Express Scripts Holding Co.
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012.

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

For the transition period from to .

Commission File Number: 1-35490

EXPRESS SCRIPTS HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**45-2884094**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
One Express Way, St. Louis, MO	**63121**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§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 x 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 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

Common stock outstanding as of April 30, 2012: 805,480,000 Shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Balance Sheet

(in millions)	**March 31, 2012**	**December 31, 2011**
Assets		
Current assets:		
Cash and cash equivalents	$ 9,577.7	$ 5,620.1
Restricted cash and investments	30.0	17.8
Receivables, net	2,008.4	1,915.7
Inventories	385.4	374.4
Deferred taxes	52.2	45.8
Prepaid expenses and other current assets	50.4	84.2
Total current assets	12,104.1	8,058.0
Property and equipment, net	405.5	416.2
Goodwill	5,486.3	5,485.7
Other intangible assets, net	1,587.2	1,620.9
Other assets	25.1	26.2
Total assets	$ 19,608.2	$ 15,607.0
Liabilities and Stockholders Equity		
Current liabilities:		
Claims and rebates payable	$ 2,650.3	$ 2,874.1
Accounts payable	1,117.8	928.1
Accrued expenses	899.2	656.0
Current maturities of long-term debt	1,000.0	999.9
Total current liabilities	5,667.3	5,458.1
Long-term debt	10,537.1	7,076.4
Other liabilities	628.3	598.8
Total liabilities	16,832.7	13,133.3
Stockholders Equity:		
Preferred stock, 5.0 shares authorized, $0.01 par value per share; and no shares issued and outstanding		
Common stock, 1,000.0 shares authorized, $0.01 par value per share; shares issued: 690.4 and 690.7, respectively; shares outstanding: 485.7 and 484.6, respectively	6.9	6.9
Additional paid-in capital	2,457.4	2,438.2
Accumulated other comprehensive income	18.6	17.0
Retained earnings	6,913.4	6,645.6
	9,396.3	9,107.7
Common stock in treasury at cost, 204.7 and 206.1 shares, respectively	(6,620.8)	(6,634.0)

Total stockholders equity	2,775.5	2,473.7
Total liabilities and stockholders equity	$ 19,608.2	$ 15,607.0

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 March 31, 2012	2011
Revenues [1]	$ 12,132.6	$ 11,094.5
Cost of revenues [1]	11,300.6	10,349.0
Gross profit	832.0	745.5
Selling, general and administrative	267.5	193.1
Operating income	564.5	552.4
Other (expense) income:		
Interest income	2.3	0.4
Interest expense	(132.0)	(39.7)
	(129.7)	(39.3)
Income before income taxes	434.8	513.1
Provision for income taxes	167.0	186.6
Net income	$ 267.8	$ 326.5
Weighted average number of common shares outstanding during the period:		
Basic	485.3	529.0
Diluted	489.7	533.9
Basic earnings per share	$ 0.55	$ 0.62
Diluted earnings per share	$ 0.55	$ 0.61

[1] *Includes retail pharmacy co-payments of $1,496.6 million and $1,526.5 million for the three months ended March 31, 2012 and 2011, respectively.*

See accompanying Notes to Unaudited Consolidated Financial Statements

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EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Statement of Comprehensive Income

(in millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 267.8	$ 326.5
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	1.6	1.3
Comprehensive income	$ 269.4	$ 327.8

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	Total
Balance at December 31, 2011	690.7	$ 6.9	$ 2,438.2	$ 17.0	$ 6,645.6	$ (6,634.0)	$ 2,473.7
Net income					267.8		267.8
Other comprehensive income				1.6			1.6
Changes in stockholders equity related to employee stock plans	(0.3)		19.2			13.2	32.4
Balance at March 31, 2012	690.4	$ 6.9	$ 2,457.4	$ 18.6	$ 6,913.4	$ (6,620.8)	$ 2,775.5

See accompanying Notes to Unaudited Consolidated Financial Statements

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EXPRESS SCRIPTS HOLDING COMPANY

