Express Scripts Holding Co.
Form 10-K
February 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014, OR

.. 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
Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock $0.01 par value	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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 x	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 ¨ No x

The aggregate market value of Registrant's voting stock held by non-affiliates as of June 30, 2014, was $51,583,566,968 based on 744,029,525 shares held on such date by non-affiliates and a closing sale price for the Common Stock on such date of $69.33 as reported on the Nasdaq Global Select Market. Solely for purposes of this computation, the Registrant has assumed that all directors and executive officers of the Registrant are affiliates of the Registrant. The Registrant has no non-voting common equity.

Common stock outstanding as of January 31, 2015:	726,898,000 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the definitive proxy statement for the Registrant's 2015 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2014.

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Information included in or incorporated by reference in this Annual Report on Form 10-K, 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. Please refer to a discussion of our forward-looking statements and associated risks in "Part I — Item 1 — Business — Forward-Looking Statements and Associated Risks" and "Part I — Item 1A — Risk F in this Annual Report on Form 10-K.

PART I

THE COMPANY

Item 1 — Business

Industry Overview

Prescription drugs play a significant role in healthcare today and constitute the first line of treatment for many medical conditions. For millions of people, prescription drugs provide the hope of improved health and quality of life.

Total medical costs for employers continue to outpace the rate of overall inflation, in particular, the increase in very high cost drugs to treat complex conditions such as cancer, hepatitis and multiple sclerosis. National health expenditures as a percentage of gross domestic product are expected to increase to 19.3% in 2023 from an estimated 17.6% in 2014 according to the Centers for Medicare & Medicaid Services ("CMS"). In response to cost pressures being exerted on health benefit providers such as managed care organizations, health insurers, employers and unions, pharmacy benefit management ("PBM") companies work to develop innovative strategies that make the use of prescription drugs safer and more affordable.

PBM companies combine retail pharmacy claims processing and network management, formulary management, utilization management and home delivery pharmacy services to develop an integrated product offering to manage the prescription drug benefit for payors. Some PBMs also offer specialty medication services that deliver a more effective solution than many retail pharmacies in providing treatments for diseases that rely upon high-cost injectable, infused, oral or inhaled drugs. PBMs have also broadened their service offerings to include compliance programs, outcomes research, drug therapy management programs, sophisticated data analysis and other distribution services.

Company Overview

We are the largest PBM company in the United States, offering 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. We help clients improve healthcare outcomes for their members while helping health benefit providers address access and affordability concerns resulting from rising drug costs. We improve patient outcomes and help control the cost of the drug benefit by:

- providing products and solutions that focus on improving patient outcomes and assist in controlling costs
- evaluating drugs for efficacy, value and price to assist clients in selecting a cost-effective formulary
- offering cost-effective home delivery pharmacy and specialty services that result in cost savings for plan sponsors and better care for members
- leveraging purchasing volume to deliver discounts to health benefit providers
- promoting the use of generics and low-cost brands

We work with clients, manufacturers, pharmacists and physicians to improve members' health outcomes and satisfaction, increase efficiency in drug distribution and manage costs in the pharmacy benefit. We actively advocate on behalf of our clients at the local, state and national levels to ensure access to safe and affordable drugs.

Ineffective prescription-related decisions by patients, caregivers and providers cause adverse clinical and financial results for plan sponsors and their members. Healthier outcomes require better decisions. Express Scripts uniquely applies the combination of behavioral science, clinical specialization and actionable data to improve health decision-making. Express Scripts offers a comprehensive set of solutions to support better choices in four areas: benefit choices, drug choices, pharmacy choices and health choices. Health Decision Science® is the Company's unique approach to understanding and improving the decisions that impact clinical and financial outcomes. Consumerology®, or the advanced application of the behavioral sciences to healthcare, optimizes decision mechanisms and helps make better decisions easier. Our Therapeutic Resource Center® services give patients access to specialist pharmacists and nurses to close gaps in care. By leveraging data from over one billion annual claims, the Company drives actionable data to the point of decision in an effort to enhance safety, effectiveness and affordability.

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Clients who aggressively take advantage of our effective tools and comprehensive set of solutions to manage drug spend have seen reductions in their prescription drug cost trend and improved healthcare outcomes. Greater use of generic drugs and lower-cost brand drugs have resulted in significant reductions in spending for commercially insured consumers and their employers.

We have two business segments based on products and services offered: PBM and Other Business Operations.

Our PBM segment primarily consists of the following products and services:

- clinical solutions to improve health outcomes, such as adherence, case coordination and personalized medicine
- specialized pharmacy care provided in our disease specific Therapeutic Resource Center services
- home delivery pharmacy services
- specialty pharmacy, including the distribution of fertility pharmaceuticals, requiring special handling or packaging
- retail network pharmacy administration
- benefit design consultation
- drug utilization review
- drug formulary management
- a flexible array of Medicare, Medicaid and Health Insurance Marketplace ("Public Exchange") offerings to support clients' benefits
- administration of a group purchasing organization
- consumer health and drug information

Our Other Business Operations segment primarily consists of the following products and services:

- distribution of specialty pharmaceuticals and medical supplies to providers, clinics and hospitals
- consulting services for pharmaceutical manufacturers to collect scientific evidence to guide the safe, effective and affordable use of medicines

Our revenues are generated primarily from the delivery of prescription drugs through our contracted network of retail pharmacies and home delivery of prescription drugs and specialty pharmacy services. Revenues from the delivery of prescription drugs to our members represented 98.4% of revenues in 2014, 98.8% in 2013 and 99.0% in 2012. Revenues from services, such as the fees associated with the administration of retail pharmacy networks contracted by certain clients, medication counseling services and certain specialty distribution services, comprised the remainder of our revenues.

Prescription drugs are dispensed to members of the health plans we serve primarily through networks of retail pharmacies under non-exclusive contracts with us, and through home delivery fulfillment pharmacies, specialty drug pharmacies and fertility pharmacies we operate. More than 69,000 retail pharmacies, which represent over 95% of all United States retail pharmacies, participated in one or more of our networks as of December 31, 2014. The top ten United States retail pharmacy chains represent approximately 60% of the total number of stores in our largest network.

Express Scripts, Inc. ("ESI") was incorporated in Missouri in September 1986, and was reincorporated in Delaware in March 1992. Aristotle Holding, Inc. was incorporated in Delaware on July 15, 2011. On April 2, 2012, ESI consummated a merger (the "Merger") with Medco Health Solutions, Inc. ("Medco") and both ESI and Medco became wholly-owned subsidiaries of Aristotle Holding, Inc. 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" refer to Express Scripts Holding Company and its subsidiaries. The consolidated financial statements (and other data, such as claims volume) reflect the results of operations and financial position of ESI for all periods prior to April 1, 2012. References to amounts for periods after the closing of the Merger on April 2, 2012 relate to Express Scripts.

