

Express Scripts Holding Co.
Form 10-Q
October 28, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF
1934

For the quarterly period ended September 30, 2014.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF
1934

For the transition period from _____ to _____.

Commission File Number: 1-35490

EXPRESS SCRIPTS HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Delaware 45-2884094
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One Express Way, St. Louis, MO 63121
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (314) 996-0900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Common stock outstanding as of September 30, 2014: 733,910,000 Shares

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
INDEX

| | | |
|----------------|--|-----------|
| <u>Part I</u> | <u>Financial Information</u> | |
| | <u>Item 1. Financial Statements (unaudited)</u> | <u>3</u> |
| | a) <u>Unaudited Consolidated Balance Sheet</u> | <u>3</u> |
| | b) <u>Unaudited Consolidated Statement of Operations</u> | <u>4</u> |
| | c) <u>Unaudited Consolidated Statement of Comprehensive Income</u> | <u>5</u> |
| | d) <u>Unaudited Consolidated Statement of Changes in Stockholders' Equity</u> | <u>6</u> |
| | e) <u>Unaudited Consolidated Statement of Cash Flows</u> | <u>7</u> |
| | f) <u>Notes to Unaudited Consolidated Financial Statements</u> | <u>8</u> |
| | <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>27</u> |
| | <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>38</u> |
| | <u>Item 4. Controls and Procedures</u> | <u>38</u> |
| <u>Part II</u> | <u>Other Information</u> | |
| | <u>Item 1. Legal Proceedings</u> | <u>39</u> |
| | Item 1A. Risk Factors – (Not Applicable) | — |
| | <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>40</u> |
| | Item 3. Defaults Upon Senior Securities – (Not Applicable) | — |
| | Item 4. Mine Safety Disclosures – (Not Applicable) | — |
| | Item 5. Other Information – (Not Applicable) | — |
| | <u>Item 6. Exhibits</u> | <u>40</u> |
| | <u>Signatures</u> | <u>41</u> |
| | <u>Index to Exhibits</u> | <u>42</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Balance Sheet

| (in millions) | September 30, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$834.8 | \$1,991.4 |
| Restricted cash and investments | 23.5 | 22.8 |
| Receivables, net | 6,384.5 | 4,022.9 |
| Inventories | 1,789.8 | 1,871.1 |
| Deferred taxes | 439.5 | 455.4 |
| Prepaid expenses and other current assets | 232.6 | 96.8 |
| Current assets of discontinued operations | — | 31.0 |
| Total current assets | 9,704.7 | 8,491.4 |
| Property and equipment, net | 1,639.9 | 1,658.9 |
| Goodwill | 29,304.3 | 29,305.4 |
| Other intangible assets, net | 12,695.6 | 14,015.6 |
| Other assets | 94.7 | 76.9 |
| Total assets | \$53,439.2 | \$53,548.2 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Claims and rebates payable | \$7,815.0 | \$6,767.8 |
| Accounts payable | 2,971.5 | 2,900.0 |
| Accrued expenses | 1,890.6 | 1,982.2 |
| Current maturities of long-term debt | 3,245.4 | 1,584.0 |
| Current liabilities of discontinued operations | — | 1.3 |
| Total current liabilities | 15,922.5 | 13,235.3 |
| Long-term debt | 11,442.0 | 12,363.0 |
| Deferred taxes | 5,209.5 | 5,440.6 |
| Other liabilities | 696.9 | 664.4 |
| Noncurrent liabilities of discontinued operations | — | 0.1 |
| Total liabilities | 33,270.9 | 31,703.4 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Preferred stock, 15.0 shares authorized, \$0.01 par value per share; and no shares issued and outstanding | — | — |
| Common stock, 2,985.0 shares authorized, \$0.01 par value; shares issued: 846.3 and 834.0, respectively; shares outstanding: 733.9 and 773.6, respectively | 8.5 | 8.3 |
| Additional paid-in capital | 22,532.3 | 21,809.9 |
| Accumulated other comprehensive income | 7.0 | 11.7 |
| Retained earnings | 5,338.6 | 3,912.8 |
| | 27,886.4 | 25,742.7 |
| Common stock in treasury at cost, 112.4 and 60.4 shares, respectively | (7,728.7 |) (3,905.3 |
| Total Express Scripts stockholders' equity | 20,157.7 | 21,837.4 |
| Non-controlling interest | 10.6 | 7.4 |

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| | | |
|---|------------|------------|
| Total stockholders' equity | 20,168.3 | 21,844.8 |
| Total liabilities and stockholders' equity | \$53,439.2 | \$53,548.2 |
| See accompanying Notes to Unaudited Consolidated Financial Statements | | |

3

Table of ContentsEXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Operations

| (in millions, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenues ⁽¹⁾ | \$25,778.5 | \$25,915.6 | \$74,574.5 | \$78,317.4 |
| Cost of revenues ⁽¹⁾ | 23,705.5 | 23,921.4 | 68,743.4 | 72,246.0 |
| Gross profit | 2,073.0 | 1,994.2 | 5,831.1 | 6,071.4 |
| Selling, general and administrative | 1,088.6 | 1,118.7 | 3,171.5 | 3,348.5 |
| Operating income | 984.4 | 875.5 | 2,659.6 | 2,722.9 |
| Other (expense) income: | | | | |
| Equity income from joint venture | 7.2 | 6.3 | 13.6 | 23.1 |
| Interest income | 8.3 | 25.7 | 23.3 | 28.4 |
| Interest expense and other | (201.6 |) (127.4 |) (460.8 |) (470.4 |
| | (186.1 |) (95.4 |) (423.9 |) (418.9 |
| Income before income taxes | 798.3 | 780.1 | 2,235.7 | 2,304.0 |
| Provision for income taxes | 209.2 | 326.5 | 789.4 | 896.0 |
| Net income from continuing operations | 589.1 | 453.6 | 1,446.3 | 1,408.0 |
| Net loss from discontinued operations, net of tax | — | (15.5 |) — | (41.3 |
| Net income | 589.1 | 438.1 | 1,446.3 | 1,366.7 |
| Less: Net income attributable to non-controlling interest | 6.8 | 11.4 | 20.5 | 24.0 |
| Net income attributable to Express Scripts | \$582.3 | \$426.7 | \$1,425.8 | \$1,342.7 |
| Weighted-average number of common shares outstanding during the period: | | | | |
| Basic | 738.1 | 810.2 | 757.1 | 814.7 |
| Diluted | 746.0 | 822.9 | 766.1 | 828.0 |
| Basic earnings per share: | | | | |
| Continuing operations attributable to Express Scripts | \$0.79 | \$0.55 | \$1.88 | \$1.70 |
| Discontinued operations attributable to Express Scripts | — | (0.02 |) — | (0.05 |
| Net earnings attributable to Express Scripts | \$0.79 | \$0.53 | \$1.88 | \$1.65 |
| Diluted earnings per share: | | | | |
| Continuing operations attributable to Express Scripts | \$0.78 | \$0.54 | \$1.86 | \$1.67 |
| Discontinued operations attributable to Express Scripts | — | (0.02 |) — | (0.05 |
| Net earnings attributable to Express Scripts | \$0.78 | \$0.52 | \$1.86 | \$1.62 |
| Amounts attributable to Express Scripts shareholders: | | | | |
| Income from continuing operations, net of tax | \$582.3 | \$442.2 | \$1,425.8 | \$1,384.0 |
| Discontinued operations, net of tax | — | (15.5 |) — | (41.3 |
| Net income attributable to Express Scripts shareholders | \$582.3 | \$426.7 | \$1,425.8 | \$1,342.7 |

Includes retail pharmacy co-payments of \$2,418.3 and \$2,966.5 for the three months ended September 30, 2014 and 12013, respectively, and \$7,894.7 and \$9,845.2 for the nine months ended September 30, 2014 and 2013, respectively.

See accompanying Notes to Unaudited Consolidated Financial Statements

EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Statement of Comprehensive Income

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$589.1 | \$438.1 | \$1,446.3 | \$1,366.7 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustment | (5.9 |) 2.5 | (4.7 |) (3.5 |
| Comprehensive income | 583.2 | 440.6 | 1,441.6 | 1,363.2 |
| Less: Comprehensive income attributable to non-controlling interests | 6.8 | 11.4 | 20.5 | 24.0 |
| Comprehensive income attributable to Express Scripts | \$576.4 | \$429.2 | \$1,421.1 | \$1,339.2 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Statement of Changes in Stockholders' Equity

| (in millions) | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | Non- controlling Interest | Total |
|---|---------------------|-----------------|----------------------------------|---|----------------------|-------------------|---------------------------------|------------|
| | Common Stock | Common Stock | | | | | | |
| Balance at December 31, 2013 | 834.0 | \$ 8.3 | \$21,809.9 | \$ 11.7 | \$3,912.8 | \$(3,905.3) | \$7.4 | \$21,844.8 |
| Net income | — | — | — | — | 1,425.8 | — | 20.5 | 1,446.3 |
| Other comprehensive income | — | — | — | (4.7) | — | — | — | (4.7) |
| Treasury stock acquired | — | — | 149.9 | — | — | (3,823.4) | — | (3,673.5) |
| Changes in stockholders' equity related to employee stock plans | 12.3 | 0.2 | 572.5 | — | — | — | — | 572.7 |
| Distributions to non-controlling interest | — | — | — | — | — | — | (17.3) | (17.3) |
| Balance at September 30, 2014 | 846.3 | \$ 8.5 | \$22,532.3 | \$ 7.0 | \$5,338.6 | \$(7,728.7) | \$10.6 | \$20,168.3 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Statement of Cash Flows

| (in millions) | Nine Months Ended September 30, | |
|---|---------------------------------|------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 1,446.3 | \$ 1,366.7 |
| Net loss from discontinued operations, net of tax | — | 41.3 |
| Net income from continuing operations | 1,446.3 | 1,408.0 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,658.2 | 1,824.0 |
| Deferred income taxes | (272.9) | (376.2) |
| Employee stock-based compensation expense | 82.3 | 131.2 |
| Other, net | (17.1) | 25.8 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,420.3) | 194.5 |
| Inventories | 81.3 | 8.6 |
| Other current and noncurrent assets | (146.3) | 37.3 |
| Claims and rebates payable | 1,047.2 | (980.3) |
| Accounts payable | 93.1 | (320.5) |
| Other current and noncurrent liabilities | 72.8 | (109.3) |
| Net cash provided by operating activities - continuing operations | 1,624.6 | 1,843.1 |
| Net cash used in operating activities - discontinued operations | — | (20.7) |
| Net cash flows provided by operating activities | 1,624.6 | 1,822.4 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (327.0) | (274.6) |
| Proceeds from sale of business | — | 313.0 |
| Other | 7.7 | (26.3) |
| Net cash (used in) provided by investing activities - continuing operations | (319.3) | 12.1 |
| Net cash used in investing activities - discontinued operations | — | (2.1) |
| Net cash (used in) provided by investing activities | (319.3) | 10.0 |
| Cash flows from financing activities: | | |
| Treasury stock acquired | (3,673.5) | (1,552.5) |
| Proceeds from long-term debt, net of discounts | 2,490.1 | — |
| Repayment of long-term debt | (1,723.7) | (1,773.7) |
| Net proceeds from employee stock plans | 419.4 | 383.6 |
| Excess tax benefit relating to employee stock compensation | 75.4 | 23.2 |
| Distributions paid to non-controlling interest | (17.1) | (18.0) |
| Other | (29.1) | 15.4 |
| Net cash used in financing activities | (2,458.5) | (2,922.0) |
| Effect of foreign currency translation adjustment | (3.4) | (4.5) |
| Less: cash decrease attributable to discontinued operations | — | 23.3 |
| Net decrease in cash and cash equivalents | (1,156.6) | (1,070.8) |
| Cash and cash equivalents at beginning of period | 1,991.4 | 2,793.1 |
| Cash and cash equivalents at end of period | \$ 834.8 | \$ 1,722.3 |
| See accompanying Notes to Unaudited Consolidated Financial Statements | | |

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies

On April 2, 2012, Express Scripts, Inc. (“ESI”) consummated a merger (the “Merger”) with Medco Health Solutions, Inc. (“Medco”) and both ESI and Medco became wholly-owned subsidiaries of Express Scripts Holding Company (the “Company” or “Express Scripts”). “We,” “our” or “us” refers to Express Scripts Holding Company and its subsidiaries. Our significant accounting policies, normally included in financial statements prepared in conformity with generally accepted accounting principles, have been omitted from this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Express Scripts believes the disclosures contained in this Form 10-Q are adequate to fairly state the information when read in conjunction with the Notes to the Consolidated Financial Statements included in Express Scripts’ 2013 Annual Financial Statements for the year ended December 31, 2013 included in Express Scripts’ Current Report on Form 8-K filed with the SEC on June 2, 2014. For a full description of our accounting policies, refer to the Notes to the Consolidated Financial Statements included in Express Scripts’ Current Report on Form 8-K filed with the SEC on June 2, 2014.

We believe the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the unaudited consolidated balance sheet as of September 30, 2014 and the consolidated balance sheet as of December 31, 2013, unaudited consolidated statement of operations and unaudited consolidated statement of comprehensive income for the three and nine months ended September 30, 2014 and 2013, the unaudited consolidated statement of changes in stockholders’ equity for the nine months ended September 30, 2014, and the unaudited consolidated statement of cash flows for the nine months ended September 30, 2014 and 2013. Certain amounts in the prior year have been reclassified to conform to the current year presentation. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Discontinued Operations. During 2012, we determined that various businesses acquired in the Merger were no longer core to our future operations and committed to a plan to dispose of these businesses. During 2013, we entered into an agreement for the sale of our acute infusion therapies line of business. As a result, these businesses are classified as discontinued operations. In accordance with applicable accounting guidance, the results of operations for these entities are reported as discontinued operations for all periods presented in the accompanying unaudited consolidated statement of operations. Additionally, for all periods presented, assets and liabilities of the discontinued operations are segregated in the accompanying consolidated balance sheet and cash flows of our discontinued operations are segregated in our accompanying unaudited consolidated statement of cash flows (see Note 3 - Dispositions).