Unaudited Consolidated Statement of Cash Flows

(in millions)	**Three Months Ended March 31, 2012**	**2011**
Cash flows from operating activities:		
Net income	$ 267.8	$ 326.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65.0	62.9
Non-cash adjustments to net income	37.2	54.6
Deferred financing fees	18.1	1.0
Changes in operating assets and liabilities:		
Accounts receivable	(96.4)	(189.3)
Claims and rebates payable	(223.7)	(166.5)
Other net changes in operating assets and liabilities	462.1	155.2
Net cash flows provided by operating activities	530.1	244.4
Cash flows from investing activities:		
Purchases of property and equipment	(18.7)	(19.5)
Other	(10.3)	1.7
Net cash used in investing activities	(29.0)	(17.8)
Cash flows from financing activities:		
Proceeds from long-term debt, net of discounts	3,458.9	
Deferred financing fees	(19.8)	
Tax benefit relating to employee stock compensation	13.9	13.0
Net proceeds from employee stock plans	2.1	2.6
Net cash provided by financing activities	3,455.1	15.6
Effect of foreign currency translation adjustment	1.4	0.2
Net increase in cash and cash equivalents	3,957.6	242.4
Cash and cash equivalents at beginning of period	5,620.1	523.7
Cash and cash equivalents at end of period	$ 9,577.7	$ 766.1

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) substantially concurrently with the consummation of the Merger. 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 periods presented. However, references to amounts for periods after the closing of the Merger relate to the Company.

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). However, we believe 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 ESI s Annual Report on Form 10-K for the year ended December 31, 2011. For a full description of our accounting policies, refer to the Notes to Consolidated Financial Statements included in ESI s Annual Report on Form 10-K for the year ended December 31, 2011.

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 March 31, 2012, the unaudited consolidated statement of operations and unaudited statement of comprehensive income for the three months ended March 31, 2012 and 2011, the unaudited consolidated statement of changes in stockholders equity for the three months ended March 31, 2012, and the unaudited consolidated statement of cash flows for the three months ended March 31, 2012 and 2011. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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 $5.0 million and $1,817.4 million, restricted cash and investments of $30.0 million and $17.8 million, and trading securities (included in other assets) of $15.0 million and $14.1 million at March 31, 2012 and December 31, 2011, 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), 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 either quoted market prices or the current rates offered to us for debt with similar maturity. The carrying values and the fair values of our senior notes are shown, net of unamortized discount, in the following table:

	March 31, 2012		December 31, 2011	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
June 2009 Senior Notes				
5.250% senior notes due 2012	$ 999.9	$ 1,009.0	$ 999.9	$ 1,017.5
6.250% senior notes due 2014	998.0	1,100.0	997.8	1,085.0
7.250% senior notes due 2019	497.4	617.0	497.3	593.1
	2,495.3	2,726.0	2,495.0	2,695.6
May 2011 Senior Notes				
3.125% senior notes due 2016	1,494.9	1,552.5	1,494.6	1,493.7
November 2011 Senior Notes				
3.500% senior notes due 2016	1,249.7	1,307.5	1,249.7	1,265.3
4.750% senior notes due 2021	1,239.7	1,341.3	1,239.4	1,295.8
2.750% senior notes due 2014	899.1	924.3	899.0	907.8
6.125% senior notes due 2041	698.4	791.7	698.4	755.3
	4,086.9	4,364.8	4,086.5	4,224.2
February 2012 Senior Notes				
2.650% senior notes due 2017	1,485.8	1,515.4		
2.100% senior notes due 2015	995.3	1,011.2		
3.900% senior notes due 2022	978.7	1,015.2		
	3,459.8	3,541.8		
Total	$ 11,536.9	$ 12,185.1	$ 8,076.1	$ 8,413.5

The fair values of our senior notes were estimated based on quoted prices in active markets for identical securities (Level 1 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 wholly owned subsidiaries of the Company and former Medco and ESI stockholders became owners of stock in the Company, which is listed for trading on the National Association of Securities Dealers Automated Quotation (NASDAQ) stock exchange. Upon closing of the Merger, former ESI stockholders own approximately 59% of the Company and former Medco stockholders own approximately 41%. 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 Company 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 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 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.

