

CtW Investment Group

December 21, 2006

Michael D. Ware
Director and Member of the Audit Committee
Caremark Rx, Inc. Board of Directors
c/o Corporate Secretary
211 Commerce Street, Suite 800
Nashville, Tennessee 37201

Dear Mr. Ware:

Our review indicates Caremark's management and the majority of its non-executive directors may have received backdated stock options, a corporate governance failure that calls into question the independence and integrity of the board of directors at the very moment that it must evaluate competing merger proposals. The board's recent decision to endorse an inadequate merger proposal from CVS exacerbates our concern that the board is not acting in the best interests of Caremark shareholders.

With Caremark already under legal and regulatory scrutiny for its executive option grants—and with the developing contest for control placing enormous added responsibility on the board—it is incumbent upon Caremark's independent directors to immediately take the steps necessary to restore investor confidence in the board. We therefore call on you, as the sole member of the board's Audit Committee who did not receive suspiciously timed option grants, to immediately establish a special committee of independent directors to retain independent counsel to investigate the backdating of both executive and director stock options. Moreover, the special committee should disclose counsel's findings and recommendations to shareholders prior to any special meeting to approve a merger.

As you know, alleged backdating at Caremark has generated attention from the press, regulators, and shareholder plaintiffs over the past year. As detailed below, however, our own analysis indicates a high probability that a majority of Caremark's non-executive directors themselves also received backdated stock options as compensation between at least 1997 and 2001. Caremark has neither disclosed this practice to its shareholders nor properly expensed the value of these options as required under FASB Statement 123 and APB Opinion No. 25.

We believe the independence of any non-executive directors who participated in and profited from improper option backdating to be compromised. This concern is particularly

relevant in light of the board's decision to endorse CVS's all-stock offer even though it provides neither a premium to Caremark's pre-announcement share price nor a collar to protect Caremark shareholders against declines in CVS's share price. The inadequacy of the offer is highlighted by Express Scripts' subsequent, higher offer, though we have concerns with this offer as well. Moreover, the CVS merger agreement provides that half of the board of the combined company will consist of current Caremark directors, creating the possibility that directors who may have received backdated options will continue as directors following the merger.

In light of these circumstances, we believe the special committee should consist solely of independent directors who did not receive suspiciously timed option grants. The committee should empower independent counsel to fully investigate possible backdating, including the role of Caremark executives and directors, and recommend remedies for any past misconduct, including the disgorgement of ill-gotten gains, return of any bonuses and performance-based compensation, and the cancellation of stock options. Counsel should also be authorized to propose cures for any ongoing deficiencies in the areas of accounting, financial controls, compliance, and corporate governance.

The CtW Investment Group works with benefit funds sponsored by unions affiliated with Change to Win, a federation of unions representing more than 6 million members. These funds are substantial long-term shareholders which we estimate own approximately 1.5 million shares of Caremark common stock. In addition to these funds, their investment managers, and proxy voting fiduciaries, we also work with public employee pension funds in which members of CtW unions participate. We estimate these public pension funds own an additional 18.7 million Caremark shares.

We detail the findings of our review of Caremark's option grant practices below.

Our Analysis of Caremark's Historical Stock Options Grants To Executives

We have compiled a complete list of stock option grants issued by Caremark and reported in its proxy statements and on individual holdings reports from 1997 to 2005. Utilizing the method developed by Professor Erik Lie at the University of Iowa, we have compared the change in Caremark's share price over the 30, 20, and 10 day periods both prior to and after each reported grant date. As Professor Lie argues, if a company has allowed its executives to retrospectively select grant dates for stock options, then one would expect negative share price performance prior to the grant date and strong positive performance after the grant date. This pattern is exactly what we have found in examining Caremark's executive stock option grants from 1997 to 2005: the unweighted average price change for all option grants over this whole period for the 30 days prior to the grant is -10.95%, while the parallel change in share price over the 30 days following the grant is 14.33%. Table 1 below summarizes our analysis for each year we studied:

Table 1: Summary of Executive Grants by Year

Year	-30 days	-20 days	-10 days	+10 days	+20 days	+30 days
2005	-2.56%	0.03%	-2.01%	0.97%	3.56%	4.54%
2004	-3.34%	-4.25%	-6.82%	-1.83%	1.66%	-1.52%
2003	6.81%	6.13%	2.80%	-6.21%	9.86%	16.08%
2002	-16.48%	-0.97%	7.46%	-9.90%	6.09%	11.27%
2001	-14.55%	-12.10%	-5.38%	3.69%	12.38%	8.57%
2000	1.15%	-6.00%	-6.04%	11.45%	23.59%	42.82%
1999	-16.18%	-17.04%	6.61%	11.08%	15.14%	2.07%
1998	-41.33%	-39.06%	-27.52%	32.65%	3.47%	20.39%
1997	-12.05%	-8.27%	-10.08%	9.68%	20.32%	24.76%
Mean	-10.95%	-9.06%	-4.55%	5.73%	10.68%	14.33%

In years following the adoption of the Sarbanes-Oxley Act of 2002, the magnitude of unweighted average share price changes on either side of the grant date over the 30, 20, and 10-day windows are smaller than in the earlier years. This fits with the widespread finding that Sarbanes-Oxley reporting requirements have reduced the incidence of backdating. However, we note that even after 2002 the overall pattern remains consistent with that of earlier years: share prices generally declined prior to grant dates, but grew following grant dates. Even when the “signs” are wrong (where the share price grows prior to the grant date or falls after it), the magnitude of the changes supports the position that backdating occurred. For instance, while in the 30 days prior to the 2003 grant dates the share price grew by an average of 6.81%, for the 30 days following the 2003 grants Caremark’s price grew by an average of 16.08%.