New Accounting Guidance. In April 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance containing changes to the criteria for determining which disposals can be presented as discontinued operations and modifying related disclosure requirements. This statement is effective for financial statements issued for annual periods beginning after December 15, 2014. Adoption of the standard is not expected to have a material impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers which supersedes ASC 605, Revenue Recognition. The new standard requires companies to recognize revenue upon transfer of goods or services to customers in amounts that reflect the consideration which the company expects to receive in exchange for those goods or services. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and early application is not permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

Table of Contents

Note 2 - Fair value measurements

Accounting guidance regarding fair value measurement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices for similar assets and liabilities in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Financial assets accounted for at fair value on a recurring basis include cash equivalents of \$193.2 million and \$845.2 million, restricted cash and investments of \$23.5 million and \$22.8 million and trading securities (included in other assets) of \$24.7 million and \$18.7 million, at September 30, 2014 and December 31, 2013, respectively. These assets are carried at fair value based on quoted prices in active markets for identical securities (Level 1 inputs). Cash equivalents include investments in AAA-rated money market mutual funds with maturities of less than 90 days. The carrying value of cash and cash equivalents (Level 1), restricted cash and investments (Level 1), accounts receivable, claims and rebates payable, and accounts payable approximated fair values due to the short-term maturities of these instruments. The fair value, which approximates the carrying value, of our bank credit facility (Level 2) was estimated using the current rates offered to us for debt with similar maturities. The carrying values, net of unamortized discounts and premiums, and the fair values of our senior notes are shown in the following table:

| (in millions) | September 30, 2014 | | December 31, 2013 | |
|------------------------------------|--------------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| March 2008 Senior Notes | | | | |
| 7.125% senior notes due 2018 | \$1,348.6 | \$1,400.8 | \$1,378.5 | \$1,420.4 |
| June 2009 Senior Notes | | | | |
| 7.250% senior notes due 2019 | 498.1 | 605.5 | 497.9 | 607.8 |
| September 2010 Senior Notes | | | | |
| 4.125% senior notes due 2020 | 506.1 | 534.8 | 506.8 | 519.7 |
| 2.750% senior notes due 2015 | 503.9 | 509.6 | 506.9 | 514.9 |
| | 1,010.0 | 1,044.4 | 1,013.7 | 1,034.6 |
| May 2011 Senior Notes | | | | |
| 3.125% senior notes due 2016 | 1,497.9 | 1,552.1 | 1,497.0 | 1,566.2 |
| November 2011 Senior Notes | | | | |
| 3.500% senior notes due 2016 | — | — | 1,249.8 | 1,324.4 |
| 4.750% senior notes due 2021 | 1,241.9 | 1,370.1 | 1,241.2 | 1,325.4 |
| 2.750% senior notes due 2014 | 900.0 | 902.6 | 899.7 | 917.1 |
| 6.125% senior notes due 2041 | 698.5 | 861.4 | 698.4 | 801.0 |
| | 2,840.4 | 3,134.1 | 4,089.1 | 4,367.9 |
| February 2012 Senior Notes | | | | |
| 2.650% senior notes due 2017 | 1,492.9 | 1,545.2 | 1,490.7 | 1,548.0 |
| 2.100% senior notes due 2015 | 999.4 | 1,005.4 | 998.1 | 1,014.4 |
| 3.900% senior notes due 2022 | 983.3 | 1,037.2 | 981.9 | 1,003.4 |
| | 3,475.6 | 3,587.8 | 3,470.7 | 3,565.8 |
| June 2014 Senior Notes | | | | |
| 2.250% senior notes due 2019 | 997.7 | 989.8 | — | — |
| 3.500% senior notes due 2024 | 992.9 | 985.8 | — | — |
| 1.250% senior notes due 2017 | 499.8 | 496.9 | — | — |
| | 2,490.4 | 2,472.5 | — | — |

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| | | | | |
|-------|------------|------------|------------|------------|
| Total | \$13,161.0 | \$13,797.2 | \$11,946.9 | \$12,562.7 |
|-------|------------|------------|------------|------------|

9

Table of Contents

The fair values of our senior notes were estimated based on observable market information (Level 2 inputs). In determining the fair value of liabilities, we took into consideration the risk of nonperformance. Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which the liability would be transferred to a market participant. This risk did not have a material impact on the fair value of our liabilities.

Note 3 - Dispositions

Sale of portions of UBC. On August 15, 2013, we completed the sale of the portion of our United BioSource LLC (“UBC”) business related to specialty services for pre-market trials located in Wayne, Pennsylvania. On July 1, 2013, we completed the sale of the portion of our UBC business related to providing health economics, outcomes research, data analytics and market access services located in Bethesda, Maryland. On June 7, 2013, we completed the sale of the portion of our UBC business which primarily provided technology solutions and publications for biopharmaceutical companies located in Horsham, United Kingdom. Our disposed UBC operations were included within our Other Business Operations segment before being classified as discontinued operations as of December 31, 2012.

Sale of our acute infusion therapies line of business. On November 1, 2013, we completed the sale of our acute infusion therapies line of business, which was included within our pharmacy benefit management (“PBM”) segment before being classified as a discontinued operation as of September 30, 2013.

Disposition of Europe. During the fourth quarter of 2012, we determined that our operations in Europe, which were included within our Other Business Operations segment, were not core to our future operations and committed to a plan to dispose of this business. As a result, this business was classified as discontinued as of December 31, 2012. Our European operations primarily consisted of clinical and specialty pharmacy management services. As of March 31, 2014, our European operations were substantially shut down.

The results of the disposed portions of UBC, as discussed above, our European operations and our acute infusion therapies line of business are reported as discontinued operations in the accompanying unaudited consolidated statements of operations for the three and nine months ended September 30, 2013. Additionally, cash flows of our discontinued operations are segregated in our accompanying unaudited consolidated statements of cash flows for the nine months ended September 30, 2013. Finally, assets and liabilities of these businesses held were segregated in our accompanying consolidated balance sheet as of December 31, 2013. As of December 31, 2013, total assets of discontinued operations were \$31.0 million and total liabilities of discontinued operations were \$1.4 million. There were no assets or liabilities of discontinued operations as of September 30, 2014.

Certain information with respect to discontinued operations, as discussed above, for the three and nine months ended September 30, 2013 is summarized below. There were no discontinued operations for the three and nine months ended September 30, 2014.

| (in millions) | Three months ended September 30, 2013 | Nine months ended September 30, 2013 |
|---|---|--|
| Revenues | \$136.2 | \$474.1 |
| Operating loss | (1.8) | (15.9) |
| Income tax expense from discontinued operations | (13.7) | (25.4) |
| Net loss from discontinued operations, net of tax | (15.5) | (41.3) |

Table of Contents

Note 4 - Goodwill and other intangible assets

The following is a summary of our goodwill and other intangible assets for our two reportable segments: PBM and Other Business Operations.

| (in millions) | September 30, 2014 | | | December 31, 2013 | | |
|-----------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Goodwill | | | | | | |
| PBM | \$29,314.1 | \$(107.2) | \$29,206.9 | \$29,315.4 | \$(107.4) | \$29,208.0 |
| Other Business Operations | 97.4 | — | 97.4 | 97.4 | — | 97.4 |
| | \$29,411.5 | \$(107.2) | \$29,304.3 | \$29,412.8 | \$(107.4) | \$29,305.4 |
| Other intangible assets | | | | | | |
| PBM | | | | | | |
| Customer contracts ⁽¹⁾ | \$17,571.7 | \$(5,178.3) | \$12,393.4 | \$17,602.3 | \$(3,926.2) | \$13,676.1 |
| Trade names | 226.6 | (55.7) | 170.9 | 226.6 | (39.0) | 187.6 |
| Miscellaneous ⁽²⁾ | 120.8 | (57.8) | 63.0 | 111.6 | (47.4) | 64.2 |
| | 17,919.1 | (5,291.8) | 12,627.3 | 17,940.5 | (4,012.6) | 13,927.9 |
| Other Business Operations | | | | | | |
| Customer relationships | 120.2 | (78.7) | 41.5 | 127.3 | (69.2) | 58.1 |
| Trade names | 35.8 | (9.0) | 26.8 | 35.8 | (6.2) | 29.6 |
| | 156.0 | (87.7) | 68.3 | 163.1 | (75.4) | 87.7 |
| Total other intangible assets | \$18,075.1 | \$(5,379.5) | \$12,695.6 | \$18,103.6 | \$(4,088.0) | \$14,015.6 |

PBM customer contracts balance as of September 30, 2014 reflects a decrease of \$2.2 million due to the finalization of the purchase price related to the SmartD asset acquisition, as discussed below. Changes in gross PBM customer contracts and related accumulated amortization also reflect a decrease of \$28.0 million related to the write-off of a fully amortized asset.

(2) Gross PBM miscellaneous balance as of September 30, 2014 reflects an increase of \$18.2 million due to the recognition of deferred financing fees related to the June 2014 Senior Notes (as defined in Note 6 - Financing).

Our PBM gross customer contract balance as of December 31, 2013 includes \$14.5 million related to our asset acquisition of the SmartD Medicare Prescription Drug Plan (“PDP”) on September 1, 2013. During the first quarter of 2014, we finalized the purchase price related to the customer contract, resulting in a reduction of the asset value by \$2.2 million.

The aggregate amount of amortization expense of other intangible assets for our continuing operations was \$446.5 million and \$510.0 million for the three months ended September 30, 2014 and 2013, respectively, and \$1,335.8 million and \$1,527.5 million for the nine months ended September 30, 2014 and 2013, respectively. In accordance with applicable accounting guidance, amortization for customer contracts related to our agreement to provide PBM services to members of the affiliated health plans of Anthem (formerly known as WellPoint) has been included as an offset to revenues in the amount of \$28.5 million for each of the three months ended September 30, 2014 and 2013, respectively, and \$85.5 million for each of the nine months ended September 30, 2014 and 2013, respectively. The aggregate amount of amortization expense of other intangible assets for our continuing operations is expected to be approximately \$1,771.8 million for 2014, \$1,746.7 million for 2015, \$1,740.9 million for 2016, \$1,324.2 million for 2017 and \$1,313.1 million for 2018. The weighted-average amortization period of intangible assets subject to amortization is 16 years, and by major intangible asset class is 5 to 20 years for customer-related intangible assets and 2 to 30 years for other intangible assets.

A summary of the change in the net carrying value of goodwill by business segment is shown in the following table:

| (in millions) | PBM | Other Business Operations | Total |
|------------------------------|------------|---------------------------|------------|
| Balance at December 31, 2013 | \$29,208.0 | \$97.4 | \$29,305.4 |

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| | | | | |
|-------------------------------|------------|--------|------------|---|
| Foreign currency translation | (1.1 |) — | (1.1 |) |
| Balance at September 30, 2014 | \$29,206.9 | \$97.4 | \$29,304.3 | |

11

Table of Contents

Note 5 - Earnings per share

Basic earnings per share (“EPS”) is computed using the weighted-average number of common shares outstanding during the period. Diluted EPS is computed in the same manner as basic EPS but adds the number of additional common shares that would have been outstanding for the period if the dilutive potential common shares had been issued. All shares are calculated under the “treasury stock” method. The following is the reconciliation between the number of weighted-average shares used in the basic and diluted EPS calculations for all periods:

| (in millions) | Three Months Ended | | Nine Months Ended | |
|--|---------------------|-------|---------------------|-------|
| | September 30, | | September 30, | |
| | 2014 ⁽¹⁾ | 2013 | 2014 ⁽¹⁾ | 2013 |
| Weighted-average number of common shares outstanding during the period—basic | 738.1 | 810.2 | 757.1 | 814.7 |
| Dilutive common stock equivalents: | | | | |
| Outstanding stock options, “stock-settled” stock appreciation rights, restricted stock units and executive deferred compensation units | 7.9 | 12.7 | 9.0 | 13.3 |
| Weighted-average number of common shares outstanding during the period—diluted ⁽²⁾ | 746.0 | 822.9 | 766.1 | 828.0 |

The decrease in the weighted-average number of common shares outstanding for the three and nine months ended (1) September 30, 2014 for basic and diluted EPS is primarily due to a total of 112.4 million shares held in treasury on September 30, 2014 as compared to 24.9 million shares on September 30, 2013.

Excludes awards of 2.9 million and 3.0 million for the three months ended September 30, 2014 and 2013, (2) respectively, and 2.3 million and 4.1 million for the nine months ended September 30, 2014 and 2013, respectively. These were excluded because their effect was anti-dilutive.

Table of Contents

Note 6 - Financing

Our total debt, net of unamortized discounts and premiums, consists of:

| (in millions) | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| Long-term debt: | | |
| March 2008 Senior Notes | | |
| 7.125% senior notes due 2018 | \$ 1,348.6 | \$ 1,378.5 |
| June 2009 Senior Notes | | |
| 7.250% senior notes due 2019 | 498.1 | 497.9 |
| September 2010 Senior Notes | | |
| 4.125% senior notes due 2020 | 506.1 | 506.8 |
| 2.750% senior notes due 2015 | 503.9 | 506.9 |
| | 1,010.0 | 1,013.7 |
| May 2011 Senior Notes | | |
| 3.125% senior notes due 2016 | 1,497.9 | 1,497.0 |
| November 2011 Senior Notes | | |
| 3.500% senior notes due 2016 | — | 1,249.8 |
| 4.750% senior notes due 2021 | 1,241.9 | 1,241.2 |
| 2.750% senior notes due 2014 | 900.0 | 899.7 |
| 6.125% senior notes due 2041 | 698.5 | 698.4 |
| | 2,840.4 | 4,089.1 |
| February 2012 Senior Notes | | |
| 2.650% senior notes due 2017 | 1,492.9 | 1,490.7 |
| 2.100% senior notes due 2015 | 999.4 | 998.1 |
| 3.900% senior notes due 2022 | 983.3 | 981.9 |
| | 3,475.6 | 3,470.7 |
| June 2014 Senior Notes | | |
| 2.250% senior notes due 2019 | 997.7 | — |
| 3.500% senior notes due 2024 | 992.9 | — |
| 1.250% senior notes due 2017 | 499.8 | — |
| | 2,490.4 | — |
| Term facility due August 29, 2016 with an average interest rate of 1.90% at September 30, 2014 and 1.92% at December 31, 2013 | 1,526.4 | 2,000.0 |
| Other | — | 0.1 |
| Total debt | 14,687.4 | 13,947.0 |
| Less: Current maturities of long-term debt | 3,245.4 | 1,584.0 |
| Total long-term debt | \$ 11,442.0 | \$ 12,363.0 |

BANK CREDIT FACILITIES

On August 29, 2011, ESI entered into a credit agreement (the “credit agreement”) with a commercial bank syndicate providing for a five-year \$4,000.0 million term loan facility (the “term facility”) and a \$1,500.0 million revolving loan facility (the “revolving facility”). The term facility was used to pay a portion of the cash consideration in connection with the Merger, to repay existing indebtedness and to pay related fees and expenses. Upon consummation of the Merger, Express Scripts assumed the obligations of ESI and became the borrower under the credit agreement and revolving facility. Subsequent to consummation of the Merger on April 2, 2012, the revolving facility has been available for general corporate purposes. The term facility and the revolving facility both mature on August 29, 2016.

As of September 30, 2014, no amounts were drawn

13

Table of Contents

under the revolving facility. We make quarterly principal payments on the term facility. As of September 30, 2014, \$842.1 million of this facility was considered current maturities of long-term debt.

The credit agreement requires interest to be paid at the LIBOR or adjusted base rate options, plus a margin. The margin over LIBOR ranges from 1.25% to 1.75% for the term facility and 1.10% to 1.55% for the revolving facility, and the margin over the base rate options ranges from 0.25% to 0.75% for the term facility and 0.10% to 0.55% for the revolving facility, depending on our consolidated leverage ratio. Under the credit agreement, we are required to pay commitment fees on the unused portion of the \$1,500.0 million revolving facility. The commitment fee ranges from 0.15% to 0.20% depending on our consolidated leverage ratio.

SENIOR NOTES

On June 5, 2014, we issued \$2,500.0 million of senior notes (the “June 2014 Senior Notes”), including:

\$500.0 million aggregate principal amount of 1.250% senior notes due 2017 (“June 2017 Senior Notes”)

\$1,000.0 million aggregate principal amount of 2.250% senior notes due 2019 (“June 2019 Senior Notes”)

\$1,000.0 million aggregate principal amount of 3.500% senior notes due 2024 (“June 2024 Senior Notes”)

A portion of the net proceeds from the sale of the June 2014 Senior Notes was used to redeem all of the Company’s outstanding 3.500% senior notes due 2016 (which were redeemed in July 2014) and the remainder of the proceeds is intended (i) to pay a portion of the Company’s outstanding 2.750% senior notes due 2014 at their maturity on November 15, 2014 and (ii) for general corporate purposes, which includes repurchases of the Company’s common stock under its share repurchase program pursuant to open market transactions. On June 5, 2014, the Company issued an irrevocable notice of redemption in respect of its 3.500% senior notes due 2016.

In July 2014, the Company redeemed its \$1,250.0 million aggregate principal amount of 3.500% senior notes due 2016 using the proceeds from the June 2014 Senior Notes. These notes were redeemable at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the notes being redeemed, plus accrued and unpaid interest; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed, not including unpaid interest accrued to the redemption date, discounted to the redemption date on a semiannual basis at the treasury rate plus 40 basis points with respect to the notes being redeemed, plus unpaid interest of the notes being redeemed accrued to the redemption date. Total cash payments related to the redemption of these notes were \$1,321.5 million, which included \$71.5 million of redemption costs.

