

COPY

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN RE CAREMARK INTERNATIONAL
INC. DERIVATIVE LITIGATION

)
) Cons. C.A. No. 13670
)

**STIPULATION AND AGREEMENT
OF COMPROMISE AND SETTLEMENT**

FILED
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The parties to the above-captioned civil action (the "Action"), by and through their undersigned attorneys, hereby submit this Stipulation and Agreement of Compromise and Settlement for the Court's approval:

WHEREAS:

1. The Action involves claims by stockholders of Caremark International Inc., a Delaware corporation ("Caremark" or the "Company"), that the members of the Caremark board of directors (the "Board") breached their fiduciary duties to the Caremark stockholders. At least one of the plaintiffs in the Action (Carol Friedman) has represented to defendants that she has been a continuous stockholder of Caremark since the Company was spun-off on November 30, 1992 by Baxter International to become a publicly-held company listed on the New York Stock Exchange. The individual defendants in the Action --C.A. Lance Piccolo, Nancy Brinker, Vincent A. Calarco, James G. Connelly III, J. Ira Harris, Roger L. Headrick, Thomas W. Hodson, Ralph W. Muller, Raymond D. Oddi, Kenneth N. Pontikes, Philip B. Rooney, Peter F. Whittington and Blaine J. Yarrington (the "Director Defendants") -- have been members of the board of directors of the Company (the "Board") since the Baxter spin-off (except for Ms. Brinker, who joined the Board in October

1993). The Company and the Director Defendants are referred to collectively herein as the "Defendants". Since August 1992, defendant C.A. Lance Piccolo is and was Chairman of the Board and Chief Executive Officer of the Company; defendant James G. Connelly, III is and was Chief Operating Officer of the Company; and defendant Thomas W. Hodson is and was a Senior Vice President and Chief Financial Officer of the Company.

2. Caremark entered into fee-for-service or quality services agreements ("QSAs"), sub-contract or supply agreements, partnerships and joint ventures, or other financial arrangements with physicians and other health care providers involved in the delivery and monitoring of the Company's services to patients (collectively, "Health Care Provider Agreements"). Caremark had a policy that the Company would not make payments in exchange for or to induce the referral of patients for the Company's services. This policy was based upon a federal law which prohibited any person from offering, paying, soliciting or receiving any remuneration for the referral of Medicare or Medicaid patients (the "Medicare/Medicaid Referral Payments Law"). Similar state statutes also prohibited payments for the referral of patients.

3. Caremark first became aware of the federal government's inquiry into its financial relationships with health care providers on August 12, 1991 when the Company received an administrative subpoena from the HHS Office of the Inspector General (the "OIG"). The OIG subpoena required Caremark to produce, among other documents, all QSA agreements between Caremark and physicians. Caremark promptly disclosed publicly that it had received the OIG subpoena and that the Company would cooperate with the OIG.

4. In March 1992, Caremark was informed that the United States Department of Justice ("DOJ") had joined the OIG investigation into Caremark's financial relationships

with doctors, hospitals and health care providers. Eventually, representatives of multiple federal and state agencies also became involved in the OIG investigation. The OIG investigation ultimately addressed concerns of federal and state regulators that (i) Caremark's financial relationships with health care providers were intended to induce patient referrals to the Company and thereby violated the Medicare/Medicaid Referral Payments Law; (ii) the Company's billing practices defrauded public and private health care payors; (iii) the Company's activities led to excessive and medically unnecessary treatments for patients; (iv) the Company improperly waived patient co-payment obligations; and (v) the Company failed to keep adequate records at its pharmacies as required by the Controlled Substance Act (the "OIG Investigation").

5. On August 4, 1994, a federal grand jury in Minnesota issued an indictment alleging, among other things, that Caremark and employees of Caremark violated the Medicare/Medicaid Referral Payments Law by making payments of over \$1.1 million to induce a Minneapolis physician to distribute the Protropin human growth hormone which was produced by Genentech, Inc. and marketed by Caremark (the "Minnesota Indictment").

6. Following the announcement of the Minnesota Indictment, five actions were filed with the Delaware Court of Chancery (the "Court") and consolidated under the caption In re Caremark International, Inc. Derivative Litigation, Consolidated Civil Action No. 13670 (the "Action"). The designated complaint in the Action, filed on August 5, 1994 (the "Original Complaint"), alleged that, because the Company was notified in August 1991 of the OIG Investigation, the Director Defendants were aware of the Company's purported violations of Medicare/Medicaid Referral Payments Law and the penalties that could potentially result from such violations. The Original Complaint referred to the Minnesota

Indictment and further alleged that the OIG Investigation was focusing on the Company's operations in Columbus, Ohio and Minnesota. The Original Complaint alleged that the Company's senior management and the Director Defendants were aware of the Company's practices which allegedly violated the Medicare/Medicaid Referral Payments Laws, failed to supervise adequately the operations and employees of Caremark, failed to take corrective action for the Company's practices relevant to the Minnesota Indictment and the OIG Investigation, recklessly exposed the Company to fines, penalties and other losses, and failed to institute legal proceedings against those responsible for the alleged misconduct. Based on the foregoing and additional allegations, the Original Complaint charged the Director Defendants with breaches of the duty of care, waste of corporate assets and gross negligence.

7. On August 8, 1994, another stockholder derivative action, captioned Brumberg v. Mieszala, No. 94 C 4798 (N.D. Ill.), was filed against Caremark, the Director Defendants and three Caremark employees in the United States District Court for the Northern District of Illinois (the "Brumberg Action"). The allegations of the complaint in the Brumberg Action also related to the OIG Investigation, the Minnesota Indictment and the investigation into the Company's practices with a doctor in Ohio. The complaint in the Brumberg Action charges the Caremark employees with violations of the federal Racketeer Influenced and Corrupt Organizations Act and charges all defendants with breaches of fiduciary duty, abuse of control, waste of corporate assets, constructive fraud, unjust enrichment and gross mismanagement. On November 2, 1994, the federal court entered a stay of all proceedings in the Brumberg Action pending resolution of the Action.

8. On September 14, 1994, the Director Defendants and Caremark moved to dismiss the Original Complaint in the Action pursuant to Chancery Court Rules 12(b)(6) and 23.1.

9. On September 21, 1994, a federal grand jury in Columbus, Ohio issued an indictment charging an osteopathic doctor with receiving \$134,600 in kickbacks for steering patients to an unidentified provider of health care services in violation of the Medicare/Medicaid Referral Payments Law (the "Ohio Indictment").

10. On October 28, 1994, plaintiffs filed an amended complaint in the Action (the "Amended Complaint") which repeated, supplemented and amplified the substantive allegations of the Original Complaint. In addition, the Amended Complaint alleged that the *Minneapolis Star Tribune* had reported that Caremark was involved in a scheme of paying illegal kickbacks to doctors at the University of Minnesota, which reportedly was a separate incident from those encompassed in the Minnesota Indictment. The Amended Complaint also alleged that Caremark was the home infusion company involved with a doctor named in the Ohio Indictment. The Amended Complaint further alleged that Caremark was involved in an overbilling and kickback scheme in Atlanta, Georgia, which was the subject of a civil lawsuit filed by an Atlanta AIDS patient captioned Booth v. Rankin (the "Atlanta Lawsuit"). The Amended Complaint charged the Director Defendants with consciously directing and encouraging the unlawful kickback schemes, fraudulent billing practices and other illegal or improper activities, falsely representing to the public that corrective measures were being taken, intentionally failing to implement adequate protective procedures, intentionally failing to supervise employees adequately, recklessly exposing the Company to losses, and failing to remove or institute legal proceedings against those responsible for

the illegal conduct. The Amended Complaint alleged that the Director Defendants had wasted corporate assets, breached fiduciary duties of care and loyalty, and acted with gross negligence. On November 18, 1994, the Director Defendants and Caremark moved to dismiss the Amended Complaint pursuant to Chancery Court Rules 12(b)(6) and 23.1.

