

CtW Investment Group

February 12, 2007

Dear Caremark Shareholder:

You are being asked to vote on a proposed all-stock “merger-of-equals” with CVS at a special meeting of Caremark Rx shareholders on February 20. Express Scripts, which has put forward a competing cash and stock offer, is soliciting proxies against approval of the CVS merger. After careful consideration, the CtW Investment Group does not believe the merger, as proposed, is in the best long-term interests of Caremark shareholders. **We therefore urge you to vote the company’s white proxy card AGAINST Proposal No. 1 to approve the CVS merger.**

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 6 million members. These funds are substantial long-term shareholders with an estimated 1.5 million shares of Caremark common stock. In addition, public pension funds in which members of CtW unions participate own an estimated 18.7 million Caremark shares.

Our decision follows a February 2, 2007 forum that we hosted in which fund trustees and their investment managers and proxy voters met with Express Scripts, and then with CVS and Caremark jointly. Our opposition to the CVS merger proposal is not an endorsement of the Express Scripts proposal—in fact, we have significant concerns with that proposal as well; in addition to regulatory, financial and integration risks, we have unresolved concerns with regard to the propitious timing of executive stock option grants and substantial insider share sales. Rather, as detailed further below, we base our decision on our belief that:

1. The CVS offer provides inadequate value to Caremark shareholders;
2. The projected merger synergies appear aggressive, while the longer-term strategic rationale of this vertical combination is uncertain; the significant risk that these benefits may prove illusory underscores the inadequate price offered to Caremark shareholders.
3. The Caremark board ran a flawed negotiating process that did not seek maximum value for shareholders. Its subsequent failure to negotiate with Express Scripts heightens our suspicions that both the board and management may be pursuing a CVS deal out of their own parochial interests.

We note that two leading independent proxy voting services, Glass Lewis and Egan-Jones, are also advising their clients to vote against the CVS merger. Our hope is that a shareholder rejection of CVS’s proposal would induce the Caremark board to solicit revised and improved proposals from a variety of suitors, including CVS, Express Scripts, and other interested parties; in other words, we believe disapproval of this particular deal has substantial upside potential for Caremark shareholders. Moreover, we view the downside risk as modest given our view that Caremark would be better off remaining independent than merging with CVS under the current terms. We further detail our concerns below.

1. The CVS merger proposal was a bad deal for Caremark from the start, and has only looked worse in light of subsequent events.

As originally proposed on November 1, 2006, the CVS-Caremark merger provided Caremark shareholders with only a 6.4% premium to Caremark’s own October 31 closing price; this offer was 12.1% below Caremark’s then 52-week high of \$59.64 reached only seven weeks earlier. This modest premium disappeared altogether by the market’s close on November 1 due to the 7.4% decline in CVS’s share price following the merger announcement.

**This is not a proxy solicitation and no proxy cards will be accepted.
Please DO NOT send your proxy card to the CtW Investment Group.**

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While Express Scripts' bid and eventual exchange offer induced CVS to improve its proposal by promising a \$2.00 per share special dividend to Caremark shareholders and a repurchase of 150 million CVS/Caremark shares after the transaction's close, as of February 9, 2007 CVS's offer remained 7.1% below Caremark's closing share price of \$61.32, and 6.2% below the current value of Express Scripts' exchange offer. As of Friday's close, neither offer provides a premium to the current share price, although both provide a premium to Caremark's price prior to the announcement of the CVS transaction, as demonstrated in the table below.

