CVS HEALTH Corp
Form 10-K
February 14, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2017

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 001-01011

CVS HEALTH CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	05-0494040 (I.R.S. Employer Identification No.)
One CVS Drive, Woonsocket, Rhode Island (Address of principal executive offices)	02895 (Zip Code)

(401) 765-1500

(Registrant's telephone number, including area code)

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

Common Stock, par value $0.01 per share Title of each class	New York Stock Exchange Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Exchange 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 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b 2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $81,440,458,676 as of June 30, 2017, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of February 9, 2018, the registrant had 1,014,532,157 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Filings made by companies with the Securities and Exchange Commission sometimes "incorporate information by reference." This means that the company is referring you to information that was previously filed or is to be filed with the SEC, and this information is considered to be part of the filing you are reading. The following materials are incorporated by reference into this Form 10-K:

Portions of our Annual Report to Stockholders for the fiscal year ended December 31, 2017 are incorporated by reference in our response to Items 7, 8 and 9 of Part II.

Information contained in our Proxy Statement for the 2018 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

Overview

CVS Health Corporation, together with its subsidiaries (collectively, "CVS Health," the "Company," "we," "our" or "us"), is a pharmacy innovation company helping people on their path to better health. At the forefront of a changing health care landscape, the Company has an unmatched suite of capabilities and the expertise needed to drive innovations that will help shape the future of health care.

We are currently the only integrated pharmacy health care company with the ability to impact consumers, payors, and providers with innovative, channel-agnostic solutions. We have a deep understanding of their diverse needs through our unique integrated model, and we are bringing them innovative solutions that help increase access to quality care, deliver better health outcomes and lower overall health care costs.

Through more than 9,800 retail locations, more than 1,100 walk-in health care clinics, a leading pharmacy benefits manager with more than 94 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services and a leading stand-alone Medicare Part D prescription drug plan, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy® locations, to introducing unique programs to help control costs for our clients at CVS Caremark®, to innovating how care is delivered to our patients with complex conditions through CVS Specialty®, to improving pharmacy care for the senior community through Omnicare®, or by expanding access to high-quality, low-cost care at CVS MinuteClinic®.

We have three reportable segments: Pharmacy Services, Retail/LTC and Corporate.

Proposed Acquisition of Aetna

On December 3, 2017, we entered into a definitive merger agreement to acquire all of the outstanding shares of Aetna Inc. ("Aetna") for a combination of cash and stock (the "Aetna Acquisition"). Under the terms of the merger agreement, Aetna shareholders will receive $145.00 per share in cash and 0.8378 CVS Health shares for each Aetna share. The transaction values Aetna at approximately $207 per share or approximately $69 billion based on the Company's 5-day volume weighted average price ending December 1, 2017 of $74.21 per share. Including the assumption of Aetna's

debt, the total value of the transaction is approximately $77 billion. The final purchase price will be determined based on the Company's stock price on the date of closing of the transaction.

The proposed acquisition is currently projected to close in the second half of 2018 and remains subject to approval by CVS Health and Aetna shareholders and customary closing conditions, including the expiration of the waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act") and approvals of state departments of insurance and U.S. and international regulators.

Pharmacy Services Segment

The Pharmacy Services Segment provides a full range of pharmacy benefit management ("PBM") solutions, as described more fully below, to clients consisting primarily of employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans, plans offered on the public and private exchanges, other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company ("SilverScript") subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government's Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark Pharmacy Services, Caremark®, CVS Specialty®, AccordantCareTM, SilverScript®, Wellpartner®, NovoLogix®, Coram®, Navarro® Health Services and ACS Pharmacy names. As of December 31, 2017, the Pharmacy Services Segment operated 23 retail specialty pharmacy stores, 18 specialty mail order pharmacies and four mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence, located in 42 states, Puerto Rico and the District of Columbia. During the year ended December 31, 2017, our PBM filled or managed approximately 1.8 billion prescriptions on a 30-day equivalent basis.