11. On January 3, 1995, plaintiffs in the Action filed a second amended complaint (the "Second Amended Complaint"), which repeated and supplemented the substantive allegations of the Original Complaint and Amended Complaint. The Second Amended Complaint was based in part upon a report in *The Wall Street Journal* that federal investigators had expanded a criminal inquiry into Caremark's operations in Michigan and were now focused on the Company's allegedly false and inflated bills to insurers (including the federal and state Medicaid programs) relating to liquid nutrition products, antibiotics and other medications, infusion therapy and other home health care services, and patient co-payment waivers. The Second Amended Complaint also alleged that the *Wall Street Journal* had reported that the federal government was investigating the president of Caremark's office in Detroit for allegedly paying kickbacks to doctors in exchange for patient referrals. The Second Amended Complaint further alleged that the Federal Trade Commission was investigating Caremark's contractual alliances with drug companies. The Second Amended Complaint charged the Director Defendants with breaches of fiduciary duties, gross negligence and waste of corporate assets. On January 13, 1995, the Director Defendants and Caremark moved to dismiss the Second Amended Complaint pursuant to Chancery Court Rules 12(b)(6) and 23.1.

12. On January 29, 1995, the Company entered into a definitive agreement to sell its home infusion business for approximately \$310 million in cash and securities to Coram Health Care Company.

13. On April 11, 1995, plaintiffs in the Action filed a third amended and supplemental derivative complaint (the "Third Amended Complaint"), which reasserted the substantive allegations of the Original Complaint, the Amended Complaint and the Second Amended Complaint. Among other amended and supplemental allegations, the Third Amended Complaint also alleged that a television news program, *Prime Time Live*, featured a story regarding the Atlanta Lawsuit and alleged kickback arrangements between Caremark and several doctors in Atlanta. The program also compared prices charged by Caremark to prices charged by other health care providers and concluded that Caremark's prices for some of its products and services were excessive. The Third Amended Complaint also alleged that the federal indictments against Caremark had caused the Company to incur significant legal bills and to be forced to sell its home infusion business at a loss. The Third Amended Complaint further alleged that Caremark had publicly disclosed its intention to settle federal and state claims against the Company and that a reporter for CNBC reported the settlement amounts to range from \$400 to \$700 million. The Third Amended Complaint asserted claims of breach of fiduciary duty, gross negligence and waste of corporate assets against the Director Defendants. On May 26, 1995, the parties in the Action completed the briefing on Defendants' motion to dismiss the Third Amended Complaint on the grounds that (i) the Third Amended Complaint failed to allege particularized facts sufficient to excuse the demand requirement under Delaware Chancery Court Rule 23.1; and (ii) the Third Amended Complaint failed to state a cause of action in light of a provision in the Caremark charter

which eliminates, to the extent permitted by law, the personal liability of the Caremark directors for money damages.

14. In May 1995, the Company and the federal and state governments participating in the OIG Investigation conducted settlement negotiations regarding, among other things, a guilty plea to criminal charges by Caremark, the payment by the Company of a criminal fine, a substantial payment by Caremark for civil damages to the federal and state governments, and the cooperation of the Company with any investigations that may be pursued by the federal government on matters relating to the OIG Investigation. The federal and state governments agreed with the Company in May 1995 to work on a settlement that would not involve the exclusion of Caremark from participating in Medicare or Medicaid programs.

15. During May 1995, plaintiffs' attorneys in the Action informed Defendants' attorneys of alternative remedial measures which might form a basis for the possible settlement of the Action. Caremark conducted separate but concurrent settlement negotiations during May-June 1995 with plaintiffs' attorneys in the Action and with representatives of the federal and state agencies participating in the OIG Investigation. After vigorous negotiations regarding the terms of the possible settlement of the Action, the parties to the Action entered into a memorandum of understanding on June 7, 1995 providing for the proposed settlement of the Action (the "MOU"). Among the numerous terms and conditions of the MOU, Defendants agreed that the Board promptly would adopt resolutions effecting the policies and procedures set forth on pages 17-19 of this Stipulation in exchange for the proposed release of the Settled Claims (as hereinafter defined). The settlement contemplated by the MOU was subject to, among other things, (i) the completion by

plaintiffs of confirmatory discovery; (ii) the agreement by the parties to a settlement stipulation; and (iii) the approval of the proposed settlement by the Court following notice to the Caremark stockholders. The MOU also recited that the parties to the Action had not discussed the amount of attorneys' fees to be sought by plaintiffs' counsel in the Action in connection with the proposed settlement, and the parties agreed that there would be no discussion regarding the plaintiffs' attorneys' fees until after the parties agreed to file a settlement stipulation with the Court.

16. The Board approved the MOU at a meeting on June 15, 1995. At that meeting, the Board adopted the resolutions required by the MOU to implement the measures demanded by plaintiffs in exchange for the settlement of the Action as set forth below. Such concessions by Defendants included the reiteration and further specification of a formal "no payment for referrals policy" by the Company, the establishment of a Compliance & Ethics Committee of the Board (the "Compliance Committee"), the requirement of direct reporting by the Company's division heads to the Compliance Committee, and disclosures to the Company's stockholders regarding these remedial and preventive measures.

17. On June 15, 1995, the Board approved a comprehensive settlement with the DOJ, the OIG, the U.S. Veterans Administration, the U.S. Federal Employee Health Benefits Program ("FEHBP"), the federal Civilian Health and Medical Program of the Uniformed Services ("CHAMPUS"), and related state agencies in all 50 states and the District of Columbia (the "Government Settlement Agreement"). Pursuant to the Government Settlement Agreement, which covered allegations regarding Company practices dating back to 1986, Caremark agreed, among other things, to the following: (i) a guilty plea by a subsidiary of the Company to two counts of mail fraud and pay criminal fines totaling \$29

million in actions pending before federal courts in Ohio and Minnesota; (ii) to make civil settlement payments of \$85.3 million to the federal government and \$44.6 million to the states to resolve various claims relating to Company payment practices; (iii) to donate \$2 million to a grant program set up under the Ryan White Comprehensive AIDS Resources Emergency Act; (iv) to pay \$3.5 million to the federal government to resolve claims relating to alleged Company violations of the Controlled Substances Act; and (vi) to enter into a compliance agreement with HHS. Under the Government Settlement Agreement, Caremark admitted to making claims to the FEHBP and CHAMPUS programs which did not disclose that some Caremark employees -- against Caremark policy -- made payments that were intended in part to induce the referral of patients to the Company. No officers or directors of the Company were charged with wrongdoing in the Government Settlement Agreement. As part of the sentencing in the Ohio action on June 19, 1995, the federal government stipulated that no senior executive of Caremark "participated in, condoned or was willfully ignorant" of wrongdoing in the Company's home infusion business.

18. At a meeting on July 25, 1995, the Board established the Compliance Committee in accordance with the MOU. During a meeting of the Compliance Committee on September 12, 1995, (i) each compliance officer for the Company's business units supplied a report regarding the implementation of the corporate integrity program, and (ii) Mr. Hodson reported on the Company's overall performance in implementing the corporate integrity program, the hiring of a new employee who has the sole function of carrying out the corporate integrity program, and the historical steps taken to implement the Company's compliance and ethics programs. The Board received a report on September 12, 1995 from

the chairman of the Compliance Committee regarding the committee's meeting earlier that day.

19. On July 25, 1995, a shareholder derivative complaint, captioned Lenzen v. Piccolo, No. 95 CH 7118 (Circuit Court of Cook County, Illinois) was filed against Caremark and seven of the Director Defendants (the "Lenzen Action"). The Lenzen complaint refers to, among other things, the allegations in the Minnesota Indictment and to the terms of the Government Settlement Agreement. Based on these allegations, the Lenzen complaint charges that the seven Director Defendants breached their fiduciary duties by allegedly failing to oversee the Company's management, failing to exercise reasonable care to prevent the Company from engaging in criminal activity and causing the Company to incur the liabilities associated with the OIG Investigation and the Government Settlement Agreement.

20. During a meeting on November 15, 1995, the Compliance Committee received a report from outside counsel regarding changes in government health care regulations affecting the Company's businesses. The compliance officers for the Company's business units also reported to the Compliance Committee regarding the Company's financial arrangements with health care professionals, compliance with federal and state patient referral laws, and the implementation of procedures designed to ensure compliance with the Company's corporate integrity program. The Compliance Committee also reviewed the changes to the Company's compliance program manual which had been made to incorporate the policies adopted by the Board pursuant to the MOU.