Our principal executive offices are located at One Express Way, Saint Louis, Missouri, 63121. Our telephone number is 314.996.0900 and our website is www.express-scripts.com. Information included on our website is not part of this annual report.

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Products and Services

Pharmacy Benefit Management Services

Overview. Our core PBM services involve management of outpatient prescription drug utilization to drive high quality, cost-effective pharmaceutical care. We consult with our clients to assist in the selection of plan design features that balance clients' requirements for cost control with member choice and convenience. We focus our solutions to enable better decisions in four important and interrelated areas: benefit choices, drug choices, pharmacy choices and health choices. As a result of these solutions, we believe we deliver healthier outcomes, higher member satisfaction and a more affordable prescription drug benefit. During 2014, 97.5% of our revenue was derived from our PBM operations, compared to 97.8% and 97.4% during 2013 and 2012, respectively.

Clinical Solutions. We offer innovative clinical programs to drive better health outcomes at lower cost. Our physician connectivity program facilitates well-informed prescribing by delivering benefit and formulary evaluation and medication history, both electronically and in real-time, as physicians write prescriptions. RationalMed® evaluates medical, pharmacy and laboratory data to detect critical patient health and safety issues which are then addressed through timely notification to physicians, pharmacies, patients and case managers. ScreenRx® uses proprietary predictive models to detect patients at risk for nonadherence and proactively addresses the problem through interventions tailored specifically for that patient. ExpressAlliance® offers patient care coordination services that enable client-authorized healthcare professionals to share a common view of a patient's health record and coordinate patient outreach and counseling. Personalized medicine programs combine the latest advances in pharmacogenomics testing with patient and physician outreach to help providers understand which drugs or dosages work best for individual patients, empowering them to make more informed and cost-effective decisions that improve patient care and safety.

Specialized Pharmacy Care. At the center of Express Scripts' condition-specific approach to care are Therapeutic Resource Center services, pharmacy practices that specialize in caring for members with the most complex and costly conditions, including cardiovascular disease, diabetes, cancer, HIV, asthma, depression and other rare and specialty conditions. Therapeutic Resource Center services are designed to optimize the safe and appropriate dispensing of therapeutic agents, minimize waste and improve clinical and financial outcomes.

Home Delivery Pharmacy Services. We dispense prescription drugs from our six high-volume automated dispensing home delivery pharmacies and one non-automated dispensing home delivery pharmacy. In addition to the order processing that occurs at these home delivery pharmacies, we operate several non-dispensing order processing facilities and patient contact centers. We also maintain one non-dispensing home delivery fulfillment pharmacy for business continuity purposes. Our pharmacies provide patients with convenient access to maintenance medications and enable us to manage our clients' drug costs through operating efficiencies and economies of scale as well as provide greater safety and accuracy. Through our home delivery pharmacies, we are directly involved with the prescriber and patient and, as a result, research shows we are generally able to achieve a higher level of generic substitutions, therapeutic interventions and better adherence than can be achieved through the retail pharmacy networks.

Specialty Pharmacy Services. Specialty medications are used primarily for the treatment of complex diseases. These medications are broadly characterized to include those with frequent dosing adjustments, intensive clinical monitoring, the need for patient training, specialized product administration requirements and/or those limited to specialty pharmacy networks by manufacturers. Through a unique combination of assets and capabilities, Express Scripts provides an enhanced level of care and therapy management for patients taking specialty medications, increased visibility and improved outcomes for payors, as well as custom programs for biopharmaceutical manufacturers.

Our subsidiaries Accredo Health Group and CuraScript Specialty Pharmacy (which is currently in the process of being rebranded), collectively referred to as "Accredo®," are focused on dispensing injectable, infused, oral or inhaled drugs that require a higher level of clinical services and support compared to what typically is available from traditional pharmacies. Accredo is able to achieve healthier outcomes and reduced waste through a disease-centric organization, specialty trained clinicians, a nationwide footprint, a network of employed and contracted in-home nursing services, reimbursement and patient assistance programs, and bio-pharma services.

Our subsidiary Freedom Fertility ("FreedomFP") is the nation's leading specialty pharmacy focused on the needs of fertility patients and providers. Through FreedomFP we provide insurance assistance and patient education and support.

Specialty Benefit Management is our next-generation approach to managing total specialty drug spend and enhancing patient care. By integrating medical benefit management, pharmacy benefit management and our pharmacy and distribution services, we do even more to control the cost of specialty drugs and make healthcare more affordable and accessible. Approximately half of all client specialty drug spend is processed on the medical benefit, with the other half

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processing through the prescription drug benefit. We provide our clients a toolset designed to manage total specialty spend regardless of which benefit the drug is processed through. Our capabilities include guaranteeing savings through medical benefit management services, ensuring the safe and appropriate use of high-cost specialty drugs, redirecting patients and medications to the lowest-cost and most appropriate channel, verifying claims are paid at the contracted rate, improving opportunities to achieve rebates and, where clinically appropriate, moving drug coverage from medical to pharmacy benefit and to lower-cost sites of care.

Retail Network Pharmacy Administration. We contract with retail pharmacies to provide prescription drugs to members of the pharmacy benefit plans we manage. In the United States, Puerto Rico and the Virgin Islands, we negotiate with pharmacies to discount the prices at which they provide drugs to members and manage national and regional networks that are responsive to client preferences related to cost containment, convenience of access for members and network performance. We also manage networks of pharmacies customized for or under direct contract with specific clients. In addition, we have contracted pharmacy provider networks to comply with CMS access requirements for the Medicare Part D Prescription Drug Program ("Medicare Part D").

All retail pharmacies in our pharmacy networks communicate with us online and in real time to process prescription drug claims. When a member of a plan presents his or her identification card at a network pharmacy, the network pharmacist sends certain specified member, prescriber and prescription information in an industry-standard format through our systems, which process the claim and send a response back to the pharmacy with relevant information to process the script.

Benefit Design Consultation. We consult with our clients on how best to structure and leverage the pharmacy benefit to meet their objectives for affordable benefits, providing access to needed care while eliminating waste. We support our clients in determining the scope and conditions of coverage and offering incentives for members and their providers. We adopt programs that drive safer, more effective and more affordable use of prescription drugs.

Drug Utilization Review. Our electronic claims processing system enables us to implement sophisticated intervention programs to manage prescription drug utilization. The system can alert the pharmacist to drug safety concerns, generic substitution and therapeutic intervention opportunities, as well as formulary adherence issues, and can also administer prior authorization, step therapy protocol programs and drug quantity management at the time a claim is submitted for processing. Our claims processing system also generates a database of drug utilization information that can be accessed at the time a prescription is dispensed, on a retrospective basis to analyze utilization trends and prescribing patterns for more intensive management of the drug benefit, and on a prospective basis to help support pharmacists in drug therapy management decisions.