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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)]	$ 11,309.5
Value of shares of common stock issued to Medco stockholders[(2)]	17,963.6
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)]	174.8
Total consideration	$ 30,154.0

(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 precombination service is recorded as part of the consideration transferred in the Merger, while the fair value of replacement awards attributable to postcombination 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.

We believe the merger will combine the expertise of two complementary pharmacy benefit managers to further efforts to lower the cost of prescription drugs and improve the quality of care.

The following unaudited pro forma information presents a summary of ESI s and Medco s combined results of operations for the three months ended March 31, 2012 and 2011 as if the Merger and related financing transactions had occurred at January 1, 2011. The following pro forma financial information is not necessarily indicative of the results of operations as they 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:

	Three Months Ended March 31,	
(in millions, except per share data)	**2012**	**2011**
Total revenues	$ 28,131.1	$ 28,129.8
Net income	329.3	132.5
Basic earnings per share	0.41	0.15
Diluted earnings per share	$ 0.41	$ 0.15

Pro forma net income for the three months ended March 31, 2011 includes total non-recurring adjustments of $472.1 million related to estimated severance payments, accelerated stock-based compensation, and transaction costs incurred in connection with the Merger. These amounts represent the best available estimates as of the date of issuance and actual costs recorded in the year ended December 31, 2012 may differ materially from estimates utilized for pro forma purposes.

The merger will be accounted for under the purchase method of accounting with ESI treated as the acquirer for accounting purposes. As the Merger was consummated on April 2, 2012, the preliminary allocation of purchase price to individual assets and liabilities has not been completed due to the recent closing of the merger.

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Note 4 Goodwill and other intangible assets

The following is a summary of our goodwill and other intangible assets for our two reportable segments Pharmacy Benefit Management (PBM) and Emerging Markets (EM):

	March 31, 2012			December 31, 2011		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill						
PBM	$ 5,513.3	$ (107.5)	$ 5,405.8	$ 5,512.6	$ (107.4)	$ 5,405.2
EM	80.5		80.5	80.5		80.5
	$ 5,593.8	$ (107.5)	$ 5,486.3	$ 5,593.1	$ (107.4)	$ 5,485.7
Other intangible assets						
PBM						
Customer contracts	$ 2,018.7	$ (531.7)	$ 1,487.0	$ 2,018.5	$ (494.7)	$ 1,523.8
Other	149.3	(78.0)	71.3	126.6	(60.1)	66.5
	2,168.0	(609.7)	1,558.3	2,145.1	(554.8)	1,590.3
EM						
Customer relationships	68.4	(40.2)	28.2	68.4	(38.5)	29.9
Other	0.7		0.7	0.7		0.7
	69.1	(40.2)	28.9	69.1	(38.5)	30.6
Total other intangible assets	$ 2,237.1	$ (649.9)	$ 1,587.2	$ 2,214.2	$ (593.3)	$ 1,620.9

The aggregate amount of amortization expense of other intangible assets for our operations was $56.8 million and $39.7 million for the three months ended March 31, 2012 and 2011, respectively. This increase was driven by amortization of deferred financing fees related to the issuance of Senior Notes, the bridge facility, and the term facility. See further discussion of these financing methods in Note 6 Financing. 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 both March 31, 2012 and 2011. The future aggregate amount of amortization expense of other intangible assets for our operations is expected to be approximately $196.2 million for 2012, $167.9 million for 2013, $162.1 million for 2014, $141.2 million for 2015 and $137.9 million for 2016. These estimates will increase once preliminary valuation procedures are completed for intangible assets acquired in connection with the Merger discussed in Note 3 Changes in business. The weighted average amortization period of intangible assets subject to amortization is 14 years in total, and by major intangible class is 5 to 20 years for customer-related intangibles and nine months to 30 years for other intangible assets.