21. The Board received reports at a meeting on December 12, 1995 regarding the Compliance Committee meeting on November 15, 1995, changes in government health care

regulations affecting the Company's businesses, and the training of Company employees under the corporate integrity program.

22. In December 1995, various private insurance company payors (the "Private Payors") disclosed to the Company the specific grounds on which the Private Payors believed that Caremark should pay damages to the Private Payors for allegedly improper business practices by the Company, similar to those at issue in the OIG Investigation, which allegedly injured the Private Payors (the "Private Payor Claims"). Representatives of the Company entered into intensive negotiations with the Private Payors to determine whether the Private Payor Claims could be compromised on terms acceptable to the Company. The Private Payor Claims, alternatives for dealing with the Private Payor Claims and the negotiations with the Private Payors were considered extensively by the Board during December 1995-March 1996. On March 18, 1996, the Board approved agreements settling the Private Payor Claims (the "Private Payor Settlement").

23. On March 19, 1996, Caremark announced publicly the Private Payor Settlement. As a result of the settlement of disputes dating back to 1986 with a number of private payors, the Company announced that the Private Payor Settlement would require the Company to take an after-tax charge of \$42.3 million to settle the Private Payor Claims, plus an after-tax charge of \$23.2 million to pay all pre-settlement and settlement-related expenses incurred by the Private Payors. The Company announced that the Private Payor Claims did not involve any of Caremark's current business practices and that the Private Payor Settlement contained an express denial by Caremark of any wrongdoing.

24. Following the public announcement of the Private Payor Settlement, the plaintiffs demanded additional document and deposition discovery in order to determine (i)

whether the Private Payor Claims were a further manifestation of the conduct challenged in the complaints; (ii) whether the substantial remedial measures embodied in the MOU were sufficient to address the purported conduct underlying the Private Payor Claims; and (iii) whether to abandon or modify the proposed settlement in view of the Private Payor Settlement. After completing discovery into the matters recited above, including without limitation the claims raised in the Third Amended Complaint, the OIG Settlement and the Private Payor Settlement, plaintiffs advised defendants of their willingness to proceed with the Settlement.

25. On June 28, 1996, the Board approved the settlement stipulation for the Action and authorized the Company's attorneys to proceed with the proposed settlement of the Action.

26. Plaintiffs, through their attorneys, have conducted an extensive investigation and evaluation of the facts and legal principles underlying the issues raised in the Original Complaint, Amended Complaint, Second Amended Complaint and Third Amended Complaint, the OIG Investigation, the Government Settlement Agreement, the Private Payor Claims and the Private Payor Settlement, including a review of more than 200,000 pages of documents produced by Defendants, the depositions of defendants Oddi, Hodson and Connelly (respectively, the head of the Audit & Ethics Committee, the Company's compliance officer and the Company's president and chief operating officer), a review of all publicly available information relating to Caremark's activities identified in the complaints and relating to the Government Settlement Agreement and the Private Payor Settlement, and an analysis of potential remedial measures.

27. After considering all of the above, plaintiffs, through their attorneys, have concluded that (i) under all of the circumstances there are substantial uncertainties and doubts as to whether plaintiffs will prevail in this litigation or in any other litigation based in whole or in part upon the common nucleus of operative facts which might be maintained against Defendants; (ii) continued prosecution of the Action to a trial on the merits against Defendants may be expected to be protracted and costly; (iii) the settlement hereinafter described has and will continue to benefit the Company and its stockholders; and (iv) under all of the circumstances, further prosecution of the Action or of any other action against Defendants based upon the Settled Claims (as defined below) would not be in the best interests of the Company or its stockholders. Plaintiffs therefore consider it desirable and in the best interests of the stockholders of the Company finally to resolve all matters at issue in this action and, to that end, to settle this action against Defendants upon the terms hereinafter set forth.

28. The Director Defendants and the Company deny that any of them are subject to any liability whatsoever by reason of any of the matters complained of in the Action. The Director Defendants and the Company assert that the factual record demonstrates that the Board and the Company's senior management at all times fully complied with their legal obligations with respect to all matters alleged in the Action and with respect to the OIG Investigation, the Government Settlement, the Private Payor Claims and the Private Payor Settlement. The Director Defendants and the Company nevertheless have agreed, in the interests of all concerned, to settle and compromise the Action on the terms hereinafter set forth in order to avoid further substantial expense to the Company and the Director

Defendants and the inconvenience and distraction of burdensome and protracted litigation, and in order to put to rest and finally terminate the Settled Claims (as hereinafter defined).

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED,

subject to the approval of the Court, pursuant to Chancery Court Rule 23.1, that any and all claims, demands, rights, liabilities, suits, actions or causes of action, damages, losses, obligations, judgments, matters and issues of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, contingent or absolute, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, matured or unmatured, material or immaterial, which have been, could have been, or in the future can or might be asserted in the Action or in any court, tribunal or proceeding (including, but not limited to, any claims arising under federal or state law relating to alleged fraud, breach of any duty, negligence, violations of federal securities laws or otherwise) (collectively "Claims") by plaintiffs in the Action, or any record or beneficial holder of Caremark common stock, or the Company (including its predecessors, successors, assigns and any person claiming by, through, in the right of or on behalf of the Company whether by subrogation, assignment or otherwise) against any of the Defendants, their parent entities, affiliates, associates or subsidiaries, and each of their present or former officers, directors, stockholders, agents, employees, attorneys, representatives, advisors, investment advisors, investment bankers, commercial bankers, trustees, general and limited partners, heirs, executors, personal representatives, estates, administrators, successors and assigns (collectively, "Defendants' Affiliates"), or anyone else, whether individual, class, derivative, representative, legal, equitable or any other type or in any other capacity, which have arisen, could have arisen, arise now, or hereafter arise out of or relate in any manner whatsoever, directly or indirectly, to the allegations, facts,

events, transactions, acts, occurrences, statements, representations, misrepresentations, omissions, or any other matter, thing or cause whatsoever, or any series thereof, embraced, involved, set forth, or otherwise referred or related, directly or indirectly, in the Original Complaint, the Amended Complaint, the Second Amended Complaint, the Third Amended Complaint, the OIG Investigation, the Government Settlement Agreement, the Private Payor Claims, the Private Payor Settlement, the Stipulation, the complaints in the Brumberg Action or the Lenzen Action, any future settlement of any Claims related (directly or indirectly) to the claims in the OIG Investigation or the Private Payor Claims, the settlement of the Action, or the indemnification by the Company of the Director Defendants for their expenses as a result of the Action, the Brumberg Action, the Lenzen Action, the OIG Investigation or the Private Payor Claims (collectively, the "Settled Claims"), are hereby fully, finally and forever compromised, extinguished, dismissed, discharged and released with prejudice, subject only to compliance with the following terms and conditions set forth herein (the "Settlement"); provided however, that the dismissal of the Action and the release of the Settled Claims shall not include (a) any disclosure claims against Defendants by a purchaser of Caremark common stock solely in such capacity that are presently asserted in the cases captioned In re Caremark International, Inc. Securities Litigation, Case No. 94 C 4751, and Isquith v. Caremark International, Inc., Case No. 94 C 5534, which are pending in the United States District Court for the Northern District of Illinois, or (b) any Claims by the Company against Dr. Bruce J. Margulis, or (c) any Claims by the Company against any person who receives advancements from the Company and ultimately is determined not to be entitled to be indemnified by the Company, or (d) any Claims relating to the implementation, performance, administration or enforcement of the Settlement.

1. The parties agree to settle and compromise this matter on the terms as set forth herein. The benefits to the shareholders of the Company as a result of this Settlement are as follows:

(a) The Company's Board of Directors has adopted a policy, entitled the "No Payment For Referrals Policy," which:

(i) prohibits Caremark and any of its agents or employees from providing any form of compensation (whether monetary or otherwise, whether in the form of a grant, monies for research or medical studies, or monitoring patients) to any doctor, pharmacy, hospital, health care organization, or any joint venture in which Caremark or any employee thereof is a principal, in exchange either for the referral of a patient to a Caremark facility or a Caremark service or the prescription of drugs marketed or distributed by Caremark, for which reimbursement may be sought from Medicare, Medicaid, or any similar state reimbursement program or private insurers; and

(ii) prohibits Caremark and any of its agents or employees from the payment or splitting of fees with physicians, joint ventures, any business combination in which Caremark maintains a direct financial interest, or other health care providers with whom Caremark has a financial relationship or interest, in exchange for the referral of a patient to a Caremark facility or a Caremark service, for which reimbursement may be sought from Medicare, Medicaid or any similar state reimbursement program or private insurers.