Drug Formulary Management. Formularies are lists of drugs to which benefit design is applied. In combination with the benefit design, the formulary may be used to communicate plan preferences and to determine whether a particular drug is covered. If covered, the formulary will determine to what extent it is covered. Our formulary management services support clients in choosing and maintaining formularies that best meet plan objectives for access, safety and affordability. Further, our formulary management services assist patients and physicians in choosing clinically appropriate, cost-effective drugs for a given condition, formulary and plan design.

We administer many different formularies on behalf of our clients, including standard formularies developed and offered by Express Scripts and custom formularies for which we play a more limited role. The majority of our clients select standard formularies, governed by our National Pharmacy & Therapeutics ("P&T") Committee, a panel composed of independent physicians and pharmacists in active clinical practice, representing a variety of specialties and practice settings and typically with major academic affiliations. Most clients choose formularies designed to be used with financial incentives, such as three-tier co-payments, which drive preferential selection of plan-preferred generics and branded drugs over their non-formulary alternatives. Some clients select closed formularies, in which coverage is available only for those drugs listed on the formulary.

Express Scripts' standard formularies are governed by decisions of the National P&T Committee. In developing these formularies, the foremost consideration is the safety and effectiveness of the drugs being evaluated in relation to available alternatives. In making formulary recommendations, the P&T Committee considers the drug's safety and efficacy, without any information on or consideration of the cost of the drug, including any discount or rebate arrangement we might negotiate with the manufacturer. This process is designed to ensure the clinical

recommendation is not affected by our financial arrangements. We fully comply with the P&T Committee's clinical recommendations regarding drugs that must be included or excluded from the formulary based on their assessment of safety and efficacy. Where the National P&T Committee is indifferent as to whether a particular drug must be included or excluded from the formulary, the drugs are evaluated on an economic basis in relation to alternatives to determine the optimal composition of the formulary.

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Our formulary management also includes formulary compliance services. Through these formulary compliance services, we alert patients, physicians and pharmacies to opportunities to use formulary-preferred generics and branded medications that are clinically appropriate and more cost-effective given the formulary and plan design. We always defer to the prescribing physician as to the appropriateness of the formulary-preferred alternatives for his or her patient.

Medicare, Medicaid and Public Exchange Offerings. We support our clients by providing several Medicare program options: the Retiree Drug Subsidy ("RDS") program, which is offered by CMS to reimburse municipalities, unions and private employers for a portion of their eligible expenses for retiree prescription drug benefits; the Employer-Sponsored Group Waiver Plan ("EGWP"), a group-enrolled Medicare Part D option for employers and labor groups; and the "PBM inside" service that offers drug-only and integrated medical and Medicare drug benefits to a number of Medicare plan sponsors. As a PBM supporting health plans, we provide prescription adjudication services in addition to a suite of required programmatic offerings such as a Medication Therapy Management program, an Explanation of Benefits for members using prescription services and a variety of member communications related to their prescription benefit. We also offer an individual prescription drug plan to beneficiaries in all 34 Medicare regions across the United States, as well as Puerto Rico.

Our revenues include premiums associated with our risk-based Medicare Part D Prescription Drug Plan ("PDP") products offerings. The products involve underwriting the benefit, charging enrollees applicable premiums, providing covered prescription drugs and administering the benefit as filed with CMS. Two of our insurance company subsidiaries have been operating under contracts with CMS since 2006 and one since 2007. We provide two Medicare Part D PDP options for beneficiaries, a "standard Medicare Part D" benefit plan as mandated by statute and, for an additional premium, a benefit plan with enhanced coverage that exceeds the standard Medicare Part D benefit plan. We also offer numerous customized benefit plan designs to employer group retiree plans under the Medicare Part D prescription drug benefit.

Our member website supports pre-enrollment and post-enrollment activities on behalf of our Medicare Part D programs serving multiple clients. Prospective Medicare Part D participants and their caregivers can use the pre-enrollment site's Plan Compare tool to accurately project costs for all of their medications. The post-enrollment site allows members who have signed up to receive a Medicare Part D benefit from either Express Scripts or one of our clients to securely manage all aspects of their prescription program.

We support health plans serving Medicaid populations by offering a pharmacy drug benefit. This business is driven by state requirements and we earn revenues based on transaction-related activity. Common services include transitioning members' access to drugs as plan offerings change, generation of data to the state through encounter files and coordination of benefits between states and other payors. Medicaid populations are expected to grow in states choosing to expand Medicaid eligibility.

We also support health plans serving the insured Public Exchange members, which is a population expected to grow with the continuing implementation of the Patient Protection and Affordable Care Act ("Affordable Care Act"). This business is driven by both federal and state requirements and we earn revenues based on transaction-related activity. We offer pharmacy benefit solutions that can be leveraged in plan design to align with any exchange strategy to achieve desired cost and clinical objectives.

Administration of a Group Purchasing Organization. We operate a group purchasing organization ("GPO") that provides various administrative services to participants in the GPO. Services provided include coordination, negotiation and management of contracts for group participants to purchase generic pharmaceuticals and related goods and services from pharmaceutical manufacturers and suppliers, as well as providing strategic analysis and advice regarding pharmacy procurement contracts for the purchase and sale of goods and services.

Consumer Health and Drug Information. Express Scripts empowers member decision-making through online and mobile tools that help guide members in making informed drug, pharmacy and health choices.

Express Scripts' digital solutions provide easy access and clear, simple functionality. The Express Scripts Member Website (www.express-scripts.com) and mobile app are designed to help keep members' medication information instantly available on their computers or mobile devices. When members use self-service tools, it typically results in lower administrative costs, better drug therapy adherence, reduced waste and fewer doctor visits, leading to savings

for both clients and members. Information included on our website and mobile app are not part of this annual report.

Other Business Operations Services

Overview. Through our Other Business Operations segment, we operate two additional brands that service the patient through multiple paths. Our subsidiary CuraScript Specialty Distribution distributes specialty pharmaceuticals and medications to treat rare and orphan diseases directly to providers, clinics and hospitals in the United States. It also operates

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Matrix GPO, which is uniquely positioned to support the needs of its membership. Our subsidiary United BioSource ("UBC") provides consulting services for pharmaceutical manufacturers to collect scientific evidence to guide the safe, effective and affordable use of medicines. During 2014, 2.5% of our revenue was derived from Other Business Operations services, compared to 2.2% and 2.6% during 2013 and 2012, respectively.

