stores (collectively “CVS/pharmacy”), hereinafter collectively referred to as “the Parties”, through their authorized representatives.

### II. PREAMBLE

As a preamble to this Agreement, the Parties agree to the following:

A. On August 13, 2009 qui tam plaintiff, Stephani LeFlore (“LeFlore” or “the Relator”) filed an amended qui tam complaint in the United States District Court for the Western District of Wisconsin captioned *United States and State of California, et al., ex rel. LeFlore v. CVS Caremark Corporation*, Case No. 08-CV-574 (WD Wis.) (the “Civil Action”). LeFlore alleges in the Civil Action that CVS/pharmacy's retail stores knowingly submitted false prescription claims to government health programs, in violation of the False Claims Act, §§ 3729-3733 (“FCA”) and various state laws, by allegedly overcharging the Medicaid program on prescriptions for individuals who were covered by both Medicaid and a primary third-party insurance plan.

B. Defendant CVS Caremark Corporation is the parent company of CVS/pharmacy. CVS/pharmacy, which operates the company's retail pharmacy division, currently operates over 7,000 retail pharmacies in 41 states and the District of Columbia and is one of the largest retail pharmacy businesses in the country. CVS/pharmacy acquired Longs Drug Stores Corporation, a regional retail drug store chain that operated approximately 500 stores, primarily in the State of California, on or about October 29,

2008, (the "Acquisition Date"). This Agreement relates only to CVS/pharmacy's retail pharmacy business and not to any other business conducted by CVS Caremark Corporation or its other subsidiaries or affiliates.

C. CVS/pharmacy has entered into a separate civil settlement agreement (the "Federal Settlement Agreement") with the United States on terms described in the Federal Settlement Agreement. CVS/pharmacy also has entered into ten separate civil settlement agreements (each a "State Settlement Agreement" and, collectively, the "State Settlement Agreements"), including this Agreement, with the following states: Alabama, California, Florida, Indiana, Massachusetts, Michigan, Minnesota, New Hampshire, Nevada, and Rhode Island (hereinafter the "Participating States"). Finally, CVS Caremark Corporation has entered into a first Amendment to the Corporate Integrity Agreement between the Inspector General of the United States Department of Health and Human Services ("HHS-OIG") and CVS Caremark Corporation (the "CIA Amendment").

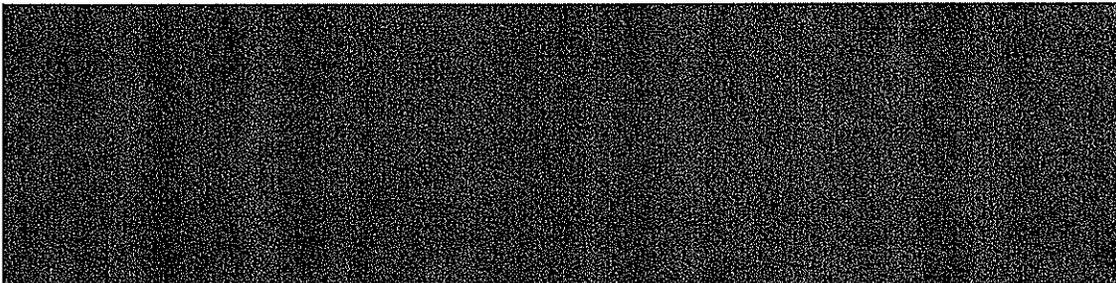
D. The State contends that CVS/pharmacy submitted or caused to be submitted claims for payment to the State's Medicaid Program, 42 U.S.C. §§ 1396-1396v.

E. The State contends that it has certain civil claims against CVS/pharmacy for engaging in the following alleged conduct during the period October 1, 2002 through December 31, 2010 ("Relevant Time Period"):

The State alleges that CVS/pharmacy knowingly submitted claims during the Relevant Time Period to the Medicaid programs in the Participating States, including in California, for prescription drugs dispensed to persons covered for such claims both by Medicaid and by a primary third-party insurance plan (excluding Medicare as the primary

payor) (“the Claims”). CVS/pharmacy was reimbursed by the Participating States, at various times during the Relevant Time Period, in an amount equal to the difference between what the third-party insurance paid when the Claims were submitted and what the Participating States would have paid in the absence of third-party insurance. The State alleges that the Claims to the Medicaid Participating States were false because CVS/pharmacy was not entitled, during all or part of the Relevant Time Period, to reimbursement in such an amount on all Claims. Rather, CVS/pharmacy should have claimed and received reimbursement of no more than the amount the insured would have been obligated to pay had the Claims been submitted solely to the third-party insurer providing coverage. The State alleges that, as a result of this improper billing, CVS/pharmacy received reimbursement amounts from the Participating States that were higher than the amount it was entitled to receive. The allegations concerning the Claims are hereinafter referred to as the “Covered Conduct”.