(b) Caremark's Board is required to discuss at a meeting of the full Board, on a semi-annual basis, all material changes in government health care regulations relevant to Caremark since the preceding semi-annual meeting and their effect on Caremark's

relationship with various health care providers, and establish a written record of such discussions.

(c) Caremark's officers were directed by the Board to remove any Caremark personnel from any health care facility or hospital who may have been placed in said facility for the purpose of providing remuneration to said facility in exchange for the referral of a patient to a Caremark facility or a Caremark service, for which reimbursement may be sought from Medicare, Medicaid or any similar state reimbursement program.

(d) Caremark shall make, prior to the commencement of treatment, a written disclosure to each patient who is referred to a Caremark facility for Caremark services, of any financial relationship between Caremark and the health care professional or provider who made the referral.

(e) Caremark has established, in order to enforce and effectuate the above policies, a subcommittee of its Board of Directors, called the Compliance and Ethics Committee (the "Compliance Committee"), which will consist of four directors (including at least two non-management directors), and which shall meet a minimum of four times per year. The Compliance Committee is required: (i) to establish procedures to ensure the above policies are enforced, (ii) to generally oversee Caremark's financial arrangements with physicians and other health care professionals, and (iii) to oversee, monitor and direct the business segments of Caremark regarding the Company's policies with respect to compliance with federal and state "Referral Payment Laws," as described on pages 6-7 of the 1994 Form 10-K of Caremark.

(f) The corporate officer(s) responsible for each of Caremark's business segments (including Pharmaceutical Services, Disease State Management, Physician Practice

Management and International) shall serve as compliance officer for that business segment ("Compliance Officer") and shall report orally on a semi-annual basis to the Compliance Committee, and annually, in writing, to the Compliance Committee, concerning that business segment's observance of Caremark's policies and the impact of changes in the federal and state Referral Payment Laws on Caremark's arrangements with health care providers.

(g) The Compliance Officer for each business segment, with the assistance of Caremark's outside counsel, (i) will review all existing contracts and financial arrangements with physicians, hospitals, and other health care professionals and providers, who refer or are in the position to refer patients to Caremark or to prescribe prescription drugs marketed or distributed by Caremark which relate to oncology, hemophilia or synthetic human growth hormone therapies, and (ii) will approve, in advance, any new form contract adopted by that business segment which establishes a relationship between Caremark and any person or entity which may refer a patient to a Caremark facility or service.

(h) The Compliance and Ethics Committee shall report on a semi-annual basis to the Caremark Board concerning each business segment's performance under Caremark's Compliance and Ethics Policy and the impact of any changes in the federal and state Referral Payment Laws on Caremark's arrangement with health care providers.

(i) The Company shall disclose in its annual report to the Company stockholders for each of the calendar years 1995, 1996 and 1997 a summary of the procedures implemented and actions taken pursuant to these resolutions.

The Company may, from time to time, modify such procedures as it determines in good faith to be necessary to meet its reasonable business needs. The Company and the Director Defendants have determined to implement the procedures listed in subparagraphs

(a)-(i) in part in response to the commencement of this Action by plaintiffs and pursuant to the agreement by plaintiffs to settle the Action on the terms set forth herein. In addition, the Board confirmed in the MOU that it would consider and, in its sole discretion, determine whether Caremark should pursue any actions against third parties regarding the matters arising out of the OIG Investigation or the Action.

2. As soon as practicable after this Stipulation has been executed, the parties shall jointly move the Court for approval of the Settlement as provided herein and for entry of the Order and Final Judgment referred to in paragraph 3 hereof. As part of said motion, the parties shall apply jointly for a Scheduling Order in the form set forth as Exhibit A to this Stipulation.

3. If the Settlement provided herein shall be approved by the Court following a hearing, the parties shall jointly request the Court to enter an Order and Final Judgment substantially in the form of Exhibit C to this Stipulation:

(a) approving the Settlement provided herein as fair, reasonable and adequate and in the best interests of the Company, and directing consummation of the Settlement in accordance with its terms and provisions;

(b) dismissing the Third Amended Complaint as to all Defendants on the merits and with prejudice, without costs except as hereinafter provided, and releasing all the Settled Claims;

(c) permanently barring and enjoining plaintiffs and any other stockholder of the Company, either directly, representatively, or in any other capacity, and all persons, firms and corporations who participate in the Settlement or who benefit in any way from the terms of the Settlement, whether or not such persons, firms or corporations have appeared

in this Action, from instituting or prosecuting any suit or other proceeding in any court of this or any other jurisdiction based upon or for the purpose of asserting any of the Settled Claims;

(d) awarding plaintiffs' counsel such fees and disbursements as the Court deems appropriate; and

(e) reserving jurisdiction over all matters relating to the administration and consummation of the Settlement provided herein.

4. This Settlement shall become effective only upon satisfaction of all of the following conditions:

(a) notification to the stockholders of record of the Company of the terms of this Settlement, and of the opportunity to appear at hearings before the Court, which notice shall be substantially in the form attached hereto as Exhibit B;

(b) approval of the Settlement by the Court following the hearings described in subparagraph (a) above;

(c) entry of the Order and Final Judgment substantially in the form of Exhibit C hereto; and

(d) the Order and Final Judgment referred to above shall have become a final judgment, that is, no longer subject to review, either because of the expiration of time for an appeal therefrom without an appeal having been taken or, if an appeal is taken, by the disposition of the highest court to which such appeal shall be taken of the appeal in such a manner as to permit the consummation of the Settlement in accordance with its terms. The date of final judgment, as defined in this subparagraph, is referred to herein as the "Effective Date of Settlement."

5. If the Settlement provided herein shall be approved by the Court, plaintiffs' attorneys intend to apply to the Court for an allowance of fees and expenses incurred in the prosecution of this Action and agree to limit their application to a maximum of \$1.025 million in fees and expenses. So long as the request by plaintiffs' attorneys does not exceed the foregoing amount, the Defendants will not oppose the fee and expense application. Subject to the provisions of this paragraph, and as part of the Settlement of the claims asserted in the Action, the Company agrees to pay on behalf of and for the benefit of the Director Defendants the allowance as awarded by the Court within ten (10) days following the Effective Date of Settlement. Neither the Company nor the Director Defendants shall otherwise be liable to plaintiffs or their attorneys or other agents for any fees, expenses or disbursements in connection with this Action.

6. The Company shall pay the cost of notice in connection with the Settlement of this Action.

7. In the event that the Settlement set forth herein is not finally approved or does not become effective, as set forth in paragraph 4 of this Stipulation, then (i) this Stipulation shall become null and void and of no force and effect, except as to the Company's obligation under paragraph 6, (ii) this Action will proceed on the basis of the Third Amended Complaint, and (iii) all negotiations and proceedings relating hereto shall be without prejudice to the rights of all parties hereto, who shall be restored to their respective positions existing immediately prior to the execution of this Stipulation.

8. This Stipulation is and shall be binding upon and inure to the benefit of the predecessors, successors, parents, subsidiaries, affiliates, representatives, assigns, officers, directors, employees, heirs, executors and administrators of each of the parties hereto.

9. This Stipulation and all papers related to it and all negotiations, statements and proceedings in connection herewith are not, and shall not be construed as, or be deemed to be evidence of an admission or concession on the part of any Defendants of any liability, wrongdoing or misconduct whatsoever or of having engaged in any of the misconduct alleged in the Complaint, all of which are expressly denied and disclaimed by each Defendant, and shall not be offered or received in evidence, nor be admissible in any action or proceeding, in any court or other tribunal or used in any way as an admission, concession or evidence of any liability or wrongdoing of any nature by a Defendant.

10. The waiver by any party of any breach of this Stipulation shall not be deemed or construed as a waiver of any other breach, whether prior, subsequent, or contemporaneous, of this Stipulation.