Provider Services. CuraScript Specialty Distribution is a specialty distributor of pharmaceuticals and medical supplies directly to healthcare providers for office or clinic administration. Through our CuraScript Specialty Distribution business we provide distribution services primarily to office and clinic-based physicians treating chronic disease patients who regularly order costly pharmaceuticals. We provide competitive pricing on pharmaceuticals and medical supplies. Headquartered in Lake Mary, Florida, CuraScript Specialty Distribution operates three distribution centers and ships most products overnight within the United States as well as providing distribution capabilities to Puerto Rico and Guam. CuraScript Specialty Distribution is a contracted supplier with most major group purchasing organizations and leverages our distribution platform to operate as a third-party logistics provider for pharmaceuticals.

Payor Services. We provide a comprehensive case management approach to manage care by fully integrating pre-certification, case management and discharge planning services for patients. We assist with eligibility review, prior authorization coordination, re-pricing, utilization management, monitoring and reporting.

Segment Information

We report segments on the basis of products and services offered and have determined we have two reportable segments: PBM and Other Business Operations. Our integrated PBM services include clinical solutions to improve health outcomes, specialized pharmacy care, home delivery pharmacy services, specialty pharmacy services, fertility services to providers and patients, retail network pharmacy administration, benefit design consultation, drug utilization review, drug formulary management, Medicare, Medicaid and Public Exchange offerings, administration of a group purchasing organization and consumer health and drug information. Through our Other Business Operations segment, we provide distribution services of pharmaceuticals and medical supplies to providers, clinics and hospitals and provide consulting services for pharmaceutical manufacturers to collect scientific evidence to guide the safe, effective and affordable use of medicines. During 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. See Note 13 - Segment information for further description of our segments.

Suppliers

We maintain inventory of brand name and generic pharmaceuticals in our home delivery pharmacies and biopharmaceutical products, including pharmaceuticals for the treatment of rare or chronic diseases, in our specialty pharmacies and distribution centers to meet the needs of our patients. If a drug is not in our inventory, we can generally obtain it from a supplier within one business day. We purchase pharmaceuticals either directly from manufacturers or through authorized wholesalers. Generic pharmaceuticals are generally purchased directly from manufacturers.

Clients

We are a provider of PBM services to managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans and government health programs. We also provide specialty services to 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.

Express Scripts provides pharmacy network services and home delivery and specialty pharmacy services to the United States Department of Defense ("DoD"). The DoD's TRICARE Pharmacy Program is the military healthcare program serving active-duty service members, National Guard and Reserve members, and retirees, as well as their dependents. Under the contract, we provide online claims adjudication, home delivery services, specialty pharmacy clinical services, claims processing and contact center support and other services critical to managing pharmacy trend.

In December 2009, ESI completed the purchase of 100% of the shares and equity interests of certain subsidiaries of Anthem (formerly known as WellPoint) that provide pharmacy benefit management services ("NextRx"). In conjunction with the purchase, ESI entered into a 10-year contract under which we provide pharmacy benefits management

services to members of the affiliated health plans of Anthem. Subsequent to this acquisition, we integrated NextRx's PBM clients into our existing systems and operations.

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In July 2011, Medco announced its pharmacy benefit services agreement with UnitedHealth Group would not be renewed; although we continued to provide service under an agreement which expired on December 31, 2012. A transition agreement was in place throughout 2013, during which time patients moved in tranches off of the Medco platform.

Refer to Note 13 - Segment information for a description of client concentration.

Medicare Prescription Drug Coverage

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA") created the federal Voluntary Prescription Drug Benefit Program under "Part D" of the Social Security Act. We support clients by providing several Medicare Part D program options: the RDS program, which is offered by CMS to reimburse municipalities, unions and private employers for a portion of their eligible expenses for retiree prescription drug benefits; an EGWP offering, the "PBM inside" service that offers drug-only and integrated medical and Medicare Part D drug benefits to a number of Medicare Part D sponsors and our own risk-based Medicare Part D PDP offerings.

Mergers and Acquisitions

On April 2, 2012, ESI consummated the Merger with Medco and both ESI and Medco became wholly-owned subsidiaries of Express Scripts. The consolidated financial statements (and other data, such as claims volume) reflect the results of operations and financial position of ESI for all periods prior to April 1, 2012. References to amounts for periods after the closing of the Merger on April 2, 2012 relate to Express Scripts.

See Note 3 - Changes in business for further description of our merger and acquisition activity.

We regularly review potential acquisitions and affiliation opportunities. We believe available cash resources, bank financing or the issuance of debt or equity could be used to finance future acquisitions or affiliations. There can be no assurance we will make new acquisitions or establish new affiliations in 2015 or thereafter (see "Part II — Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Acquisitions and Related Transactions").

Company Operations

General. As of December 31, 2014, our United States PBM segment operated six high-volume automated dispensing home delivery pharmacies, one non-automated dispensing home delivery pharmacy, several non-dispensing order processing centers, numerous patient contact centers, specialty drug pharmacies and fertility pharmacies, and one non-dispensing home delivery pharmacy maintained for business continuity purposes.

We provide a full range of integrated PBM services to insurers, third-party administrators, plan sponsors and the public sector at our Canadian facilities. These services facilitate better health decisions and lower costs and include health claims adjudication and processing services, benefit-design consultation, drug-utilization review, formulary management and medical and drug data analysis services. In addition, we provide an active home delivery service in Canada which dispenses maintenance prescription medications from four regional dispensing pharmacy locations.

Sales and Marketing. Our sales team markets and sells PBM solutions and is supported by client service representatives, clinical pharmacy managers, and benefit analysis consultants. This team works with clients to make prescription drug use safer and more affordable. In addition, sales personnel dedicated to our Other Business Operations segment use direct marketing to generate new customers and solidify existing customer relationships.

Supply Chain. Our supply chain pharmacy contracting and strategy group is responsible for contracting and administering our pharmacy networks. Pharmacies must meet certain qualifications, including the requirement that all applicable state credentialing and/or licensing requirements are being maintained, to participate in our retail pharmacy networks. Pharmacies can contact our pharmacy help desk toll free or access our online pharmacy portal 24 hours a day, 7 days a week, for information and assistance in filling prescriptions for our clients' members. In addition, our Fraud, Waste & Abuse Services team audits pharmacies in our retail pharmacy networks to determine compliance with the terms of their contracts.

Clinical Support. Our staff of highly trained healthcare professionals provides clinical support for our PBM services. Our healthcare professionals conduct safety reviews and provide counseling for members with clinical needs in more than a dozen specialties, including oncology, diabetes care and cardiovascular disease.

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Our clinical solutions staff of pharmacists and physicians provides clinical development and operational support for our PBM services. These healthcare professionals are responsible for a wide range of activities that help make the use of prescription drugs safer and more affordable, including identifying emerging medication-related safety issues and notifying physicians, clients, and patients (as appropriate); providing drug information services; formulary management; development of utilization management, safety (concurrent and retrospective drug utilization review) and other clinical interventions; and/or contacting physicians, pharmacists or patients.