Table of Contents

Pharmacy Services Business Strategy - Our pharmacy services business strategy centers on providing innovative tools and strategies, as well as quality client service, in order to help improve clinical outcomes for our clients' plan members while assisting them with better managing pharmacy and overall health care costs. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

In addition, as a fully integrated pharmacy services company that helps clients improve quality and lower their pharmacy costs, we offer our clients and their plan members a variety of programs and tools, including plan design offerings, that benefit from our integrated systems and the ability of our almost 36,000 pharmacists, nurses, nurse practitioners and physician assistants to interact personally with the many plan members we serve. Through our multiple member touch points (retail stores, mail order, infusion, long-term care and specialty pharmacies, retail clinics, digital resources and cost management tools), we seek to engage plan members in behaviors that help lower cost and improve health care outcomes. Examples of these programs and services include: Maintenance Choice®, a program where eligible client plan members can elect to fill their maintenance prescriptions through delivery to their home or business or at our CVS Pharmacy retail stores for the same price as mail order; Pharmacy Advisor®, a program that facilitates face-to-face and telephone counseling by our pharmacists to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; enhanced disease management programs, such as our TransformCareTM offerings, that are targeted at managing chronic disease states; Specialty Connect®, our specialty pharmacy offering that integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the convenience of picking up their prescriptions at their local CVS Pharmacy or having them delivered to their home or office and an ExtraCare® Health Card program that offers discounts to eligible plan members on certain over-the-counter health care products sold in our CVS Pharmacy stores. In addition, CVS MinuteClinic ("MinuteClinic") is an important and differentiated part of the enterprise that offers certain capabilities to PBM clients and their members. For example, we offer plan-sponsored co-pay reductions to encourage use of MinuteClinic, thereby helping to reduce emergency room visits and to lower overall health care costs. We also partner with our health plan clients sponsoring patient-centered medical homes, biometric screenings for plan members, closing gaps in care, and onsite clinics at client corporate headquarters.

PBM Services - Our PBM solutions are described more fully below.

Plan Design Offerings and Administration - We administer pharmacy benefit plans for clients who contract with us to facilitate prescription coverage and claims processing for their eligible plan members. We assist our clients in designing pharmacy benefit plans that help improve health outcomes while minimizing the costs to the client. We also assist clients in monitoring the effectiveness of their plans through frequent, informal communications, their use of our proprietary software, as well as through formal annual, quarterly and sometimes monthly performance reviews.

We make recommendations to help clients design benefit plans that promote the use of the lower cost, clinically appropriate drugs. We help our clients control costs by recommending plan designs that encourage the use of generic

equivalents of brand name drugs when such equivalents are available. Our clients also have the option, through plan design, to further lower their pharmacy benefit plan costs by setting different member payment levels for different products on their drug lists or "formularies," which helps guide members to choose lower cost alternatives through appropriate financial incentives.

Formulary Management - We utilize an independent panel of doctors, pharmacists and other medical experts, referred to as our CVS Caremark National Pharmacy and Therapeutics Committee, to review and approve the selection of drugs that meet our high standards of safety and efficacy for inclusion on one of our template formularies. Our formularies provide recommended products in numerous drug classes to help ensure member access to clinically appropriate drugs with alternatives within a class under the client's pharmacy benefit plan, while helping to drive the lowest net cost for our clients that select one of our formularies. To help improve clinical outcomes for members and clients, we conduct ongoing, independent reviews of all drugs, including, but not limited to, those appearing on the formularies and generic equivalent products. Many of our clients choose to adopt one of our template formulary offerings as part of their plan design. Beginning in 2018, clients will have new capabilities to offer real time benefits information for a member's specific plan design, provided digitally at the point of prescribing, at the pharmacy and directly to members.

Table of Contents

Medicare Part D Services - We participate in the administration of the drug benefit added to the Medicare program under Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (“MMA”) through the provision of PBM services to those of our health plan clients and other clients that have qualified as a Medicare Part D prescription drug plans (“PDP”) or as a Medicare Advantage prescription drug plan (“MA-PD”) and by offering Medicare Part D pharmacy benefits through SilverScript, a PDP that has contracted with the United States Centers for Medicare and Medicaid Services (“CMS”). We also assist employer, union and other health plan clients that qualify for the retiree drug subsidy made available under the MMA by collecting and submitting eligibility and/or drug cost data to CMS in order for them to obtain the subsidy and offer Medicare Part D pharmacy benefits to such clients' retirees through SilverScript-sponsored Employer Group Waiver Plans (“EGWPs”).

Mail Order Pharmacy - As of December 31, 2017, we operated four mail order dispensing pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet. We also operate a network of smaller mail order specialty pharmacies described below. Our staff pharmacists review mail order prescriptions and refill requests with the assistance of our prescription management systems. This review may involve communications with the prescriber and, with the prescriber’s approval when required, can result in generic substitution, therapeutic interchange or other actions designed to help reduce cost and/or improve quality of treatment. These pharmacies have been awarded Mail Order Pharmacy accreditation from Utilization Review Accreditation Commission (“URAC”), a Washington DC-based health care accrediting organization that establishes quality standards for the health care industry.

