Express Scripts Holding Co.
Form 10-Q
October 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013.

¨ 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 incorporation or organization)	(I.R.S. Employer 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 ý 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 ý 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 ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ Noý

Common stock outstanding as of September 30, 2013:	805,806,000	Shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Balance Sheet

(in millions)	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$1,722.3	$2,793.1
Restricted cash and investments	19.2	19.6
Receivables, net	5,112.4	5,425.8
Inventories	1,643.6	1,652.1
Deferred taxes	422.7	400.6
Prepaid expenses and other current assets	179.0	194.3
Current assets of discontinued operations	125.0	271.4
Total current assets	9,224.2	10,756.9
Property and equipment, net	1,629.2	1,632.1
Goodwill	29,306.3	29,320.4
Other intangible assets, net	14,525.9	16,037.9
Other assets	56.6	56.1
Noncurrent assets of discontinued operations	20.8	307.8
Total assets	$54,763.0	$58,111.2
Liabilities and Stockholders' Equity		
Current liabilities:		
Claims and rebates payable	$6,459.7	$7,440.0
Accounts payable	2,573.4	2,898.9
Accrued expenses	1,496.7	1,632.9
Current maturities of long-term debt	631.6	934.9
Current liabilities of discontinued operations	64.8	150.7
Total current liabilities	11,226.2	13,057.4
Long-term debt	13,482.0	14,980.1
Deferred taxes	5,589.0	5,936.5
Other liabilities	746.3	692.9
Noncurrent liabilities of discontinued operations	0.4	48.6
Total liabilities	31,043.9	34,715.5
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: 830.7 and 818.1, respectively; shares outstanding: 805.8 and 818.1, respectively	8.3	8.2
Additional paid-in capital	21,820.2	21,289.7
Accumulated other comprehensive income	15.4	18.9
Retained earnings	3,410.9	2,068.2
	25,254.8	23,385.0
Common stock in treasury at cost, 24.9 and zero shares, respectively	(1,552.5)	—
Total Express Scripts stockholders' equity	23,702.3	23,385.0

Non-controlling interest	16.8	10.7
Total stockholders’ equity	23,719.1	23,395.7
Total liabilities and stockholders’ equity	$54,763.0	$58,111.2

See accompanying Notes to Unaudited Consolidated Financial Statements

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EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Operations

(in millions, except per share data)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Revenues [(1)]	$25,915.6	$26,761.6	$78,317.4	$66,349.2
Cost of revenues [(1)]	23,921.4	24,658.7	72,246.0	61,335.0
Gross profit	1,994.2	2,102.9	6,071.4	5,014.2
Selling, general and administrative	1,118.7	1,282.2	3,348.5	3,127.2
Operating income	875.5	820.7	2,722.9	1,887.0
Other (expense) income:				
Equity income from joint venture	6.3	5.1	23.1	9.4
Interest income	25.7	1.4	28.4	6.0
Interest expense and other	(127.4)	(155.2)	(470.4)	(461.6)
	(95.4)	(148.7)	(418.9)	(446.2)
Income before income taxes	780.1	672.0	2,304.0	1,440.8
Provision for income taxes	326.5	256.1	896.0	602.5
Net income from continuing operations	453.6	415.9	1,408.0	838.3
Net loss from discontinued operations, net of tax	(15.5)	(20.0)	(41.3)	(19.2)
Net income	438.1	395.9	1,366.7	819.1
Less: Net income attributable to non-controlling interest	11.4	4.5	24.0	10.3
Net income attributable to Express Scripts	$426.7	$391.4	$1,342.7	$808.8
Weighted average number of common shares outstanding during the period:				
Basic	810.2	812.9	814.7	702.4
Diluted	822.9	829.6	828.0	718.9
Basic earnings per share:				
Continuing operations attributable to Express Scripts	$0.55	$0.51	$1.70	$1.18
Discontinued operations attributable to Express Scripts	(0.02)	(0.02)	(0.05)	(0.03)
Net earnings attributable to Express Scripts	$0.53	$0.48	$1.65	$1.15
Diluted earnings per share:				
Continuing operations attributable to Express Scripts	$0.54	$0.50	$1.67	$1.15
Discontinued operations attributable to Express Scripts	(0.02)	(0.02)	(0.05)	(0.03)
Net earnings attributable to Express Scripts	$0.52	$0.47	$1.62	$1.13
Amounts attributable to Express Scripts shareholders:				
Income from continuing operations, net of tax	$442.2	$411.4	$1,384.0	$828.0
Discontinued operations, net of tax	(15.5)	(20.0)	(41.3)	(19.2)
Net income attributable to Express Scripts shareholders	$426.7	$391.4	$1,342.7	$808.8

1 Includes retail pharmacy co-payments of $2,966.5 and $3,348.9 for the three months ended September 30, 2013 and 2012, respectively, and $9,845.2 and $8,364.6 for the nine months ended September 30, 2013 and 2012, respectively.