The June 2017 Senior Notes will pay interest semiannually on June 2 and December 2. The June 2019 Senior Notes and the June 2024 Senior Notes will pay interest semiannually on June 15 and December 15. We may redeem some or all of each series of June 2014 Senior Notes prior to maturity at a price equal to the greater of (1) 100% of the aggregate principal amount of any notes being redeemed, plus accrued and unpaid interest; or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed, not including unpaid interest accrued to the redemption date, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 10 basis points with respect to any June 2017 Senior Notes being redeemed, 15 basis points with respect to any June 2019 Senior Notes being redeemed, or 20 basis points with respect to any June 2024 Senior Notes being redeemed plus, in each case, unpaid interest on the notes being redeemed, accrued to the redemption date. The June 2014 Senior Notes are jointly and severally and fully and unconditionally (subject to certain customary release provisions, including sale, exchange, transfer or liquidation of the guarantor subsidiary) guaranteed on a senior unsecured basis by most of our current and future 100% owned domestic subsidiaries.

Financing costs of \$18.2 million for the issuance of the June 2014 Senior Notes are being amortized over a weighted-average period of 6.6 years and are reflected in the “Other intangible assets, net” line item in the accompanying unaudited consolidated balance sheet.

COVENANTS

Our bank financing arrangements and senior notes contain customary covenants that restrict our ability to incur additional indebtedness, create or permit liens on assets and engage in mergers or consolidations. The covenants related to bank financing arrangements also include, among others, minimum interest coverage ratios and maximum leverage ratios. The March 2008 Senior Notes are also subject to an interest rate adjustment in the event of a downgrade in the ratings to below investment grade. At September 30, 2014, we were in compliance with all

covenants associated with our debt instruments, including the credit agreement and our senior notes.

14

Table of Contents

Note 7 - Income taxes

We recognized discrete benefits from continuing operations of \$83.6 million and \$45.6 million for the three and nine months ended September 30, 2014, respectively, as compared to discrete charges of \$38.7 million and \$29.7 million for the same periods in 2013. Our 2014 net discrete benefits relate primarily to a change in estimate resulting in the recognition of tax benefits for a permanent deduction related to our domestic production activities, offset by charges related to interest on and changes in our unrecognized tax benefits and the deferred tax implications of newly enacted state laws. Our 2013 net discrete charges primarily relate to changes in our unrecognized tax benefits, the deferred tax implications of newly enacted state laws and investments in certain foreign subsidiaries that were subsequently realized.

We believe that it is reasonably possible that our unrecognized tax benefits could significantly change within the next twelve months due to the anticipated conclusion of various examinations with taxing authorities. An estimate of the range of a reasonably possible change in the next twelve months cannot be made.

Note 8 - Common stock

On December 9, 2013, as part of our Share Repurchase Program discussed below, we entered into an agreement to repurchase shares of our common stock for an aggregate purchase price of \$1,500.0 million (the "ASR Program") under an Accelerated Share Repurchase agreement (the "ASR Agreement"). Under the terms of the ASR Agreement, upon payment of the purchase price, we received an initial delivery of 20.1 million shares of our common stock at a price of \$67.16 per share, which represented, based on the closing share price of our common stock on NASDAQ on December 9, 2013, approximately 90% of the \$1,500.0 million amount of the ASR Program. The final purchase price per share (the "forward price") and the final number of shares received was determined using the arithmetic mean of the daily volume-weighted average price of the Company's common stock (the "VWAP") over the term of the ASR Program less a discount granted under the ASR Agreement. In April 2014, we settled the ASR Agreement and received 0.6 million additional shares, resulting in a total of 20.7 million shares received under the ASR Agreement.

The ASR Agreement was accounted for as an initial treasury stock transaction and a forward stock purchase contract. We recorded this transaction as an increase to treasury stock of \$1,350.1 million, and recorded the remaining \$149.9 million as a decrease to additional paid-in capital in the consolidated balance sheet at December 31, 2013. The \$149.9 million recorded in additional paid-in capital was reclassified to treasury stock upon completion of the ASR Program on April 16, 2014. The forward stock purchase contract was classified as an equity instrument under applicable accounting guidance and was deemed to have a fair value of zero at the effective date of the ASR Agreement. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share on the effective date of the ASR Agreement. The remaining 0.6 million shares received for the settlement to the ASR Program reduced weighted-average common shares outstanding for the nine months ended September 30, 2014.

Including the shares repurchased through the ASR Agreement, under our existing share repurchase program (the "Share Repurchase Program") originally announced on March 6, 2013, we repurchased 14.1 million and 11.6 million shares for \$1,013.6 million and \$751.5 million during the three months ended September 30, 2014 and 2013, respectively, and 52.0 million and 24.9 million shares for \$3,823.4 million and \$1,552.5 million during the nine months ended September 30, 2014 and 2013, respectively. On March 5, 2014, the Board of Directors of Express Scripts approved an increase in the authorized number of shares that may be repurchased under the Share Repurchase Program by an additional 65.0 million shares, for a total authorization of 140.0 million shares (including shares previously purchased, as adjusted for any subsequent stock split, stock dividend or similar transaction), of the Company's common stock. There is no limit on the duration of the Share Repurchase Program. As of September 30, 2014, there were 28.8 million shares remaining under the Share Repurchase Program. Additional share repurchases, if any, will be made in such amounts and at such times as we deem appropriate based upon prevailing market and business conditions and other factors. Current year repurchases were funded through internally generated cash and debt.

Note 9 - Stock-based compensation plans

In March 2011, ESI's Board of Directors adopted the ESI 2011 Long-Term Incentive Plan (the "2011 LTIP"), which provides for the grant of various equity awards with various terms to our officers, directors and key employees selected by the Compensation Committee of the Board of Directors. The 2011 LTIP was approved by ESI's

stockholders in May 2011 and became effective June 1, 2011. Upon consummation of the Merger, the Company assumed sponsorship of the 2011 LTIP. Under the 2011 LTIP, we may issue stock options, stock-settled stock appreciation rights (“SSRs”), restricted stock units, restricted stock awards, performance share awards and other types of awards. Subsequent to the effective date of the 2011 LTIP, no additional awards have been or will be granted under the 2000 Long-Term Incentive Plan (“2000 LTIP”), which provided for

15

Table of Contents

the grant of various equity awards with various terms to our officers, directors and key employees selected by the Compensation Committee of the Board of Directors.

Effective upon the closing of the Merger, the Company assumed sponsorship of the Medco Health Solutions, Inc. 2002 Stock Incentive Plan (the “2002 Stock Incentive Plan”), allowing Express Scripts to issue awards under this plan. Under the 2002 Stock Incentive Plan, Medco granted, and, following the Merger, Express Scripts has granted and may continue to grant, stock options, restricted stock units and other types of awards to officers, employees and directors. Awards granted under the 2000 LTIP, the 2011 LTIP and the 2002 Stock Incentive Plan are subject to accelerated vesting under certain specified circumstances resulting from a change in control and termination. The maximum term of stock options, SSRs, restricted stock and performance shares granted under the 2000 LTIP, the 2011 LTIP and the 2002 Stock Incentive Plan is 10 years.

Under our stock-based compensation plans, we have issued stock options, SSRs, restricted stock awards, restricted stock units and performance share awards. Subsequent to the Merger, all awards have been settled by issuance of new shares. During the nine months ended September 30, 2014, we granted 3.1 million stock options with a weighted-average fair market value of \$17.98 per share. The SSRs and stock options granted under the 2000 LTIP, 2011 LTIP and 2002 Stock Incentive Plan generally have three-year graded vesting. Due to the nature of the awards, we use the same valuation methods and accounting treatments for SSRs and stock options.

The fair value of options and SSRs granted is estimated on the date of grant using a Black-Scholes multiple option-pricing model with the following weighted-average assumptions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Expected life of option | 3-5 years | 4-5 years | 3-5 years | 4-5 years |
| Risk-free interest rate | 1.0%-1.8% | 1.3%-1.7% | 0.7%-1.8% | 0.6%-1.7% |
| Expected volatility of stock | 25%-27% | 28%-35% | 25%-29% | 28%-37% |
| Expected dividend yield | None | None | None | None |

The Black-Scholes model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term and forfeiture rate of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior as well as expected behavior on outstanding options. The risk-free rate is based on the U.S. Treasury rates in effect during the corresponding period of grant. The expected volatility is based on the historical volatility of our stock price. These factors could change in the future, which would affect the stock-based compensation expense recognized in future periods.

During the nine months ended September 30, 2014, we granted to certain officers and employees approximately 0.9 million restricted stock units and performance shares with a weighted-average fair market value of \$76.90 per share. Restricted stock units granted under the 2000 LTIP, 2011 LTIP and the 2002 Stock Incentive Plan generally vest on a three-year graded schedule. Performance shares generally cliff vest at the end of the three-year vesting period. The number of performance shares that ultimately vest is dependent upon the achievement of specific performance metrics. Prior to vesting, performance shares are subject to forfeiture without consideration upon termination of employment under certain circumstances. The original grant of performance shares is subject to a multiplier of up to 2.5 based on the achievement of certain performance metrics. Due to the achievement of certain performance metrics, during the nine months ended September 30, 2014, approximately 0.1 million additional performance shares were settled and common shares were issued to certain officers.

We recognized stock-based compensation expense of \$27.9 million and \$44.2 million in the three months ended September 30, 2014 and 2013, respectively, and \$82.3 million and \$131.2 million in the nine months ended September 30, 2014 and 2013, respectively. Unamortized stock-based compensation as of September 30, 2014 was \$45.2 million for stock options and SSRs and \$58.8 million for restricted stock units and performance shares.

Table of Contents

Note 10 - Commitments and contingencies

In the ordinary course of business there have arisen various legal proceedings, investigations, recoupment demands or claims now pending against us or our subsidiaries. In accordance with applicable accounting guidance, we record accruals for certain of our outstanding legal proceedings, investigations or claims when we believe it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. We evaluate, on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. We disclose the amount of the accrual if the financial statements would be otherwise misleading, which was not the case for any such accruals for the nine months ended September 30, 2014 or the year ended December 31, 2013.

We record self-insurance accruals based upon estimates of the aggregate liability of claim costs in excess of our insurance coverage. Accruals are estimated using certain actuarial assumptions followed in the insurance industry and our historical experience. The majority of these claims are legal claims and our liability estimate is related primarily to the cost to defend these claims. We do not accrue for settlements, judgments, monetary fines or penalties until such amounts are probable and estimable. Under authoritative accounting guidance, if the range of probable loss is broad, the liability accrued should be based on the low end of the range.

When a loss contingency is not believed to be both probable and estimable, we do not establish an accrued liability. However, if the loss (or an additional loss in excess of the accrual) is believed to be at least a reasonable possibility and material, then we disclose an estimate of the possible loss or range of loss, if such estimate can be made, or disclose that an estimate cannot be made.

The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve a series of complex judgments about future events. We are often unable to estimate a range of reasonably possible losses, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel or unsettled legal theories or a large number of parties. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss, fine, penalty or business impact. Accordingly, for many proceedings, we are currently unable to estimate the loss or a range of possible loss. For a limited number of proceedings, we may be able to reasonably estimate the possible range of loss in excess of any accruals. However, we believe that such matters, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material adverse effect on our consolidated cash flow or financial condition. We also believe that any amount that could be reasonably estimated in excess of accruals, if any, for such proceedings is not material. However, an adverse resolution of one or more of such matters could have a material adverse effect on our results of operations in a particular quarter or fiscal year.

While we believe our services and business practices are in compliance with applicable laws, rules and regulations in all material respects, we cannot predict the outcome of these claims at this time. An unfavorable outcome in one or more of these matters could result in the imposition of judgments, monetary fines or penalties, or injunctive or administrative remedies. We can give no assurance that such judgments, fines and remedies, and future costs associated with any such matters, would not have a material adverse effect on our financial condition, our consolidated results of operations or our consolidated cash flows.

Note 11 - Segment information

We report segments on the basis of services offered and have determined we have two reportable segments: PBM and Other Business Operations. Within the Other Business Operations segment, we have aggregated two operating segments that do not meet the quantitative and qualitative criteria to be separately reported. As disclosed in Express Scripts' Current Report on Form 8-K filed with the SEC on June 2, 2014, during the first quarter of 2014, we reorganized our business related primarily to pharmaceutical and biotechnology client patient access programs, including patient assistance programs, reimbursement, alternate funding and compliance services from our PBM segment into our Other Business Operations segment. All related segment disclosures for the three and nine months ended September 30, 2013 have been reclassified in the table below and throughout the financial statements, where appropriate, to reflect the new segment structure.

Operating income is the measure used by our chief operating decision maker to assess the performance of each of our operating segments. The following table presents information about our reportable segments, including a

reconciliation of operating income from continuing operations to income before income taxes from continuing operations, for the three and nine months ended September 30, 2014 and 2013.

17

Table of Contents

| (in millions) | PBM ⁽¹⁾ | Other Business Operations ⁽²⁾ | Total |
|---|--------------------|---|-------------|
| For the three months ended September 30, 2014 | | | |
| Product revenues: | | | |
| Network revenues ⁽³⁾ | \$ 14,722.0 | \$— | \$ 14,722.0 |
| Home delivery and specialty revenues ⁽⁴⁾ | 10,072.1 | — | 10,072.1 |
| Other revenues ⁽⁵⁾ | — | 571.9 | 571.9 |
| Service revenues | 339.0 | 73.5 | 412.5 |
| Total revenues | 25,133.1 | 645.4 | 25,778.5 |
| Depreciation and amortization expense | 535.4 | 11.6 | 547.0 |
| Operating income | 971.8 | 12.6 | 984.4 |
| Equity income from joint venture | | | 7.2 |
| Interest income | | | 8.3 |
| Interest expense and other | | | (201.6) |
| Income before income taxes | | | 798.3 |
| Capital expenditures | 113.4 | 4.8 | 118.2 |
| For the three months ended September 30, 2013 | | | |
| Product revenues: | | | |
| Network revenues ⁽³⁾ | \$ 15,387.3 | \$— | \$ 15,387.3 |
| Home delivery and specialty revenues ⁽⁴⁾ | 9,692.6 | — | 9,692.6 |
| Other revenues ⁽⁵⁾ | — | 546.8 | 546.8 |
| Service revenues | 225.3 | 63.6 | 288.9 |
| Total revenues | 25,305.2 | 610.4 | 25,915.6 |
| Depreciation and amortization expense | 607.3 | 7.0 | 614.3 |
| Operating income | 862.8 | 12.7 | 875.5 |
| Equity income from joint venture | | | 6.3 |
| Interest income | | | 25.7 |
| Interest expense and other | | | (127.4) |
| Income before income taxes | | | 780.1 |
| Capital expenditures | 76.5 | 3.2 | 79.7 |
| For the nine months ended September 30, 2014 | | | |
| Product revenues: | | | |
| Network revenues ⁽³⁾ | \$ 43,239.3 | \$— | \$ 43,239.3 |
| Home delivery and specialty revenues ⁽⁴⁾ | 28,545.4 | — | 28,545.4 |
| Other revenues ⁽⁵⁾ | — | 1,637.8 | 1,637.8 |
| Service revenues | 933.0 | 219.0 | 1,152.0 |
| Total revenues | 72,717.7 | 1,856.8 | 74,574.5 |
| Depreciation and amortization expense | 1,632.2 | 26.0 | 1,658.2 |
| Operating income | 2,619.3 | 40.3 | 2,659.6 |
| Equity income from joint venture | | | 13.6 |
| Interest income | | | 23.3 |
| Interest expense and other | | | (460.8) |
| Income before income taxes | | | 2,235.7 |
| Capital expenditures | 311.6 | 15.4 | 327.0 |

Table of Contents

| (in millions) | PBM ⁽¹⁾ | Other Business Operations ⁽²⁾ | Total |
|---|--------------------|--|------------|
| For the nine months ended September 30, 2013 | | | |
| Product revenues: | | | |
| Network revenues ⁽³⁾ | \$47,758.8 | \$— | \$47,758.8 |
| Home delivery and specialty revenues ⁽⁴⁾ | 28,126.9 | — | 28,126.9 |
| Other revenues ⁽⁵⁾ | — | 1,526.2 | 1,526.2 |
| Service revenues | 709.2 | 196.3 | 905.5 |
| Total revenues | 76,594.9 | 1,722.5 | 78,317.4 |
| Depreciation and amortization expense | 1,803.4 | 20.6 | 1,824.0 |
| Operating income | 2,683.9 | 39.0 | 2,722.9 |
| Equity income from joint venture | | | 23.1 |
| Interest income | | | 28.4 |
| Interest expense and other | | | (470.4) |
| Income before income taxes | | | 2,304.0 |
| Capital expenditures | 269.0 | 5.6 | 274.6 |

PBM total revenues and operating income for each of the nine months ended September 30, 2014 and 2013

(1) includes revenue of \$129.4 million and \$108.2 million, respectively, related to a large client. This revenue was realized in each of the second quarters of 2014 and 2013 due to the structure of the contract.