11. This Stipulation shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to conflict of law provisions thereof.

12. This Stipulation may be executed in any number of actual or telecopied counterparts and by each of the different parties thereto on separate counterparts, each of which when so executed and delivered shall be an original. The executed signature page(s) from each actual or telecopied counterpart may be joined together and attached to one such original and shall constitute one and the same instrument.

13. Each of the attorneys executing this Stipulation on behalf of one or more parties hereto warrants and represents that he or she has been duly authorized and empowered to execute this Stipulation on behalf of each such respective party.

14. The parties hereto and their attorneys agree to cooperate fully with one another in seeking Court approval of this Stipulation and to use their best efforts to effect the approval of this Stipulation and the Settlement.

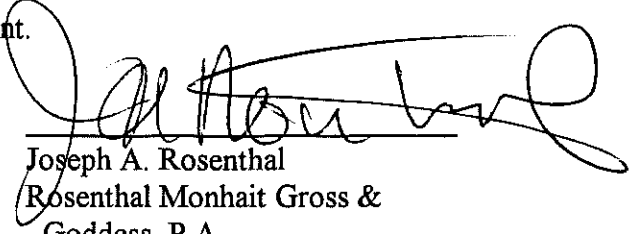
Of Counsel:

Richard B. Dannenberg
David C. Harrison
Lowey, Dannenberg, Bemporad &
Selinger, PC
747 Third Avenue
New York, NY 10017
(212) 759-1504

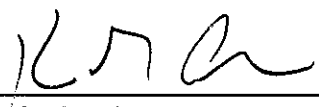
Linda Nussbaum
Goodkind Labaton Rudoff & Sucharow
100 Park Avenue
New York, NY 10017-0700
(212) 907-0700

Of Counsel:

Howard M. Pearl
Timothy J. Rivelli
Julie A. Bauer
Winston & Strawn
35 West Wacker Drive
Chicago, IL 60601
(312) 558-5600



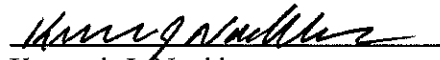
Joseph A. Rosenthal
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Attorneys for Caremark
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Of Counsel:

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130 East Randolph Drive
Chicago, IL 60601
(312) 861-8000


Kenneth J. Nachbar
Morris, Nichols, Arsht & Tunnell
1201 North Market Street
P.O. Box 1347
Wilmington, DE 19899
(302) 658-9200
Attorneys for the Individual
Defendants

Dated: June 28, 1996

EXHIBIT A

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN RE CAREMARK INTERNATIONAL,)
INC. DERIVATIVE LITIGATION) Cons. C.A. No. 13670
)

**SCHEDULING ORDER CONCERNING
NOTICE AND HEARING ON SETTLEMENT**

WHEREAS, the parties to the above-captioned action, pursuant to Court of Chancery Rule 23.1, having submitted to this Court a Stipulation and Agreement of Compromise and Settlement, dated June __, 1996 (the "Stipulation"), and having applied for an Order and Final Judgment (the "Final Order") in connection with the proposed settlement of this action and for the dismissal of the action following notice to the stockholders of Caremark International, Inc. ("Caremark" or the "Company") and upon the terms and conditions set forth in the Stipulation (the "Settlement"),

IT IS HEREBY ORDERED, as follows:

1. The court adopts and incorporates the definitions in the Stipulation for purposes of this Order.
2. A hearing shall be held on August __, 1996 at _____.m. in the Court of Chancery in the Daniel L. Herrmann Courthouse, Eleventh and King Streets, Wilmington, Delaware 19801 (the "Settlement Hearing") (a) to determine whether the proposed Settlement is fair, reasonable, adequate and in the best interests of Caremark and should be approved by the Court, (b) to determine whether the Final Order should be entered in this action pursuant to the proposed Stipulation, and (c) to rule on such other matters, including

the application by plaintiffs' counsel for an award of fees and expenses, as the Court may deem appropriate.

3. The Court may adjourn the Settlement Hearing or any adjournment thereof, including consideration of the plaintiffs' application for an award of attorneys' fees and expenses, without further notice other than by announcement at the Hearing or any adjournment thereof, to any persons other than the parties to this action.

4. The Court may approve the Settlement and enter the Final Order after the Settlement Hearing or any adjournment thereof with or without modification and with or without further notice to any persons other than the parties to this action. The Court reserves the right to approve the Settlement and/or the Final Order with any modifications agreed to by the parties in writing and without further notice to any persons other than the parties to this action.

5. Within five (5) days of the date of this Order, the Company shall mail, by first-class mail, postage pre-paid, notice of the Settlement Hearing substantially in the form attached to the Stipulation as Exhibit B (the "Notice") which shall have attached to it a copy of the proposed Final Order attached to the Stipulation as Exhibit C, to all persons who were record holders of common stock of the Company on June __, 1996 at the respective addresses set forth in the Company's stock records. The expenses of such notice shall be paid in accordance with the Stipulation. All record holders are requested to forward the Notice promptly to their beneficial owners. Additional copies of the Notice for transmittal to beneficial owners shall be made available by the Company upon request of any record owner.

6. The form and method of notice specified herein constitutes the best practicable notice, satisfies the requirements of Rule 23.1, due process and applicable law and shall constitute due and sufficient notice of the Settlement Hearing to all persons entitled to receive such notice. The Company, at or before the Settlement Hearing directed herein, shall cause to be filed proof of mailing with respect to the Notice.

7. Any stockholder of the Company receiving notice who objects to the Stipulation, the Settlement or to the Final Order to be entered herein, may appear in person or by his or her attorney at the Settlement Hearing and present evidence or argument that may be proper and relevant; provided, however, that no person other than plaintiffs, counsel for plaintiffs, defendants and counsel for defendants shall be heard, and no papers, briefs, pleadings, or other documents submitted by any such person shall be received and considered by the Court (unless the Court in its discretion shall thereafter otherwise direct, upon application of such persons and for good cause shown), unless no later than seven (7) days prior to the Settlement Hearing (a) a notice of intention to appear, (b) proof of such person's contemporaneous record or beneficial ownership of Caremark stock, (c) a detailed statement of such person's specific objections to any matter before the Court and (d) the grounds therefor and the reasons for such person desiring to appear and to be heard, as well as all documents or writings which such person desires the Court to consider, shall be filed by such person with the Register in Chancery, and, on or before such filing, shall be served by hand or overnight delivery upon the following counsel of record:

David C. Harrison
Lowey Dannenberg Bemporad & Selinger, P.C.
747 Third Avenue
New York, NY 10017
Co-Lead Counsel for Plaintiffs

Linda Nussbaum
Goodkind Labaton Rudoff & Sucharow, L.L.P.
100 Park Avenue
New York, NY 10017-5563
Co-Lead Counsel for Plaintiffs

Kevin G. Abrams
Richards, Layton & Finger
One Rodney Square
P. O. Box 551
Wilmington, DE 19899
Attorneys for Caremark International, Inc.

Kenneth J. Nachbar
Morris Nichols Arsht & Tunnell
1201 North Market Street
P. O. Box 1347
Wilmington, DE 19899
Attorneys for the Individual Defendants

8. Unless the Court otherwise directs, no stockholder shall be entitled to object to the Settlement or to the Final Order to be entered herein, or otherwise to be heard, except by serving and filing written objections as described above. Any person who fails to object in the manner prescribed above shall be deemed to have waived such objections and shall be forever barred from raising such objection in this or any other action or proceeding.

9. Pending final determination of whether the Stipulation should be approved, plaintiffs and any other stockholders of the Company, either directly, representatively, or in any other capacity, and any persons, firms and corporations who participate in the Settlement or who will benefit in any way from the terms of the Settlement, whether or not such persons, firms or corporations have appeared in this action, are barred and enjoined from instituting, commencing or prosecuting any action or proceeding involving or asserting any Settled Claim against any of the Defendants or Defendants' Affiliates (as such terms are defined in the Stipulation).

10. In the event that the compromise and settlement provided in the Stipulation is not fully approved or does not become effective, as set forth in paragraph 4 of the Stipulation, then (i) the Stipulation shall become null and void and of no force and effect, except as to the Company's obligation under paragraph 6 of the Stipulation, and neither the Stipulation nor any provision contained in the Stipulation nor any action undertaken pursuant thereto nor the negotiation thereof by any party shall be deemed an admission or offered or received in evidence at any proceeding in this action or any other action or proceeding and (ii) all negotiations and proceedings relating to the Stipulation shall be without prejudice to the rights of all parties thereto, who shall be restored to their respective positions existing immediately prior to the execution of the Stipulation.