See accompanying Notes to Unaudited Consolidated Financial Statements

EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2013	2012	2013	2012
Net income	$438.1	$395.9	$1,366.7	$819.1
Other comprehensive income (loss):				
Foreign currency translation adjustment	2.5	8.5	(3.5)	(0.4)
Comprehensive income	440.6	404.4	1,363.2	818.7
Less: Comprehensive income attributable to non-controlling interests	11.4	4.5	24.0	10.3
Comprehensive income attributable to Express Scripts	$429.2	$399.9	$1,339.2	$808.4

See accompanying Notes to Unaudited Consolidated Financial Statements

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EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Changes in Stockholders' Equity

	Number of Shares	Amount						
(in millions)	Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
Balance at December 31, 2012	818.1	$8.2	$21,289.7	$ 18.9	$2,068.2	$—	$10.7	$23,395.7
Net income	—	—	—	—	1,342.7	—	24.0	1,366.7
Other comprehensive loss	—	—	—	(3.5)	—	—	—	(3.5)
Treasury stock acquired	—	—	—	—	—	(1,552.5)	—	(1,552.5)
Changes in stockholders' equity related to employee stock plans	12.6	0.1	530.5	—	—	—	—	530.6
Distributions to non-controlling interest	—	—	—	—	—	—	(17.9)	(17.9)
Balance at September 30, 2013	830.7	$8.3	$21,820.2	$ 15.4	$3,410.9	$(1,552.5)	$16.8	$23,719.1

See accompanying Notes to Unaudited Consolidated Financial Statements

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EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Cash Flows

	Nine Months Ended September 30,	
(in millions)	2013	2012
Cash flows from operating activities:		
Net income	$1,366.7	$819.1
Net loss from discontinued operations, net of tax	41.3	19.2
Net income from continuing operations	1,408.0	838.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,824.0	1,270.0
Deferred income taxes	(376.2)	(338.0)
Employee stock-based compensation expense	131.2	341.6
Other, net	25.8	43.7
Changes in operating assets and liabilities:		
Accounts receivable	194.5	417.1
Inventories	8.6	(358.1)
Other current and noncurrent assets	37.3	31.5
Claims and rebates payable	(980.3)	(647.2)
Accounts payable	(320.5)	142.7
Other current and noncurrent liabilities	(109.3)	303.8
Net cash provided by operating activities - continuing operations	1,843.1	2,045.4
Net cash (used in) provided by operating activities - discontinued operations	(20.7)	9.3
Net cash flows provided by operating activities	1,822.4	2,054.7
Cash flows from investing activities:		
Proceeds from sale of business	313.0	31.5
Purchases of property and equipment	(274.6)	(101.9)
Acquisitions, net of cash acquired	(14.5)	(10,326.0)
Other	(11.8)	(16.2)
Net cash provided by (used in) investing activities - continuing operations	12.1	(10,412.6)
Acquisitions, cash acquired - discontinued operations	—	42.4
Net cash used in investing activities - discontinued operations	(2.1)	(4.1)
Net cash provided by (used in) investing activities	10.0	(10,374.3)
Cash flows from financing activities:		
Repayment of long-term debt	(1,773.7)	(2,710.6)
Treasury stock acquired	(1,552.5)	—
Net proceeds from employee stock plans	383.6	276.5
Excess tax benefit relating to employee stock compensation	23.2	30.4
Distributions paid to non-controlling interest	(18.0)	(5.3)
Proceeds from long-term debt, net of discounts	—	7,458.9
Repayment of revolving credit line, net	—	(1,000.0)
Proceeds from accounts receivable financing facility	—	600.0
Repayment of accounts receivable financing facility	—	(600.0)
Other	15.4	(103.2)
Net cash (used in) provided by financing activities - continuing operations	(2,922.0)	3,946.7
Net cash used in financing activities - discontinued operations	—	(1.3)
Net cash (used in) provided by financing activities	(2,922.0)	3,945.4
Effect of foreign currency translation adjustment	(4.5)	2.6
Less: cash decrease (increase) attributable to discontinued operations	23.3	(47.3)

Net decrease in cash and cash equivalents	(1,070.8)	(4,418.9)
Cash and cash equivalents at beginning of period	2,793.1	5,620.1
Cash and cash equivalents at end of period	$1,722.3	$1,201.2

See accompanying Notes to Unaudited Consolidated Financial Statements

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EXPRESS SCRIPTS HOLDING COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies

On July 20, 2011, Express Scripts, Inc. ("ESI") entered into a definitive merger agreement (the "Merger Agreement") with Medco Health Solutions, Inc. ("Medco"), which was amended by Amendment No. 1 thereto on November 7, 2011, providing for the combination of ESI and Medco under a new holding company named Aristotle Holding, Inc. The transactions contemplated by the Merger Agreement (the "Merger") were consummated on April 2, 2012. Aristotle Holding, Inc. was renamed Express Scripts Holding Company (the "Company" or "Express Scripts") concurrently with the consummation of the Merger. "We," "our" or "us" refers to Express Scripts Holding Company and its subsidiaries. For financial reporting and accounting purposes, ESI was the acquirer of Medco. The consolidated financial statements reflect the results of operations and financial position of ESI for the period beginning January 1, 2012 through April 1, 2012. However, references to amounts for periods after the closing of the Merger on April 2, 2012 relate to Express Scripts.

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' Annual Report on Form 10-K for the year ended December 31, 2012. For a full description of our accounting policies, refer to the Notes to the Consolidated Financial Statements included in Express Scripts' Annual Report on Form 10-K for the year ended December 31, 2012.

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 at September 30, 2013, the unaudited consolidated statement of operations and unaudited consolidated statement of comprehensive income for the three and nine months ended September 30, 2013 and 2012, the unaudited consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2013, and the unaudited consolidated statement of cash flows for the nine months ended September 30, 2013 and 2012. Certain amounts in prior years have been reclassified to conform to the current year presentation. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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. In the third quarter of 2013, we entered into an agreement for the sale of our acute infusion therapies line of business, which was included within our PBM segment. 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 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 consolidated statement of cash flows (see Note 4 - Dispositions).