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

(in millions)	PBM	EM	Total
Balance at December 31, 2011	$ 5,405.2	$ 80.5	$ 5,485.7
Foreign currency translation	0.6		0.6
Balance at March 31, 2012	$ 5,405.8	$ 80.5	$ 5,486.3

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Note 5 Earnings per share

Basic earnings per share (EPS) is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed in the same manner as basic earnings per share 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 March 31,	
(in millions)	**2012**[(1)]	**2011**
Weighted average number of common shares outstanding during the period Basic EPS	485.3	529.0
Dilutive common stock equivalents[(2)]:		
Outstanding stock options, stock-settled stock appreciation rights (SSRs), restricted stock units, and executive deferred compensation units	4.4	4.9
Weighted average number of common shares outstanding during the period Diluted EPS[(3)]	489.7	533.9

(1) The decrease in the weighted average number of common shares outstanding for the three months ended March 31, 2012 for Basic and Diluted EPS resulted from the 46.4 million treasury shares repurchased during 2011.
(2) Dilutive common stock equivalents for the three months ended March 31, 2012 do not include the 0.1 million shares that we would have received if the Accelerated Share Repurchase agreement discussed in Note 7 were settled as of March 31, 2012. These were excluded because their effect was anti-dilutive.
(3) Excludes awards of 6.0 million and 2.6 million for the three months ended March 31, 2012 and 2011, respectively. These were excluded because their effect was anti-dilutive.

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Note 6 Financing

Long-term debt, net of unamortized discounts, consists of:

(in millions)	March 31, 2012	December 31, 2011
June 2009 Senior Notes		
5.250% senior notes due 2012	$ 999.9	$ 999.9
6.250% senior notes due 2014	998.0	997.8
7.250% senior notes due 2019	497.4	497.3
	2,495.3	2,495.0
May 2011 Senior Notes		
3.125% senior notes due 2016	1,494.9	1,494.6
November 2011 Senior Notes		
3.500% senior notes due 2016	1,249.7	1,249.7
4.750% senior notes due 2021	1,239.7	1,239.4
2.750% senior notes due 2014	899.1	899.0
6.125% senior notes due 2041	698.4	698.4
	4,086.9	4,086.5
February 2012 Senior Notes		
2.650% senior notes due 2017	1,485.8	
2.100% senior notes due 2015	995.3	
3.900% senior notes due 2022	978.7	
	3,459.8	
Revolving credit facility due August 29, 2016		
Revolving credit facility due August 13, 2013		
Other	0.2	0.2
Total debt	11,537.1	8,076.3
Less current maturities	1,000.0	999.9
Long-term debt	$ 10,537.1	$ 7,076.4

BANK CREDIT FACILITIES

On August 13, 2010, we entered into a credit agreement with a commercial bank syndicate providing for a three-year revolving credit facility of $750.0 million (the 2010 credit facility). At March 31, 2012, our credit agreement consisted of a $750.0 million revolving credit facility available for general corporate purposes (under which no borrowings were outstanding as of March 31, 2012). The 2010 credit facility required us to pay interest periodically on the London Interbank Offered Rates (LIBOR) or base rate options, plus a margin. The margin over LIBOR would range from 1.55% to 1.95%, depending on our consolidated leverage ratio. Under the 2010 credit agreement, we were required to pay commitment fees on the unused portion of the $750.0 million revolving credit facility. The commitment fee would range from 0.20% to 0.30% depending on our consolidated leverage ratio. The 2010 credit facility was terminated and replaced by the new revolving facility (defined below) on April 2, 2012, as described below.

On August 29, 2011, we entered into a credit agreement (the new 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 new revolving facility). The term facility was used to pay a portion of the cash consideration paid in connection with the Merger, as discussed in Note 3 Changes in business, to repay existing indebtedness, and to pay related fees and expenses. Subsequent to consummation of the Merger on April 2, 2012, the new revolving facility is available for general corporate purposes and replaced our $750.0 million credit facility upon funding of the term facility on April 2, 2012. The term facility and the new revolving facility both mature on August 29, 2016. In conjunction with the funding of the Merger, we drew $400.0 million under the new revolving facility on April 2, 2012.