Specialty Pharmacy - Our specialty pharmacies support individuals who require complex and expensive drug therapies. As of December 31, 2017, our specialty pharmacy operations included 18 specialty mail order pharmacies located throughout the United States, including Puerto Rico, that are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. These pharmacies have also been awarded Specialty Pharmacy accreditation from URAC. As of December 31, 2017, the Company operated a network of 23 retail specialty pharmacy stores, which operate under the CVS Pharmacy specialty services and Navarro® Health Services names. These stores average 1,100 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins. Our care management program, AccordantCare, is a differentiated clinical model that focuses on whole patient care, including comorbidity management. It embeds specially trained nurses into the CVS Specialty CareTeam for members who fill their specialty medications through CVS Specialty helping deliver better care and improved outcomes. Through our affiliate Coram LLC and its subsidiaries (collectively, “Coram”), one of the nation’s largest providers of comprehensive infusion services, we care for approximately 165,000 patients annually, providing specialty infusion and enteral nutrition services. Our Specialty Connect® offering integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the convenience of picking-up their prescriptions at their local CVS Pharmacy, or having them delivered to their preferred address. Whether submitted through our specialty mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through our specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy, or have it sent to their home through the mail. Specialty Connect is available where allowed by law. Innovative digital tools for specialty pharmacy provide a more accessible, connected, and personal health experience. Members can manage all their specialty medications in real-time using the CVS Specialty app and more than 60 percent have opted in to receive email and text messages including refill reminders and order status. Patients can also use secure messaging to contact their Specialty CareTeam with any questions. Additionally, with the acquisition of

Omnicare, Inc. (“Omnicare”), we expanded our specialty pharmacy to include the specialty pharmacy operations of Omnicare which operates under the name ACS Pharmacy.

Retail Pharmacy Network Management - We maintain a national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy locations) and 27,000 independent pharmacies, in the United States, including Puerto Rico, the District of Columbia, Guam and the U.S. Virgin Islands. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to us from the point-of-sale. This data interfaces with our proprietary prescription management systems, which verify relevant plan member data and eligibility, while also performing a drug utilization review to help evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription. We are also able to build client-specific networks and managed network solutions to further drive savings for our clients. These include a performance-based pharmacy network with approximately 30,000 stores that will be anchored by CVS Pharmacy and Walgreens, along with up to 10,000 community-based, independently owned pharmacies across the United States. The network is designed to deliver unit cost savings and to improve clinical outcomes that will help to lower overall health

Table of Contents

care costs for participating payors and their members. This network will be available beginning March 2018 to eligible commercial and Medicaid clients.

Prescription Management Systems - We dispense prescription drugs both directly, through one of our mail order or specialty pharmacies, or through a network of retail pharmacies, described above. All prescriptions processed through our systems, whether they are filled through one of our mail order or specialty dispensing pharmacies or through a pharmacy in our retail network, are analyzed, processed and documented by our proprietary prescription management systems. These systems provide essential features and functionality to allow a plan member to use their prescription drug benefit. These systems also streamline the process by which prescriptions are processed by staff and network pharmacists, by enhancing review of various items through automation, including, but not limited to, plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

Clinical Services - We offer multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. Our programs are primarily designed to promote good health outcomes, and to help target inappropriate utilization and non-adherence to medication, each of which may result in adverse medical events that negatively impact member health and client pharmacy and medical spend. In this regard, we offer various utilization management (“UM”), medication management, quality assurance, adherence and counseling programs to complement the client’s plan design and clinical strategies. To help address the opioid epidemic, we introduced an industry-leading UM approach that limits to seven days the supply of opioids dispensed for certain acute prescriptions for patients who are new to therapy; limits the daily dosage of opioids dispensed based on the strength of the opioid; and requires the use of immediate-release formulations of opioids before extended-release opioids are dispensed. To support improved adherence, our Pharmacy Advisor program facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions. We also have digital connectivity that helps to lower drug costs for patients by providing expanded visibility to lower cost alternatives through enhanced analytics and data sharing.

Disease Management Programs - Our clinical services utilize advanced protocols and offer clients convenience in working with health care providers and other third parties. Our AccordantCare programs include integrated rare disease management programs, which cover diseases such as rheumatoid arthritis, Parkinson’s disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance (“NCQA”), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations. They have also been awarded Case Management accreditation from URAC.