Comparative Deal Premiums at 2/9/07 Closing Prices

| | Current Value (\$) | Current Premium (\$) | Current Premium (%) | Pre-announcement Premium (\$) | Pre-announcement Premium (%) |
|-------------|--------------------|----------------------|---------------------|-------------------------------|------------------------------|
| ESRX | 60.48 | -0.84 | -1.4% | \$11.25 | 22.9% |
| CVS | 56.96 | -4.36 | -7.1% | \$7.73 | 15.7% |

Despite Express Scripts' interest in merging with Caremark, and the market's positive reaction to its rival merger proposal, Caremark's board has repeatedly rejected Express Scripts' entreaties, and has refused to allow Express Scripts to perform due diligence even as it has publicly criticized Express Scripts' bid for being contingent upon due diligence. As puzzling as the decision to accept the CVS offer was, it is even more difficult to understand the Caremark board's steadfast allegiance to the CVS agreement, once one considers that:

- Caremark's current share price, while up 10.4% over the past month, nevertheless falls below the midpoint of per-share valuations in fairness opinions developed for CVS by Evercore Partners and Lehman Brothers. Evercore Partners pegged Caremark's value between \$62.46 and \$70.50, for a midpoint of \$66.48, while Lehman Brothers identified the range as \$55.05 to \$68.95, for a midpoint of \$62.00. With CVS's own advisers arguing for greater valuation, it is difficult to view CVS's proposed consideration as providing fair value to Caremark shareholders.
- Even before CVS's share price plummeted, the Caremark board signed off on a premium well below those provided to shareholders of other Pharmacy Benefit Managers or specialty pharmacies in other recent mergers and acquisitions. As the table below illustrates, the average premium of the Advance PCS, Accredo and Priority Healthcare acquisitions was 45.7%, which would yield a price of \$71.72 if applied to Caremark's October 31, 2006 close of \$49.23. Moreover, only one of these transactions—Express Scripts' 2005 acquisition of specialty pharmacy Priority Healthcare—yielded a premium lower than the current CVS offer, and Caremark itself paid a premium of over 75% in its 2004 "merger of equals" with Advance PCS.

| Year | Target | Acquirer | Trailing EBITDA (\$mil) | EBITDA Multiple | Premium |
|------------|---------------------|-----------------|-------------------------|-----------------|---------|
| 2002 | NPA | Express Scripts | \$37 | 12.16 | N.A. |
| 2004 | Advance PCS | Caremark | \$387 | 17.88 | 75.60% |
| 2005 | Accredo | Medco | \$155 | 14.66 | 53.37% |
| 2005 | Priority Healthcare | Express Scripts | \$79 | 16.00 | 8.32% |
| 1-Nov-2006 | Caremark | CVS | \$1,820 | 11.38 | -1.42% |
| 9-Feb-2007 | Caremark | CVS | \$1,820 | 13.83 | 15.7% |

- Measuring deal valuation in terms of multiples to trailing EBITDA leads to a similar result. The average EBITDA multiple for the recent PBM/specialty pharmacy transactions listed above is 15.18x, which would imply a price of \$64.78 per share for Caremark. Moreover, the multiple to trailing EBITDA afforded by CVS's proposed consideration is below that of three of the four recent major

PBM/specialty pharmacy transactions for which we could obtain reported EBITDA, and in the 2005 Priority Healthcare transaction—the only case noted above where the premium provided was below the current CVS premium—Express Scripts paid an EBITDA multiple substantially higher than that provided by the current CVS proposal.

2. We are skeptical of CVS-Caremark’s anticipated synergies, while the longer-term strategic benefits are a matter of debate. In addition, the proposed merger terms fail to compensate Caremark shareholders for the risk that projected benefits prove illusory.

When CVS and Caremark initially announced their merger proposal, they estimated \$400 million in cost savings stemming from the combination of Caremark’s operations with those of PharmaCare. On January 8, 2007—three weeks after Express Scripts announced its Caremark bid, including estimated cost savings of \$500 million—CVS and Caremark increased their synergies estimate to \$500 million.

At our February 2 forum and in various press releases, CVS and Caremark executives maintained that this increased estimate resulted from additional integration work completed after receiving antitrust clearance. However, we note that according to their joint proxy statement, Caremark and CVS had retained a third-party synergies consultant as of February 2, 2006. It is unclear why an additional 25% worth of synergies would be discovered in a three-week period—including the Christmas and New Years holidays—that would not have been apparent in the prior 11 months during which the synergies consultant was no doubt intensively studying both companies’ operations.