The new credit agreement requires us to pay interest 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 new 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 new revolving facility, depending on our consolidated leverage ratio. Under the new credit agreement, we are required to pay commitment fees on the unused portion of the $1.5 billion new revolving facility. The commitment fee ranges from 0.15% to 0.20% depending on our consolidated leverage ratio.

BRIDGE FACILITY

On August 5, 2011, we entered into a credit agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent, Citibank, N.A., as syndication agent, and the other lenders and agents named within the agreement. The credit agreement provided for a one-year unsecured $14.0 billion bridge term loan facility (the bridge facility) to be used to pay a portion of the cash consideration in connection with the Merger in the event that more favorable financing arrangements could not be secured. No amounts were withdrawn under the bridge facility, and subsequent to consummation of the Merger on April 2, 2012, we terminated the bridge facility.

SENIOR NOTES

On February 6, 2012, the Company issued $3.5 billion of Senior Notes (the February 2012 Senior Notes) in a private placement with registration rights, including:

- $1.0 billion aggregate principal amount of 2.100% Senior Notes due 2015 (February 2015 Senior Notes)
- $1.5 billion aggregate principal amount of 2.650% Senior Notes due 2017 (February 2017 Senior Notes)
- $1.0 billion aggregate principal amount of 3.900% Senior Notes due 2022 (February 2022 Senior Notes)

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

We may redeem some or all of each series of February 2012 Senior Notes prior to maturity at a price equal to the greater of (1) 100% of the aggregate principal amount of any notes being redeemed, plus accrued and unpaid interest; or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed, not including unpaid interest accrued to the redemption date, discounted to the redemption date on a semiannual basis at the treasury rate plus 30 basis points with respect to any February 2015 Senior Notes being redeemed, 35 basis points with respect to any February 2017 Senior Notes being redeemed, or 40 basis points with respect to any February 2022 Senior Notes being redeemed plus, in each case, unpaid interest on the notes being redeemed accrued to the redemption date. The February 2012 Senior Notes, issued by the Company, are jointly and severally and fully and unconditionally (subject to certain customary release provisions, including sale, exchange, transfer or liquidation of the guarantor subsidiary) guaranteed on a senior unsecured basis by ESI and most of our current and future 100% owned domestic subsidiaries, including, following the consummation of the Merger, Medco and (within 60 days following the consummation of the Merger) certain of Medco s 100% owned domestic subsidiaries.

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. At March 31, 2012, we believe we were in compliance in all material respects with all covenants associated with our credit agreements.

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Note 7 Common stock

On May 27, 2011, we entered into agreements to repurchase shares of our common stock for an aggregate purchase price of $1,750.0 million under an Accelerated Share Repurchase (ASR) agreement. The ASR agreement consists of two agreements, providing for the repurchase of shares of our common stock worth $1.0 billion and $750.0 million, respectively. Upon payment of the purchase price on May 27, 2011, we received 29.4 million shares of our common stock at a price of $59.53 per share. During 2011, we settled $1,725.0 million of the agreements and received 4.0 million additional shares. In total, we have received 33.4 million shares under the agreement through March 31, 2012.

Based on the daily volume-weighted average price of our common stock since the effective date of the agreements, the investment banks would be required to deliver 0.1 million shares to us for the $25.0 million portion of the ASR agreement that was not settled at March 31, 2012. These shares were not included in the calculation of diluted weighted average common shares outstanding during the period because their effect was anti-dilutive. On April 27, 2012, we settled the remaining portion of the ASR agreement and received 0.1 million additional shares.

The ASR agreement is accounted for as an initial treasury stock transaction and a forward stock purchase contract. The forward stock purchase contract is classified as an equity instrument under applicable accounting guidance and was deemed to have a fair value of zero at the effective date.

Upon consummation of the Merger on April 2, 2012, all ESI shares held in treasury were no longer outstanding and were cancelled and retired and ceased to exist. The Board of Directors of the Company has not yet adopted a stock repurchase program to allow for the repurchase of shares of Express Scripts.

Note 8 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, Board of 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. The maximum number of shares available for awards under the 2011 LTIP is 30 million. The maximum term of stock options, SSRs, restricted stock and performance shares granted under the 2011 LTIP is 10 years. Subsequent to the effective date of the 2011 LTIP, no additional awards 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, Board of Directors and key employees selected by the Compensation Committee of the Board of Directors.