Presentation of Non-Controlling Interest. The accompanying financial statements have been revised to reflect net income attributable to members of our consolidated affiliates. This revision results in a $4.5 million and $10.3 million adjustment from the "Selling, general and administrative" ("SG&A") line item to the "Net income attributable to non-controlling interest" line item within the consolidated statement of operations for the three and nine months ended September 30, 2012, respectively. This adjustment does not change amounts previously disclosed for the three and nine months ended September 30, 2012 as "Net income attributable to Express Scripts." This adjustment also affects net income included in cash flows from operating activities in the consolidated statement of cash flows for the nine months ended September 30, 2012. Additionally, within the consolidated statement of cash flows for the nine months ended September 30, 2012, the "Other current and noncurrent liabilities" line item decreased $5.0 million, and a $5.3 million cash outflow is now reflected within the "Distributions paid to non-controlling interest" line item.

New Accounting Guidance. In February 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance containing changes to the presentation of amounts reclassified out of accumulated other comprehensive income. This statement is effective for financial statements issued for annual periods beginning after December 15, 2012. Adoption of the standard impacts the presentation of certain information within the financial statements, but will not impact our financial position, results of operations or cash flows. The Company has not reclassified amounts out of accumulated other comprehensive income; as such, no additional information is presented for the three and nine months ended September 30, 2013 or 2012.

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In July 2013, the FASB issued authoritative guidance containing changes to the presentation of an unrecognized tax benefit when a loss or credit carryforward exists. This statement is effective for financial statements issued for annual periods beginning after December 15, 2013, with early adoption permitted. Adoption of the standard is not expected to impact our financial position, results of operations, or cash flows.

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 $753.9 million and $1,572.3 million, restricted cash and investments of $19.2 million and $19.6 million, and trading securities (included in other assets) of $8.1 million and $15.8 million, at September 30, 2013 and December 31, 2012, 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.

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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 and the fair values of our senior notes are shown, net of unamortized discounts and premiums, in the following table:

	September 30, 2013		December 31, 2012	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
March 2008 Senior Notes (acquired)				
7.125% senior notes due 2018	$1,388.3	$1,435.1	$1,417.2	$1,497.3
6.125% senior notes due 2013	—	—	303.3	303.0
	1,388.3	1,435.1	1,720.5	1,800.3
June 2009 Senior Notes				
6.250% senior notes due 2014	—	—	998.7	1,076.4
7.250% senior notes due 2019	497.8	610.3	497.6	645.1
	497.8	610.3	1,496.3	1,721.5
September 2010 Senior Notes (acquired)				
2.750% senior notes due 2015	507.9	516.2	510.9	522.4
4.125% senior notes due 2020	507.0	519.7	507.6	546.1
	1,014.9	1,035.9	1,018.5	1,068.5
May 2011 Senior Notes				
3.125% senior notes due 2016	1,496.7	1,570.1	1,495.8	1,590.2
November 2011 Senior Notes				
3.500% senior notes due 2016	1,249.8	1,323.4	1,249.7	1,347.8
4.750% senior notes due 2021	1,241.0	1,336.5	1,240.3	1,425.7
2.750% senior notes due 2014	899.6	919.8	899.4	930.8
6.125% senior notes due 2041	698.4	794.2	698.4	894.6
	4,088.8	4,373.9	4,087.8	4,598.9
February 2012 Senior Notes				
2.650% senior notes due 2017	1,490.0	1,548.0	1,487.9	1,559.6
2.100% senior notes due 2015	997.7	1,016.5	996.5	1,023.7
3.900% senior notes due 2022	981.4	1,011.2	980.0	1,073.3
	3,469.1	3,575.7	3,464.4	3,656.6
Total	$11,955.6	$12,601.0	$13,283.3	$14,436.0

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 - Changes in business

As a result of the Merger on April 2, 2012, Medco and ESI each became 100% owned subsidiaries of Express Scripts and former Medco and ESI stockholders became owners of Express Scripts stock, which is listed on the Nasdaq. Upon closing of the Merger, former ESI stockholders owned approximately 59% of Express Scripts and former Medco stockholders owned approximately 41% of Express Scripts. Per the terms of the Merger Agreement, upon consummation of the Merger on April 2, 2012, each share of Medco common stock was converted into (i) the right to receive $28.80 in cash, without interest and (ii) 0.81 shares of Express Scripts stock. Holders of Medco stock options, restricted stock units and deferred stock units received replacement awards at an exchange ratio of 1.3474 Express Scripts stock awards for each Medco award owned, which is equal to the sum of (i) 0.81 and (ii) the quotient obtained

by dividing (1) $28.80 (the cash component of the Merger

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consideration) by (2) an amount equal to the average of the closing prices of ESI common stock on the Nasdaq for each of the 15 consecutive trading days ending with the fourth complete trading day prior to the completion of the Merger.

Based on the opening price of Express Scripts' stock on April 2, 2012, the purchase price was comprised of the following:

(in millions)	
Cash paid to Medco stockholders[(1)]	$11,309.6
Value of shares of common stock issued to Medco stockholders[(2)]	17,963.8
Value of stock options issued to holders of Medco stock options[(3)] [(4)]	706.1
Value of restricted stock units issued to holders of Medco restricted stock units[(3)]	174.9
Total consideration	$30,154.4

(1) Equals Medco outstanding shares multiplied by $28.80 per share.