(2) Other Business Operations operating income for the nine months ended September 30, 2013 includes a \$3.5 million gain associated with the settlement of working capital balances for ConnectYourCare (“CYC”).

(3) Includes retail pharmacy co-payments of \$2,418.3 million and \$2,966.5 million for the three months ended September 30, 2014 and 2013, respectively, and \$7,894.7 million and \$9,845.2 million for the nine months ended September 30, 2014 and 2013, respectively.

(4) Includes home delivery, specialty and other, including drugs we distribute to other PBMs’ clients under limited distribution contracts with pharmaceutical manufacturers and FreedomFP claims.

(5) Includes claims related to drugs distributed through patient assistance programs.

The following table presents balance sheet information about our reportable segments, including the discontinued operations of our European operations:

| (in millions) | PBM | Other Business Operations | Discontinued Operations | Total |
|---------------------------------------|------------|---------------------------|-------------------------|------------|
| As of September 30, 2014 | | | | |
| Total assets | \$52,531.9 | \$907.3 | \$— | \$53,439.2 |
| Investment in equity method investees | \$37.8 | \$— | \$— | \$37.8 |
| As of December 31, 2013 | | | | |
| Total assets | \$52,560.1 | \$957.1 | \$31.0 | \$53,548.2 |
| Investment in equity method investees | \$30.2 | \$— | \$— | \$30.2 |

PBM product revenues consist of revenues from the sale of prescription drugs by retail pharmacies in our retail pharmacy networks, revenues from the dispensing of prescription drugs from our home delivery pharmacies and revenues from the sale of certain fertility and specialty drugs. Other Business Operations product revenues consist of specialty distribution activities and development of scientific evidence to guide the safe, effective and affordable use of medicines. PBM service revenues include administrative fees associated with the administration of retail pharmacy networks contracted by certain clients, informed decision counseling services and specialty pharmacy services. Other Business Operations service revenues include revenues related to data analytics and research associated with our UBC business.

The top five clients in the aggregate represent 36.3% and 36.1% of our consolidated revenue for the three and nine months ended September 30, 2014, respectively. None of these clients on an individual basis exceed 14.0% of consolidated revenues for the three and nine months ended September 30, 2014.

Table of Contents

Revenues earned by our continuing operations international businesses totaled \$21.6 million and \$41.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$65.5 million and \$76.7 million for the nine months ended September 30, 2014 and 2013, respectively. All other continuing operations revenues were earned in the United States. Long-lived assets of our continuing operations international businesses (consisting primarily of fixed assets) totaled \$52.9 million and \$58.6 million as of September 30, 2014 and December 31, 2013, respectively. All other continuing operations long-lived assets are domiciled in the United States.

Note 12 - Condensed consolidating financial information

The senior notes issued by the Company, ESI and Medco are jointly and severally and fully and unconditionally (subject to certain customary release provisions, including sale, exchange, transfer or liquidation of the guarantor subsidiary) guaranteed by our 100% owned domestic subsidiaries, other than certain regulated subsidiaries, and, with respect to notes issued by ESI and Medco, by us. The following condensed consolidating financial information has been prepared in accordance with the requirements for presentation of such information. The condensed consolidating financial information presented below is not indicative of what the financial position, results of operations, or cash flows would have been had each of the entities operated as an independent company during the period for various reasons, including, but not limited to, intercompany transactions and integration of systems.

In the second quarter of 2013, we sold the portion of our UBC business which primarily provided technology solutions and publications to biopharmaceutical companies, and in the third quarter of 2013 we sold the remaining portions of our UBC business that were classified as discontinued. In the fourth quarter of 2013, we sold our acute infusion therapies line of business. Consequently, the operations of our European operations, the portions of UBC operations that were sold, and our acute infusion therapies line of business are included as discontinued operations of the non-guarantors as of and for the three and nine months ended September 30, 2013, and as of December 31, 2013 (through their respective dates of sale, as applicable). Results for the three and nine months ended September 30, 2013 include the operations of our European operations, UBC, and our acute infusion therapies line of business (revised to reflect the operations as discontinued operations as applicable). The following presentation reflects the structure that exists as of the most recent balance sheet date. The condensed consolidating financial information is presented separately for:

- (i) Express Scripts (the Parent Company), the issuer of certain guaranteed obligations;
- (ii) ESI, guarantor, the issuer of additional guaranteed obligations;
- (iii) Medco, guarantor, the issuer of additional guaranteed obligations;
- (iv) Guarantor subsidiaries, on a combined basis (but excluding ESI and Medco), as specified in the indentures related to Express Scripts', ESI's and Medco's obligations under the notes;
- (v) Non-guarantor subsidiaries, on a combined basis;

- Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions
- (vi) between or among Express Scripts, ESI, Medco, the guarantor subsidiaries and the non-guarantor subsidiaries,
- (b) eliminate the investments in our subsidiaries and (c) record consolidating entries; and
- (vii) Express Scripts and its subsidiaries on a consolidated basis.

In the first quarter of 2014, we revised our condensed consolidating statements of operations. Correcting adjustments were made to the condensed consolidating statement of operations for the three months ended March 31, 2013 to reflect amounts related to certain intercompany revenues and operating expenses that were previously reported on a net basis in the Non-Guarantors column. The effect of the adjustment is an increase in revenue and operating expenses in the Non-Guarantors column by \$401.3 million for the three months ended March 31, 2013 (and the same effect for all year to date periods during 2013). The adjustment resulted in corresponding offsets in the Eliminations column for each period. There was no impact to net income in either the Non-Guarantors column or the Eliminations column. As prior period financial information is presented in future filings, we will similarly revise the condensed consolidating statements of operations.

In the second quarter of 2014, we revised our condensed consolidating statement of operations. Correcting adjustments were made to the condensed consolidating statement of operations for the three months ended March 31, 2014 to reclassify amounts related to certain revenues and operating expenses that were previously reported in the Medco Health Solutions column to the Guarantors column. The effect of the adjustment is a decrease in revenue and

operating expenses in the Medco Health Solutions column and an increase in revenue and operating expenses in the Guarantors column by \$1,926.6 million for the three months ended March 31, 2014. There was no impact to net income in either the Medco Health Solutions or the Guarantors column. As prior period financial information is presented in future filings, we will similarly revise the condensed consolidating statement of operations.

Table of Contents

In the third quarter of 2014, we finalized the results of a transfer pricing study as well as intercompany agreements. These events were retroactive to January 1, 2014 and resulted in adjustments recorded in the current quarter to reflect the results of the study. The intercompany agreements resulted in intercompany interest expense being allocated from Express Scripts Holding Company to Express Scripts, Inc. and Guarantors and expense being allocated between Guarantors, resulting in higher Express Scripts, Inc. net income and lower Medco Health Solutions, Inc. net income on the condensed consolidating statements of operations for the three and nine months ended September 30, 2014. These events had no impact on our consolidated statement of operations, consolidated income statement or consolidated cash flows.

Condensed Consolidating Balance Sheet

| (in millions) | Express Scripts Holding Company | Express Scripts, Inc. | Medco Health Solutions, Inc. | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|--|-----------------------------|---------------------------------------|------------|----------------|--------------|--------------|
| As of September 30, 2014 | | | | | | | |
| Cash and cash equivalents | \$— | \$411.7 | \$1.8 | \$7.8 | \$ 413.5 | \$— | \$ 834.8 |
| Restricted cash and investments | — | — | — | — | 23.5 | — | 23.5 |
| Receivables, net | — | 3,038.0 | 1,072.9 | 1,757.9 | 515.7 | — | 6,384.5 |
| Other current assets | — | 228.7 | 299.5 | 1,905.2 | 37.3 | (8.8) | 2,461.9 |
| Total current assets | — | 3,678.4 | 1,374.2 | 3,670.9 | 990.0 | (8.8) | 9,704.7 |
| Property and equipment, net | — | 682.7 | 5.3 | 932.6 | 19.3 | — | 1,639.9 |
| Investments in subsidiaries | 37,607.2 | 10,194.1 | 11,657.2 | — | — | (59,458.5) | — |
| Intercompany | — | — | — | 15,436.2 | 35.8 | (15,472.0) | — |
| Goodwill | — | 2,921.4 | 22,608.1 | 3,750.3 | 24.5 | — | 29,304.3 |
| Other intangible assets, net | 53.6 | 982.5 | 9,941.2 | 1,703.1 | 15.2 | — | 12,695.6 |
| Other assets | — | 99.7 | 19.8 | 8.4 | 3.9 | (37.1) | 94.7 |
| Total assets | \$37,660.8 | \$18,558.8 | \$45,605.8 | \$25,501.5 | \$ 1,088.7 | \$(74,976.4) | \$ 53,439.2 |
| Claims and rebates payable | \$— | \$3,975.2 | \$3,839.8 | \$— | \$ — | \$— | \$ 7,815.0 |
| Accounts payable | — | 786.8 | 32.4 | 2,019.2 | 133.1 | — | 2,971.5 |
| Accrued expenses | 71.1 | 259.6 | 513.6 | 789.7 | 265.4 | (8.8) | 1,890.6 |
| Current maturities of long-term debt | 2,741.5 | — | 503.9 | — | — | — | 3,245.4 |
| Total current liabilities | 2,812.6 | 5,021.6 | 4,889.7 | 2,808.9 | 398.5 | (8.8) | 15,922.5 |
| Long-term debt | 7,591.3 | 1,996.0 | 1,854.7 | — | — | — | 11,442.0 |
| Intercompany | 7,099.2 | 6,806.6 | 1,566.2 | — | — | (15,472.0) | — |
| Deferred taxes | — | — | 3,763.8 | 1,436.1 | 9.6 | — | 5,209.5 |
| Other liabilities | — | 236.8 | 422.0 | 70.9 | 4.3 | (37.1) | 696.9 |
| Non-controlling interest | — | — | — | — | 10.6 | — | 10.6 |
| Express Scripts stockholders' equity | 20,157.7 | 4,497.8 | 33,109.4 | 21,185.6 | 665.7 | (59,458.5) | 20,157.7 |
| Total liabilities and stockholders' equity | \$37,660.8 | \$18,558.8 | \$45,605.8 | \$25,501.5 | \$ 1,088.7 | \$(74,976.4) | \$ 53,439.2 |

Table of Contents

Condensed Consolidating Balance Sheet

| (in millions) | Express Scripts Holding Company | Express Scripts, Inc. | Medco Health Solutions, Inc. | Guarantors | Non-Guarantor | Eliminations | Consolidated |
|---|--|-----------------------------|---------------------------------------|------------|---------------|--------------|--------------|
| As of December 31, 2013 | | | | | | | |
| Cash and cash equivalents | \$— | \$1,145.9 | \$3.6 | \$44.0 | \$ 797.9 | \$— | \$ 1,991.4 |
| Restricted cash and investments | — | — | 1.0 | — | 21.8 | — | 22.8 |
| Receivables, net | — | 1,381.3 | 750.5 | 1,557.1 | 334.0 | — | 4,022.9 |
| Other current assets | — | 99.8 | 286.4 | 2,010.4 | 26.7 | — | 2,423.3 |
| Current assets of discontinued operations | — | — | — | — | 31.0 | — | 31.0 |
| Total current assets | — | 2,627.0 | 1,041.5 | 3,611.5 | 1,211.4 | — | 8,491.4 |
| Property and equipment, net | — | 550.3 | 5.4 | 1,082.7 | 20.5 | — | 1,658.9 |
| Investments in subsidiaries | 36,060.9 | 9,096.2 | 12,089.8 | — | — | (57,246.9) | — |
| Intercompany | — | — | — | 14,247.9 | — | (14,247.9) | — |
| Goodwill | — | 2,921.4 | 22,608.1 | 3,750.3 | 25.6 | — | 29,305.4 |
| Other intangible assets, net | 51.7 | 1,071.7 | 10,946.8 | 1,926.0 | 19.4 | — | 14,015.6 |
| Other assets | — | 79.9 | 16.5 | 3.9 | 12.2 | (35.6) | 76.9 |
| Total assets | \$36,112.6 | \$16,346.5 | \$46,708.1 | \$24,622.3 | \$ 1,289.1 | \$(71,530.4) | \$ 53,548.2 |
| Claims and rebates payable | \$— | \$3,866.2 | \$2,901.6 | \$— | \$ — | \$— | \$ 6,767.8 |
| Accounts payable | — | 875.1 | 62.7 | 1,834.9 | 127.3 | — | 2,900.0 |
| Accrued expenses | 45.3 | 455.9 | 241.0 | 615.5 | 624.5 | — | 1,982.2 |
| Current maturities of long-term debt | 1,583.9 | 0.1 | — | — | — | — | 1,584.0 |
| Current liabilities of discontinued operations | — | — | — | — | 1.3 | — | 1.3 |
| Total current liabilities | 1,629.2 | 5,197.3 | 3,205.3 | 2,450.4 | 753.1 | — | 13,235.3 |
| Long-term debt | 7,975.9 | 1,994.9 | 2,392.2 | — | — | — | 12,363.0 |
| Intercompany | 4,670.1 | 6,328.1 | 3,222.2 | — | 27.5 | (14,247.9) | — |
| Deferred taxes | — | — | 4,034.7 | 1,386.4 | 19.5 | — | 5,440.6 |
| Other liabilities | — | 199.1 | 419.9 | 79.0 | 2.0 | (35.6) | 664.4 |
| Noncurrent liabilities of discontinued operations | — | — | — | — | 0.1 | — | 0.1 |
| Non-controlling interest | — | — | — | — | 7.4 | — | 7.4 |
| Express Scripts stockholders' equity | 21,837.4 | 2,627.1 | 33,433.8 | 20,706.5 | 479.5 | (57,246.9) | 21,837.4 |
| Total liabilities and stockholders' equity | \$36,112.6 | \$16,346.5 | \$46,708.1 | \$24,622.3 | \$ 1,289.1 | \$(71,530.4) | \$ 53,548.2 |