Medical Benefit Management - We offer a technology platform, NovoLogix®, an online preauthorization tool that helps identify and capture cost savings opportunities for specialty drugs billed under the medical benefit by identifying outliers to appropriate dosages and costs, and helps to ensure clinically appropriate use of these drugs.

Pharmacy Services Information Systems - We currently operate and support a small number of claim adjudication platforms to support our Pharmacy Services Segment. However, the majority of our clients have migrated to one platform. These information systems incorporate architecture that centralizes the data generated from filling mail order prescriptions, adjudicating retail pharmacy claims and delivering other solutions to our PBM clients. Our Health Engagement Engine® technology and proprietary clinical algorithms help connect the various parts of the enterprise and serves an essential role in cost management and health improvement. This capability responsibly transforms pharmacy data into actionable interventions at key points of care such as our mail and specialty pharmacists to help provide quality care, and our enterprise digital strategy and integrated digital offerings help patients seamlessly manage mail, specialty and retail prescriptions.

Pharmacy Services Clients - Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans and plans offered on public and private exchanges, other sponsors of health benefit plans and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems, among other things, to help perform safety checks, drug interaction screening and identify opportunities for generic substitution. We generate substantially all of our Pharmacy Services Segment net revenue from dispensing and managing prescription drugs to eligible members in benefit plans maintained by our clients. In 2017, 2016 and 2015, net revenues from Aetna accounted for approximately 12.3%, 11.7% and 10.0%, respectively, of our consolidated net revenues.

Table of Contents

Pharmacy Services Seasonality - The majority of our Pharmacy Services Segment revenues are not seasonal in nature. However, our quarterly earnings and operating cash flows are impacted by the Medicare Part D benefit design and changes in the composition of our membership. The Medicare Part D standard benefit design results in coverage that varies with a member's cumulative annual out-of-pocket costs. The benefit design generally results in plan sponsors sharing a greater portion of the responsibility for total prescription drug costs in the early part of the year. As a result, the PDP pay percentage or benefit ratio generally decreases and operating profit generally increases as the year progresses.

Pharmacy Services Competition - We believe the primary competitive factors in the industry include: (i) the ability to negotiate favorable discounts from drug manufacturers as well as to negotiate favorable discounts from, and access to, retail pharmacy networks; (ii) the ability to identify and apply effective cost management programs utilizing clinical strategies including the development and utilization of preferred formularies; (iii) the ability to market PBM products and services; (iv) the commitment to provide flexible, clinically-oriented services to clients and be responsive to clients' needs; (v) the quality, scope and costs of products and services offered to clients and their members including satisfaction of experience; and (vi) operational excellence in delivering services. The Pharmacy Services Segment has a significant number of competitors (e.g., Express Scripts, OptumRx, Prime Therapeutics, MedImpact, and Humana) offering PBM services including large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs.

Retail/LTC Segment

As of December 31, 2017, the Retail/LTC Segment included 9,803 retail locations (of which 8,060 were our stores that operated a pharmacy and 1,695 were our pharmacies located within Target Corporation ("Target") stores), our online retail pharmacy websites, CVS.com®, Navarro.comTM and Onofre.com.brTM, 37 onsite pharmacy stores, our long-term care pharmacy operations and our retail health care clinics. The retail locations are in 49 states, the District of Columbia, Puerto Rico and Brazil, operating primarily under the CVS Pharmacy®, CVS®, CVS Pharmacy y más®, Longs Drugs®, Navarro Discount Pharmacy® and Drogaria OnofreTM names. Including the pharmacies within Target, we currently operate in all of the top 100 United States drugstore markets. Existing retail stores range in size from approximately 5,000 to 30,000 square feet, although most new stores range in size from approximately 11,000 to 15,000 square feet and typically include a drive-thru pharmacy. The pharmacies within Target stores range in size from approximately 450 to 1,100 square feet. During 2017, our Retail/LTC Segment filled approximately 1.2 billion prescriptions (counting 90-day prescriptions as three prescriptions), and we held approximately 23.6% of the United States retail pharmacy market.

Our acquisition of Omnicare broadened our base of pharmacy care to an additional dispensing channel, long-term care pharmacy. Omnicare's LTC operations include the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare also provided commercialization services under the name RxCrossroads until January 2, 2018, when we completed the sale of RxCrossroads. LTC is comprised of 145 spoke pharmacies that primarily handle new prescription orders, of which 30 are also hub

pharmacies that use automation to support spoke pharmacies with refill prescriptions. LTC primarily operates under the Omnicare® and NeighborCare® names. With the addition of the LTC operations, we are continuing to enhance our service offerings to further address the needs of an aging population throughout the continuum of senior care.