(2) Equals Medco outstanding shares immediately prior to the Merger multiplied by the exchange ratio of 0.81, multiplied by the Express Scripts opening share price on April 2, 2012 of $56.49.

(3) In accordance with applicable accounting guidance, the fair value of replacement awards attributable to pre-combination service is recorded as part of the consideration transferred in the Merger, while the fair value of replacement awards attributable to post-combination service is recorded separately from the business combination and recognized as compensation cost in the post-acquisition period over the remaining service period.

(4) The fair value of the Company's equivalent stock options was estimated using the Black-Scholes valuation model utilizing various assumptions. The expected volatility of the Company's common stock price is a blended rate based on the average historical volatility over the expected term based on daily closing stock prices of ESI and Medco common stock. The expected term of the option is based on Medco historical employee stock option exercise behavior as well as the remaining contractual exercise term.

The following unaudited pro forma information presents a summary of Express Scripts' combined results of continuing operations for the nine months ended September 30, 2012 as if the Merger and related financing transactions had occurred at January 1, 2012. The following pro forma financial information is not necessarily indicative of the results of operations as it would have been had the transactions been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies and the impact of incremental costs incurred in integrating the businesses:

(in millions, except per share data)	Nine months ended September 30, 2012
Total revenues	$82,079.3
Net income attributable to Express Scripts	688.7
Basic earnings per share from continuing operations	0.98
Diluted earnings per share from continuing operations	0.96

Pro forma net income for the nine months ended September 30, 2012 includes total non-recurring amounts of $922.5 million related to severance payments, accelerated stock-based compensation and transaction and integration costs incurred in connection with the Merger.

The Merger has been accounted for under the acquisition method of accounting with ESI treated as the acquirer for accounting purposes. The purchase price has been allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition.

During the quarter ended March 31, 2013, the Company made refinements to its preliminary allocation of purchase price related to accrued liabilities due to the finalization of assumptions utilized to value the liabilities acquired. These adjustments had the effect of increasing current assets and other noncurrent liabilities and decreasing goodwill, deferred tax liabilities and current liabilities.

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Express Scripts finalized the purchase price allocation and push down accounting as of March 31, 2013. The following table summarizes Express Scripts' estimates of the fair values of the assets acquired and liabilities assumed in the Merger:

(in millions)	Amounts Recognized as of Acquisition Date
Current assets	$ 6,934.9
Property and equipment	1,390.6
Goodwill	23,965.6
Acquired intangible assets	16,216.7
Other noncurrent assets	48.3
Current liabilities	(8,966.4)
Long-term debt	(3,008.3)
Deferred income taxes	(5,875.2)
Other noncurrent liabilities	(551.8)
Total	$ 30,154.4

A portion of the excess of purchase price over tangible net assets acquired has been allocated to intangible assets consisting of customer contracts in the amount of $15,935.0 million with an estimated weighted average amortization period of 16 years. Additional intangible assets consist of trade names in the amount of $273.0 million with an estimated weighted average amortization period of 10 years and miscellaneous intangible assets of $8.7 million with an estimated weighted average amortization period of 5 years. The acquired intangible assets have been valued using an income approach and are being amortized on a basis that approximates the pattern of benefit.

The excess of purchase price over tangible net assets and identified intangible assets acquired has been allocated to goodwill in the amount of $23,965.6 million. The majority of the goodwill recognized as part of the Merger is reported under our Pharmacy Benefit Management ("PBM") segment and reflects our expected synergies from combining operations, such as improved economies of scale and cost savings. Goodwill recognized is not expected to be deductible for income tax purposes and is not amortized.

Note 4 - Dispositions

During 2013, we sold or impaired various businesses that were no longer core to our future operations. Below is a summary of charges associated with these businesses and the impact to our consolidated statement of operations:

(in millions)	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Gain recorded	Goodwill Impairment	Gain recorded	Goodwill Impairment
Disposed UBC operations				
Technology solutions and publications for biopharmaceutical companies	$—	$—	$ 18.3	$—
Health economics, outcomes research, data analytics and market access services	11.4	—	11.4	—
Specialty services for pre-market trials	22.1	—	22.1	—
Acute infusion therapies line of business	—	(32.9)	—	(32.9)
Recorded in net loss from discontinued operations, net of tax	33.5	(32.9)	51.8	(32.9)
CYC[1]	—	—	3.5	—
Recorded in selling, general and administrative	—	—	3.5	—

Total disposition charges	$33.5	$(32.9)	$55.3	$(32.9)

(1) Reflects the settlement of certain working capital balances in 2013.

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Sale of CYC. In the third quarter of 2012, we completed the sale of our ConnectYourCare ("CYC") line of business, which was included within our Other Business Operations segment. During the first quarter of 2013, certain working capital balances were settled, resulting in a $3.5 million gain. The gain is included in the SG&A line item in the accompanying unaudited consolidated statement of operations for the nine months ended September 30, 2013.

Sale of Liberty. In the fourth quarter of 2012, we completed the sale of our PolyMedica Corporation ("Liberty") line of business, which was included within our Other Business Operations segment. Liberty sells diabetes testing supplies and is located in Port St. Lucie, Florida. Immediately following the time Liberty became independently owned and operated, Express Scripts and Liberty entered into an arms-length agreement whereby Express Scripts will work as a back-end pharmacy supplier for portions of the Liberty business for a minimum of two years. As such, the Company expects continued revenue (and resulting cash flows) associated with Liberty, which precludes classification of this business as a discontinued operation.