Under ESI s stock-based compensation plans, we have issued stock options, SSRs, restricted stock awards, restricted stock units, and performance share awards. Awards are typically settled using treasury shares. Due to the nature of the awards, we use the same valuation methods and accounting treatments for SSRs and stock options. During the first quarter of 2012, we granted 3.4 million stock options with a weighted average fair market value of $15.14. The SSRs and stock options granted under both the 2000 LTIP and 2011 LTIP have three-year graded vesting.

During the first quarter of 2012, we granted to certain officers and employees approximately 0.3 million restricted stock units and performance shares with a weighted average fair market value of $53.05. The restricted stock units granted under both the 2000 LTIP and the 2011 LTIP have three-year graded vesting and the performance shares cliff vest at the end of the three years. The number of performance shares that ultimately vest is dependent upon achieving specific performance targets. Prior to vesting, these shares are subject to forfeiture to us without consideration upon termination of employment under certain circumstances. The original amount of performance share grants is subject to a multiplier of 2.5 based on certain performance metrics. During the first quarter of 2012, approximately 0.2 million additional performance shares were granted to certain officers for exceeding certain performance metrics. The total number of non-vested restricted stock and performance share awards was 1.2 million at March 31, 2012 and 1.3 million at December 31, 2011.

We recognized stock-based compensation expense of $16.2 million and $11.9 million in the three months ended March 31, 2012 and March 31, 2011, respectively. Unamortized stock-based compensation as of March 31, 2012 was $67.5 million for stock options and SSRs and $47.8 million for restricted stock and performance shares.

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 March 31, 2012	Three Months Ended March 31, 2011
Expected life of option	2-5 years	3-5 years
Risk-free interest rate	0.3%-0.9%	1.2%-2.1%
Expected volatility of stock	30%-38%	36%-39%
Expected dividend yield	None	None

Note 9 Contingencies

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.

In the ordinary course of business there have arisen various legal proceedings, investigations 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 the three months ending March 31, 2012 or 2011.

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, if any. 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.

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In December 2011, we received a proposal from a client asserting claims regarding the interpretation of certain contractual terms. We responded with an offer to settle these issues that included a lump sum payment of $30.0 million. Based on authoritative accounting guidance, as of the year ended December 31, 2011, we determined that these communications indicated that a loss is both probable and estimable and we recorded an accrual of $30.0 million as an offset to revenues in the consolidated statement of operations for the year ended December 31, 2011. While we continue to work with this client, we have determined it is still necessary to maintain an accrual of $30.0 million as of March 31, 2012. Accordingly, there has been no impact to the unaudited consolidated statement of operations for the three months ended March 31, 2012. While no final agreement has been reached on the matter, the parties are engaged in active discussions and continue to work to resolve the open issues.

Note 10 Segment information

We report segments on the basis of services offered and have determined we have two reportable segments: PBM and EM. Our domestic and Canadian PBM operating segments have similar characteristics and as such have been aggregated into a single PBM reporting segment. During the third quarter of 2011, we reorganized our FreedomFP line of business from our EM segment into our PBM segment. Historical segment information has been retrospectively adjusted to reflect the effect of this change.

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 for the three months ended March 31, 2012 and 2011.

(in millions)	PBM	EM	Total
For the three months ended March 31, 2012			
Product revenues:			
Network revenues(1)	$ 7,683.8	$	$ 7,683.8
Home delivery and specialty revenues(2)	3,980.7		3,980.7
Other revenues		371.6	371.6
Service revenues	90.1	6.4	96.5
Total revenues	11,754.6	378.0	12,132.6
Depreciation and amortization expense	63.1	1.9	65.0
Operating income	558.9	5.6	564.5
Interest income			2.3
Interest expense			(132.0)
Income before income taxes			434.8
Capital expenditures	17.6	1.1	18.7
For the three months ended March 31, 2011			
Product revenues:			
Network revenues(1)	$ 7,258.1	$	$ 7,258.1
Home delivery and specialty revenues(2)	3,462.3		3,462.3
Other revenues		295.3	295.3
Service revenues	73.5	5.3	78.8
Total revenues	10,793.9	300.6	11,094.5
Depreciation and amortization expense	60.9	2.0	62.9
Operating income	546.5	5.9	552.4
Interest income			0.4
Interest expense			(39.7)
Income before income taxes			513.1
Capital expenditures	19.1	0.4	19.5

(1) Includes retail pharmacy co-payments of $1,496.6 million and $1,526.5 million for the three months ended March 31, 2012 and 2011, respectively.