Specifically excluded from the Covered Conduct are the claims that are alleged in



F. This Agreement is neither an admission of facts, liability or wrongdoing by CVS /pharmacy, nor a concession by the State that its claims are not well founded. CVS/pharmacy expressly denies the State’s contentions as set forth herein and in the Civil Action, including the contention that it knowingly submitted false claims to the Participating State’s Medicaid program.

G. To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, and in consideration of the mutual promises and obligations of this Agreement, the Parties agree and covenant as follows:

### III. TERMS AND CONDITIONS

NOW, THEREFORE, in reliance on the representations contained herein and in consideration of the mutual promises, covenants and obligations set forth in this Agreement, and for good and valuable consideration as stated herein, the Parties agree as follows:

1. CVS/pharmacy agrees to pay to the United States, pursuant to the Federal Settlement Agreement, and to the Participating States, pursuant to the State Settlement Agreements, collectively, the sum of Seventeen Million Five Hundred Thousand dollars (\$17,500,000.00), plus interest accruing annually at 3.125% beginning February 1, 2011, which shall be paid by electronic funds transfer no later than fourteen (14) days after the Effective Date of the Federal Settlement Agreement. The federal share of the Settlement Amount is \$7,993,615.55 and the Participating States' share of the Settlement Amount is \$9,506,384.45. The federal share of the Settlement Amount shall be paid in accordance with instructions for payment provided by U.S. Department of Justice. The aggregate Participating States' share of the Settlement Amount plus the State's pro rata share of interest accrued on the amount in the Participating States' share of the Settlement Amount shall be paid by electronic funds transfer to the New York State Attorney General's National Global Settlement Account ("NY State Account") no later than fourteen (14) days after the Effective Date of the Federal Settlement Agreement, pursuant to written

instructions to be provided by the State Team. Thereafter, CVS/pharmacy shall have no continuing obligations with respect to any payment to the Participating States or to the State.

(a) CVS/pharmacy shall execute a State Settlement Agreement with each Participating State in the form to which CVS/pharmacy and the State Team have agreed, or in a form otherwise agreed to by CVS/pharmacy and an individual State, provided that the State Team and all Participating States act with all due speed to attempt to deliver the fully executed State Settlement Agreements to CVS/pharmacy by April 15, 2011, or as soon thereafter as possible, but before May 10, 2011.

(b) The individual Participating States' share of the Settlement Amount allocated to the State of California under this Agreement is the sum of \$879,139.05, plus applicable interest (the "State Amount").

2. Contingent upon CVS/pharmacy's full payment of the State Settlement Amount and accrued interest, the Participating States agree to pay, as soon as feasible after such receipt, an agreed-upon amount that has been addressed via a side letter to the Plaintiff-Relator in the Civil Action.

3. Subject to the exceptions in Paragraph 4 below, and conditioned upon CVS/pharmacy's full payment of the State Settlement Amount and accrued interest, and subject to Paragraph 11 below (concerning bankruptcy proceedings commenced within 91 days of the Effective Date of this Agreement or any payment under this Agreement), the State releases CVS/pharmacy, together with its current and former officers, directors, parents, agents and employees, from any civil or administrative monetary claim the State has for the Covered Conduct, under the State Medicaid false claims statute and common

law theories of fraud, payment by mistake, disgorgement, unjust enrichment and breach of contract. Additionally, the State agrees not to pursue any civil or administrative monetary penalties under the state false claims act for the same or similar conduct as the Covered Conduct for the period January 1, 2011 through the Effective Date of this Agreement. However, nothing shall prevent the State's Medicaid program from exercising its authority to collect any overpayment that may be identified as having occurred during the period from January 1, 2011 through the Effective Date of this Agreement.