Sale of EAV. In the fourth quarter of 2012, we completed the sale of our Europa Apotheek Venlo B.V. ("EAV") line of business, which primarily provided home delivery pharmacy services in Germany. Prior to being classified as a discontinued operation, EAV was included within our Other Business Operations segment.

Discontinued Operations of Europe and portions of UBC. During the fourth quarter of 2012, we determined that certain portions of the business within United BioSource LLC ("UBC"), which is located in Blue Bell, Pennsylvania, and our operations in Europe ("European Operations"), which were included within our Other Business Operations segment, were not core to our future operations and committed to a plan to dispose of these businesses. As a result, these businesses were classified as discontinued operations as of December 31, 2012. UBC is a global medical and scientific affairs organization that partners with life science companies to develop and commercialize their products. The portions of UBC that were held for sale include specialty services for pre-market trials; health economics, outcomes research, data analytics and market access services; and technology solutions and publications for biopharmaceutical companies. Our European Operations primarily consist of clinical and specialty pharmacy management services. It is expected that our European Operations will be disposed of in the first half of 2014.

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. During the second quarter of 2013, we recognized a gain on the sale of this business which totaled $18.3 million. The gain on this portion of UBC is included in the "Net loss from discontinued operations, net of tax" line item in the accompanying consolidated statement of operations for the nine months ended September 30, 2013.

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. During the third quarter of 2013, we recognized a gain on the sale of this business which totaled $11.4 million. On August 15, 2013, we completed the sale of the portion of our UBC business related to specialty services for pre-market trials. During the third quarter of 2013, we recognized a gain on the sale of this business which totaled $22.1 million. The gains on these two sales are included in the "Net loss from discontinued operations, net of tax" line item in the accompanying consolidated statement of operations for the three and nine months ended September 30, 2013. These three sales represent the remaining portions of UBC classified as discontinued operations.

Discontinued operations of acute infusion therapies line of business. In the third quarter of 2013, we entered into an agreement for the sale of our acute infusion therapies line of business, which was included within our PBM segment. As a result, this business is classified as discontinued operations. The sale of this business is expected to close during the fourth quarter of 2013.

In connection with entering into an agreement for the sale of the business, an impairment in the value of the related goodwill was identified. The impairment charge, which totaled $32.9 million, was recorded during the third quarter of 2013 and reflects goodwill impairment and the subsequent write-down to fair market value. The fair value was determined utilizing the contracted sales price of the business (Level 2). The impairment charge is included in the "Net loss from discontinued operations, net of tax" line item in the accompanying unaudited consolidated statement of operations. Additional costs and charges may be incurred during future periods; however, they are not expected to be material.

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The results of the disposed portions of UBC, as defined above, our European Operations and our acute infusion therapies line of business are reported as discontinued operations for all periods presented in the accompanying unaudited consolidated statements of operations in accordance with applicable accounting guidance. As such, results of operations for the three and nine months ended September 30, 2012 have been adjusted to reflect these operations as discontinued. As the discontinued operations were acquired through the Merger, results of operations for the three months ended March 31, 2012 do not include these operations in our accompanying unaudited consolidated statement of operations. Additionally, for all periods presented, cash flows of our discontinued operations are segregated in our accompanying unaudited consolidated statements of cash flows. Finally, assets and liabilities of these businesses held were segregated in our accompanying unaudited consolidated balance sheet as of September 30, 2013 and consolidated balance sheet as of December 31, 2012. The major components of the assets and liabilities of these discontinued operations are as follows:

(in millions)	September 30, 2013	December 31, 2012
Current assets	$125.0	$271.4
Goodwill	6.5	127.9
Other intangible assets, net	—	157.4
Other assets	14.3	22.5
Total assets	$145.8	$579.2
Current liabilities	$64.8	$150.7
Deferred taxes	—	44.9
Other liabilities	0.4	3.7
Total liabilities	$65.2	$199.3

Certain information with respect to the discontinued operations, as defined above, for the three and nine months ended September 30, 2013 and 2012 is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2013	2012	2013	2012
Revenues	$136.2	$237.8	$474.1	$475.3
Operating loss	(1.8)	(17.7)	(15.9)	(18.0)
Income tax expense (benefit) from discontinued operations	13.7	(1.6)	25.4	0.3
Net loss from discontinued operations, net of tax	(15.5)	(20.0)	(41.3)	(19.2)

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Note 5 - 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.

	September 30, 2013			December 31, 2012[1]		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill						
PBM[2]	$29,316.3	$(107.4)	$29,208.9	$29,330.4	$(107.4)	$29,223.0
Other Business Operations	97.4	—	97.4	97.4	—	97.4
	$29,413.7	$(107.4)	$29,306.3	$29,427.8	$(107.4)	$29,320.4
Other intangible assets						
PBM						
Customer contracts	$17,686.9	$(3,516.0)	$14,170.9	$17,672.7	$(2,038.3)	$15,634.4
Trade names	226.6	(33.5)	193.1	226.6	(16.7)	209.9
Miscellaneous[3]	111.6	(42.5)	69.1	121.6	(34.9)	86.7
	18,025.1	(3,592.0)	14,433.1	18,020.9	(2,089.9)	15,931.0
Other Business Operations						
Customer relationships[4]	127.3	(65.0)	62.3	138.5	(63.2)	75.3
Trade names	35.7	(5.2)	30.5	34.7	(3.1)	31.6
	163.0	(70.2)	92.8	173.2	(66.3)	106.9
Total other intangible assets	$18,188.1	$(3,662.2)	$14,525.9	$18,194.1	$(2,156.2)	$16,037.9

(1) Goodwill associated with the PBM now excludes discontinued operations of our acute infusion therapies line of business.