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

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The following table presents balance sheet information about our reportable segments:

(in millions)	**PBM**	**EM**	**Total**
Total Assets			
As of March 31, 2012	$ 19,103.4	$ 504.8	$ 19,608.2
As of December 31, 2011	$ 15,149.9	$ 457.1	$ 15,607.0

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. EM product revenues consist of specialty distribution activities. 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. EM service revenues include revenues from healthcare card administration.

Within our EM segment, we have initiated a strategic plan to sell a line of business. We have determined that results of operations for this line of business for both 2012 and 2011 are immaterial to both consolidated and segment results of operations, and we have therefore not presented these results separately for the current or prior period. Operating income (loss) for this line of business totaled $0.1 million and $(0.2) million for the three months ended March 31, 2012 and March 31, 2011, respectively. Total assets for this line of business were $25.8 million as of March 31, 2012. The majority of these assets represent goodwill of $12.0 million, restricted cash of $9.2 million and cash of $2.8 million. As these amounts represent less than 0.2% of total consolidated assets, the assets were not classified as held for sale within the consolidated balance sheet. We believe no impairment exists for assets held by this line of business as of March 31, 2012.

The following table shows the percentage of total revenue represented by our top five clients and clients representing 10% or greater of our consolidated revenue for each respective period:

	Three Months Ended March 31,	
	2012	**2011**
WellPoint	26.7%	29.2%
Department of Defense (DoD)	21.0%	21.7%
Other	6.6%	6.2%
Top five clients	54.3%	57.1%

Revenues earned by our Canadian PBM totaled $16.2 million and $15.4 million for the three months ended March 31, 2012 and 2011, respectively. All other revenues were earned in the United States. Long-lived assets of our Canadian PBM (consisting primarily of fixed assets) totaled $17.8 million and $17.6 million as of March 31, 2012 and December 31, 2011, respectively. All other long-lived assets are domiciled in the United States.

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Note 11 Condensed consolidating financial information

The senior notes issued by the Company and ESI 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 including Express Scripts Insurance Company. The following condensed consolidating financial information has been prepared in accordance with the requirements for presentation of such information. Certain amounts from prior periods have been reclassified to conform to current period presentation. The following presents the condensed consolidating financial information separately for:

(i) Express Scripts, Inc. (the Parent Company as of March 31, 2012), the issuer of certain guaranteed obligations (the Parent Company also guarantees the obligations of Express Scripts Holding Company);

(ii) Express Scripts Holding Company (formerly known as Aristotle Holding, Inc.), incorporated in 2011 and the issuer of additional guaranteed obligations;

(iii) Guarantor subsidiaries, on a combined basis, as specified in the indentures related to Express Scripts Inc. s and Express Scripts Holding Company s obligations under the notes;

(iv) Non-guarantor subsidiaries, on a combined basis;

(v) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate the investments in our subsidiaries and (c) record consolidating entries; and

(vi) Express Scripts, Inc. and subsidiaries on a consolidated basis.