Our research & analytics team conducts timely, rigorous and objective research that supports evidence-based pharmacy benefit management and evaluates the clinical, economic and member impact of pharmacy benefits. The formation of predictive models and other analytical tools supports the development and improvement of our products and services. The team also produces the Express Scripts Drug Trend Report which examines trends in pharmaceutical utilization and cost, as well as the factors triggering those trends, including behaviors that result in wasteful spending in the pharmacy benefit.

Information Technology. Our information technology department supports our pharmacy claims processing systems, our specialty pharmacy systems and other management information systems essential to our operations. As we complete the integration process from the Merger, administrative systems will continue to be migrated towards a consolidated IT platform.

Uninterrupted point-of-sale electronic retail pharmacy claims processing is a significant operational requirement for us. Claims for our PBM segment are processed in the United States through systems managed and operated domestically by internal resources and an outsourced vendor. Canadian claims are processed through systems maintained and operated by IBM in Canada and managed by us. We believe we have substantial capacity for growth in our United States and Canadian claims processing facilities.

Specialty pharmacy operations are supported by multiple pharmacy systems managed and operated internally.

We leverage outsourced vendor services to provide certain disaster recovery services for systems located at our data centers. For systems not covered by a third-party vendor arrangement, such as our specialty pharmacy data centers, our corporate disaster recovery organization manages internal recovery services.

Competition

There are a number of other PBMs in the United States with which we compete. Some of these are independent PBMs, such as Catamaran and MedImpact. Others are owned by managed care organizations such as Aetna Inc., CIGNA Corporation, Humana, OptumRx (owned by UnitedHealth Group) and Prime Therapeutics (owned by a collection of Blue Cross Blue Shield Plans). Some are owned by retail pharmacies, such as CVS Caremark (owned by CVS). Wal-Mart Stores, Inc. engages in certain activities competitive with PBMs. We also compete against adjudicators, such as Argus. With the emergence of alternative benefit models through Private Exchanges, the competitive landscape also includes brokers, health plans and consultants. Some of these competitors may have greater financial, marketing and technological resources than we. In addition, new market entrants may increase competitiveness as barriers to entry are relatively low. We believe the primary competitive factors in the industry include the ability to contract with retail pharmacies to ensure our retail pharmacy networks meet the needs of our clients and their members, the ability to negotiate discounts on prescription drugs with drug manufacturers, the ability to navigate the complexities of governmental reimbursed business, including Medicare, Medicaid and the Public Exchanges, the ability to manage cost and quality of specialty drugs, the ability to utilize the information we obtain about drug utilization patterns and consumer behavior to reduce costs for our clients and members, and the level of service we provide.

Government Regulation and Compliance

Many aspects of our businesses are regulated by federal and state laws, rules and regulations. Accordingly, we maintain a comprehensive compliance program and we believe we operate our business in substantial compliance with all existing legal requirements material to the operation of our businesses. There are, however, significant uncertainties involving the application of various legal requirements, the violation of which could result in, among other things, sanctions. See “Part I — Item 1A — Risk Factors” for additional detail.

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Pharmacy Benefit Management Regulation Generally. Certain federal and state laws and regulations affect or may affect aspects of our PBM business. Among the laws and regulations that may impact our business are the following:
Federal Healthcare Reform. In March 2010, the federal government enacted the Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 ("Health Reform Laws"). The Health Reform Laws include numerous changes to many aspects of the United States healthcare system, including, but not limited to, additional enforcement mechanisms and rules related to healthcare fraud and abuse enforcement activities, health plan coverage mandates, additional rules and obligations for health insurance providers, certain PBM transparency requirements related to the new healthcare insurance exchanges and expanded healthcare coverage for more Americans. While long-term impacts remain unclear with respect to the implementation of certain components of the Health Reform Laws and related regulatory guidance, the Health Reform Laws impact our business in a variety of ways. Known impacts include, but are not limited to, an increase in utilization of the pharmacy benefit by a newly enrolled population with an unknown risk profile, additional compliance obligations stemming from increased state and federal government involvement in the healthcare marketplace, shifting claims liability from plan sponsors to third-party administrators for certain women's preventive benefits, increased data reporting obligations to support health plan issuers and insurers operating in the healthcare exchanges, the impact of general market reforms prohibiting the use of many factors traditionally used to establish premiums and adjustments implemented by health plan sponsors and health insurance providers in response to availability of new insurance products and other marketplace changes arising in connection with the Health Reform Laws.
Medicare Part D. We participate in various ways in the federal Medicare Part D program created under MMA, and its implementing regulations and sub-regulatory program guidance (the "Medicare Part D Rules") issued by CMS. Through our licensed insurance subsidiaries (i.e., Express Scripts Insurance Company ("ESIC"), Medco Containment Life Insurance Company and Medco Containment Insurance Company of New York), we sponsor Medicare Part D PDPs offering Medicare prescription drug coverage and services to Medicare Part D beneficiaries. We also, through our core PBM business, provide Medicare Part D-related products and services to other Medicare Part D PDP sponsors, Medicare Advantage Prescription Drug Plans and other employers and clients offering Medicare Part D benefits to Medicare Part D eligible beneficiaries.
Medicare Part B and Medicaid. We participate in the Medicare Part B program, which covers certain costs for services provided by Medicare participating physicians and suppliers and durable medical equipment. We also participate in many state Medicaid programs directly or indirectly through our clients who are Medicaid managed care contractors. We also perform certain Medicaid subrogation services for clients, which are regulated by federal and state laws.
Anti-Kickback Laws. Subject to certain exceptions and "safe harbors," the federal anti-kickback statute generally prohibits, among other things, knowingly and willfully paying or offering any payment or other remuneration to induce a person to purchase, lease, order or arrange for (or recommend purchasing, leasing or ordering) items (including prescription drugs) or services reimbursable in whole or in part under Medicare, Medicaid or another federal healthcare program. Several states also have similar laws, some of which apply similar anti-kickback prohibitions to items or services reimbursable by non-governmental payors. Sanctions for violating these federal and state anti-kickback laws may include criminal and civil fines and exclusion from participation in the federal and state healthcare programs.
The federal anti-kickback statute has been interpreted broadly by courts, the Office of Inspector General ("OIG") within the Department of Health and Human Services ("HHS"), and administrative bodies. Because of the federal statute's broad scope, federal regulations establish certain "safe harbors" from liability. A practice that does not fall within a safe harbor is not necessarily unlawful, but may be subject to scrutiny and challenge. Anti-kickback laws have been cited as a partial basis, along with state consumer protection laws described below, for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to pharmacies in connection with "product conversion" programs.
There are other anti-kickback laws that may be applicable, such as the Public Contracts Anti-kickback Act, the ERISA Health Plan Anti-kickback Statute and various other state anti-kickback restrictions.
Federal Civil Monetary Penalties Law. The federal civil monetary penalty statute provides for civil monetary penalties against any person who gives something of value to a Medicare or Medicaid program beneficiary the person knows or

should know is likely to influence the beneficiary's selection of a particular provider for Medicare or Medicaid items or services. Under this law, our wholly-owned home delivery, specialty pharmacies, infusion pharmacies and home health providers are restricted from offering certain items of value to influence a Medicare or Medicaid patient's use of services. The Health Reform Laws also include several new civil monetary provisions, such as penalties for the failure to report and return a known overpayment and failure to grant timely access to the OIG under certain circumstances.