Table of Contents

Condensed Consolidating Statement of Operations

| (in millions) | Express Scripts Holding Company | Express Scripts, Inc. | Medco Health Solutions, Inc. | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|--|-----------------------------|---------------------------------------|------------|----------------|--------------|--------------|
| For the three months ended September 30, 2014 | | | | | | | |
| Revenues | \$— | \$9,682.2 | \$9,134.2 | \$7,869.2 | \$ 505.8 | \$(1,412.9) | \$ 25,778.5 |
| Operating expenses | — | 9,281.5 | 8,797.0 | 7,712.4 | 416.1 | (1,412.9) | 24,794.1 |
| Operating income | — | 400.7 | 337.2 | 156.8 | 89.7 | — | 984.4 |
| Other (expense) income: | | | | | | | |
| Interest (expense) income and other, net | (160.6) | (16.7) | (7.5) | 1.3 | (2.6) | — | (186.1) |
| Intercompany interest income (expense) | 338.0 | (169.0) | — | (169.0) | — | — | — |
| Other (expense) income, net | 177.4 | (185.7) | (7.5) | (167.7) | (2.6) | — | (186.1) |
| Income (loss) before income taxes | 177.4 | 215.0 | 329.7 | (10.9) | 87.1 | — | 798.3 |
| Provision (benefit) for income taxes | 184.8 | (70.4) | 167.7 | (83.0) | 10.1 | — | 209.2 |
| Net income (loss) from continuing operations | (7.4) | 285.4 | 162.0 | 72.1 | 77.0 | — | 589.1 |
| Equity in earnings (loss) of subsidiaries | 589.7 | 625.4 | (483.1) | — | — | (732.0) | — |
| Net income (loss) | 582.3 | 910.8 | (321.1) | 72.1 | 77.0 | (732.0) | 589.1 |
| Less: Net income attributable to non-controlling interest | — | — | — | — | 6.8 | — | 6.8 |
| Net income (loss) attributable to Express Scripts | 582.3 | 910.8 | (321.1) | 72.1 | 70.2 | (732.0) | 582.3 |
| Other comprehensive loss | (5.9) | (5.9) | — | — | (5.9) | 11.8 | (5.9) |
| Comprehensive income (loss) attributable to Express Scripts | \$576.4 | \$904.9 | \$(321.1) | \$72.1 | \$ 64.3 | \$(720.2) | \$ 576.4 |
| For the three months ended September 30, 2013 | | | | | | | |
| Revenues | \$— | \$7,633.8 | \$13,040.7 | \$5,792.2 | \$ 528.0 | \$(1,079.1) | \$ 25,915.6 |
| Operating expenses | — | 7,224.7 | 13,118.9 | 5,472.9 | 302.7 | (1,079.1) | 25,040.1 |
| Operating income (expense) | — | 409.1 | (78.2) | 319.3 | 225.3 | — | 875.5 |
| Other (expense) income, net | (85.6) | (16.8) | 9.2 | 0.5 | (2.7) | — | (95.4) |
| Income (loss) before income taxes | (85.6) | 392.3 | (69.0) | 319.8 | 222.6 | — | 780.1 |
| Provision (benefit) for income taxes | (31.0) | 152.9 | 5.2 | 166.2 | 33.2 | — | 326.5 |
| Net income (loss) from continuing operations | (54.6) | 239.4 | (74.2) | 153.6 | 189.4 | — | 453.6 |
| Net loss from discontinued operations, net of tax | — | — | — | — | (15.5) | — | (15.5) |
| | 481.3 | 180.9 | 135.2 | — | — | (797.4) | — |

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| | | | | | | | |
|---|---------|---------|--------|---------|---------|----------|-----------|
| Equity in earnings of subsidiaries | | | | | | | |
| Net income | 426.7 | 420.3 | 61.0 | 153.6 | 173.9 | (797.4 |) 438.1 |
| Less: Net income attributable to non-controlling interest | — | — | — | — | 11.4 | — | 11.4 |
| Net income attributable to Express Scripts | 426.7 | 420.3 | 61.0 | 153.6 | 162.5 | (797.4 |) 426.7 |
| Other comprehensive income | 2.5 | 2.5 | — | — | 2.5 | (5.0 |) 2.5 |
| Comprehensive income attributable to Express Scripts | \$429.2 | \$422.8 | \$61.0 | \$153.6 | \$165.0 | \$(802.4 |) \$429.2 |

Table of Contents

Condensed Consolidating Statement of Operations

| (in millions) | Express Scripts Holding Company | Express Scripts, Inc. | Medco Health Solutions, Inc. | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|--|-----------------------------|---------------------------------------|------------|----------------|--------------|--------------|
| For the nine months ended September 30, 2014 | | | | | | | |
| Revenues | \$— | \$27,803.4 | \$27,140.9 | \$21,504.0 | \$ 1,660.9 | \$(3,534.7) | \$ 74,574.5 |
| Operating expenses | — | 26,462.8 | 26,862.6 | 20,682.2 | 1,442.0 | (3,534.7) | 71,914.9 |
| Operating income | — | 1,340.6 | 278.3 | 821.8 | 218.9 | — | 2,659.6 |
| Other (expense) income: | | | | | | | |
| Interest (expense) income and other, net | (338.0) | (53.0) | (27.8) | 2.6 | (7.7) | — | (423.9) |
| Intercompany interest income (expense) | 338.0 | (169.0) | — | (169.0) | — | — | — |
| Other (expense) income, net | — | (222.0) | (27.8) | (166.4) | (7.7) | — | (423.9) |
| Income before income taxes | — | 1,118.6 | 250.5 | 655.4 | 211.2 | — | 2,235.7 |
| Provision for income taxes | 120.5 | 345.8 | 142.3 | 176.3 | 4.5 | — | 789.4 |
| Net income (loss) from continuing operations | (120.5) | 772.8 | 108.2 | 479.1 | 206.7 | — | 1,446.3 |
| Equity in earnings (loss) of subsidiaries | 1,546.3 | 1,097.9 | (432.6) | — | — | (2,211.6) | — |
| Net income (loss) | 1,425.8 | 1,870.7 | (324.4) | 479.1 | 206.7 | (2,211.6) | 1,446.3 |
| Less: Net income attributable to non-controlling interest | — | — | — | — | 20.5 | — | 20.5 |
| Net income (loss) attributable to Express Scripts | 1,425.8 | 1,870.7 | (324.4) | 479.1 | 186.2 | (2,211.6) | 1,425.8 |
| Other comprehensive loss | (4.7) | (4.7) | — | — | (4.7) | 9.4 | (4.7) |
| Comprehensive income (loss) attributable to Express Scripts | \$1,421.1 | \$1,866.0 | \$(324.4) | \$479.1 | \$ 181.5 | \$(2,202.2) | \$ 1,421.1 |
| For the nine months ended September 30, 2013 | | | | | | | |
| Revenues | \$— | \$21,887.4 | \$40,826.2 | \$17,128.6 | \$ 1,515.4 | \$(3,040.2) | \$ 78,317.4 |
| Operating expenses | — | 20,725.0 | 40,541.5 | 16,227.0 | 1,141.2 | (3,040.2) | 75,594.5 |
| Operating income | — | 1,162.4 | 284.7 | 901.6 | 374.2 | — | 2,722.9 |
| Other (expense) income, net | (259.1) | (133.8) | (20.6) | 2.6 | (8.0) | — | (418.9) |
| Income (loss) before income taxes | (259.1) | 1,028.6 | 264.1 | 904.2 | 366.2 | — | 2,304.0 |
| Provision (benefit) for income taxes | (94.2) | 426.4 | 132.3 | 391.9 | 39.6 | — | 896.0 |
| Net income (loss) from continuing operations | (164.9) | 602.2 | 131.8 | 512.3 | 326.6 | — | 1,408.0 |
| Net loss from discontinued operations, net of tax | — | — | — | — | (41.3) | — | (41.3) |

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| | | | | | | | |
|---|-----------|-----------|---------|---------|----------|--------------|------------|
| Equity in earnings of subsidiaries | 1,507.6 | 551.3 | 222.3 | — | — | (2,281.2) | — |
| Net income | 1,342.7 | 1,153.5 | 354.1 | 512.3 | 285.3 | (2,281.2) | 1,366.7 |
| Less: Net income attributable to non-controlling interest | — | — | — | — | 24.0 | — | 24.0 |
| Net income attributable to Express Scripts | 1,342.7 | 1,153.5 | 354.1 | 512.3 | 261.3 | (2,281.2) | 1,342.7 |
| Other comprehensive loss | (3.5) | (3.5) | — | — | (3.5) | 7.0 | (3.5) |
| Comprehensive income attributable to Express Scripts | \$1,339.2 | \$1,150.0 | \$354.1 | \$512.3 | \$ 257.8 | \$(2,274.2) | \$ 1,339.2 |

24

Table of Contents

Condensed Consolidating Statements of Cash Flows

| (in millions) | Express Scripts Holding Company | Express Scripts, Inc. | Medco Health Solutions, Inc. | Guarantors | Non- Guarantors | Eliminations | Consolidated |
|---|--|-----------------------------|---------------------------------------|------------|--------------------|--------------|--------------|
| For the nine months ended September 30, 2014 | | | | | | | |
| Net cash flows provided by (used in) operating activities | \$(72.1) | \$(930.5) | \$1,654.9 | \$1,270.8 | \$(298.5) | \$— | \$1,624.6 |
| Cash flows from investing activities: | | | | | | | |
| Purchases of property and equipment | — | (250.9) | — | (71.9) | (4.2) | — | (327.0) |
| Other | — | 6.4 | — | 0.1 | 1.2 | — | 7.7 |
| Net cash used in investing activities | — | (244.5) | — | (71.8) | (3.0) | — | (319.3) |
| Cash flows from financing activities: | | | | | | | |
| Treasury stock acquired | (3,673.5) | — | — | — | — | — | (3,673.5) |
| Proceeds from long-term debt, net of discounts | 2,490.1 | — | — | — | — | — | 2,490.1 |
| Repayment of long-term debt | (1,723.6) | (0.1) | — | — | — | — | (1,723.7) |
| Net proceeds from employee stock plans | 419.4 | — | — | — | — | — | 419.4 |
| Excess tax benefit relating to employee stock compensation | — | 36.9 | 38.5 | — | — | — | 75.4 |
| Distributions paid to non-controlling interest | — | — | — | — | (17.1) | — | (17.1) |
| Other | (17.9) | — | — | (11.2) | — | — | (29.1) |
| Net intercompany transactions | 2,577.6 | 404.0 | (1,695.2) | (1,224.0) | (62.4) | — | — |
| Net cash (used in) provided by financing activities | 72.1 | 440.8 | (1,656.7) | (1,235.2) | (79.5) | — | (2,458.5) |
| Effect of foreign currency translation adjustment | — | — | — | — | (3.4) | — | (3.4) |
| Net decrease in cash and cash equivalents | — | (734.2) | (1.8) | (36.2) | (384.4) | — | (1,156.6) |
| Cash and cash equivalents at beginning of period | — | 1,145.9 | 3.6 | 44.0 | 797.9 | — | 1,991.4 |
| Cash and cash equivalents at end of period | \$— | \$411.7 | \$1.8 | \$7.8 | \$413.5 | \$— | \$834.8 |

Table of Contents

Condensed Consolidating Statements of Cash Flows

| (in millions) | Express Scripts Holding Company | Express Scripts, Inc. | Medco Health Solutions, Inc. | Guarantors | Non- Guarantors | Eliminations | Consolidated |
|---|--|-----------------------------|---------------------------------------|------------|--------------------|--------------|--------------|
| For the nine months ended September 30, 2013 | | | | | | | |
| Net cash flows provided by (used in) operating activities | \$(129.8) | \$759.4 | \$70.6 | \$721.6 | \$411.3 | \$(10.7) | \$ 1,822.4 |
| Cash flows from investing activities: | | | | | | | |
| Purchases of property and equipment | — | (261.4) | — | (8.0) | (5.2) | — | (274.6) |
| Proceeds from sale of business | — | 1.6 | — | 311.4 | — | — | 313.0 |
| Other | — | (17.8) | — | — | (8.5) | — | (26.3) |
| Net cash provided by (used in) investing activities - continuing operations | — | (277.6) | — | 303.4 | (13.7) | — | 12.1 |
| Net cash used in investing activities - discontinued operations | — | — | — | — | (2.1) | — | (2.1) |
| Net cash provided by (used in) investing activities | — | (277.6) | — | 303.4 | (15.8) | — | 10.0 |
| Cash flows from financing activities: | | | | | | | |
| Treasury stock acquired | (1,552.5) | — | — | — | — | — | (1,552.5) |
| Repayment of long-term debt | (473.7) | (1,000.0) | (300.0) | — | — | — | (1,773.7) |
| Net proceeds from employee stock plans | 383.6 | — | — | — | — | — | 383.6 |
| Excess tax benefit relating to employee stock compensation | — | 11.8 | 11.4 | — | — | — | 23.2 |
| Distributions paid to non-controlling interest | — | — | — | — | (18.0) | — | (18.0) |
| Other | — | — | — | (8.5) | 23.9 | — | 15.4 |
| Net intercompany transactions | 1,772.4 | (699.5) | 221.4 | (999.9) | (294.4) | — | — |
| Net cash (used in) provided by financing activities - continuing operations | 129.8 | (1,687.7) | (67.2) | (1,008.4) | (288.5) | — | (2,922.0) |
| Net cash used in financing activities - discontinued operations | — | — | — | — | (10.7) | 10.7 | — |
| Net cash (used in) provided by financing activities | 129.8 | (1,687.7) | (67.2) | (1,008.4) | (299.2) | 10.7 | (2,922.0) |
| Effect of foreign currency translation adjustment | — | — | — | — | (4.5) | — | (4.5) |
| Less: cash decrease attributable to discontinued operations | — | — | — | — | 23.3 | — | 23.3 |
| Net (decrease) increase in cash and cash equivalents | — | (1,205.9) | 3.4 | 16.6 | 115.1 | — | (1,070.8) |

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| | | | | | | | |
|--|-----|-----------|-------|---------|---------|-----|-----------|
| Cash and cash equivalents at beginning of period | — | 2,346.6 | — | 126.9 | 319.6 | — | 2,793.1 |
| Cash and cash equivalents at end of period | \$— | \$1,140.7 | \$3.4 | \$143.5 | \$434.7 | \$— | \$1,722.3 |

26

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements and Associated Risks

Information we have included in this Quarterly Report on Form 10-Q, and information which may be contained in our other filings with the Securities and Exchange Commission ("the SEC") and our press releases or other public statements, contains or may contain forward-looking statements. These forward-looking statements include, among others, statements of our plans, objectives, expectations (financial or otherwise) or intentions.

Our forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Any number of factors could cause our actual results to differ materially from those contemplated by any forward-looking statements, including, but not limited to, the risks associated with the following:

- our ability to remain profitable in a very competitive marketplace depends upon our continued ability to attract and retain clients while maintaining our margins, to differentiate our products and services from those of our competitors, and to develop and cross-sell new products and services to our existing clients
- our failure to anticipate and appropriately adapt to changes or trends within the rapidly changing healthcare industry
- changes in applicable laws, rules or regulations, or their interpretation or enforcement, or the enactment of new laws, rules or regulations, which apply to our business practices (past, present or future) or require us to spend significant resources in order to comply or to make significant changes to our business operations
- changes to the healthcare industry designed to manage healthcare costs or alter healthcare financing practices or changes to government policies in general
- uncertainties regarding the implementation of health reform laws
- general economic conditions
- a failure in the security or stability of our technology infrastructure, or the infrastructure of one or more of our key vendors, or a significant failure or disruption in service within our operations or the operations of such vendors
- our failure to execute on, or other issues arising under, certain key client contracts
- significant changes within the pharmacy provider marketplace, including the loss of or adverse change in our relationship with one or more key pharmacy providers
- changes relating to our participation in Medicare Part D, the loss of Medicare Part D eligible members, or our failure to otherwise execute on our strategies related to Medicare Part D
- our failure to effectively execute on strategic transactions or successfully integrate the business operations or achieve the anticipated benefits from any acquired businesses
- a failure to adequately protect confidential health information received and used in our business operations
- uncertainty around realization of the anticipated benefits of the transaction with Medco, including the expected amount and timing of cost savings and operating synergies or difficulty in integrating the businesses of Express Scripts, Inc. and Medco or in retaining clients of the respective companies
- the impact of our debt service obligations on the availability of funds for other business purposes, and the terms of and our required compliance with covenants relating to our indebtedness
- the delay, reduction, suspension or cancellation of government spending or appropriations relating to our business
- the termination, loss, or an unfavorable modification, of our relationship with one or more key pharmaceutical manufacturers, or the significant reduction in payments made or discounts provided by pharmaceutical manufacturers
- changes in industry pricing benchmarks

Table of Contents

results in pending and future litigation or other proceedings which could subject us to significant monetary damages or penalties and/or require us to change our business practices, or the costs incurred in connection with such proceedings

- our failure to attract and retain talented employees, or to manage succession and retention for our Chief Executive Officer or other key executives

other risks described from time to time in our filings with the SEC

See the more comprehensive description of risk factors under the captions “Forward Looking Statements and Associated Risks” contained in Item 1 - “Business” and Item 1A - “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 20, 2014.