CVS and Caremark also identify areas in which they expect to generate \$800 million to \$1 billion in additional revenues, including improved access for PBM specialty participants; retail to mail conversion (including in-store pick up); front store offers for PBM participants; improved generic substitution and benefit design compliance; and disease management programs with face-to-face interaction. The companies do little, however, to detail how these innovations will lead to revenue increases on the scale estimated.

This omission is particularly troubling in the case of enhanced formulary compliance and generic utilization. If such efficiencies can be generated by combining a PBM with a retail pharmacy, we assume CVS realizes them with its PharmaCare subsidiary. If PharmaCare participants realize better formulary compliance and higher generic utilization when picking up prescriptions from CVS stores than from other channels, we assume CVS would present those facts. In response to Caremark’s projected revenue opportunities as result of the merger, Prudential Equity Group warned, “Our confidence in managements’ ability to objectively project income statement metrics is shrinking.”

Finally, in talking with industry experts, we found little consensus regarding the merits of a vertical, PBM-pharmacy merger. While the benefits of a horizontal combination—such as that proposed by Express Scripts—are readily apparent, the benefits of a vertical merger appear more speculative. Given that Caremark executives may have their own interest in pursuing a vertical merger with CVS, as detailed below, we believe an independent board equipped with detailed information from multiple bidders is in the best position to make this determination. Unfortunately, that did not occur in the proposed merger.

Moreover, in a merger of equals, a low premium may be an acceptable price for shareholders to bear to realize long-term increases in value that result from the strategic benefits of combining two

companies. But in this case, the modest premium fails to compensate Caremark shareholders for the risk that strategic benefits prove illusory.

3. The Caremark board failed to adequately negotiate with either CVS or Express Scripts, and has created—but done nothing to dispel—suspicions that directors and management have their own interest in a deal with CVS.

From the beginning, the Caremark board's decision to approve the CVS merger agreement appeared problematic. In addition to agreeing to an inadequate offer price, the board failed to secure the minimal premium the deal did provide by negotiating a collar to protect Caremark shareholders from declines in CVS's share price prior to closing. In contrast to CVS, companies that have prevailed in other recent high-profile bidding wars—such as the Guidant, Maytag, and MCI contests—have often provided a collar or a similar provision in their bids even when the proposed consideration included a substantial cash component. The Caremark board also agreed to other provisions, including a “no shop” clause and \$675 million breakup fee, which increased the likelihood that CVS's low bid would go unchallenged.

Express Scripts' higher offer, announced December 19, underscored the CVS's proposal's low valuation. It also raised concerns that the board did not seek to maximize shareholder value by requiring management to solicit bids from other parties, concerns that were subsequently confirmed by disclosures regarding the history of the deal negotiations in the CVS-Caremark joint merger proxy statement: as Glass-Lewis pointed out in their recommendation to Caremark shareholders, the deal appears to have been negotiated between the CEOs of the two companies with little input from their boards. We note that CVS only sweetened its offer by adding the \$2.00 per share special dividend after Express Scripts announced that it would appeal directly to Caremark shareholders through an exchange offer.

More troubling, we suspect that the Caremark board and management may have an inappropriate self-interest in the proposed CVS deal. This suspicion stems from several factors. First and foremost, we are deeply concerned about the company's stock options granting processes. As has been widely reported, Caremark is under investigation by both the Securities and Exchange Commission and Department of Justice for possible backdating of stock option grants. Our own analysis, which we shared with the Caremark board on December 21, 2006 (and made available to the public on January 9, 2007) indicates a high probability that, not only Caremark executives but also a majority of Caremark's non-executive directors themselves also received improperly backdated stock options as compensation between at least 1997 and 2001.