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Prompt Pay Laws. Under Medicare Part D and certain state laws, some of which also govern the Public Exchanges, PBMs and many of our health plan clients, we may be obligated to pay retail pharmacy providers within established time periods that may be shorter than existing contracted terms and/or via electronic transfer instead of by check. Changes that require faster payment may have a negative impact on our cash flow from operations.

False Claims Act and Related Criminal Provisions. The federal False Claims Act (the "False Claims Act") imposes civil penalties for knowingly making or causing to be made false claims or false records or statements with respect to governmental programs, such as Medicare and Medicaid, in order to obtain reimbursement or failure to return overpayments. Private individuals may bring qui tam or "whistle blower" suits against providers under the False Claims Act, which authorizes the payment of a portion of any recovery to the individual bringing suit. The Health Reform Laws also amended the federal anti-kickback laws to state any claim submitted to a federal or state healthcare program which violates the anti-kickback law is also a false claim under the False Claims Act. The False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties. Criminal statutes similar to the False Claims Act provide that if a corporation is convicted of presenting a claim or making a statement it knows to be false, fictitious or fraudulent to any federal agency it may be fined. Conviction under these statutes may also result in exclusion from participation in federal and state healthcare programs. Some states have also enacted laws similar to the False Claims Act which may include criminal penalties, substantial fines and treble damages.

Government Procurement Regulations. As described above, we have a contract with the DoD, which subjects us to all of the applicable Federal Acquisition Regulations ("FAR") and Department of Defense FAR Supplement which govern federal government contracts. Further, there are other federal and state laws applicable to our DoD arrangement and other clients that may be subject to government procurement regulations. In addition, certain of our clients participate as contracting carriers in the Federal Employees Health Benefits Program which is administered by the Office of Personnel Management and contains various PBM standards, including PBM transparency standards.

Antitrust. The antitrust laws generally prohibit competitors from fixing prices, dividing markets and boycotting competitors, regardless of the size or market power of the companies involved. Further, antitrust laws generally prohibit other conduct found to restrain competition unreasonably, such as certain attempts to tie or bundle services together and certain exclusive dealing arrangements.

ERISA Regulation. The Employee Retirement Income Security Act of 1974 ("ERISA") regulates certain aspects of employee pension and health benefit plans, including self-funded corporate health plans with respect to which we have agreements to provide PBM services. We believe the conduct of our business is not generally subject to the fiduciary obligations of ERISA. However, there can be no assurance the United States Department of Labor (the "DOL"), which is the agency that enforces ERISA, would not assert the fiduciary obligations imposed by ERISA apply to certain aspects of our operations or that courts would not reach such a ruling in private ERISA litigation.

In addition to its fiduciary provisions, federal law related to ERISA health plans imposes civil and criminal liability on service providers to health plans and certain other persons if certain forms of illegal remuneration are made or received. These provisions of ERISA are similar, but not identical, to the healthcare anti-kickback statutes described above, although ERISA lacks the statutory and regulatory "safe harbor" exceptions incorporated into the healthcare statutes. Like the healthcare anti-kickback laws, the corresponding provisions of ERISA are broadly written and their application to particular cases is often uncertain.

Employee benefit plans subject to ERISA are subject to certain rules, published by the DOL, relating to annual Form 5500 reporting obligations. The rules include certain reporting requirements for direct and indirect compensation received by plan service providers such as PBMs. However, in February 2010, the DOL issued two frequently asked questions that provide discount and rebate revenue paid to PBMs by drug manufacturers generally need not be reported on a plan's Form 5500 as indirect compensation. Also, self-funded plans which are part of Section 125 "cafeteria plans" are currently exempt from such compensation disclosure.

In December 2010, the DOL held a public hearing regarding the disclosure obligations of service providers to welfare plans under section 408(b)(2) of ERISA. At this time, we are unable to predict whether regulations will be issued, the form of any such regulations or the possible impact of any such changes on our business practices.

State Fiduciary Legislation. Statutes have been introduced in several states that purport to declare a PBM is a fiduciary with respect to its clients. We believe the fiduciary obligations such statutes would impose would be similar, but not identical, to the scope of fiduciary obligations under ERISA. To date only two jurisdictions—Maine and the District of Columbia—have enacted such a statute. Our trade association, Pharmaceutical Care Management Association ("PCMA"), filed suits in federal courts in Maine and the District of Columbia alleging, among other things, the statutes are preempted by ERISA with respect to welfare plans subject to ERISA. In 2011, Maine's fiduciary law was repealed, although the United States Court

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of Appeals for the First Circuit previously held the law not preempted by ERISA. In the District of Columbia case, the court granted in part PCMA's motion for summary judgment finding the District of Columbia law was preempted by ERISA and that decision was affirmed by the United States Court of Appeals for the D.C. Circuit. Widespread enactment of such statutes (if not preempted by ERISA) could have a material adverse effect upon our financial condition, results of operations and cash flows.

Consumer Protection Laws. Most states have consumer protection laws that have been the basis for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with drug switching programs. Such statutes have also been cited as the basis for claims against PBMs either in civil litigation or pursuant to investigations by state Attorneys General.

Network Access Legislation. A majority of states now have some form of legislation affecting our ability, or our clients' ability, to limit access to a pharmacy provider network or remove a provider from the network. Such legislation may require us or our clients to admit any retail pharmacy willing to meet the plan's price and other terms for network participation ("any willing provider" legislation) or may provide that a provider may not be removed from a network except in compliance with certain procedures ("due process" legislation). We have not been materially affected by these statutes.

Certain states have enacted legislation prohibiting certain PBM clients from imposing additional co-payments, deductibles, limitation on benefits, or other conditions ("Conditions") on covered individuals utilizing a retail pharmacy when the same Conditions are not otherwise imposed on covered individuals utilizing home delivery pharmacies. However, the legislation requires the retail pharmacy agree to the same reimbursement amounts and terms and conditions as are imposed on the home delivery pharmacies. An increase in the number of prescriptions filled at retail pharmacies may have a negative impact on the amount of prescriptions filled through home delivery. It is anticipated additional states will consider similar legislation and we cannot predict which states will adopt such legislation or what effect it will have, if any.