These and other relevant factors and any other information included in this Report, and information which may be contained in our other filings with the SEC, should be carefully considered when reviewing any forward-looking statement. We note these factors for investors as permitted under the Private Securities Litigation Reform Act of 1995. Investors should understand that it is impossible to predict or identify all such factors or risks. As such, you should not consider either foregoing lists, or the risks identified in our SEC filings, to be a complete discussion of all potential risks or uncertainties.

Table of Contents

OVERVIEW

On April 2, 2012, Express Scripts, Inc. (“ESI”) consummated a merger (the “Merger”) with Medco Health Solutions, Inc. (“Medco”) and both ESI and Medco became wholly-owned subsidiaries of Express Scripts Holding Company (the “Company” or “Express Scripts”). “We,” “our” or “us” refers to Express Scripts Holding Company and its subsidiaries. As the largest full-service pharmacy benefit management (“PBM”) company in the United States, we offer a full range of services to our clients, which include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers’ compensation plans and government health programs. Our integrated PBM services include retail network pharmacy administration, home delivery pharmacy services, benefit design consultation, drug utilization review, drug formulary management, clinical solutions to improve health outcomes, Medicare Part D, Medicaid and Health Insurance Marketplace (“Public Exchange”) offerings, specialty pharmacy services, fertility services to providers and patients, administration of a group purchasing organization and consumer health and drug information.

As disclosed in Express Scripts’ Current Report on Form 8-K filed with the SEC on June 2, 2014, during the first quarter of 2014, we reorganized a portion of our business related primarily to pharmaceutical and biotechnology client patient access programs, including patient assistance programs, reimbursement, alternate funding and compliance services from our PBM segment into our Other Business Operations segment. All related segment disclosures for the three and nine months ended September 30, 2013 have been reclassified throughout the financial statements, where appropriate, to reflect the new segment structure. Through our Other Business Operations segment, we provide services including distribution of pharmaceuticals and medical supplies to providers and clinics and scientific evidence to guide the safe, effective and affordable use of medicines.

Revenue generated by our segments can be classified as either tangible product revenue or service revenue. We earn tangible product revenue from the sale of prescription drugs by retail pharmacies in our retail pharmacy networks and from dispensing prescription drugs from our home delivery and specialty pharmacies. Service revenue includes administrative fees associated with the administration of retail pharmacy networks contracted by certain clients, medication counseling services and certain specialty distribution services. Tangible product revenue generated by our PBM and Other Business Operations segments represented 98.4% and 98.9% of revenues for the three months ended September 30, 2014 and 2013, respectively, and 98.5% and 98.8% for the nine months ended September 30, 2014 and 2013, respectively.

EXECUTIVE SUMMARY AND TREND FACTORS AFFECTING THE BUSINESS

We operate in a dynamic environment influenced by a number of marketplace forces including healthcare reform, increased regulation, macroeconomic factors and competition. Our claims volume has been impacted by the transition of UnitedHealth Group, in-group attrition, and certain client losses and implementation delays. However, we continue to execute our successful business model, which emphasizes the alignment of our financial interests with those of our clients and patients through greater use of generics and low-cost brands, home delivery and specialty pharmacies. We also continue to benefit from better management of ingredient costs through renegotiation of supplier contracts, increased competition among generic manufacturers and a higher generic fill rate. We have achieved higher generic fill rates as we continue to provide our clients with additional tools designed to proactively manage total drug spend by increasing lower cost alternatives. We expect that the ongoing positive trends in our business will continue to offset negative factors.

Revenue related to a large client was realized in the second quarters of 2014 and 2013 due to the structure of the contract. Quarterly performance trends may vary from historical periods as a result of the transition of UnitedHealth Group claims, as well as variability, including timing, of our contractual revenue streams.

As the regulatory environment evolves, we plan to continue to make significant investments designed to maintain our competitive position. These projects include preparation for changes to the Medicare regulations and the implementation of the health reform laws.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

reporting period. Our estimates and assumptions are based upon a combination of historical information and various other assumptions believed to be reasonable under the particular circumstances. Actual results may differ from our estimates. For a full description of our critical accounting policies, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” included in Express Scripts’ Current Report on Form 8-K filed with the SEC on June 2, 2014.

Table of Contents

CLIENTS

We are a provider of PBM services to several market segments. Our clients include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans and government health programs. We provide specialty services to customers who also include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, government health programs, office-based oncologists, renal dialysis clinics, ambulatory surgery centers, primary care physicians, retina specialists and others. Refer to Note 11 - Segment information for a discussion of client concentration.

RESULTS OF OPERATIONS

Throughout the discussion below, reference is made to the impact of generic fill rates. The impact of higher generic fill rates lowers PBM revenue, as generic drugs are generally priced lower than branded drugs. However, as ingredient cost on generic drugs is incrementally lower than the price charged, higher generic fill rates have a favorable impact on gross profit.

Furthermore, the home delivery generic fill rate is currently lower than the network generic fill rate as fewer generic substitutions are available among maintenance medications (e.g., therapies for chronic conditions) commonly dispensed from home delivery pharmacies compared to acute medications which are primarily dispensed by pharmacies in our retail networks.

As disclosed in Express Scripts' Current Report on Form 8-K filed with the SEC on June 2, 2014, during the first quarter of 2014, we reorganized our business related primarily to pharmaceutical and biotechnology client patient access programs, including patient assistance programs, reimbursement, alternate funding and compliance services from our PBM segment into our Other Business Operations segment. All related segment disclosures for the three and nine months ended September 30, 2013 have been reclassified in the tables below and throughout the financial statements, where appropriate, to reflect the new segment structure.

PBM OPERATING INCOME

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Product revenues | | | | |
| Network revenues ⁽¹⁾ | \$14,722.0 | \$15,387.3 | \$43,239.3 | \$47,758.8 |
| Home delivery and specialty revenues ⁽²⁾ | 10,072.1 | 9,692.6 | 28,545.4 | 28,126.9 |
| Service revenues | 339.0 | 225.3 | 933.0 | 709.2 |
| Total PBM revenues | 25,133.1 | 25,305.2 | 72,717.7 | 76,594.9 |
| Cost of PBM revenues ⁽¹⁾ | 23,103.7 | 23,349.4 | 67,015.4 | 70,637.6 |
| PBM gross profit | 2,029.4 | 1,955.8 | 5,702.3 | 5,957.3 |
| PBM SG&A expenses | 1,057.6 | 1,093.0 | 3,083.0 | 3,273.4 |
| PBM operating income | \$971.8 | \$862.8 | \$2,619.3 | \$2,683.9 |
| Claims | | | | |
| Network | 231.3 | 256.9 | 693.0 | 805.9 |
| Home delivery and specialty ⁽²⁾ | 32.9 | 34.3 | 95.0 | 105.3 |
| Total PBM claims | 264.2 | 291.2 | 788.0 | 911.2 |
| Total adjusted PBM claims ⁽³⁾ | 328.1 | 357.8 | 972.2 | 1,116.0 |

Includes retail pharmacy co-payments of \$2,418.3 million and \$2,966.5 million for the three months ended (1) September 30, 2014 and 2013, respectively, and \$7,894.7 million and \$9,845.2 million for the nine months ended September 30, 2014 and 2013, respectively.

(2) Includes home delivery, specialty and other, including drugs we distribute to other PBMs' clients under limited distribution contracts with pharmaceutical manufacturers and FreedomFP claims.

(3) Total adjusted claims reflect home delivery claims multiplied by 3, as home delivery claims typically cover a time period 3 times longer than network claims.

Product Revenues for the three months ended September 30, 2014: Network pharmacy revenues decreased by \$665.3 million, or 4.3%, in the three months ended September 30, 2014 from the same period of 2013. This decrease relates

primarily to lower claims volume and related revenue of approximately \$1,129.0 million due to the transition of UnitedHealth Group in 2013. This decrease is also due to an increase in the network generic fill rate and lower claims volume in general, partially

Table of Contents

offset by inflation on branded drugs. Our network generic fill rate increased to 84.0% of network claims in the three months ended September 30, 2014 as compared to 81.6% in the same period of 2013.

Home delivery and specialty revenues increased \$379.5 million, or 3.9%, in the three months ended September 30, 2014 from the same period in 2013. This increase relates primarily to inflation on branded drugs, partially offset by lower claims volume and related revenue of approximately \$100.1 million due to the transition of UnitedHealth Group in 2013, an increase in the home delivery generic fill rate and lower claims volume in general. Our home delivery generic fill rate increased to 77.5% of home delivery claims in the three months ended September 30, 2014 as compared to 74.8% in the same period of 2013.

Product Revenues for the nine months ended September 30, 2014: Network pharmacy revenues decreased by \$4,519.5 million, or 9.5%, in the nine months ended September 30, 2014 from the same period in 2013. This decrease relates primarily to lower claims volume and related revenue of approximately \$5,193.5 million due to the transition of UnitedHealth Group in 2013. This decrease is also due to an increase in the network generic fill rate and lower claims volume in general, partially offset by inflation on branded drugs. Our network generic fill rate increased to 83.7% of network claims in the nine months ended September 30, 2014 as compared to 81.6% in the same period of 2013.

Home delivery and specialty revenues increased by \$418.5 million, or 1.5%, in the nine months ended September 30, 2014 from the same period in 2013. This increase relates primarily to inflation on branded drugs, partially offset by lower claims volume and related revenue of approximately \$621.7 million due to the transition of UnitedHealth Group in 2013, an increase in the home delivery generic fill rate and lower claims volume in general. Our home delivery generic fill rate increased to 76.9% of home delivery claims in the nine months ended September 30, 2014 as compared to 74.5% in the same period of 2013.

Cost of PBM revenues decreased by \$245.7 million, or 1.1%, in the three months ended September 30, 2014 from the same period of 2013. The decrease is primarily due to lower claims volume and related cost of revenue of approximately \$1,186.6 million due to the transition of UnitedHealth Group in 2013 as well as lower claims volume in general, the impact of better management of ingredient costs and the impact of an increased generic fill rate, partially offset by inflation on branded drugs.

Cost of PBM revenues decreased by \$3,622.2 million, or 5.1%, in the nine months ended September 30, 2014 from the same period of 2013. This decrease is primarily due to lower claims volume and related cost of revenue of approximately \$5,605.9 million due to the transition of UnitedHealth Group in 2013 as well as lower claims volume in general, the impact of better management of ingredient costs and the impact of an increased generic fill rate, partially offset by inflation on branded drugs.

PBM gross profit increased by \$73.6 million, or 3.8%, for the three months ended September 30, 2014 as compared to the same period of 2013. This increase is primarily due to better management of ingredient costs and formulary and cost savings from the increase in the aggregate generic fill rate (83.1% for the three months ended September 30, 2014 as compared to 80.8% in the same period of 2013). This increase is partially offset by lower claims volume, including the transition of UnitedHealth Group in 2013, as well as \$65.0 million of transaction and integration costs for the three months ended September 30, 2014 compared to \$56.8 million for the three months ended September 30, 2013.

PBM gross profit decreased by \$255.0 million, or 4.3%, for the nine months ended September 30, 2014 as compared to the same period of 2013. This decrease is primarily due to lower claims volume, including the transition of UnitedHealth Group in 2013, as well as \$281.4 million of transaction and integration costs for the nine months ended September 30, 2014 compared to \$137.9 million for the nine months ended September 30, 2013. This decrease is partially offset by the second quarter realization of \$129.4 million of revenue for the nine months ended September 30, 2014 related to a client contract as compared to \$108.2 million for the nine months ended September 30, 2013, as well as better management of ingredient costs and formulary and cost savings from the increase in the aggregate generic fill rate (82.9% for the nine months ended September 30, 2014 as compared to 80.7% in the same period of 2013).

Selling, general and administrative expense (“SG&A”) for our PBM segment for the three months ended September 30, 2014 decreased by \$35.4 million, or 3.2%, as compared to the same period of 2013. The decrease relates primarily to operational efficiencies as a result of the Merger, partially offset by \$157.7 million of transaction and integration costs for the three months ended September 30, 2014, compared to \$130.8 million for the three months ended September

30, 2013.

SG&A for our PBM segment for the nine months ended September 30, 2014 decreased by \$190.4 million, or 5.8%, as compared to the same period of 2013. This decrease relates primarily to operational efficiencies as a result of the Merger, partially offset by \$412.8 million of transaction and integration costs, compared to \$349.7 million for the nine months ended September 30, 2013.

31

Table of Contents

PBM operating income increased by \$109.0 million, or 12.6%, for the three months ended September 30, 2014 and decreased by \$64.6 million, or 2.4%, for the nine months ended September 30, 2014 as compared to the same periods of 2013, based on the various factors described above.

OTHER BUSINESS OPERATIONS OPERATING INCOME

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Product revenues | \$571.9 | \$546.8 | \$1,637.8 | \$1,526.2 |
| Service revenues | 73.5 | 63.6 | 219.0 | 196.3 |
| Total Other Business Operations revenues | 645.4 | 610.4 | 1,856.8 | 1,722.5 |
| Cost of Other Business Operations revenues | 601.8 | 572.0 | 1,728.0 | 1,608.4 |
| Other Business Operations gross profit | 43.6 | 38.4 | 128.8 | 114.1 |
| Other Business Operations SG&A expenses | 31.0 | 25.7 | 88.5 | 75.1 |
| Other Business Operations operating income | \$12.6 | \$12.7 | \$40.3 | \$39.0 |
| Claims | | | | |
| Home delivery and specialty ⁽¹⁾ | 0.2 | 0.3 | 0.6 | 1.3 |
| Total adjusted Other Business Operations claims | 0.2 | 0.3 | 0.6 | 1.3 |

(1) Includes claims related to drugs distributed through patient assistance programs.

Other Business Operations Results of Operations: Other Business Operations operating income decreased by \$0.1 million for the three months ended September 30, 2014 from the same period of 2013. This decrease is primarily due to a decrease in claims related to drugs distributed through patient assistance programs, partially offset by an increase in volume across the remaining lines of business within the segment.

Other Business Operations operating income increased by \$1.3 million for the nine months ended September 30, 2014 from the same period of 2013. This increase is due to an increase in volume across the lines of business within the segment, partially offset by a \$3.5 million gain associated with settlement of working capital balances for ConnectYourCare ("CYC") that was included for the nine months ended September 30, 2013, as well as a decrease in claims related to drugs distributed through patient assistance programs.

OTHER (EXPENSE) INCOME

Net other expense increased by \$90.7 million in the three months ended September 30, 2014 as compared to the same period of 2013. This increase is primarily due to \$71.5 million of redemption costs incurred for the early redemption of its 3.500% senior notes due 2016, the issuance of \$2,500.0 million of senior notes in 2014 and a \$24.9 million contractual interest payment received from a client in the three months ended September 30, 2013. Interest associated with this client has been received on a consistent basis throughout 2014. The increase is partially offset by higher equity income from our joint venture, Surescripts, of \$7.2 million for the three months ended September 30, 2014 compared to \$6.3 million for the three months ended September 30, 2013.

Net other expense increased by \$5.0 million in the nine months ended September 30, 2014 as compared to the same period of 2013. This increase is primarily due to \$71.5 million of redemption costs incurred for the early redemption of its 3.500% senior notes due 2016, the issuance of \$2,500.0 million of senior notes, lower equity income from our joint venture, Surescripts, of \$13.6 million for the nine months ended September 30, 2014 compared to \$23.1 million for the nine months ended September 30, 2013 and a \$24.9 million contractual interest payment received from a client in the nine months ended September 30, 2013. Interest associated with this client has been received on a consistent basis throughout 2014. These increases are partially offset by \$68.5 million of redemption costs and write-off of deferred financing fees incurred for early redemption of ESI's \$1,000.0 million aggregate principal amount of 6.250% senior notes due 2014 during the nine months ended September 30, 2013 and interest income due to investments made following the issuance of the June 2014 Senior Notes (defined below).