Vice Chancellor

EXHIBIT B

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN RE CAREMARK INTERNATIONAL,)
INC. DERIVATIVE LITIGATION) Cons. C.A. No. 13670
)

**NOTICE OF PENDENCY OF DERIVATIVE ACTION,
PROPOSED SETTLEMENT, SETTLEMENT HEARING,
AND RIGHT TO APPEAR**

**TO: ALL RECORD AND BENEFICIAL HOLDERS OF SHARES OF THE
COMMON STOCK OF CAREMARK INTERNATIONAL, INC.
("CAREMARK" OR THE "COMPANY") AS OF JUNE __, 1996.
BROKERAGE FIRMS, BANKS AND/OR OTHER PERSONS OR ENTITIES
WHO HELD CAREMARK SHARES OF RECORD AS OF JUNE __, 1996,
WHO ARE NOT ALSO THE BENEFICIAL OWNERS, ARE REQUESTED TO
FORWARD THIS NOTICE PROMPTLY TO THE BENEFICIAL OWNERS OF
SUCH SHARES.**

**PLEASE READ THIS NOTICE WITH CARE AS IT AFFECTS YOUR RIGHTS
WITH RESPECT TO THIS ACTION. THIS NOTICE IS NOT AN
EXPRESSION OF ANY OPINION BY THE COURT AS TO THE MERITS OF
ANY OF THE CLAIMS OR DEFENSES ASSERTED BY ANY PARTY IN THIS
ACTION. THIS NOTICE IS SENT FOR THE PURPOSE OF INFORMING
YOU OF THE PENDENCY OF THIS ACTION, THE PROPOSED
SETTLEMENT, AND THE ALTERNATIVE COURSES OF ACTION THAT
YOU MAY TAKE.**

THE SETTLEMENT HEARING

This notice is given to persons who owned stock of Caremark International, Inc. ("Caremark" or the "Company") as of June __, 1996, pursuant to Rule 23.1 of the Rules of the Court of Chancery of the State of Delaware and pursuant to an Order of the Court of Chancery of the State of Delaware in and for New Castle County (the "Court") entered in the above-captioned action (the "Action").

All stockholders of the Company are hereby notified that a Hearing will be held before the Court in the Daniel L. Herrmann Courthouse, 11th and King Streets, Wilmington, Delaware 19801 on August __, 1996 at _____ . m. (the "Settlement Hearing"), (a) to determine whether the Stipulation and Agreement of Compromise and Settlement, dated June __, 1996 (the "Stipulation"), which is described under the caption "THE SETTLEMENT TERMS," and the terms and conditions of the settlement proposed in the Stipulation (the "Settlement"), taken as a whole, are fair, reasonable and adequate; (b) to determine whether a final judgment should be entered dismissing the Action as to all defendants on the merits and with prejudice and releasing all Defendants and Defendants' Affiliates from the Settled Claims (as such terms are hereinafter defined); and (c) if the Court approves the Settlement and enters such final judgment, to determine whether an application should be granted awarding plaintiffs' attorneys' fees and expenses in the maximum amount of \$1.025 million in connection with this Action, as more particularly described below under the caption "PLAINTIFFS' APPLICATION FOR ATTORNEYS' FEES AND EXPENSES."

The Court may in its discretion adjourn the Settlement Hearing from time to time by oral announcement at such hearing or any adjournment thereof, without further notice of any kind to you. After the Settlement Hearing or any adjournment thereof, the Court may approve

the Stipulation and Settlement, with or without modifications, and enter its final judgment dismissing the Action as to all of the defendants on the merits and with prejudice and order the payment of attorneys' fees and expenses without further notice of any kind. This notice is not an expression by the Court as to the merits of any claim or defense asserted by the parties in this litigation.

SHARES HELD BY BROKERS AND NOMINEES

All record holders who are brokers or nominees are directed to forward this Notice to the beneficial owners of the Company's shares held by such brokers or nominees. Additional copies of this Notice for transmittal to beneficial owners may be obtained by written request to: Caremark International, Inc., Attention: _____, 2215 Sanders Road, Northbrook, Illinois 60062.

BACKGROUND AND DESCRIPTION OF THE ACTION

[INSERT FACT RECITALS FROM STIPULATION]

SUMMARY OF THE SETTLEMENT

1. The principal terms, conditions and other matters which are part of the Stipulation and the Settlement which it contemplates are summarized below. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the text of the Stipulation and the exhibits thereto which have been filed with the Court and may be examined by you or your attorney.

2. In consideration for the full settlement and release of the Settled Claims, the parties to the Action agreed to settle and compromise the Action by providing the following benefits to the shareholders of the Company:

a. In June 1995, the Company's Board of Directors adopted a policy, entitled the "No Payment For Referrals Policy," which:

i. prohibits Caremark and any of its agents or employees from providing any form of compensation (whether monetary or otherwise, whether in the form of a grant, monies for research or medical studies, or monitoring patients) to any doctor, pharmacy, hospital, healthcare organization, or any joint venture in which Caremark or any employee thereof is a principal, in exchange either for the referral of a patient to a Caremark facility or a Caremark service or the prescription of drugs marketed or distributed by Caremark, for which reimbursement may be sought from Medicare, Medicaid, or any similar state reimbursement program or private insurers; and

ii. prohibits Caremark and any of its agents or employees from the payment or splitting of fees with physicians, joint ventures, any business combination in which Caremark maintains a direct financial interest, or other healthcare providers with whom Caremark has a financial relationship or interest, in exchange for the referral of a patient to a Caremark facility or a Caremark service, for which reimbursement may be sought from Medicare, Medicaid or any similar state reimbursement program or private insurers.

b. Caremark's board agreed in July 1995 to discuss at a meeting of the full board, on a semi-annual basis, all material changes in government healthcare regulations relevant to Caremark since the preceding semi-annual meeting and their effect on Caremark's relationship with various healthcare providers, and establish a written record of such discussions.

c. Caremark's officers were directed in July 1995 to remove any Caremark personnel from any healthcare facility or hospital who may have been placed in said facility

for the purpose of providing remuneration to said facility in exchange for the referral of a patient to a Caremark facility or a Caremark service, for which reimbursement may be sought from Medicare, Medicaid or any similar state reimbursement program.

d. Caremark's board of directors determined in June 1995 that the Company shall make, prior to the commencement of treatment, a written disclosure to each patient who is referred to a Caremark facility for Caremark services, of any financial relationship between Caremark and the healthcare professional or provider who made the referral.

e. In June 1995, Caremark established, in order to enforce and effectuate the above policies, a subcommittee of its Board of Directors, called the Compliance and Ethics Committee (the "Compliance Committee"), which consists of four directors (including at least two non-management directors), and which shall meet a minimum of four times per year. The Compliance Committee shall: (i) establish procedures to ensure the above policies are enforced, (ii) generally oversee Caremark's financial arrangements with physicians and other healthcare professionals, and (iii) oversee, monitor and direct the business segments of Caremark regarding the Company's policies with respect to compliance with federal and state "Referral Payment Laws," as described on pages 6-7 of the 1994 Form 10-K of Caremark.

f. The Caremark board of directors determined in June 1995 that the corporate officer(s) responsible for each of Caremark's business segments (including Pharmaceutical Services, Disease State Management, Physician Practice Management and International), shall serve as compliance officer for that business segment ("Compliance Officer") and shall report orally on a semi-annual basis to the Compliance Committee, and annually, in writing, to the Compliance Committee, concerning that business segment's

performance under Caremark's policies and the impact of changes in the federal and state Referral Payment Laws on Caremark's arrangements with healthcare providers.

g. The Caremark board determined in June 1995 that the Compliance Officer for each business segment, with the assistance of Caremark's outside counsel, (i) would review all existing contracts and financial arrangements with physicians, hospitals, and other healthcare professionals and providers, who refer or are in the position to refer patients to Caremark or to prescribe prescription drugs marketed or distributed by Caremark which relate to oncology, hemophilia or synthetic human growth hormone therapies, and (ii) will approve, in advance, any new form contract adopted by that business segment which establishes a relationship between Caremark and any person or entity which may refer a patient to a Caremark facility or service.

h. The Caremark board determined in June 1995 that the Compliance Committee shall report on a semi-annual basis to the Caremark Board concerning each business segment's performance under Caremark's Compliance and Ethics Policy and the impact of any changes in the federal and state Referral Payment Laws on Caremark's arrangement with healthcare providers.

i. The Caremark board determined in June 1995 that the Company shall disclose in its annual report to the Company stockholders for each of the calendar years 1995, 1996 and 1997 a summary of the procedures implemented and actions taken pursuant to these resolutions.