Retail Pharmacy Business Strategy - Our integrated pharmacy services model has enhanced the ability of our retail pharmacy stores to expand customer access to care while helping to lower overall health care costs and improve health outcomes. In that regard, the role of our retail pharmacist is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care and recommending more cost effective drug therapies. We also provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience. One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We are continuing to leverage digital to empower our customers and patients by making the full breadth of health care and pharmacy services available to them anytime, anywhere. We are continuing to introduce digital tools to make it easier for people to save time and money and to live healthier lives. In 2017, we rolled out CVS Pay® nationwide, an end-to-end mobile payment solution that integrates payment, prescription pick-up and our ExtraCare® loyalty program into one spot at checkout. We believe that continuing to innovate with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences is very important to our ability to continue to improve customer satisfaction.

Table of Contents

Retail/LTC Products and Services - A typical retail store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and proprietary brand merchandise. Front store categories include over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing services, seasonal merchandise and greeting cards. The pharmacies within Target stores sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. The LTC operations include distribution of pharmaceuticals and related consulting and ancillary services. We purchase our merchandise from numerous manufacturers and distributors. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not likely have a material effect on the business. Our clinics offer a variety of health care services by nurse practitioners and physician assistants.

Retail/LTC net revenues by major product group are as follows:

	Percentage of Net Revenues		
	2017	2016	2015
Pharmacy (1)	75.0 %	75.0 %	72.9 %
Front store and other (2)	25.0	25.0	27.1
	100.0 %	100.0 %	100.0 %

(1) Pharmacy includes LTC sales and sales in pharmacies within Target stores.
(2) “Other” represents less than 5% of the “Front store and other” net revenue category.

Pharmacy - Pharmacy revenues represented approximately three-fourths of the Retail Pharmacy Segment revenues in each of 2017, 2016 and 2015. We believe that our retail pharmacy operations will continue to represent a critical part of our business due to industry demographics, e.g., an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness, the introduction of new pharmaceutical products, and Medicare Part D. We believe our retail pharmacy business benefits from our investment in both people and technology, as well as our innovative partnerships with health plans, PBMs and providers. Given the nature of prescriptions, people want their prescriptions filled accurately by professional pharmacists using the latest tools and technology, and ready when promised. Consumers need medication management programs and better information to help them get the most out of their health care dollars. To assist our customers with these needs, we have introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging them in behaviors that can help lower costs, improve health, and save lives. Examples include: our Patient Care Initiative, an enhanced medication adherence program; Maintenance Choice®, a program where eligible client plan members can elect to fill their maintenance prescriptions through delivery to their home or business or at our CVS Pharmacy retail stores for the same price as mail order; Pharmacy Advisor®, our program that facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; Specialty Connect®, which integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the convenience of picking-up their prescriptions at their local CVS Pharmacy, or having them delivered to their preferred address; ScriptSync®, a service that enables patients

with multiple medications to pick up their eligible maintenance prescriptions in a single monthly CVS Pharmacy visit; ScriptPath™ Prescription Schedule, a new capability for CVS Pharmacy patients, who manage multiple prescription medications, which features all of a patient's current CVS Pharmacy prescription information in one place – including which medications the patient takes, when the patient should take them and how much of each medication should be taken in each dose; and HealthTag®, an integrated communications platform that can be leveraged to communicate healthcare opportunities to members that provides unmatched ability to reach and connect with members as well as industry-leading data integration to improve coordination of member care. Each of these are programs that demonstrate our ability to enhance the customer experience through our integrated enterprise products and services. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that helps check for harmful interactions between prescription drugs and patient identified over-the-counter products, vitamins and herbal remedies; RxConnect, our proprietary pharmacy system that integrates our product delivery and clinical workflows as well as advanced patient safety functionality such as drug utilization review; our prescription refill program, ReadyFill®; and our online retail businesses, CVS.com, Navarro.com and Onofre.com.br. Our Health Engagement Engine enables patient-specific opportunities to be prioritized and delivered at each key moment of care relevant to that specific patient. In December 2015, we expanded our pharmacy offering with the acquisition of the

Table of Contents

pharmacies within Target stores. We offer all the same pharmacy services available in our retail drugstores and online at our pharmacies within Target stores.