Legislation Affecting Plan Design. Some states have enacted legislation that prohibits managed care plan sponsors from implementing certain restrictive benefit plan design features, and many states have introduced legislation to regulate various aspects of managed care plans, including provisions relating to the pharmacy benefit. For example, some states, under so-called "freedom of choice" legislation, provide members of the plan may not be required to use network providers, but must instead be provided with benefits even if they choose to use non-network providers. Other states have enacted legislation purporting to prohibit health plans from offering members financial incentives for use of home delivery pharmacies. Medicare and some states have issued guidance and regulations which limit our ability to fill or refill prescriptions electronically submitted by a physician to our home delivery pharmacy without first obtaining consent from the patient. Such restrictions generate additional costs and limit our ability to maximize efficiencies which could otherwise be gained through the electronic prescription and automatic refill processes. Legislation has been introduced in some states to prohibit or restrict therapeutic intervention, or to require coverage of all FDA approved drugs. Other states mandate coverage of certain benefits or conditions, and require health plan coverage of specific drugs if deemed medically necessary by the prescribing physician. States are also standardizing the process for, and restricting the use of, utilization management rules and shortening the time frames within which prescription drug prior authorization determinations must be made. Such legislation does not generally apply to us directly, but may apply to certain of our clients, such as managed care organizations and health insurers. If such legislation were to become widely adopted and broad in scope, it could have the effect of limiting the economic benefits achievable through pharmacy benefit management.

Legislation and Regulation Affecting Drug Prices. Some states have adopted so-called "most favored nation" legislation providing a pharmacy participating in the state Medicaid program must give the state the best price the pharmacy makes available to any third-party plan. Such legislation may adversely affect our ability to negotiate discounts in the future from network pharmacies.

In the past two years, states have also started to enact statutes regulating the use of Maximum Allowable Cost ("MAC") pricing. These statutes, referred to as "MAC Transparency Laws," generally require PBMs to disclose specific information related to MAC pricing to pharmacies and provide certain appeal rights for pharmacies. MAC Transparency Laws also restrict the application of MAC and may require operational changes to maintain compliance

with the law. These laws have the potential to negatively impact Express Scripts in a number of ways, including, but not limited to, increasing administrative burden and decreasing flexibility in setting and managing MAC pricing. As more states adopt MAC Transparency Laws, the impact of these laws may continue to grow.

The federal Medicaid rebate program requires participating drug manufacturers to provide rebates on all drugs reimbursed through state Medicaid programs, including through Medicaid managed care organizations. Manufacturers of brand name products must provide a rebate equivalent to the greater of (a) 23.1% of the average manufacturer price ("AMP") paid by retail community pharmacies or by wholesalers for certain innovator drugs distributed to retail community pharmacies, or (b) the difference between AMP and the "best price" available to essentially any customer other than the Medicaid program and

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certain other government programs, with certain exceptions. We negotiate rebates with drug manufacturers and, in certain circumstances, sell services to drug manufacturers. Investigations have been commenced by certain governmental entities which call into question whether a drug's "best price" was properly calculated and reported with respect to rebates paid by the manufacturers to the Medicaid programs. We are not responsible for such calculations, reports or payments. There can be no assurance, however, that our ability to negotiate rebates with, or sell services to, drug manufacturers will not be materially adversely affected by such investigations or regulations in the future.

Regulation of Financial Risk Plans. Fee-for-service prescription drug plans generally are not subject to financial regulation by the states. However, if a PBM offers to provide prescription drug coverage on a capitated basis or otherwise accepts material financial risk in providing the benefit, various state and federal laws may regulate the PBM or its subsidiaries. Such laws may require, among other things, that the party at risk establish reserves or otherwise demonstrate financial responsibility. Laws that may apply in such cases include, for example, insurance laws, managed care organization laws and limited prepaid health service plan laws. These may apply, for example, to our subsidiaries (i.e., ESIC, Medco Containment Life Insurance Company and Medco Containment Insurance Company of New York) and other subsidiary insurance businesses which sponsor risk-based Medicare Part D PDPs or commercial "wrap" EGWP products pursuant to contracts with CMS. ESIC, Medco Containment Life Insurance Company and Medco Containment Insurance Company of New York are required to be licensed insurance companies, and are, therefore, regulated by various state departments of insurance. As such, to maintain licensure as an insurance company, these licensed subsidiaries are required to adhere to state insurance requirements related to, for example, enterprise risk management, beneficiary protections, asset management and financial reserves.

Pharmacy Regulation. Our home delivery, specialty and infusion pharmacies are licensed to do business as a pharmacy in the state in which they are located. Most of the states into which we deliver pharmaceuticals have laws that require out-of-state home delivery pharmacies to register with, or be licensed by, the board of pharmacy or similar regulatory body in the state. These states generally permit the pharmacy to follow the laws of the state in which the home delivery service is located, although some states require compliance with certain laws in that state. We believe we have registered each of our pharmacies in every state in which such registration is required and we comply in all material respects with all required laws and regulations. In addition, our pharmacists and nurses are licensed in those states where we believe their activity requires it. Our various pharmacy facilities also maintain certain Medicare and state Medicaid provider numbers as pharmacies providing services under these programs. Participation in these programs requires our pharmacies to comply with the applicable Medicare and Medicaid provider rules and regulations, and exposes the pharmacies to various changes the federal and state governments may impose regarding reimbursement methodologies and amounts to be paid to participating providers under these programs. In addition, several of our pharmacy facilities are participating providers under Medicare Part D and, as a condition to becoming a participating provider under Medicare Part D, the pharmacies are required to adhere to certain requirements applicable to the Medicare Part D program.

Other statutes and regulations affect our home delivery, specialty and infusion pharmacy operations, including the federal and state anti-kickback laws and the federal civil monetary penalty law described above. Federal and state statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. The Federal Trade Commission requires mail order sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the product to be sold, to fill mail orders within thirty days and to provide clients with refunds when appropriate. The United States Postal Service also has significant statutory authority to restrict the delivery of drugs and medicines through the mail.

Other Licensure Laws. Many states have licensure or registration laws governing PBMs and certain types of managed care organizations and insurance companies, including, but not limited to, preferred provider organizations, third-party administrators and companies that provide utilization review services. The scope of these laws differs from state to state, and the application of such laws to the activities of PBMs and insurance companies is often unclear. We have registered under such laws in those states in which we have concluded such registration is required either due to our various PBM services or the activities of our licensed insurance subsidiaries. Moreover, we have received full accreditation for URAC Pharmacy Benefit Management version 2.0 Standards, which includes quality standards for drug utilization management. In addition, accreditation agencies' requirements for managed care organizations such as

the National Committee on Quality Assurance and Medicare Part D regulations for Medicare Part D PDP and Medicare Advantage Prescription Drug Plans may affect the services we provide to such organizations.