Pursuant to the Stipulation, the Company may, from time to time, modify the foregoing procedures as it determines in good faith to be necessary to meet its reasonable business needs. The Company and the Director Defendants determined to implement the procedures

listed in subparagraphs (a)-(i) in part in response to the commencement and prosecution of the Action by Plaintiffs.

EFFECT OF COURT APPROVAL OF THE SETTLEMENT

3. If the Stipulation and the Settlement are approved by the Court, the Court will enter an Order and Final Judgment which, among other things, will provide that any and all claims, demands, rights, liabilities, suits, actions or causes of action, damages, losses, obligations, judgments, matters and issues of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, contingent or absolute, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, matured or unmatured, material or immaterial, which have been, could have been, or in the future can or might be asserted in the Action or in any court, tribunal or proceeding (including, but not limited to, any claims arising under federal or state law relating to alleged fraud, breach of any duty, negligence, violations of federal securities laws or otherwise) (collectively "Claims") by plaintiffs in the Action, or any record or beneficial holder of Caremark common stock, or the Company (including its predecessors, successors, assigns and any person claiming by, through, in the right of or on behalf of the Company, whether by subrogation, assignment or otherwise) against any of the Defendants, their parent entities, affiliates, associates or subsidiaries, and each of their present or former officers, directors, stockholders, agents, employees, attorneys, representatives, advisors, investment advisors, investment bankers, commercial bankers, trustees, general and limited partners, heirs, executors, personal representatives, estates, administrators, successors and assigns (collectively, "Defendants' Affiliates"), or anyone else, whether individual, class, derivative, representative, legal, equitable or any other type or in any other capacity, which have arisen, could have arisen, arise now, or hereafter arise out of or relate in any manner

whatsoever, directly or indirectly, to the allegations, facts, events, transactions, acts, occurrences, statements, representations, misrepresentations, omissions, or any other matter, thing or cause whatsoever, or any series thereof, embraced, involved, set forth, or otherwise referred or related, directly or indirectly, in the Original Complaint, the Amended Complaint, the Second Amended Complaint, the Third Amended Complaint, the OIG Investigation, Government Settlement Agreement, the Private Payor Claims, the Private Payor Settlement, the Stipulation, the complaints in the Brumberg Action or the Lenzen Action, any future settlement of any claims related (directly or indirectly) to the claims in the OIG Investigation or the Private Payor Claims, the settlement of the Action, or the indemnification by the Company of the Director Defendants for their expenses as a result of the Action, the Brumberg Action, the Lenzen Action, the OIG Investigation or the Private Payor Claims (collectively, the "Settled Claims"), are hereby fully, finally and forever compromised, extinguished, dismissed, discharged and released with prejudice, subject only to compliance with the terms and conditions set forth in the Stipulation (the "Settlement"); provided however, that the dismissal of the Action and the release of the Settled Claims shall not include (a) any disclosure claims against Defendants by a purchaser of Caremark common stock solely in such capacity that are presently asserted in the cases captioned Caremark International, Inc. Securities Litigation, Case No. 94 C 4751, and Isquith v. Caremark International, Inc., Case No. 94 C 5534, which are pending in the United States District Court for the Northern District of Illinois, or (b) any Claims by the Company against Dr. Bruce J. Margulis, or (c) any Claims by the Company against any person who receives advancements from the Company and ultimately is determined not to be entitled to be indemnified by the Company, or (d) any

Claims relating to the implementation, performance, administration or enforcement of the Settlement. A copy of the proposed Order and Final Judgment is attached hereto.

4. THE COURT HAS NOT MADE ANY DETERMINATION AS TO THE MERITS OF THE CLAIMS MADE BY PLAINTIFFS AGAINST, OR THE DEFENSES OF, THE DEFENDANTS. THIS NOTICE DOES NOT IMPLY THAT THERE HAS BEEN OR WOULD BE ANY FINDING OF VIOLATION OF THE LAW OR THAT RELIEF IN ANY FORM OR RECOVERY IN ANY AMOUNT COULD BE HAD IF THE ACTION WAS NOT SETTLED.

DISMISSAL AND RELEASE

5. It is the intent of the parties to the Action that the proposed Settlement shall extinguish for all time all rights, claims and causes of action that are or relate to the Settled Claims against any of the Released Persons.

6. The Settlement will become effective at such time as the Order and Final Judgment entered by the Court approving the Settlement shall become final and not subject to further appeal or review. In the event that the Settlement is not approved, then the Settlement shall be of no further force and effect and each party shall be restored to his, her or its respective position prior to entering into the Stipulation, except that all costs incurred in connection with notifying the Company's stockholders of the proposed Settlement shall be the obligation of the Company.

7. If the Settlement is approved by the Court, the Action will be dismissed with prejudice on the merits with respect to all Defendants. The Stipulation provides that the Settlement is a full compromise, settlement and release of all claims, known or unknown, which have been, which might have been, or which might in the future be asserted by

plaintiffs in the Action, the Company or any of the Company's stockholders against any of the Released Persons, subject to the limitations specified in the Order and Final Judgment. Under the terms of the Stipulation, such release and dismissal will bar the institution or prosecution by plaintiffs, the Company or any stockholder of the Company of any other action asserting any Settled Claim against any of the Released Persons.

PLAINTIFFS' APPLICATION FOR ATTORNEYS' FEES AND EXPENSES

8. If the Settlement is approved by the Court, attorneys for plaintiffs intend to apply to the Court at the Settlement Hearing for an award of fees and expenses in the maximum amount of \$1.025 million. So long as the request by plaintiffs' attorneys does not exceed the foregoing amount, the Defendants will not oppose the fee and expense application.

9. The fairness, reasonableness and adequacy of the Settlement may be considered and ruled upon by the Court independently of any award of attorneys' fees and expenses. Any fee award to plaintiffs' attorneys shall be paid exclusively by Caremark on behalf of and for the benefit of the Individual Defendants.

RIGHT TO APPEAR

10. At the Settlement Hearing, any stockholder of the Company who desires to object to or otherwise be heard regarding the Settlement of the Action, the judgment to be entered thereon, the dismissal of the Action with prejudice on the merits as to all Defendants as provided in the Stipulation, or any other matter relating to the Action or the Settlement, including plaintiffs' application for an award of attorneys' fees and costs, may appear in person or by his or her attorney. However, no person other than the named plaintiffs and the parties hereto shall be heard, and no papers, briefs, pleadings, or other documents submitted by any such person shall be received or considered by the Court (except as the Court in its discretion

otherwise directs upon application by such person for good cause shown) unless no later than August __, 1996, a date five (5) days prior to the Settlement Hearing, (i) a notice of intention to appear, (ii) a detailed statement of such person's specific objections to any matter before the Court and (iii) the grounds therefor or the reasons for such person's desire to appear and be heard, as well as all documents or writings which such person desires the Court to consider shall have been filed with the Register in Chancery, Daniel L. Herrmann Courthouse, 11th and King Streets, Wilmington, Delaware 19801, and, on or before such filing, shall have been sent to or served upon the following counsel of record:

Linda Nussbaum
Goodkind Labaton Rudoff & Sucharow, L.L.P.
100 Park Avenue
New York, NY 10017-5563
Co-Lead Counsel for Plaintiffs

Richard B. Dannenberg
Lowey Dannenberg Bemporad & Selinger, P.C.
747 Third Avenue
New York, NY 10017
Co-Lead Counsel for Plaintiffs

Kevin G. Abrams
Richards, Layton & Finger
One Rodney Square
P. O. Box 551
Wilmington, DE 19899
Attorneys for Caremark International, Inc.