(2) Goodwill has been reduced by $12.7 million due to finalization of the purchase price allocation during the first quarter of 2013.

(3) Balances as of September 30, 2013 include a decrease of $10.0 million to both gross miscellaneous assets and related accumulated amortization following the write-off of deferred financing fees related to the early repayment and the redemption of senior notes. See Note 7 - Financing for additional information.

(4) As of September 30, 2013, gross customer relationships and related accumulated amortization reflect a decrease of $11.2 million. These balances reflect amounts previously written off and have no net impact on the net other intangible assets balance.

As discussed in Note 4 - Dispositions, our acute infusion therapies line of business was classified as a discontinued operation during the third quarter of 2013. In connection with entering into an agreement for the sale of the business, an impairment in the value of the related goodwill was identified. The impairment charge, which totaled $32.9 million, was recorded during the third quarter of 2013. The impairment charge is included in the “Net loss from discontinued operations, net of tax” line item in the accompanying unaudited consolidated statement of operations.

Our PBM gross customer contract balance as of September 30, 2013 includes an increase of $14.5 million. This new intangible asset has a useful life of 10 years and is the result of our asset acquisition of the SmartD Medicare Prescription Drug Plan (“PDP”) on September 1, 2013. The asset acquisition added 87,000 covered Medicare lives to our existing PDP offering.

The aggregate amount of amortization expense of other intangible assets for our continuing operations was $510.0 million and $527.1 million for the three months ended September 30, 2013 and 2012, respectively, and $1,527.5 million and $1,104.9 million for the nine months ended September 30, 2013 and 2012, 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 WellPoint has been included as an offset to revenues in the amount of $28.5 million for the three months ended September 30, 2013 and 2012 and $85.5 million for the nine

months ended September 30, 2013 and 2012. The aggregate amount of amortization expense of other intangible assets for our continuing operations is expected to be approximately $2,040.0 million for 2013, $1,767.8 million for 2014, $1,747.7 million for 2015, $1,739.9 million for 2016 and $1,322.4 million for 2017. 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.

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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, 2012[1]	$29,223.0	$97.4	$29,320.4
Purchase price allocation adjustment[2]	(12.7)	—	(12.7)
Foreign currency translation and other	(1.4)	—	(1.4)
Balance at September 30, 2013	$29,208.9	$97.4	$29,306.3

(1) Revised to exclude discontinued operations of our acute infusion therapies line of business.

(2) Goodwill associated with the Merger has been adjusted due to finalization of the purchase price allocation during the first quarter of 2013.

Note 6 - 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2013[1]	2012	2013[1]	2012
Weighted average number of common shares outstanding during the period—Basic	810.2	812.9	814.7	702.4
Dilutive common stock equivalents:				
Outstanding stock options, "stock-settled" stock appreciation rights, restricted stock units and executive deferred compensation units	12.7	16.7	13.3	16.5
Weighted average number of common shares outstanding during the period—Diluted[2]	822.9	829.6	828.0	718.9

(1) The decrease in the weighted average number of common shares outstanding for the three months ended September 30, 2013 used for both Basic and Diluted EPS resulted primarily from the repurchase of 11.6 million of treasury shares. The increase in the weighted average number of common shares outstanding for the nine months ended September 30, 2013 used for both Basic and Diluted EPS resulted primarily from the issuance of 318.0 million shares in connection with the Merger, partially offset by the repurchase of 24.9 million of treasury shares for the nine months ended September 30, 2013.

(2) Excludes awards of 3.0 million and 3.5 million for the three months ended September 30, 2013 and 2012, respectively, and 4.1 million and 5.9 million for the nine months ended September 30, 2013 and 2012, respectively. These were excluded because their effect was anti-dilutive.

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Note 7 - Financing

The Company's debt, net of unamortized discounts and premiums, consists of:

(in millions)	September 30, 2013	December 31, 2012
Long-term debt:		
March 2008 Senior Notes (acquired)		
7.125% senior notes due 2018	$1,388.3	$1,417.2
6.125% senior notes due 2013	—	303.3
	1,388.3	1,720.5
June 2009 Senior Notes		
6.250% senior notes due 2014	—	998.7
7.250% senior notes due 2019	497.8	497.6
	497.8	1,496.3
September 2010 Senior Notes (acquired)		
2.750% senior notes due 2015	507.9	510.9
4.125% senior notes due 2020	507.0	507.6
	1,014.9	1,018.5
May 2011 Senior Notes		
3.125% senior notes due 2016	1,496.7	1,495.8
November 2011 Senior Notes		
3.500% senior notes due 2016	1,249.8	1,249.7
4.750% senior notes due 2021	1,241.0	1,240.3
2.750% senior notes due 2014	899.6	899.4
6.125% senior notes due 2041	698.4	698.4
	4,088.8	4,087.8
February 2012 Senior Notes		
2.650% senior notes due 2017	1,490.0	1,487.9
2.100% senior notes due 2015	997.7	996.5
3.900% senior notes due 2022	981.4	980.0
	3,469.1	3,464.4
Term facility due August 29, 2016 with an average interest rate of 1.94% at September 30, 2013 and 1.96% at December 31, 2012	2,157.9	2,631.6
Other	0.1	0.1
Total debt	14,113.6	15,915.0
Less: Current maturities of long-term debt	631.6	934.9
Total long-term debt	$13,482.0	$14,980.1

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 $4.0 billion term loan facility (the "term facility") and a $1.5 billion revolving loan facility (the "revolving facility"). The term facility was used to pay a portion of the cash consideration in connection with the Merger (as discussed in Note 3 - Changes in business), 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, 2013, no balance was outstanding under the revolving facility. The Company makes quarterly principal payments on the term facility. As of September 30, 2013, $631.6 million of this facility is considered current maturities of long-term debt.

