

Medco Inc.

2008

DIRECTOR COMPENSATION

During 2008, each director who was not a Company employee was compensated for services as a director by an annual retainer of \$50,000 and a meeting fee of \$2,000 for each regular Board and Committee meeting attended and \$1,000 for each telephonic meeting. The Lead Director and the Chairmen of the Compensation Committee and Corporate Governance and Nominating Committee were compensated for such services by an annual retainer of \$10,000. The Chairman of the Audit Committee was compensated for such service by an annual retainer of \$20,000 and each other member of the Audit Committee received an annual retainer of \$5,000. Company employees serving on the board do not receive any compensation for services as a director. The Company reimburses all directors for travel and other necessary business expenses incurred in the performance of their services for the Company and extends coverage to them under the Company's business travel accident and directors' and officers' indemnity insurance policies. Directors are permitted to defer receipt of their fees through a non-qualified deferred compensation plan. In 2008, only Dr. Wilson deferred fees into the plan. Director compensation is summarized in the following table:

Retainers					
Annual	Audit Committee Chairman	Compensation Committee Chairman	Corporate Governance and Nominating Committee Chairman	Audit Committee Member	Lead Director
\$50,000	\$20,000	\$10,000	\$10,000	\$5,000	\$10,000
Meeting Fees/ Expenses	\$2,000 per regular meeting; \$1,000 per telephonic meeting; expenses for travel and director education are reimbursed.				
Annual Equity Grants	Annual grant with a present value of \$175,000 on the date of each Annual Meeting of Shareholders (vesting in one year). The award is split in value between options (valued according to Black-Scholes) and restricted stock units (valued at fair market value) on the date of the Annual Meeting. Options will have an exercise price equal to the fair market value of common stock on the grant date. The number of shares is rounded up to the nearest whole 100 shares.				

For 2008, directors elected at the 2008 Annual Meeting of Shareholders or continuing to serve following the 2008 Annual Meeting received approximately \$182,000 of Medco equity. Sixty-five percent of the value was delivered in the form of stock options and 35% in restricted stock units (7,900 nonqualified stock options and 1,400 restricted stock units). Grants were made on May 22, 2008, the date of the Annual Meeting of Shareholders. The exercise price of the options was set at the closing price of the Company's Common Stock on the grant date as quoted on the NYSE. Directors joining the Board after that date received a pro-rated grant. Options and restricted stock units granted in 2008 vest one year after they are granted. Restricted stock units are automatically deferred and cannot be converted into

Common Stock while the director serves on the Board. Retainers, meeting fees and the value of equity grants will remain the same for 2009.

Like our executive officers, directors are subject to stock ownership requirements. Directors are required to acquire 10,000 shares of Medco common stock within five years of joining the Board. Prior to satisfying the holding requirements, directors are also required to defer vested restricted stock units until their service ends. These vested units are counted toward the ownership target and, in the past, have been sufficient to satisfy the ownership target. The obligation to hold Medco common stock applies during their term as a director and for three months after their term ends. As of December 27, 2008, no current director had exercised stock options or received payment of deferred restricted stock units.

The following table sets out the compensation paid to or on behalf of our directors during 2008:

Director	Fees Earned or Paid in Cash (\$) (a)	Stock Awards (\$) (b) ⁽¹⁾⁽³⁾	Option Awards (\$) (c) ⁽²⁾⁽³⁾	All Other Compensation (\$) (d) ⁽⁴⁾	Total (\$) (e)
Howard W. Barker, Jr.	\$ 113,000	\$ 77,142	\$ 105,499	\$ 58	\$295,699
John L. Cassis	\$ 109,000	\$ 77,142	\$ 105,499	\$ 58	\$291,699
Nancy-Ann DeParle ⁽⁵⁾	\$ 13,500	\$ 2,489	\$ 3,597	\$ 14	\$ 19,600
Michael Goldstein	\$ 121,000	\$ 77,142	\$ 105,499	\$ 58	\$303,699
Charles M. Lillis	\$ 78,000	\$ 77,142	\$ 105,499	\$ 58	\$260,699
Myrtle S. Potter	\$ 74,000	\$ 47,291	\$ 74,017	\$ 58	\$195,366
William L. Roper	\$ 74,000	\$ 47,291	\$ 74,017	\$ 58	\$195,366
David D. Stevens ⁽⁶⁾	\$ 68,000	\$ 77,142	\$ 105,499	\$ 58	\$250,699
Blenda J. Wilson ⁽⁷⁾	\$ 75,000	\$ 77,142	\$ 105,499	\$ 58	\$257,699