Kenneth J. Nachbar
Morris Nichols Arsht & Tunnell
1201 North Market Street
P. O. Box 1347
Wilmington, DE 19899
Attorneys for the Individual Defendants

No stockholder shall be entitled to object to the Settlement or to the judgment to be entered herein, or to the award of attorneys' fees and reimbursement of expenses to plaintiffs'

counsel, or otherwise to be heard, except by serving and filing written objections as described above. Any person who fails to object in the manner and by the dates described above shall be deemed to have waived such objections and shall be barred forever from raising such objection in this or any other action or proceeding.

11. If you are satisfied with this Settlement and do not wish to be heard with respect to its terms or the payment of attorneys' fees and reimbursement of expenses to plaintiffs' counsel by or on behalf of the Company, you need not appear at the Settlement Hearing.

INTERIM INJUNCTION

12. Pending final determination of whether the Stipulation should be approved, the plaintiffs, the Company's stockholders and the Company, and each of them, and any of their respective representatives, trustees, successors, heirs and assigns shall not commence or prosecute any action either directly or in any other capacity which asserts Settled Claims against any of the Released Persons.

SCOPE OF THIS NOTICE

13. The foregoing description of the Settlement Hearing, the Action, the terms of the proposed Settlement and other matters described herein does not purport to be comprehensive. Accordingly, stockholders of the Company are referred to the Stipulation and, further, to the documents filed with the Court in the Action. These documents may be examined by you or your attorneys during regular business hours of each business day at the office of the Register in Chancery, Daniel L. Herrmann Courthouse, 11th and King Streets, Wilmington, Delaware. DO NOT WRITE OR TELEPHONE THE COURT.

NOTICE TO PERSONS OR ENTITIES HOLDING RECORD OWNERSHIP ON BEHALF OF OTHERS

14. Brokerage firms, banks and other persons or entities who hold shares of the Company's common stock in their capacities as record owners, but not as beneficial owners, are requested to send this Notice promptly to beneficial owners. Additional copies of this Notice for transmittal to beneficial owners are available on request directed to Caremark International, Inc., Attention: _____, 2215 Sanders Road, Suite 400, Northbrook, IL 60062.

By Order of the Court:

Dated: _____, 1996

Vice Chancellor

EXHIBIT C

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN RE CAREMARK INTERNATIONAL,)
INC. DERIVATIVE LITIGATION) Cons. C.A. No. 13670
)

ORDER AND FINAL JUDGMENT

A hearing having been held before this Court (the "Court") on _____, 1996, pursuant to the Court's Order of _____, 1996, (the "Scheduling Order"), upon a Stipulation of Settlement, dated _____, 1996 (the "Stipulation"), of the above-captioned action (the "Action"), which is incorporated herein by reference; it appearing that due notice of said hearing has been given in accordance with the aforesaid Scheduling Order; the respective parties having appeared by their attorneys of record; the Court having heard and considered evidence in support of the proposed Settlement (as defined in the Stipulation); the attorneys for the respective parties having been heard; an opportunity to be heard having been given to all other persons requesting to be heard in accordance with the Scheduling Order; the Court having determined that notice of the Settlement pursuant to the aforesaid Scheduling Order was adequate and sufficient; and the entire matter of the proposed Settlement having been heard and considered by the Court;

IT IS HEREBY ORDERED, ADJUDGED AND DECREED this ___ day of _____, 1996 as follows:

1. For purposes of this Order and Final Judgment, the Court adopts and incorporates herein by reference the definitions in the Stipulation.
2. Proof of mailing having been filed with the Court by the Company, the Court finds that the Notice given to the Company's stockholders, pursuant to and in the manner

directed by the Scheduling Order, fully and accurately informed the Company's stockholders of all material elements of the Action in the proposed Settlement, and constituted valid, due and sufficient notice to all of the Company's stockholders, complies fully with due process and with Chancery Court Rule 23.1, and was the best notice practicable under the circumstances.

3. The Stipulation is hereby approved as fair, reasonable, and adequate. This Court finds that the Stipulation and the terms of the Settlement embodied therein are in the best interests of the Company and its stockholders and the parties hereto are directed to consummate the Settlement of this action in accordance with the terms and provisions contained in the Stipulation.

4. The Third Amended Complaint is hereby dismissed and final judgment is hereby entered as to all defendants on the merits and with prejudice, and any and all claims, demands, rights, liabilities, suits, actions or causes of action, damages, losses, obligations, judgments, matters and issues of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, contingent or absolute, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, matured or unmatured, material or immaterial, which have been, could have been, or in the future can or might be asserted in the Action or in any court, tribunal or proceeding (including, but not limited to, any claims arising under federal or state law relating to alleged fraud, breach of any duty, negligence, violations of federal securities laws or otherwise) by plaintiffs in the Action, or any record or beneficial holder of Caremark common stock, or the Company (including its predecessors, successors, assigns and any person claiming by, through, in the right of or on behalf of the Company, whether by subrogation, assignment or otherwise) (collectively "Claims") against any of the Defendants, their parent entities, affiliates, associates or subsidiaries, and each of their present or former

officers, directors, stockholders, agents, employees, attorneys, representatives, advisors, investment advisors, investment bankers, commercial bankers, trustees, general and limited partners, heirs, executors, personal representatives, estates, administrators, successors and assigns (collectively, "Defendants' Affiliates"), or anyone else, whether individual, class, derivative, representative, legal, equitable or any other type or in any other capacity, which have arisen, could have arisen, arise now, or hereafter arise out of or relate in any manner whatsoever, directly or indirectly, to the allegations, facts, events, transactions, acts, occurrences, statements, representations, misrepresentations, omissions, or any other matter, thing or cause whatsoever, or any series thereof, embraced, involved, set forth, or otherwise referred or related, directly or indirectly, in the Original Complaint, the Amended Complaint, the Second Amended Complaint, the Third Amended Complaint, the OIG Investigation, the Government Settlement Agreement, the Private Payor Claims, the Private Payor Settlement, the Stipulation, the complaints in the Brumberg Action or the Lenzen Action, any future settlement of any claims related (directly or indirectly) to the claims in the OIG Investigation or the Private Payor claims, the settlement of the Action, or the indemnification by the Company of the Director Defendants for their expenses as a result of the Action, the Brumberg Action, the Lenzen Action, the OIG Investigation or the Private Payor Claims (collectively, the "Settled Claims"), are hereby fully, finally and forever compromised, extinguished, dismissed, discharged and released with prejudice, subject only to compliance with the terms and conditions set forth in the Stipulation (the "Settlement"); provided however, that the dismissal of the Action and the release of the Settled Claims shall not include (a) any disclosure claims against Defendants by a purchaser of Caremark common stock solely in such capacity that are presently asserted in the cases captioned Caremark International, Inc.

Securities Litigation, Case No. 94 C 4751, and Isquith v. Caremark International, Inc., Case No. 94 C 5534, which are pending in the United States District Court for the Northern District of Illinois, or (b) any Claims by the Company against Dr. Bruce J. Margulis, or (c) any Claims by the Company against any person who receives advancements from the Company and ultimately is determined not to be entitled to be indemnified by the Company, or (d) any Claims relating to the implementation, performance, administration or enforcement of the Settlement. Each party shall bear its own costs except as provided in the Stipulation.

5. This Court hereby permanently bars and enjoins plaintiffs in the Action, the Company and all stockholders of the Company, either directly, individually, derivatively representatively or in any other capacity, and all persons, firms and corporations who benefit in any way from the terms of the Settlement, from instituting, commencing, asserting, prosecuting, continuing or participating in any way in the maintenance of any suit or other proceeding in a Court of this or any other jurisdiction based upon or for the purpose of asserting any of the Settled Claims against Defendants or Defendants' Affiliates.

6. Plaintiffs' attorneys are hereby awarded the sum of \$_____ for legal fees and expenses incurred in the prosecution of this action, which award the Court finds to be fair and reasonable. The said sum allowed hereby shall be paid by the Company on behalf of and for the benefit of the Individual Defendants in accordance with the Stipulation.

7. Without in any way affecting the finality of this Order and Final Judgment, the Court reserves jurisdiction over all matters relating to the administration and consummation of the Settlement.

Vice Chancellor