Front Store - Front store revenues benefited from our strategy to innovate with new and unique products and services, using innovative personalized marketing and adjusting our mix of merchandise to match our customers' needs and preferences. A key component of our front store strategy is our ExtraCare® card program, which is helping us continue to build our loyal customer base. The ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. The ExtraCare program allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks® rewards and other benefits. We continue to launch and enhance new and exclusive brands to create unmatched offerings in beauty. Another component of our front store strategy is our unique product offerings, which include a full range of high-quality CVS Pharmacy® and proprietary brand products that are only available through CVS Pharmacy stores. We currently carry approximately 7,000 CVS Pharmacy and proprietary brand products, which accounted for approximately 23% of our front store revenues during 2017. These products include expanded offerings of healthy foods and vitamins. Furthermore, we are tailoring certain groups of stores, such as suburban area stores, to better meet the needs of our customers.

MinuteClinic - As of December 31, 2017, we operated 1,134 MinuteClinic® locations in 33 states and the District of Columbia, of which 1,050 were located in our retail pharmacy stores, and 79 were located in Target stores. We opened 15 new clinics during 2017. Our clinics are staffed by nurse practitioners and physician assistants who utilize nationally established guidelines to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, provide wellness services and deliver vaccinations. Payors value our clinics because they provide convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to more expensive sites of care. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 91% of MinuteClinic's total revenues in 2017. MinuteClinic is collaborating with our Pharmacy Services Segment to help meet the needs of CVS Caremark's client plan members by offering programs that can improve member health and lower costs. MinuteClinic is now affiliated with more than 75 major health systems and continues to build a platform that supports primary care.

Long-term Care - Through our Omnicare business, we provide the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare's customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. We provide pharmacy consulting, including monthly patient drug therapy evaluations, assist in compliance with state and federal regulations and provide proprietary clinical and health management programs. We also provide pharmaceutical case management services for retirees, employees and dependents who have drug benefits under corporate-sponsored health care programs.

Onsite Pharmacies - We also operate a limited number of small pharmacies located at client sites, typically under the CarePlus®, CarePlus CVS Pharmacy® or CVS Pharmacy® name, which provide certain health plan members and customers with a convenient alternative for filling their prescriptions.

Retail Pharmacy Drugstore Development - The addition of new stores has played, and will continue to play, a key role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient sites. During 2017, we opened 175 new retail locations, relocated 30 stores and closed 81 locations. During the last five years, we opened approximately 1,000 new and relocated locations, and acquired 1,880 locations including the pharmacies acquired from Target. We believe that continuing to grow our store base and locating stores in more accessible markets are essential components to compete effectively in the current health care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position given the changing health care landscape and to meet the increasing needs of our customers.

Retail/LTC Information Systems - We have continued to invest in information systems to enable us to deliver exceptional customer service, enhance safety and quality, and expand our patient care services while lowering operating costs. Our proprietary WeCARE Workflow supports our pharmacy teams by prioritizing work to meet customer expectations, facilitating prescriber outreach, and seamlessly integrating our clinical programs. This solution delivers improved efficiency and enhances the customer experience, as well as providing a framework to accommodate the evolution of pharmacy practice and the expansion of our clinical programs. Our Health Engagement Engine technology and proprietary clinical algorithms enable us to help identify opportunities for our pharmacists to deliver face-to-face

Table of Contents

counseling regarding patient health and safety matters, including adherence issues, gaps in care and management of certain chronic health conditions. Our digital strategy empowers the consumer to navigate their pharmacy experience and manage their condition through our on-line and mobile tools that offer utility and convenience. This includes the ability to schedule an appointment at MinuteClinic, get next-in line alerts or health reminders and appointment updates via text messages. Our integrated digital offerings help patients seamlessly manage retail, mail and specialty prescriptions dispensed by a CVS Pharmacy or LTC location and enhance front store personalization to drive value for customers. We continue to experience strong adoption of our digital solutions with our mobile app receiving critical acclaim for ease of use and our text message program experiencing significant growth. LTC's digital technology suite, Omniview®, improves the efficiency of customers' operations with tools that include executive dashboards, pre-admission pricing, electronic ordering of prescription refills, proof-of-delivery tracking, access to patient profiles, receipt and management of facility bills, and real-time validation of Medicare Part D coverage, among other capabilities.

Retail/LTC Customers - The success of our retail drugstore and LTC businesses is dependent upon our ability to establish and maintain contractual relationships with pharmacy benefit managers and other payors on acceptable terms. Pharmacy benefit managers, managed care organizations, government-funded health care programs, commercial employers and other third party payors accounted for 99.2% of our 2017 pharmacy revenues. No single Retail/LTC payor accounts for 10% or more of our annual consolidated net revenues.