1. The amounts in column (b) reflect the dollar amount recognized for financial statement reporting purposes for the 2008 fiscal year, in accordance with FAS 123R for awards of restricted stock units granted pursuant to the 2002 Stock Incentive Plan and thus may include amounts from awards granted in and prior to 2008. Certain assumptions used in the calculation of these amounts are set forth below and are otherwise described in Note 10, "Stock-Based Compensation," to the Company's audited financial statements for the fiscal year ended December 27, 2008 and included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2009.
2. The amounts in column (c) reflect the dollar amount recognized for financial statement reporting purposes for the 2008 fiscal year in accordance with FAS 123R for options granted pursuant to the 2002 Stock Incentive Plan and thus may include amounts from options granted in and prior to 2008. Certain assumptions used in the calculation of these amounts are described in Note 10, "Stock-Based Compensation," to the Company's audited financial statements for the fiscal year ended December 27, 2008 and included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2009. In addition, the table below sets forth weighted average Black-Scholes assumptions, as well as the specific Black-Scholes assumptions for the various grants.

Option Valuation
Black-Scholes Assumptions

	Dividend Yield	Risk-Free Interest Rate	Volatility	Expected Life
2007 Weighted Average	0	4.7%	29.0%	5.0%

Assumptions				
5/24/2007 Grant	0	4.8%	29.0%	5.8%
2008 Weighted Average Assumptions				
5/22/2008 Grant	0	2.8%	27.0%	5.0%
	0	3.2%	27.0%	5.4%

3. The following table sets out the grant date fair value of stock awards granted to directors in 2008. In addition, it also sets out the number of shares outstanding under all stock awards as of December 27, 2008.

Director	Grant Date Value of Options Granted in 2008	Options Outstanding as of 12/27/2008	Grant Date Value of RSUs Granted in 2008	Unvested RSUs Outstanding as of 12/27/08	Vested Deferred RSUs Outstanding as of 12/27/08
Howard W. Barker, Jr.	\$ 116,288	62,100	\$ 65,618	1,400	26,400
John L. Cassis	\$ 116,288	62,100	\$ 65,618	1,400	26,400
Nancy-Ann DeParle	\$ 21,581	1,900	\$ 14,932	400	0
Michael Goldstein	\$ 116,288	62,100	\$ 65,618	1,400	26,400
Charles M. Lillis	\$ 116,288	62,100	\$ 65,618	1,400	22,400
Myrtle S. Potter	\$ 116,288	8,300	\$ 65,618	1,400	200
William L. Roper	\$ 116,288	8,300	\$ 65,618	1,400	200
David D. Stevens	\$ 116,288	154,100	\$ 65,618	1,400	2,400
Blenda J. Wilson	\$ 116,288	62,100	\$ 65,618	1,400	26,400

4. The amount in column (d) reflects the annual premium for business travel accident insurance for all directors.
5. Ms. DeParle was appointed to the Board of Directors effective October 22, 2008 and resigned March 3, 2009.
6. Mr. Stevens was employed by Accredo through August 2006 and was elected to the Board of Directors on May 24, 2006. Mr. Stevens received executive life and disability benefits under his employment agreement and those benefits continued through August 2008.
7. Dr. Wilson elected to defer 100% of the fees reported in column (a) under the Medco Health Solutions, Inc. Deferred Compensation Plan for Directors. Her account had a negative return through December 31, 2008. Dr. Wilson's deferred fees will be paid upon her termination from service on the Board of Directors.