4. Notwithstanding any term of this Agreement, the State specifically reserves and does not release the following claims:

(a) any criminal, civil, or administrative liability arising under state revenue codes;

(b) any criminal liability not specifically released by this Agreement;

(c) any civil or administrative liability that any person or entity has or may have to the State or to individual consumers or state program payors under any statute, regulation or rule not expressly covered by the release in paragraph 3 above, including but not limited to, any and all of the following claims: (i) State or federal antitrust violations; (ii) claims involving unfair and/or deceptive acts and practices and/or violations of consumer protection laws;

(d) any liability to the State for any conduct other than the Covered Conduct;

(e) any liability which may be asserted on behalf of any other payors or insurers, including those that are paid by the State Medicaid Program on a capitated basis;

(f) any liability based upon obligations created by this Agreement;

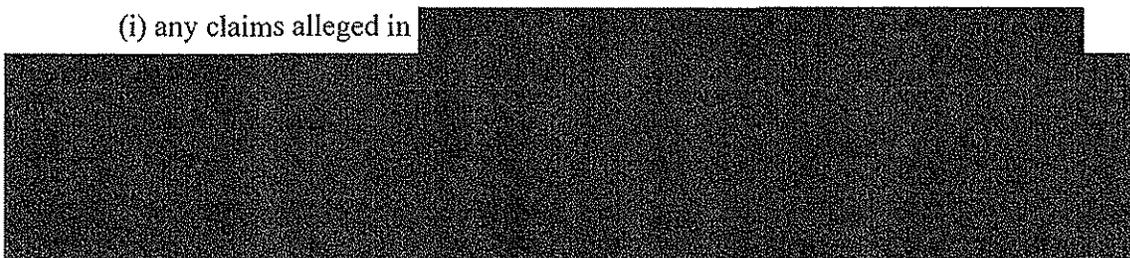
(g) except as explicitly stated in this Agreement, any administrative liability, including mandatory exclusions from the State's Medicaid program;

(h) any expressed or implied warranty claims or other liability for defective or deficient products and services provided by CVS/pharmacy;

(i) any liability for personal injury or property damage or for other consequential damages arising from the Covered Conduct;

(j) any liability based on a failure to deliver items or services due; and

(i) any claims alleged in



5. In consideration of the obligations of CVS/pharmacy set forth in this Agreement, and the Amendment to the Corporate Integrity Agreement that CVS Caremark Corporation has entered into with (HHS-OIG) in connection with this matter, and conditioned on full payment by CVS/pharmacy of the State Settlement Amount, except as reserved in Paragraph 3 and 4, above, and subject to Paragraph 11, below (concerning bankruptcy proceedings commenced within 91 days of the Effective Date of this Agreement or any payment under this Agreement), the State agrees to release and refrain from instituting, recommending, directing, or maintaining any administrative action seeking exclusion from the State's Medicaid program against CVS/pharmacy or its parent, CVS Caremark Corporation, for the Covered Conduct. Nothing in this Agreement precludes the State from taking action against CVS/pharmacy or its parent,

CVS Caremark Corporation, in the event that it is excluded by the federal government, or for conduct and practices other than the Covered Conduct.

6. CVS/pharmacy waives and shall not assert any defenses CVS/pharmacy may have to criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause of the Fifth Amendment of the Constitution, or under the Excessive Fines Clause of the Eighth Amendment to the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action.

7. CVS/pharmacy together with its current and former officers, directors, parents, agents, and employees, fully and finally releases the State, and its agencies, officers, agents, political subdivisions, departments employees, and servants from any claims (including attorneys' fees, costs, and expenses of every kind and however denominated) that CVS /pharmacy has asserted, could have asserted, or may assert in the future against the State, its agencies, officers, agents, political subdivisions, employees, and servants, related to the Covered Conduct and the States' investigation and prosecution thereof.

8. The State Settlement Amount shall not be decreased as a result of the denial of claims for payment now being withheld from payment by the State's Medicaid program, or any other state payor, related to the Covered Conduct; and CVS/pharmacy agrees not to resubmit to the State's Medicaid program or any other state payor, any previously denied claims, which denials related to the Covered Conduct, and agrees not to appeal or cause the appeal of any such denials of claims.