Retail/LTC Seasonality - The majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature. However, retail front store revenues tend to be higher during the December holiday season. In addition, both pharmacy and retail front store revenues are affected by the timing and severity of the cough, cold and flu season. For additional information, we refer you to "Risks related to the seasonality of our business" in Item 1A. Risk Factors.

Retail/LTC Competition - The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety, and (iv) price. In the markets we serve, we compete with other drugstore chains (e.g., Walgreens and Rite Aid), supermarkets, discount retailers (e.g., Wal-Mart), independent pharmacies, restrictive pharmacy networks, membership clubs, Internet companies, and retail health clinics (including urgent care centers), as well as other mail order pharmacies.

LTC pharmaceutical services are highly regional or local in nature and within a given geographic area of operation, highly competitive. Our largest competitor nationally is PharMerica. We also compete with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Some states have enacted "freedom of choice" or "any willing provider" requirements as part of their state Medicaid programs or in separate legislation, which may increase the competition that we face in providing services to long-term care facility residents in these states.

Corporate Segment

Our Corporate Segment provides management and administrative services to support the overall operations of the Company. The Corporate Segment consists of certain aspects of our executive management, corporate relations, legal, compliance, human resources, information technology and finance departments.

Generic Sourcing Venture

The Company and Cardinal Health, Inc. (“Cardinal”) each have a 50% ownership in Red Oak Sourcing, LLC (“Red Oak”), a generic pharmaceutical sourcing entity. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company.

Working Capital Practices

We fund the growth of our business through a combination of cash flow from operations, commercial paper and other short-term borrowings, proceeds from sale-leaseback transactions and long-term borrowings. For additional information on our working capital practices, we refer you to the caption “Management’s Discussion and Analysis - Liquidity and Capital Resources” in our Annual Report to Stockholders for the year ended December 31, 2017, which section is

Table of Contents

incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, or with debit or credit cards. Managed care organizations, pharmacy benefit managers, government-funded health care programs, commercial employers and other third party insurance programs, which represent the vast majority of our consolidated pharmacy revenues, typically settle in less than 30 days. With the exception of our Medicare Part D services, the remainder of our consolidated pharmacy revenues are paid in cash, or with debit or credit cards. As a provider of Medicare Part D services, we contract annually with CMS. Utilization of services each plan year results in the accumulation of either a receivable from or a payable to CMS. The timing of settlement of the receivable or payable with CMS takes several quarters which impacts our working capital from year to year.

Colleague Development

As of December 31, 2017, we employed approximately 246,000 colleagues in 50 states, the District of Columbia, Puerto Rico and Brazil, which included approximately 36,000 pharmacists, nurses, nurse practitioners and physician assistants. The total included approximately 86,000 part-time colleagues who work less than 30 hours per week. To deliver the highest levels of service to our customers, we devote considerable time and attention to our people and service standards. We emphasize attracting and training knowledgeable, friendly and helpful associates to work in our organization.

Intellectual Property

We have registered and/or applied to register a variety of our trademarks and service marks used throughout our business, as well as domain names, and rely on a combination of copyright, patent, trademark and trade secret laws, in addition to contractual restrictions, to establish and protect our proprietary rights. We regard our intellectual property as having significant value in our Pharmacy Services and Retail/LTC segments. We are not aware of any facts that could materially impact our continuing use of any of our intellectual property.

Government Regulation

Overview - Much of our business is subject to federal and state laws and regulations. In addition, many of our PBM clients and our payors in the Retail/LTC Segment, including insurers, Medicare Part D plans, Managed Medicaid plans and managed care organizations (“MCOs”), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. Similarly, our LTC clients, such as skilled nursing facilities, are subject to government regulations, including many of the same government regulations to which we are subject. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty. Further, there are numerous proposed health care laws and regulations at the federal and state levels, some of which could adversely affect our business if they are enacted. We are unable to predict what federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or

the health care industry in general, or what effect any such legislation or regulations might have on our business. Any failure or alleged failure to comply with applicable laws and regulations as summarized below, or any adverse applications of, or changes in, the laws and regulations affecting our business, could have a material adverse effect on our operating results and/or financial condition. See Item 3, “Legal Proceedings” for further information.