In fact, institutional shareholders of Caremark have filed suit in the Delaware Court of Chancery alleging in part that the Caremark directors may have been motivated to endorse the CVS merger agreement precisely to extinguish their own personal liability for such backdating. Without passing on the merits of that claim, we note that the probability of director liability for backdating increased considerably last week with the decision in *Ryan v. Gifford*, a Court of Chancery case considering, in part, alleged acceptance of backdated options by directors of a Delaware corporation. In that decision, Chancellor William B. Chandler III stated that “Backdating options qualifies as one of those ‘rare cases [in which] a transaction may be so egregious on its face that board approval cannot meet the test of business judgment, and a substantial likelihood of director liability therefore exists.’” (We note that Chancellor Chandler will hear oral arguments in the Caremark shareholder suit on Friday, February 16th.)

This powerful language from Chancellor Chandler underscores the seriousness of concerns regarding the Caremark board. The company's responses to date have fallen short. Caremark told the Wall Street Journal in a January 30, 2007 article raising such allegations that it “has undertaken and completed a review of its granting practices, including options granted to directors, and has concluded that these practices are entirely appropriate.” During our February 2 forum, moreover, Caremark reported that two

law firms, two accounting firms and an employee benefit consultant had reviewed the company's option grants and found no evidence of backdating. The company refused, however, to disclose these firms' respective findings to shareholders.

We believe that any non-executive directors who participated in and profited from improper option backdating have compromised their own integrity and independence from management. Caremark's failure to take any affirmative steps to dispel our doubts leaves us wary. We doubt the wisdom of the Caremark board's acceptance of CVS's offer, and fear that the combined CVS/Caremark will be led in part by individuals who cannot be entirely trusted to represent shareholders.

Second, our analysis suggests that a successful Express Scripts exchange offer, and potentially even a friendly merger with Express Scripts, would trigger substantial tax liabilities for Caremark executives and directors that they would not face in the proposed merger with CVS. Specifically, under the terms of the Caremark-CVS merger agreement, Caremark stock options would be converted into options to buy CVS common stock, and would retain all their original terms and conditions. As a result, there would be no taxable event for Mr. Crawford or other Caremark executives and directors.

In contrast, the Express Scripts deal would trigger a substantial tax liability to Caremark option holders unless Express Scripts agrees to the option conversion provisions similar to those in the agreement with CVS. Mr. Crawford, who owns over \$245 million worth of options (over 4 million shares), would be on the hook for personal income taxes on whatever gains he stands to make by exercising those options and selling the stock; our conservative estimate places Crawford's potential profit upon exercise of those options at around \$200 million, triggering an estimated tax liability of nearly \$80 million (assuming the top marginal rate of nearly 40%). Other Caremark executives and directors would also face tax bills from the Express Scripts deal, although vastly smaller since they own fewer options.

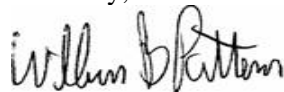
Finally, the merged company's board and bylaws appear structured in a manner that puts the interests of key CVS and Caremark executives ahead of the interests of shareholders. Specifically, it will take three-quarters of the board—which is to be comprised of an equal number of former CVS and Caremark directors—to remove Mr. Ryan as CEO before 2010 or to move the headquarters of the Caremark PBM business from Nashville in the next three years. These provisions raise the specter of two competing camps of directors, each with implied allegiance to their former company's chair rather than to the shareholders they ostensibly represent. Our concerns are compounded by the lack of an independent chair, and speak to the need in any revised merger to name additional directors independent of both companies in consultation with long-term institutional shareholders.

Summary

Given the inadequate value and uncertain benefits of the CVS merger as proposed, and the Caremark board's stunning failure to engage in a negotiating process that would maximize shareholder value, we urge you to vote the company's white proxy card AGAINST Proposal No. 1 to approve the CVS merger.

Please contact Michael Garland at 212-290-0308 to discuss these issues further and visit www.ctwinvestmentgroup.com/maximizecaremarkvalue for additional information and updates.

Sincerely,



William B. Patterson
Executive Director