9. CVS/pharmacy shall not seek payment for any of the claims for reimbursement to Medicaid covered by this Agreement from any health care beneficiaries or their parents, sponsors, legally-responsible individuals, or third-party payors.

10. CVS/pharmacy expressly warrants that it has reviewed its financial condition and that it is currently solvent within the meaning of 11 U.S.C. §§ 547(b)(3) and 548(a)(B)(ii)(I), and shall remain solvent following payment of the Federal Settlement Amount and compliance with sub-paragraphs III.1.b(i), (ii), and (iv) of the Federal Settlement Agreement. Further, the Parties expressly warrant that, in evaluating whether to execute this Agreement, the Parties (a) have intended that the mutual promises, covenants, and obligations set forth herein constitute a contemporaneous exchange for new value given to CVS/pharmacy within the meaning of 11 U.S.C. § 547(c)(1), and (b) have concluded that these mutual promises, covenants and obligations do, in fact, constitute such a contemporaneous exchange.

11. In the event CVS/pharmacy commences, or another party commences, within 91 days of the Effective Date of this Agreement or any payment made hereunder, any case, proceeding, or other action under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors (a) seeking to have any order for relief of CVS's/pharmacy's debts, or seeking to adjudicate CVS/pharmacy as bankrupt or insolvent, or (b) seeking appointment of a receiver, trustee, custodian or other similar official for CVS/pharmacy or for all or any substantial part of CVS's/pharmacy's assets, CVS/pharmacy agrees as follows, to the extent consistent with applicable law:

(a) CVS's/pharmacy's obligations under this Agreement may not be avoided pursuant to 11 U.S.C. §§ 547 or 548, and CVS/pharmacy shall not argue or otherwise

take the position in any such case, proceeding or action that: (i) CVS's/pharmacy's obligations under this Agreement may be avoided under 11 U.S.C. §§ 547 or 548; (ii) CVS/pharmacy was insolvent at the time this Agreement was entered into, or became insolvent as a result of the payment made to the State hereunder; or (iii) the mutual promises, covenants, and obligations set forth in this Agreement do not constitute a contemporaneous exchange for new value given to CVS/pharmacy.

(b) If CVS/pharmacy's obligations under this Agreement are avoided for any reason, including, but not limited to, through the exercise of a trustee's avoidance powers under the Bankruptcy Code, the State, at its sole option, may rescind the releases provided in this Agreement, and bring any civil and/or administrative action or proceeding against CVS/pharmacy for the liability that would otherwise be covered by the releases provided in this Agreement. If the State chooses to do so, CVS/pharmacy agrees that for purposes only of any actions or proceedings referenced in this first clause of this Paragraph, any such actions or proceedings brought by the State (including any proceedings to exclude CVS/pharmacy from participation in the State's Medicaid program) are not subject to an "automatic stay" pursuant to 11 U.S.C. § 362(a) as a result of the action, case, or proceeding described in the first clause of this Paragraph, and that CVS/pharmacy shall not argue or otherwise contend that the State's actions or proceedings are subject to an automatic stay; CVS/pharmacy shall not plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel, or similar theories, to any such civil or administrative actions or proceedings which are brought by the State within 90 calendar days of written notification to CVS/pharmacy that the releases herein have been rescinded pursuant to this Paragraph, except to the

extent such defenses were available before June 24, 2005; and the State has a valid demand against CVS/pharmacy in the amount of its share of the State Settlement Amount plus applicable multipliers and penalties and it may pursue its demand *inter alia*, in the case, action, or proceeding referenced in the first clause of this Paragraph, as well as in any other case, action or proceeding; and CVS/pharmacy acknowledges that its agreements in this Paragraph are provided in exchange for valuable consideration provided in this Agreement.

12. The Parties each represent that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

13. CVS/pharmacy agrees to cooperate fully and truthfully with any State investigation of individuals or entities not released in this Agreement. Upon reasonable notice, CVS/pharmacy shall facilitate, and agrees not to impair, the cooperation of its directors, officers, employees or agents, for interviews and testimony, consistent with the rights and privileges of such individuals and of CVS/pharmacy. Upon request, CVS/pharmacy agrees to furnish the State complete and unredacted copies of all non-privileged documents, reports, memoranda of interviews, and records in its possession, custody or control, concerning individuals, entities and or conduct not released in this Agreement. CVS/pharmacy shall be responsible for all costs it may incur in complying with this paragraph.