Legislation regulating PBM activities in a comprehensive manner has been and continues to be considered in a number of states. In the past, certain organizations, such as the National Association of Insurance Commissioners ("NAIC"), an organization of state insurance regulators, have considered proposals to regulate PBMs and/or certain PBM activities, such as formulary development and utilization management. While the actions of the NAIC would not have the force of law, they may influence states to adopt model legislation that such organizations promulgate. Certain states have adopted PBM registration and/or disclosure laws and we have registered under such laws and are complying with applicable disclosure requirements. In

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addition to registration laws, some states have adopted legislation mandating disclosure of various aspects of our financial practices, including those concerning pharmaceutical company revenue, as well as prescribing processes for prescription switching programs and client and provider audit terms. Other states are considering similar legislation, and as more states consider these bills it will be difficult to manage the distinct requirements of each.

FDA Regulations. The Health Reform Laws allow a regulatory approval pathway for biosimilars (alternatively known as generics) for biological products and provide an innovator biological product will be granted 12 years of exclusivity. At this time, we are unable to fully evaluate the impact of the changes to biosimilars to our business.

Our clinical research activities are also subject to a number of complex and stringent regulations affecting the biotechnology and pharmaceutical industries. We offer services relating to conduct of clinical trials and the preparation of marketing applications and are required to comply with applicable regulatory requirements governing, among other things, the design, conduct, performance, monitoring, auditing, recording, analysis and reporting of these trials. In the United States, the Food and Drug Administration ("FDA") governs these activities pursuant to the agency's Good Clinical Practice regulations.

HIPAA and Other Data Privacy and Security Legislation. Many of our activities involve the receipt or use of confidential health and other personal information. In addition, we use aggregated and anonymized data for our own research and analysis purposes and, in some cases, provide access to such data to pharmaceutical manufacturers and third-party data aggregators. Various federal and state laws, including the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), regulate and restrict the use, disclosure and security of certain personal information, including health information, and new legislation is proposed from time to time in various states.

We are required to comply with certain aspects of the privacy, security and transaction standard regulations under HIPAA. The privacy regulations included as part of HIPAA impose restrictions on the use and disclosure of individually identifiable health information by certain entities. The HIPAA security regulations relate access to and disclosure of protected health information when it is maintained or transmitted electronically. Other HIPAA requirements relate to electronic transaction standards and code sets for processing of pharmacy claims. As part of the American Recovery and Reinvestment Act signed into law in February 2009, Congress adopted the Health Information Technology for Economic and Clinical Health Act ("HITECH"). In January 2013, HHS announced a new rule to strengthen the privacy and security protections established under HIPAA, the final Omnibus Rule (the "Omnibus Rule"). The Omnibus Rule enhances patients' privacy protections, provides patients new rights with respect to their health information and strengthens the government's ability to enforce the law. The changes expand many of the privacy and security requirements to business associates, such as contractors and subcontractors. Business associates may also be liable for increased penalties for noncompliance. The Omnibus Rule significantly changes the breach notification requirements provided by HITECH. Furthermore, the Omnibus Rule sets new limits on how information is used and disclosed for marketing and fundraising purposes, and prohibits the sale of a patient's health information without his or her permission. As with many other companies subject to HIPAA, the Omnibus Rule may have significant operational and legal consequences for our business.

We believe we are in compliance in all material respects with HIPAA and other state privacy laws. To date, no patient privacy laws have been adopted that materially impact our ability to provide PBM and pharmacy services, but there can be no assurance federal or state governments will not enact legislation, impose restrictions or adopt interpretations of existing laws that could have a material adverse effect on our business and financial results.

Other Business Operations Services. Many of the laws and regulations cited above with respect to our PBM activities also apply with respect to our various Other Business Operations services. Of particular relevance are the federal and state anti-kickback laws, state pharmacy regulations and HIPAA, which are described above. In addition, as a condition to conducting our wholesale business, we must maintain various permits and licenses with the appropriate state and federal agencies and we are subject to various wholesale distributor laws that regulate the conduct of wholesale distributors, including, but not limited to, maintaining pedigree papers in certain instances.

Service Marks and Trademarks

We, and our subsidiaries, have registered certain service marks including "EXPRESS SCRIPTS®," "MEDCO®," "ACCREDO®," "CONSUMEROLOGY®," "UBC®," "MY RX CHOICES®," "RATIONALMED®," "SCREENRX®," "EXPRESS ALLIANCE®," "EXPRESS SCRIPTS MEDICARE®," "EXPRESS ADVANTAGE NETWORK®," "HEALTH DECISION

SCIENCE®" and "THERAPEUTIC RESOURCE CENTER®" with the United States Patent and Trademark Office. Our rights to these marks will continue so long as we comply with the usage, renewal filings and other legal requirements relating to the usage and renewal of service marks.

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Insurance

Our PBM operations, including the dispensing of pharmaceutical products by our home delivery pharmacies, our Other Business Operations, including the distribution of specialty drugs, and the services rendered in connection with our disease management operations, may subject us to litigation and liability for damages. Commercial insurance coverage may be difficult to obtain and cost prohibitive, particularly for certain types of claims. We may maintain significant self-insured retentions where believed to be most appropriate and cost effective. We have established certain self-insurance accruals to cover potential claims. There can be no assurance we will be able to maintain certain types of liability insurance coverage in the future or that such insurance coverage, together with our self-insurance accruals, will be adequate to cover potential future claims. A claim, or claims, not covered by insurance or in excess of our insurance coverage could have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Employees

As of December 31, 2014 and 2013, we employed approximately 29,500 and 29,900 employees, respectively, worldwide. Approximately 11.0% of the employees are members of collective bargaining units at December 31, 2014. Specifically, we employ members of the following unions:

- Service Employees International Union
- American Federation of State, County and Municipal Employees
- United Food and Commercial Workers Union
- United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Service Workers International Union, American Federation of Labor – Congress of Industrial Organizations
- Association of Managed Care Pharmacists
- Guild for Professional Pharmacists
- International Union of Operating Engineers
- Retail, Wholesale and Department Store Union, United Food and Commercial Workers

Six collective bargaining agreements covering these employees will expire at various dates through December 2015.

Executive Officers of the Registrant

Our executive officers and their ages as of February 23, 2015 are as follows:

Name	Age	Position
George Paz	59	Chairman and Chief Executive Officer
Timothy Wentworth	54	President
James Havel	60	Executive Vice President and Interim Chief Financial Officer
Keith Ebling	46	