Table of Contents

PROVISION FOR INCOME TAXES

Our effective tax rate from continuing operations attributable to Express Scripts decreased to 26.4% and 35.6% for the three and nine months ended September 30, 2014, respectively, as compared to 42.5% and 39.3% for the same periods in 2013 due to both recurring and discrete events.

We recognized discrete benefits from continuing operations of \$83.6 million and \$45.6 million for the three and nine months ended September 30, 2014, as compared to discrete charges of \$38.7 million and \$29.7 million for the same periods in 2013. Our 2014 net discrete benefits relate primarily to a change in estimate resulting in the recognition of tax benefits for a permanent deduction related to our domestic production activities, offset by charges related to interest on and changes in our unrecognized tax benefits and the deferred tax implications of newly enacted state laws. Our 2013 net discrete charges primarily relate to changes in our unrecognized tax benefits, the deferred tax implications of newly enacted state laws and investments in certain foreign subsidiaries that were subsequently realized.

Management is currently pursuing a \$531.2 million potential tax benefit related to the disposition of PolyMedica Corporation (Liberty). Based on information currently available, no net benefit has been recognized. A net benefit may become realizable in the future; however we cannot predict with any certainty the exact amount.

We believe that it is reasonably possible that our unrecognized tax benefits could significantly change within the next twelve months due to the anticipated conclusion of various examinations with taxing authorities. An estimate of the range of a reasonably possible change in the next twelve months cannot be made.

NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX

Net loss from discontinued operations, net of tax, was \$15.5 million and \$41.3 million for the three and nine months ended September 30, 2013, respectively. There were no discontinued operations for the three and nine months ended September 30, 2014.

NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST

Net income attributable to non-controlling interest represents the share of net income allocated to members in our consolidated affiliates. Decreases in these amounts are primarily driven by decreased profitability.

NET INCOME AND EARNINGS PER SHARE ATTRIBUTABLE TO EXPRESS SCRIPTS

Net income attributable to Express Scripts for the three and nine months ended September 30, 2014 increased by \$155.6 million to \$582.3 million, or 36.5%, and by \$83.1 million to \$1,425.8 million, or 6.2%, respectively, over the same period of 2013, due to the factors described above.

Basic and diluted earnings per share attributable to Express Scripts increased 49.1% and 50.0%, respectively, for the three months ended September 30, 2014 over the same period of 2013. These increases are primarily due to a total of 112.4 million shares held in treasury on September 30, 2014, as compared to 24.9 million shares held in treasury on September 30, 2013, as well as higher operating income partially offset by \$71.5 million of redemption costs incurred for the early redemption of its 3.500% senior notes due 2016.

Basic and diluted earnings per share attributable to Express Scripts increased 13.9% and 14.8%, respectively, for the nine months ended September 30, 2014 over the same period of 2013. These increases are primarily due to a total of 112.4 million shares held in treasury on September 30, 2014, as compared to 24.9 million shares held in treasury on September 30, 2013, partially offset by lower operating income.

Table of Contents**ADJUSTED EBITDA FROM CONTINUING OPERATIONS ATTRIBUTABLE TO EXPRESS SCRIPTS**

We have provided below a reconciliation of adjusted EBITDA from continuing operations attributable to Express Scripts to net income attributable to Express Scripts as we believe it is the most directly comparable measure calculated under accounting principles generally accepted in the United States:

| EBITDA from continuing operations attributable to Express Scripts ⁽¹⁾⁽²⁾ (in millions, except per claim data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income attributable to Express Scripts | \$582.3 | \$426.7 | \$1,425.8 | \$1,342.7 |
| Less: Net loss from discontinued operations, net of tax | — | (15.5) |) — | (41.3) |
| Net income from continuing operations attributable to Express Scripts | 582.3 | 442.2 | \$1,425.8 | \$1,384.0 |
| Provision for income taxes | 209.2 | 326.5 | 789.4 | 896.0 |
| Depreciation and amortization ⁽³⁾ | 547.0 | 614.3 | 1,658.2 | 1,824.0 |
| Interest expense, net | 193.3 | 101.7 | 437.5 | 442.0 |
| Equity income from joint venture | (7.2) |) (6.3) |) (13.6) |) (23.1) |
| EBITDA from continuing operations attributable to Express Scripts | 1,524.6 | 1,478.4 | 4,297.3 | 4,522.9 |
| Adjustments to EBITDA from continuing operations attributable to Express Scripts | | | | |
| Transaction and integration costs ⁽³⁾ | 214.6 | 178.5 | 648.1 | 473.0 |
| Adjusted EBITDA from continuing operations attributable to Express Scripts | 1,739.2 | 1,656.9 | 4,945.4 | 4,995.9 |
| Total adjusted claims from continuing operations | 328.3 | 358.1 | 972.8 | 1,117.3 |
| Adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim ⁽⁴⁾ | \$5.30 | \$4.63 | \$5.08 | \$4.47 |

EBITDA from continuing operations attributable to Express Scripts is earnings before other income (expense), interest, taxes, depreciation and amortization, or alternatively calculated as operating income from continuing operations plus depreciation and amortization less non-controlling interest. EBITDA from continuing operations attributable to Express Scripts is presented because it is a widely accepted indicator of a company's ability to service indebtedness and is frequently used to evaluate a company's performance. EBITDA from continuing operations attributable to Express Scripts, however, should not be considered as an alternative to net income from continuing operations, as a measure of operating performance, as an alternative to cash flow, as a measure of liquidity or as a substitute for any other measure computed in accordance with accounting principles generally accepted in the United States. In addition, our definition and calculation of EBITDA from continuing operations attributable to Express Scripts may not be comparable to that used by other companies.

(1) During 2012 and 2013, we determined that various businesses acquired in the Merger were no longer core to our future operations and committed to a plan to dispose of these businesses. In accordance with applicable accounting guidance, the results of operations for these businesses are reported as discontinued operations for all periods presented in the accompanying financial information.

(2) Depreciation and amortization for the three and nine months ended September 30, 2014 presented above includes \$8.1 million and \$46.1 million, respectively, of depreciation related to the integration of Medco which is not included in transaction and integration costs. Depreciation and amortization for the three and nine months ended September 30, 2013 presented above includes \$9.1 million and \$11.1 million, respectively, of depreciation related to the integration of Medco which is not included in transaction and integration costs.

(3) Adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim is a supplemental measurement used by analysts and investors to help evaluate overall operating performance. We have calculated adjusted EBITDA from continuing operations attributable to Express Scripts excluding transaction and integration costs, as these charges are not considered an indicator of ongoing company performance. Adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim is calculated by dividing adjusted EBITDA

from continuing operations attributable to Express Scripts by the adjusted claim volume for the period. This measure is used as an indicator of adjusted EBITDA from continuing operations attributable to Express Scripts performance on a per-unit basis. Adjusted EBITDA from continuing operations attributable to Express Scripts, and as a result, adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim, are affected by the changes in claim volumes between network and home delivery and specialty, the relative representation of brand-name, generic and specialty pharmacy drugs, as well as the level of efficiency in the business.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

OPERATING CASH FLOW AND CAPITAL EXPENDITURES AND FINANCING

For the nine months ended September 30, 2014, net cash provided by continuing operations decreased \$218.5 million compared to the same period of 2013 to an inflow of \$1,624.6 million. Changes in working capital resulted in a cash outflow of \$1,272.2 million for the nine months ended September 30, 2014 compared to a cash outflow of \$1,169.7 million over the same period of 2013, resulting in a total change of \$102.5 million. The working capital decrease was primarily due to the timing of payments and receipts of accounts receivable, claims and rebates payable and accounts payable.

Net cash used in investing activities by continuing operations was \$319.3 million for the nine months ended September 30, 2014, compared to net cash provided by investing activities by continuing operations of \$12.1 million over the same period of 2013. This change is primarily due to \$313.0 million of cash inflows related to the sale of certain portions of our United BioSource LLC (“UBC”) business during the nine months ended September 30, 2013. Capital expenditures for the nine months ended September 30, 2014 include \$50.8 million related to new data centers, \$58.3 million related to a new high volume pharmacy fulfillment facility and \$13.7 million related to a new office facility. We intend to continue to invest in infrastructure and technology that we believe will provide efficiencies in operations, facilitate growth and enhance the service we provide to our clients. Anticipated capital expenditures are expected to be funded primarily from operating cash flow or, to the extent necessary, with borrowings under our revolving credit facility, discussed below.

Net cash used in financing activities by continuing operations was \$2,458.5 million for the nine months ended September 30, 2014, which represents a change of \$463.5 million compared to the same period in 2013. Cash inflows for 2014 include \$2,490.1 million related to the issuance of our June 2014 Senior Notes (defined below). This inflow was offset by outflows of \$3,673.5 million related to treasury share repurchases, \$1,250.0 million related to the redemption of our 3.500% senior notes due 2016 and \$473.7 million related to quarterly term facility payments for the nine months ended September 30, 2014 compared to outflows during the same period of 2013 of \$1,552.5 million of treasury share repurchases, \$1,300.0 million related to the redemption of our 6.250% senior notes due 2014 and 6.125% senior notes due 2013, and \$473.7 million of quarterly term facility payments.

We are a provider to state of Illinois employees. As of September 30, 2014 and December 31, 2013, we had an outstanding receivable balance of approximately \$219.2 million and \$320.1 million, respectively. We have not recorded a reserve against this receivable, as it is associated with a state, which continues to make payments. We believe that the full receivable balance will be realized.

We anticipate that our current cash balances, cash flows from operations and our revolving credit facility will be sufficient to meet our cash needs and make scheduled payments for our contractual obligations and current capital commitments. However, if needs arise, we may decide to secure external capital to provide additional liquidity. New sources of liquidity may include additional lines of credit, term loans, or issuance of notes or common stock, all of which are allowable, with certain limitations, under our existing credit agreement and other debt instruments. While our ability to secure debt financing in the short term at rates favorable to us may be moderated due to various factors, including existing debt levels, market conditions or other factors, we believe our liquidity options discussed above should be sufficient to meet our anticipated cash flow needs.

ACQUISITIONS

We regularly review potential acquisitions and affiliation opportunities. We believe available cash resources, bank financing or the issuance of notes or common stock could be used to finance future acquisitions or affiliations. There can be no assurance we will make new acquisitions or establish new affiliations in the future.

STOCK REPURCHASE PROGRAM

Including the shares repurchased through the ASR Agreement, under our existing share repurchase program (the “Share Repurchase Program”) originally announced on March 6, 2013, we repurchased 14.1 million and 11.6 million shares for \$1,013.6 million and \$751.5 million, respectively, during the three months ended September 30, 2014 and 2013, and 52.0 million and 24.9 million shares for \$3,823.4 million and \$1,552.5 million, respectively, during the nine months ended September 30, 2014 and 2013. On March 5, 2014, the Board of Directors of Express Scripts approved an increase in the authorized number of shares that may be repurchased under the Share Repurchase Program by an

additional 65.0 million shares, for a total authorization of 140.0 million shares (including shares previously purchased, as adjusted for any subsequent stock split, stock dividend or similar transaction), of the Company's common stock. There is no limit on the duration of the Share Repurchase Program. As of September 30, 2014, there were 28.8 million shares remaining under the Share Repurchase

Table of Contents

Program. Additional share repurchases, if any, will be made in such amounts and at such times as we deem appropriate based upon prevailing market and business conditions and other factors. Current year repurchases were funded through internally generated cash and debt.

ACCELERATED SHARE REPURCHASE

On December 9, 2013, as part of our Share Repurchase Program, we entered into an agreement to repurchase shares of our common stock for an aggregate purchase price of \$1,500.0 million (the “ASR Program”) under an Accelerated Share Repurchase agreement (the “ASR Agreement”). Under the terms of the ASR Agreement, upon payment of the purchase price, we received an initial delivery of 20.1 million shares of our common stock at a price of \$67.16 per share, which represented, based on the closing share price of our common stock on NASDAQ on December 9, 2013, approximately 90% of the \$1,500.0 million amount of the ASR Program. The final purchase price per share (the “forward price”) and the final number of shares received was determined using the arithmetic mean of the daily volume-weighted average price of the Company’s common stock (the “VWAP”) over the term of the ASR Program less a discount granted under the ASR Agreement. In April 2014, we settled the ASR Agreement and received 0.6 million additional shares, resulting in a total of 20.7 million shares received under the ASR Agreement.

The ASR Agreement was accounted for as an initial treasury stock transaction and a forward stock purchase contract. We recorded this transaction as an increase to treasury stock of \$1,350.1 million, and recorded the remaining \$149.9 million as a decrease to additional paid-in capital in the consolidated balance sheet at December 31, 2013. The \$149.9 million recorded in additional paid-in capital was reclassified to treasury stock upon completion of the ASR Program on April 16, 2014. The forward stock purchase contract was classified as an equity instrument under applicable accounting guidance and was deemed to have a fair value of zero at the effective date of the ASR Agreement. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share on the effective date of the ASR Agreement. The remaining 0.6 million shares received for the settlement to the ASR Program reduced weighted-average common shares outstanding for the nine months ended September 30, 2014.

BANK CREDIT FACILITIES

On August 29, 2011, ESI entered into a credit agreement (the “credit agreement”) with a commercial bank syndicate providing for a five-year \$4,000.0 million term loan facility (the “term facility”) and a \$1,500.0 million revolving loan facility (the “revolving facility”). The term facility was used to pay a portion of the cash consideration in connection with the Merger, to repay existing indebtedness and to pay related fees and expenses. Upon consummation of the Merger, Express Scripts assumed the obligations of ESI and became the borrower under the credit agreement and revolving facility. Subsequent to consummation of the Merger on April 2, 2012, the revolving facility has been available for general corporate purposes. The term facility and the revolving facility both mature on August 29, 2016. As of September 30, 2014, no amounts were drawn under the revolving facility. We make quarterly principal payments on the term facility. As of September 30, 2014, \$842.1 million of this facility is considered current maturities of long-term debt.

Our bank financing agreements and senior notes contain customary covenants that restrict our ability to incur additional indebtedness, create or permit liens on assets and engage in mergers or consolidations. The covenants related to bank financing arrangements also include, among others, minimum interest coverage ratios and maximum leverage ratios. At September 30, 2014, we were in compliance with all covenants associated with our debt instruments, including the credit agreement and our senior notes.

See Note 6 - Financing for more information on our credit facilities.

SENIOR NOTES

On June 5, 2014, we issued \$2,500.0 million of senior notes (the “June 2014 Senior Notes”), including:
\$500.0 million aggregate principal amount of 1.250% senior notes due 2017
\$1,000.0 million aggregate principal amount of 2.250% senior notes due 2019
\$1,000.0 million aggregate principal amount of 3.500% senior notes due 2024

A portion of the net proceeds from the sale of the June 2014 Senior Notes was used to redeem all of the Company’s outstanding 3.500% senior notes due 2016 (which were redeemed in July 2014) and the remainder of the proceeds is intended (i) to pay a portion of the Company’s outstanding 2.750% senior notes due 2014 at their maturity on

November 15, 2014 and (ii) for general corporate purposes, which includes repurchases of the Company's common stock under its share repurchase program pursuant to open market transactions. On June 5, 2014, the Company issued an irrevocable notice of redemption in

Table of Contents

respect of its 3.500% senior notes due 2016. In July 2014, the Company redeemed its \$1,250.0 million aggregate principal amount of 3.500% senior notes due 2016 using the proceeds from the June 2014 Senior Notes.

On February 6, 2012, we issued \$3,500.0 million of senior notes, including:

\$1,000.0 million aggregate principal amount of 2.100% senior notes due 2015

\$1,500.0 million aggregate principal amount of 2.650% senior notes due 2017

\$1,000.0 million aggregate principal amount of 3.900% senior notes due 2022

The net proceeds were used to pay a portion of the cash consideration paid in the Merger and to pay related fees and expenses.