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Condensed Consolidating Balance Sheet

(in millions)	**Express Scripts, Inc.**	**Express Scripts Holding Company**	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Consolidated**
As of March 31, 2012						
Cash and cash equivalents	$ 9,467.4	$	$ 4.7	$ 105.6	$	$ 9,577.7
Restricted cash and investments			9.2	20.8		30.0
Receivables, net	1,049.7		828.3	130.4		2,008.4
Other current assets	35.0		435.1	17.9		488.0
Total current assets	10,552.1		1,277.3	274.7		12,104.1
Property and equipment, net	284.4		102.2	18.9		405.5
Investments in subsidiaries	6,925.4				(6,925.4)	
Intercompany		7,496.3	4,294.1		(11,790.4)	
Goodwill	2,921.4		2,538.8	26.1		5,486.3
Other intangible assets, net	1,285.9	50.3	247.3	3.7		1,587.2
Other assets	23.1			2.0		25.1
Total assets	$ 21,992.3	$ 7,546.6	$ 8,459.7	$ 325.4	$ (18,715.8)	$ 19,608.2
Claims and rebates payable	$ 2,650.3	$	$	$	$	$ 2,650.3
Accounts payable	351.2		640.9	125.7		1,117.8
Accrued expenses	460.0		386.4	52.8		899.2
Current maturities of long-term debt	1,000.0					1,000.0
Total current liabilities	4,461.5		1,027.3	178.5		5,667.3
Long-term debt	2,990.5	7,546.6				10,537.1
Intercompany	11,715.3			75.1	(11,790.4)	
Other liabilities	49.5		572.6	6.2		628.3
Stockholders equity	2,775.5		6,859.8	65.6	(6,925.4)	2,775.5
Total liabilities and stockholders equity	$ 21,992.3	$ 7,546.6	$ 8,459.7	$ 325.4	$ (18,715.8)	$ 19,608.2
As of December 31, 2011						
Cash and cash equivalents	$ 5,522.2	$	$ 5.4	$ 92.5	$	$ 5,620.1
Restricted cash and investments			13.1	4.7		17.8
Receivables, net	1,289.4		592.3	34.0		1,915.7
Other current assets	33.8		453.1	17.5		504.4
Total current assets	6,845.4		1,063.9	148.7		8,058.0
Property and equipment, net	293.0		105.2	18.0		416.2
Investments in subsidiaries	6,812.6				(6,812.6)	
Intercompany		4,057.3	3,953.8		(8,011.1)	
Goodwill	2,921.4		2,538.8	25.5		5,485.7
Other intangible assets, net	1,331.4	29.2	256.8	3.5		1,620.9

Other assets	22.1		2.5	1.6		26.2
Total assets	$ 18,225.9	$ 4,086.5	$ 7,921.0	$ 197.3	$ (14,823.7)	$ 15,607.0
Claims and rebates payable	$ 2,873.5	$	$ 0.6	$	$	$ 2,874.1
Accounts payable	686.6		238.4	3.1		928.1
Accrued expenses	256.5		362.5	37.0		656.0
Current maturities of long-term debt	999.9					999.9
Total current liabilities	4,816.5		601.5	40.1		5,458.1
Long-term debt	2,989.9	4,086.5				7,076.4
Intercompany	7,899.1			112.0	(8,011.1)	
Other liabilities	46.7		546.4	5.7		598.8
Stockholders equity	2,473.7		6,773.1	39.5	(6,812.6)	2,473.7
Total liabilities and stockholders equity	$ 18,225.9	$ 4,086.5	$ 7,921.0	$ 197.3	$ (14,823.7)	$ 15,607.0

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Condensed Consolidating Statement of Operations

(in millions)	Express Scripts, Inc.	Express Scripts Holding Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
For the three months ended March 31, 2012						
Revenues	$ 7,562.4	$	$ 4,484.6	$ 85.6	$	$ 12,132.6
Operating expenses	7,219.7		4,292.6	55.8		11,568.1
Operating income (loss)	342.7		192.0	29.8		564.5
Interest expense, net	(68.2)	(59.8)	(1.1)	(0.6)		(129.7)
Income (loss) before income taxes	274.5	(59.8)	190.9	29.2		434.8
Provision (benefit) for income taxes	106.4	(23.2)	80.5	3.3		167.0
Net income (loss) from operations	168.1	(36.6)	110.4	25.9		267.8
Equity in earnings of subsidiaries	99.7				(99.7)	
Net income (loss)	267.8	(36.6)	110.4	25.9	(99.7)	267.8
Other comprehensive income, net of tax	1.6			1.6		