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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 $1.5 billion revolving facility. The commitment fee ranges from 0.15% to 0.20% depending on our consolidated leverage ratio.

SENIOR NOTES

On March 29, 2013, the Company redeemed ESI's $1.0 billion aggregate principal amount of 6.250% senior notes due 2014. 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 50 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 $1.1 billion, which included $68.5 million of redemption costs and write-off of deferred financing fees which are reflected within the "Interest expense and other" line item of the unaudited consolidated statement of operations for the nine months ended September 30, 2013.

On March 18, 2013, $300.0 million aggregate principal amount of 6.125% senior notes due 2013, issued by Medco, matured and were redeemed.

COVENANTS

Our bank financing arrangements contain covenants that restrict our ability to incur additional indebtedness, create or permit liens on assets and engage in mergers or consolidations. The covenants also include minimum interest coverage ratios and maximum leverage ratios. The 7.125% senior notes due 2018 issued by Medco are also subject to an interest rate adjustment in the event of a downgrade in the ratings to below investment grade. At September 30, 2013, we believe we were in compliance in all material respects with all covenants associated with our debt instruments (including the credit agreement and our senior notes).

Note 8 - Common stock

On March 6, 2013, the Board of Directors of Express Scripts approved a new share repurchase program (the "2013 Share Repurchase Program"), authorizing the repurchase of up to 75.0 million shares (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 2013 Share Repurchase Program.

During the three and nine months ended September 30, 2013, we repurchased 11.6 million and 24.9 million shares for $751.5 million and $1,552.5 million, respectively. Repurchases during the second quarter included 1.2 million shares of common stock for an aggregate purchase price of $68.4 million that were held on behalf of participants who acquired such shares upon the consummation of the Merger as a result of conversion of Medco shares previously held in Medco's 401(k) plan. As previously announced, the Express Scripts 401(k) Plan no longer offers an investment fund option consisting solely of shares of Express Scripts common stock, and previously held shares were to be sold on or about the first anniversary of the Merger. This repurchase was not considered part of the 2013 Share Repurchase Program. The remaining shares repurchased throughout 2013 were purchased as part of the 2013 Share Repurchase Program. As of September 30, 2013, there were 51.3 million shares remaining under the 2013 Share Repurchase Program. Additional share repurchases, if any, will be made in such amounts and at such times as the Company deems appropriate based upon prevailing market and business conditions and other factors. Current year repurchases were funded through internally generated cash.

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

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 are settled by issuance of new shares. During the nine months ended September 30, 2013, we granted 3.3 million stock options with a weighted average fair market value of $17.17. The SSRs and stock options granted under the 2000 LTIP, 2011 LTIP and 2002 Stock Incentive Plan 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,	
	2013	2012	2013	2012
Expected life of option	4-5 years	3-5 years	4-5 years	2-5 years
Risk-free interest rate	1.3%-1.7%	0.3%-0.6%	0.6%-1.7%	0.3%-0.9%
Expected volatility of stock	28%-35%	29%-38%	28%-37%	29%-38%
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 in future periods.

During the nine months ended September 30, 2013, we granted to certain officers and employees approximately 1.1 million restricted stock units and performance shares with a weighted average fair market value of $58.28. Restricted stock units and performance shares granted under the 2000 LTIP, 2011 LTIP and 2002 Stock Incentive Plan vest over three years. Restricted stock units granted under the 2011 LTIP and the 2002 Stock Incentive Plan subsequent to the Merger vest on a graded schedule. Performance shares, as well as Medco's restricted stock units granted under the 2002 Stock Incentive Plan prior to the Merger, cliff vest at the end of the vesting period. The number of performance shares that ultimately vest is dependent upon achieving specific performance targets. 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. During the nine months ended September 30, 2013, approximately 0.1 million additional

performance shares were settled, and common shares were issued to certain officers for achieving certain performance metrics.

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We recognized stock-based compensation expense of $44.2 million and $95.3 million in the three months ended September 30, 2013 and 2012, respectively, and $131.2 million and $341.6 million in the nine months ended September 30, 2013 and 2012, respectively. The decrease in pre-tax compensation expense for the 2013 periods resulted from awards converted in connection with the Merger in the second quarter of 2012. Unamortized stock-based compensation as of September 30, 2013 was $64.9 million for stock options and SSRs and $75.1 million for restricted stock units and performance shares.

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 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, 2013 or 2012.

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 primarily related 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 lower end of the range.

When a loss contingency is not 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 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 a reasonable possibility, 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.

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, 2013 and 2012.

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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 entities are reported as discontinued operations for all periods presented in the accompanying information.