On November 14, 2011, we issued \$4,100.0 million of senior notes, including:

\$900.0 million aggregate principal amount of 2.750% senior notes due 2014

\$1,250.0 million aggregate principal amount of 3.500% senior notes due 2016

\$1,250.0 million aggregate principal amount of 4.750% senior notes due 2021

\$700.0 million aggregate principal amount of 6.125% senior notes due 2041

The net proceeds were used to pay a portion of the cash consideration paid in the Merger and to pay related fees and expenses. In July 2014, \$1,250.0 million aggregate principal amount of 3.500% senior notes due 2016 were redeemed.

On May 2, 2011, ESI issued \$1,500.0 million aggregate principal amount of 3.125% senior notes due 2016. The proceeds were used to repurchase treasury shares.

On September 10, 2010, Medco issued \$1,000.0 million of senior notes, including:

\$500.0 million aggregate principal amount of 2.750% senior notes due 2015

\$500.0 million aggregate principal amount of 4.125% senior notes due 2020

The net proceeds were used for general corporate purposes.

On June 9, 2009, ESI issued \$2,500.0 million of senior notes, including:

\$1,000.0 million aggregate principal amount of 5.250% senior notes due 2012

\$1,000.0 million aggregate principal amount of 6.250% senior notes due 2014

\$500.0 million aggregate principal amount of 7.250% senior notes due 2019

ESI used the net proceeds for the acquisition of the NextRx PBM Business from Anthem (formerly known as WellPoint). On June 15, 2012, \$1,000.0 million aggregate principal amount of the 5.250% senior notes due 2012 matured and were redeemed. On March 29, 2013, \$1,000.0 million aggregate principal amount of the 6.250% senior notes due 2014 were redeemed.

On March 18, 2008, Medco issued \$1,500.0 million of senior notes, including:

\$300.0 million aggregate principal amount of 6.125% senior notes due 2013

\$1,200.0 million aggregate principal amount of 7.125% senior notes due 2018

Medco used the net proceeds to reduce debts held on Medco's revolving credit facility. On March 18, 2013, \$300.0 million aggregate principal amount of 6.125% senior notes due 2013 matured and were redeemed.

See Note 6 - Financing for more information on our senior notes borrowings.

OTHER MATTERS

In April 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance containing changes to the criteria for determining which disposals can be presented as discontinued operations and modifying related disclosure requirements. This statement is effective for financial statements issued for annual periods beginning after December 15, 2014. Adoption of the standard is not expected to have a material impact on our financial position, results of operations or cash flows.

Table of Contents

In May 2014, the FASB issued Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers which supersedes ASC 605, Revenue Recognition. The new standard requires companies to recognize revenue upon transfer of goods or services to customers in amounts that reflect the consideration which the company expects to receive in exchange for those goods or services. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and early application is not permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IMPACT OF INFLATION

Changes in prices charged by manufacturers and wholesalers for pharmaceuticals affect our revenues and cost of revenues. Most of our contracts provide that we bill clients based on a generally recognized price index for pharmaceuticals.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates related to debt outstanding under our credit agreement. Our earnings are subject to change as a result of movements in market interest rates. At September 30, 2014, we had \$1,526.4 million of gross obligations, or \$691.6 million net of cash, which were subject to variable rates of interest under our credit agreement. A hypothetical increase in interest rates of 1% would result in an increase in annual interest expense of approximately \$15.3 million (pre-tax), presuming that obligations subject to variable interest rates remained constant.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) designed to provide reasonable assurance that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC’s rules and forms. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures are effective in providing reasonable assurance of the achievement of the objectives described above.

On April 2, 2012, the Company acquired Medco Health Solutions, Inc. As we finalize the integration process throughout the remainder of the year, we will continue to review the effectiveness of internal controls.

Except as described above, during the quarter ended September 30, 2014, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Express Scripts Holding Company's subsidiaries (for purposes of this Item 1, collectively "the Company") are defendants in a number of lawsuits. We cannot ascertain with any certainty at this time the monetary damages or injunctive relief that any of the plaintiffs may recover. We also cannot provide any assurance that the outcome of any of these matters individually, or some number of them in the aggregate, will not be materially adverse to our financial condition, results of operations, cash flows or business prospects. In addition, the expenses of defending these cases may have a material adverse effect on our financial results.

The following developments have occurred since the filing of our Quarterly Report on Form 10-Q for the three months ended June 30, 2014, relating to proceedings involving the Company:

These matters are:

United States ex rel. Steve Greenfield, et al. v. Medco Health Solutions, Inc., Accredo Health Group, Inc., and Hemophilia Health Services, Inc., (United States District Court for the District of New Jersey, No. 1:12-cv-522) (unsealed February 20, 2013). This qui tam case was filed under seal in January 2012 and the government declined to intervene in December 2012. The second amended complaint alleges that defendants Medco, Accredo Health Group, Inc. (for purposes of this Item 1, "Accredo") and Hemophilia Health Services, Inc. violated the federal False Claims Act, the Anti-Kickback Statute, and various state and local false claims statutes when they made charitable contributions to non-profit organizations supporting hemophilia patients that were allegedly improper rewards or inducements for referrals of hemophilia patients to Accredo's pharmacy services. The second amended complaint further alleges that Accredo gave gifts to patients and/or their families that were in excess of the "nominal" gifts allegedly allowed under the Civil Monetary Penalty Statute and were allegedly improper rewards or inducements for the use of Accredo's pharmacy services. On May 17, 2013, defendants filed a motion to dismiss the second amended complaint, which Greenfield opposed in briefings filed on June 17, 2013. On December 30, 2013, the United States District Court for the District of New Jersey granted defendants' motion to dismiss relating to Greenfield's federal claims, declined to exercise jurisdiction over his state law claims, and provided Greenfield thirty days to file a third amended complaint. On January 28, 2014, Greenfield filed a third amended complaint in which he asserts claims similar to those pled in the second amended complaint, but alleges that Accredo gave gifts to patients and/or their families in violation of the federal Anti-Kickback Statute, as opposed to the Civil Monetary Penalty Statute as previously pled. On February 21, 2014, defendants filed a motion to dismiss Greenfield's third amended complaint. Greenfield filed an opposition to the motion on March 20, 2014, and defendants filed a reply brief on March 31, 2014. On September 26, 2014, the Court granted in part, and denied in part, defendants' motion to dismiss. Greenfield filed a Fourth Amended Complaint on October 3, 2014.

United States ex rel. David M. Kester, et al. v. Novartis Pharmaceuticals Corp., Accredo Health Group, Inc., BioScrip Corp., CuraScript, Inc., CVS Caremark Corp. (United States District Court for the Southern District of New York, Case No. 1:11-cv-08196-CM) (unsealed January 8, 2014). This qui tam case was filed under seal in April 2013. The federal government intervened against defendants Novartis Pharmaceuticals Corp. ("Novartis") and BioScrip, Inc. ("BioScrip"), and declined to intervene against the remaining defendants. On January 8, 2014, the United States District Court ordered Kester to file any second amended complaint by January 30, 2014. On January 30, 2014, Kester filed a second amended complaint in which he alleges defendants violated the Anti-Kickback Statute, the federal False Claims Act, and the false claims acts of twenty-seven states in connection with rebates and discounts provided in various contracts with Novartis involving the following drugs: Exjade, Gleevec, Tasigna, and TOBI. On March 21, 2014, CuraScript, Inc. (for purposes of this Item 1, "CuraScript") and Accredo filed a letter motion and brief requesting dismissal of the second amended complaint pursuant to Federal Rule of Civil Procedure 9(b), to which Kester filed an opposition on March 28, 2014. On April 21, 2014, Accredo filed a motion to dismiss the second amended complaint under Federal Rule of Civil Procedure 12(b)(6), to which Kester filed a memorandum of opposition on May 21, 2014. On June 10, 2014, the Court entered an order granting defendants' motions to dismiss with respect to Gleevec, Tasigna, and TOBI, and denied the motions with respect to Exjade. On September 9, 2014, the Court denied CuraScript and Accredo's motion to dismiss for failure to state a claim. On September 15, 2014, Kester filed a Third

Amended Complaint. On September 29, 2014, CuraScript and Accredo filed a motion to dismiss the Third Amended Complaint. On October 17, 2014, Kester filed a memorandum of law in opposition to defendants' motions to dismiss the third amended complaint, and the Company's reply brief was filed on October 27, 2014.

Table of Contents

ATLS Acquisition, LLC, et al., FGST Investments, Inc., et al. v. Medco Health Solutions, Inc. (United States Bankruptcy Court for the District of Delaware, Case No. 13-10262 (PJW)) (adversary complaint filed March 7, 2014). On December 3, 2012, Medco sold PolyMedica Corporation and its subsidiaries (“PolyMedica”), including all assets and liabilities, to FGST Investments, Inc. (“FGST”) in a management buyout transaction. On February 15, 2013, ATLS Acquisition LLC (“ATLS”), the parent company of FGST, FGST, and PolyMedica (ATLS, FGST and PolyMedica are collectively referred to as “Debtors”), filed for Chapter 11 bankruptcy protection. On March 7, 2014, Debtors filed an adversary complaint against Medco alleging breach of contract, specific performance, indemnity, breach of financial statements warranty, declaratory judgment, avoidance of transfers based on constructive and actual fraud, and disallowance and subordination of Medco’s claims. Debtors seek payment of PolyMedica’s pre-closing taxes and other creditors’ claims. On March 10, 2014, Debtors filed objections to proofs of claims filed by Medco. On March 24, 2014, Debtors filed a motion for partial summary judgment as to the pre-closing taxes. On May 1, 2014, Medco filed an answer and counterclaim to the adversary complaint, a motion to dismiss the adversary proceeding, and a partial cross motion for summary judgment seeking reformation of the stock purchase agreement on the issue of pre-closing taxes. Debtors filed a reply to Medco’s counterclaim on May 9, 2014, an answering brief in opposition to Medco’s motion to dismiss on May 20, 2014, and a brief in opposition to Medco’s cross motion for partial summary judgment on May 21, 2014. On August 15, 2014, Debtors filed a joint plan of reorganization. On September 30, 2014, Debtors filed a motion for entry of orders including but not limited to approving bid procedures related to the sale of assets, approving bid protections, scheduling a hearing for considering sale, approving the asset purchase agreement and authorizing the sale. The auction of Debtors’ assets is scheduled to occur on November 11, 2014.

In addition to the foregoing matters, in the ordinary course of our business, there have arisen various legal proceedings, investigations or claims now pending against us or our subsidiaries. Investigations under the federal and most state False Claims Acts may be initiated by the applicable government investigative body or by a qui tam relator’s filing of a False Claims Act complaint under court seal. If a qui tam relator’s complaint remained under seal, applicable law would restrict our ability to disclose such a fact. The effect of these actions on future financial results is not subject to reasonable estimation because the proceedings are in early stages and/or considerable uncertainty exists about the outcomes. Where insurance coverage is not available for such claims, or in our judgment, is not cost-effective, we maintain self-insurance accruals to reduce our exposure to future legal costs, settlements and judgments related to uninsured claims. Our self-insured accruals are based upon estimates of the aggregate liability for the costs of uninsured claims incurred and the retained portion of insured claims using certain actuarial assumptions followed in the insurance industry and our historical experience. It is not possible to predict with certainty the outcome of these claims, and we can give no assurance that any losses in excess of our insurance and any self-insurance accruals will not be material.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following is a summary of our stock repurchasing activity during the three months ended September 30, 2014 (share data in millions):

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced program | Maximum number of shares that may yet be purchased under the program |
|--------------------------|----------------------------------|------------------------------|--|--|
| 7/1/2014 - 7/31/2014 | — | \$— | — | 42.9 |
| 8/1/2014 - 8/31/2014 | 14.1 | 72.13 | 14.1 | 28.8 |
| 9/1/2014 - 9/30/2014 | — | — | — | 28.8 |
| Third Quarter 2014 Total | 14.1 | \$72.13 | 14.1 | |

The repurchases disclosed in this table were made pursuant to the share repurchase program originally announced on March 6, 2013 (the “Share Repurchase Program”). On March 5, 2014, the Board of Directors of Express Scripts approved an increase in the authorized number of shares that may be repurchased under the Share Repurchase Program by an additional 65.0 million shares, or a total authorization of 140.0 million shares (including shares previously purchased, as adjusted for any subsequent stock split, stock dividend or similar transaction), of the Company’s common stock. There is no limit on the duration of the Share Repurchase Program. Additional share

repurchases, if any, will be made in such amounts and at such times as we deem appropriate based upon prevailing market and business conditions and other factors.

Item 6. Exhibits

(a) See Index to Exhibits below.

40

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXPRESS SCRIPTS HOLDING COMPANY
(Registrant)

Date: October 28, 2014

By: /s/ George Paz
George Paz, Chairman and
Chief Executive Officer

Date: October 28, 2014

By: /s/ Cathy R. Smith
Cathy R. Smith, Executive Vice President and
Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

(Express Scripts Holding Company – Commission File Number 1-35490)

| Exhibit Number | Exhibit |
|--------------------|--|
| 2.1 ² | Agreement and Plan of Merger, dated as of July 20, 2011, by and among Express Scripts, Inc., Medco Health Solutions, Inc., Aristotle Holding, Inc., Aristotle Merger Sub, Inc. and Plato Merger Sub, Inc., incorporated by reference to Exhibit 2.1 to Express Scripts, Inc.’s Current Report on Form 8-K filed July 22, 2011, File No. 000-20199. |
| 2.2 | Amendment No. 1 to Agreement and Plan of Merger, dated as of November 7, 2011, by and among Express Scripts, Inc., Medco Health Solutions, Inc., Aristotle Holding, Inc., Aristotle Merger Sub, Inc., and Plato Merger Sub, Inc., incorporated by reference to Exhibit 2.1 to Express Scripts, Inc.’s Current Report on Form 8-K filed November 8, 2011, File No. 000-20199. |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed April 2, 2012. |
| 3.2 | Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed April 2, 2012. |
| 11.1 | Statement regarding computation of earnings per share. (See Note 5 to the unaudited consolidated financial statements.) |
| 31.1 ¹ | Certification by George Paz, as Chairman and Chief Executive Officer of Express Scripts Holding Company, pursuant to Exchange Act Rule 13a-14(a). |
| 31.2 ¹ | Certification by Cathy R. Smith, as Executive Vice President and Chief Financial Officer of Express Scripts Holding Company, pursuant to Exchange Act Rule 13a-14(a). |
| 32.1 ¹ | Certification by George Paz, as Chairman and Chief Executive Officer of Express Scripts Holding Company, pursuant to 18 U.S.C. § 1350 and Exchange Act Rule 13a-14(b). |
| 32.2 ¹ | Certification by Cathy R. Smith, as Executive Vice President and Chief Financial Officer of Express Scripts Holding Company, pursuant to 18 U.S.C. § 1350 and Exchange Act Rule 13a-14(b). |
| 101.1 ¹ | XBRL Taxonomy Instance Document. |
| 101.2 ¹ | XBRL Taxonomy Extension Schema Document. |
| 101.3 ¹ | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.4 ¹ | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.5 ¹ | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.6 ¹ | XBRL Taxonomy Extension Presentation Linkbase Document. |

1 Filed herein.

2

The Merger Agreement listed in Exhibit 2.1 (the “Agreement”) is not intended to modify or supplement any factual disclosures about the parties thereto, including the Company, and should not be relied upon as disclosure about such parties without consideration of the periodic and current reports and statements that the parties thereto file with the SEC. The terms of the Agreement govern the contractual rights and relationships, and allocate risks, among the parties in relation to the transactions contemplated by the Agreement. In particular, the representations and warranties made by the parties in the Agreement reflect negotiations between, and are solely for the benefit of, the parties thereto and may be limited or modified by a variety of factors, including: subsequent events, information included in public filings, disclosures made during negotiations, correspondence between the parties and disclosure schedules and disclosure letters, as applicable, to the Agreement. Accordingly, the representations and warranties may not describe the actual state of affairs at the date they were made or at any other time and you should not rely on them as statements of fact. In addition, the representations and warranties made by the parties in the Agreement may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. The schedules to the Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be furnished supplementally to the SEC upon request.