14. Except as expressly provided to the contrary in this Agreement, each Party to this Agreement shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

15. This Agreement is intended to be for the benefit of the Parties only. The Parties do not release any claims against any other person or entity, except to the extent provided for in Paragraph 9 (waiver for beneficiaries paragraph), above.

16. Except as otherwise stated in this Agreement, this Agreement is intended to be for the benefit of the Parties only, and by this instrument the Parties do not release any liability against any other person or entity.

17. Upon receipt of the State Settlement payments described in paragraph 1 above, the Participating States shall consent to Relator's dismissal of the Civil Action as to the claims for the Covered Conduct and without prejudice as to all other state law claims.

18. In addition to all other payments and responsibilities under this Agreement, CVS/pharmacy agrees to pay all reasonable expenses of the State Team. CVS/pharmacy will pay this amount by separate check made payable to the National Association of Medicaid Fraud Control Units, after the Medicaid Participating States execute their respective Agreements, or as otherwise agreed by the Parties.

19. Nothing in this Agreement constitutes an agreement by the State concerning the characterization of the amounts paid hereunder for purposes of the State's revenue code.

20. This Agreement is governed by the laws of the State.

21. The undersigned CVS/pharmacy signatories represent and warrant that they are authorized as a result of appropriate corporate action to execute this Agreement. The undersigned State signatories represent that they are signing this Agreement in their

official capacities and that they are authorized to execute this Agreement on behalf of the State through their respective agencies and departments.

22. This Agreement is effective on the date of signature of the last signatory to this Agreement (the "Effective Date"). However, no obligations under this Agreement shall begin to run until the Effective Date of the Federal Settlement Agreement, as that term is defined in the Federal Settlement Agreement. Facsimiles of signatures shall constitute acceptable binding signatures for purposes of this Agreement.

23. This Agreement shall be binding on CVS/pharmacy's parent, successors, transferees, heirs, and assigns.

24. This Settlement Agreement constitutes the complete agreement between the Parties with respect to this matter and shall not be amended except by written consent of the Parties.

25. This Agreement may be executed in counterparts, each of which shall constitute an original, and all of which shall constitute one and the same Agreement.

26. All Parties consent to the States' disclosure of this Agreement, and information about this Agreement, to the public.

STATE OF CALIFORNIA

By:  Dated: 4/12/11

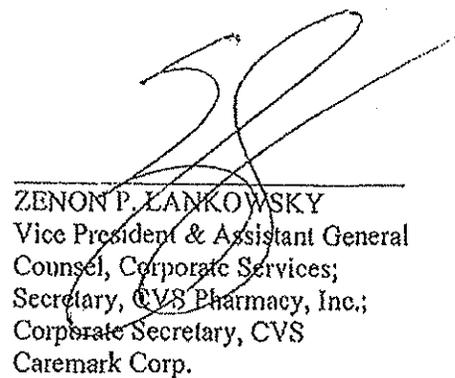
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Office of the Attorney General  
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San Diego, CA 92108

By:  Dated: 4/11/11

Toby Douglas  
Director  
California Department of Health Care Services  
1501 Capitol Avenue, Suite 71.6001  
Sacramento, CA 95814

FOR CVS/PHARMACY, INC.  
AND  
CVS CAREMARK  
CORPORATION

DATED: 4/14/11



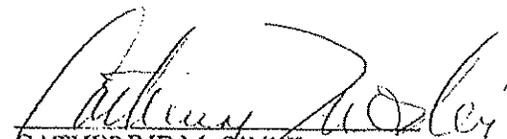
ZENON P. LANKOWSKY  
Vice President & Assistant General  
Counsel, Corporate Services;  
Secretary, CVS Pharmacy, Inc.;  
Corporate Secretary, CVS  
Caremark Corp.

DATED: 4-14-2011



BARBARA ROWLAND  
Vice President and  
Assistant General Counsel  
CVS Caremark Corporation

DATED: 4/14/2011



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