We have also analyzed average share price performance prior to and after grant dates for individual executives. This analysis further supports the contention that backdating occurred. Table 2 summarizes our findings:

Table 2: Summary by Executive

Name	Title	-30 days	-20 days	-10 days	+10 days	+20 days	+30 days
Edwin M. Crawford	Chairman and CEO	-7.35%	-6.47%	-7.10%	6.23%	5.65%	7.53%
Edwin M. Crawford*	Chairman and CEO	-11.05%	-8.97%	-8.42%	9.21%	7.05%	10.85%
Edward L. Hardin, Jr	General Counsel	-17.10%	-16.70%	-3.91%	7.22%	4.84%	6.85%
Howard A. McLure	COO	-4.18%	-3.79%	-2.98%	0.30%	7.14%	9.08%
James H. Dickerson Jr	CFO (1998-2001)	-25.07%	-25.65%	-11.28%	20.38%	17.69%	24.08%

*excluding repriced grant from 1998

Each of these executives, including the current Chairman and CEO, received grants on dates which exhibit exactly the pattern of pre- and post-grant share price changes that are associated with stock options backdating. Mr. Crawford’s pattern is even clearer if the repriced options from 1998 are excluded from that analysis: for the 30 days prior to his grants, Caremark’s share price fell by an average of 11.05%, while for the 30 days

following his grants the company's price grew by an average of 10.85%. Mr. Hardin and Mr. McLure's grants also clearly exhibit the pattern that has been identified as indicative of backdating.

Our Analysis of Caremark's Historical Stock Options Grants To Directors

We applied this same method to director option grants between 1997 and 2001. While the results are more mixed, the grants from 1997, 1998, and 2000 clearly show the pattern associated with options backdating.

Table 3: Summary of Director Grants by Year

Year	-30 days	-20 days	-10 days	+10 days	+20 days	+30 days
1997	-9.70%	-8.64%	-15.36%	21.54%	18.80%	28.89%
1998	-7.60%	-23.00%	-16.00%	59.74%	67.97%	94.81%
1999	15.07%	10.34%	5.99%	4.88%	-1.40%	-11.51%
2000	-5.67%	-11.97%	-11.36%	7.30%	27.06%	52.15%
2001	15.44%	7.11%	-8.70%	5.82%	15.32%	13.02%

Furthermore, our analysis of grants to the members of the current board of directors other than those who currently serve as executive officers indicates that six of these directors received at least one stock option grant that exhibits the pattern of pre- and post-grant date share price movements indicative of options backdating. We summarize our results by grants to individual directors in Table 4:

Table 4: Summary by Director

Director	Year	-30 days	-20 days	-10 days	+10 days	+20 days	+30 days
Edwin M. Banks	2000	6.50%	-11.01%	-13.43%	6.27%	12.38%	43.40%
C. David Brown II	2001	-6.02%	-17.05%	-9.75%	0.40%	2.24%	25.36%
Harris Diamond	2000	6.50%	-11.01%	-13.43%	6.27%	12.38%	43.40%
Kristen E. Gibney Williams	2000	-13.78%	-12.61%	-9.98%	7.99%	36.86%	57.99%
Roger L. Headrick	1997	-9.70%	-8.64%	-15.36%	21.54%	18.80%	28.89%
	1998	-7.60%	-23.00%	-16.00%	59.74%	67.97%	94.81%
	2000	-13.78%	-12.61%	-9.98%	7.99%	36.86%	57.99%
C.A. Lance Piccolo	1998	-7.60%	-23.00%	-16.00%	59.74%	67.97%	94.81%
	2000	-13.78%	-12.61%	-9.98%	7.99%	36.86%	57.99%

The fact that the current Chairman and CEO, current General Counsel, and current Chief Operating Officer all appear to have participated in and benefited from options backdating would be bad enough. But our analysis indicates that a majority of the independent directors – including the Chairmen of the Audit (Headrick), Compensation (Diamond), and Nominating and Corporate Governance (Brown) committees – have also received backdated stock options as compensation.

Mr. Michael D. Ware

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Given the urgency of these issues and the rapidly developing contest for control of Caremark, a timely investigation and resolution of these matters is particularly important. We would be happy to meet with you to review our concerns in further detail. In any event, we would appreciate the courtesy of a response by December 29th, 2006.

Sincerely Yours,

A handwritten signature in black ink, appearing to read "William B. Patterson". The signature is fluid and cursive, with the first name "William" and the last name "Patterson" clearly visible.

William Patterson
Executive Director

Cc: Edwin M. Crawford
Edwin M. Banks
C. David Brown II
Colleen Conway-Welch, Ph.D.
Harris Diamond
Kristen E. Gibney Williams
Edward L. Hardin
Roger L. Headrick
Jean-Pierre Millon
C.A. Lance Piccolo