(in millions)	PBM	Other Business Operations	Total
For the three months ended September 30, 2013			
Product revenues:			
Network revenues[1]	$15,387.3	$—	$15,387.3
Home delivery and specialty revenues[2]	9,705.7	—	9,705.7
Other revenues	—	533.7	533.7
Service revenues	237.7	51.2	288.9
Total revenues	25,330.7	584.9	25,915.6
Depreciation and amortization expense	607.3	7.0	614.3
Operating income	863.3	12.2	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	76.4	3.2	79.6
For the three months ended September 30, 2012			
Product revenues:			
Network revenues[1]	$16,341.9	$—	$16,341.9
Home delivery and specialty revenues[2]	9,531.8	—	9,531.8
Other revenues	—	601.3	601.3
Service revenues	233.7	52.9	286.6
Total revenues	26,107.4	654.2	26,761.6
Depreciation and amortization expense	599.4	11.1	610.5
Operating income (loss)	841.6	(20.9)	820.7
Equity income from joint venture			5.1
Interest income			1.4
Interest expense and other			(155.2)
Income before income taxes			672.0
Capital expenditures	34.3	3.7	38.0
For the nine months ended September 30, 2013			
Product revenues:			
Network revenues[1]	$47,758.8	$—	$47,758.8
Home delivery and specialty revenues[2]	28,164.1	—	28,164.1
Other revenues	—	1,489.0	1,489.0
Service revenues	750.5	155.0	905.5
Total revenues	76,673.4	1,644.0	78,317.4
Depreciation and amortization expense	1,803.4	20.6	1,824.0
Operating income	2,686.3	36.6	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

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(in millions)	PBM	Other Business Operations	Total
For the nine months ended September 30, 2012			
Product revenues:			
Network revenues[1]	$40,860.5	$—	$40,860.5
Home delivery and specialty revenues[2]	23,254.5	—	23,254.5
Other revenues	—	1,558.7	1,558.7
Service revenues	563.6	111.9	675.5
Total revenues	64,678.6	1,670.6	66,349.2
Depreciation and amortization expense	1,244.5	25.5	1,270.0
Operating income (loss)	1,910.4	(23.4)	1,887.0
Equity income from joint venture			9.4
Interest income			6.0
Interest expense and other			(461.6)
Income before income taxes			1,440.8
Capital expenditures	93.7	8.2	101.9

(1) Includes retail pharmacy co-payments of $2,966.5 million and $3,348.9 million for the three months ended September 30, 2013 and 2012, respectively, and $9,845.2 million and $8,364.6 million for the nine months ended September 30, 2013 and 2012, respectively.

(2) Includes home delivery, specialty and other including: (a) drugs distributed through patient assistance programs and (b) drugs we distribute to other PBMs' clients under limited distribution contracts with pharmaceutical manufacturers, and (c) FreedomFP claims.

The following table presents balance sheet information about our reportable segments, including the discontinued operations of our businesses within UBC that were sold, our European Operations, and our acute infusion therapies line of business:

(in millions)	PBM	Other Business Operations	Discontinued Operations	Total
As of September 30, 2013				
Total assets	$53,751.2	$866.0	$145.8	$54,763.0
Investment in equity method investees	$29.5	$—	$—	$29.5
As of December 31, 2012				
Total assets	$54,510.8	$3,021.2	$579.2	$58,111.2
Investment in equity method investees	$11.9	$—	$—	$11.9

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 distribution 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 distribution services. Other Business Operations service revenues include revenues related to data analytics and research associated with our UBC business as well as from healthcare card administration from the period January 1, 2012 through September 14, 2012, the date of disposal of CYC.

The top five clients in the aggregate represent 37.5% and 38.7% of our consolidated revenue for the three and nine months ended September 30, 2013, respectively. None of these clients on an individual basis exceed 12.6% of consolidated revenues for the three and nine months ended September 30, 2013.

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Revenues earned by our continuing operations international businesses totaled $41.1 million and $31.8 million for the three months ended September 30, 2013 and 2012, respectively, and $76.7 million and $71.6 million for the nine months ended September 30, 2013 and 2012, 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 $49.2 million and $32.6 million as of September 30, 2013 and December 31, 2012, 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 December 2012 we sold both our Liberty and EAV subsidiaries. In addition, during the fourth quarter of 2012, we determined that our European Operations and portions of UBC met the criteria of discontinued operations. In June 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 third quarter of 2013, we entered into an agreement for the sale of our acute infusion therapies line of business and classified the business as a discontinued operation. Consequently, the operations of EAV, our European Operations, and the portions of UBC operations that were sold are included as discontinued operations of the non-guarantors as of and for the three and nine months ended September 30, 2013 and 2012 (through their respective dates of sale, as applicable), and as of December 31, 2012. The operations of our acute infusion therapies line of business are included as discontinued operations of the guarantors as of and for the three and nine months ended September 30, 2013 and 2012, and as of December 31, 2012. Results for the three and nine months ended September 30, 2012 include the operations of Liberty, EAV, our European Operations, our acute infusion therapies line of business, and UBC subsequent to the date of the Merger, April 2, 2012 (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 and also includes certain retrospective revisions to conform prior periods to current period presentation (discussed and presented in further detail below). 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;
(vi) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions 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.

Certain amounts from prior periods have been reclassified to conform to current period presentation:

(i) With respect to the condensed consolidating statement of operations for the three and nine months ended September 30, 2012, amounts related to net income attributable to non-controlling interest have been reclassified from the "Operating expenses" line item to the "Net income attributable to non-controlling interest" line item as follows:

	Three months ended	Nine months ended