Although we believe that we are in material compliance with existing laws and regulations applicable to our various business lines, we cannot give any assurances that our business, financial condition and results of operations will not be materially adversely affected, or that we will not be required to materially change our business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, including the laws and regulations described in this Government Regulation section, as they may relate to our business, the pharmacy services, retail pharmacy, long-term care or retail clinic industry or to the health care industry generally; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services, retail pharmacy, long-term care or retail clinic industry or of the health care industry generally; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending qui tam lawsuit against us, whether sealed or unsealed, or in any future qui tam lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services, retail pharmacy, long-term care or retail clinic industry or the health care industry generally.

Table of Contents

Laws and Regulations Related to Each Operating Segment of Our Business

Laws Related to Reimbursement by Government Programs - We are subject to various state and federal laws concerning our submission of claims for reimbursement by Medicare, Medicaid and other government-sponsored health care programs. Potential sanctions for violating these laws include recoupment or reduction of government reimbursement amounts, civil penalties, multiples damages, and exclusion from participation in government health care programs. Such laws include the federal False Claims Act ("FCA"), the federal Anti-Kickback statute, various state false claims acts and anti-kickback statutes, the federal "Stark Law" and related state laws. In particular, the FCA prohibits intentionally submitting, conspiring to submit, or causing to be submitted, false claims, records, or statements to the federal government, or intentionally failing to return overpayments, in connection with reimbursement by federal government programs. As part of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"), the federal Anti-Kickback Statute was amended in 2010 to provide that any claim for government reimbursement violates the FCA where it results from a violation of the Anti-Kickback Statute. Most states have enacted false claims laws analogous to the FCA, and both federal and state false claims laws permit private individuals to file qui tam or "whistleblower" lawsuits on behalf of the federal or state government. Further, the federal Stark Law generally prohibits physicians from referring Medicare or Medicaid beneficiaries for certain services, including outpatient prescription drugs, to any entity with which the physician, or an immediate family member of the physician, has a financial relationship. The Stark Law further prohibits the entity receiving a prohibited referral from presenting a claim for reimbursement by Medicare or Medicaid for services furnished pursuant to the prohibited referral. Various states have enacted similar laws.

Anti-Remuneration Laws - Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and "safe harbors," any remuneration to induce the referral of individuals or the purchase, lease or order of items or services for which payment may be made under Medicare, Medicaid or certain other federal health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other government-sponsored health care programs.

Antitrust and Unfair Competition - The Federal Trade Commission ("FTC") has authority under Section 5 of the Federal Trade Commission Act ("FTCA") to investigate and prosecute practices that are "unfair trade practices" or "unfair methods of competition." Numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies and/or PBMs under various state and federal antitrust and unfair competition laws challenging, among other things: (i) brand drug pricing practices of pharmaceutical manufacturers, (ii) the maintenance of retail or specialty pharmacy networks by PBMs, and (iii) various other business practices of PBMs and retail pharmacies. To the extent that we appear to have actual or potential market power in a relevant market or CVS Pharmacy or CVS Specialty plays a unique or expanded role in a PBM product offering, our business arrangements and uses of confidential information may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties.

Privacy and Confidentiality Requirements - Many of our activities involve the receipt, use and disclosure by us of personally identifiable information ("PII") as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes when permitted. Additionally, there are industry standards for handling credit card data known as the Payment Card Industry Data Security Standard, which are a set of requirements designed to help ensure that entities that process, store or transmit credit card information maintain a secure environment. Certain states have recently incorporated these requirements into state laws.

The federal Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively, "HIPAA") impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as "covered entities") and their business associates use, disclose and safeguard protected health information ("PHI"). Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. The Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of the American Recovery and Reinvestment Act of 2009, amended HIPAA to impose additional restrictions on third-party funded communications using PHI and the receipt of remuneration in exchange for PHI. It also extended HIPAA privacy and security requirements and penalties directly to business associates. In addition to HIPAA, state health privacy laws apply to the extent they are more protective of individual privacy than is HIPAA.

Table of Contents

Finally, the Health Insurance Marketplaces (formerly known as the "exchanges") are required to adhere to privacy and security standards with respect to PII, and to impose privacy and security standards that are at least as protective of PII as those the Health Insurance Marketplace has implemented for itself or non-Health Insurance Marketplace entities, which include insurers offering plans through the Health Insurance Marketplaces and their designated downstream entities, including PBMs and other business associates. These standards may differ from, and be more stringent than, HIPAA.

Consumer Protection Laws - The federal government has many consumer protection laws, such as the FTCA, the Federal Postal Service Act and the FTC's Telemarketing Sales Rule. Most states also have similar consumer protection laws. These laws have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, the marketing of loyalty programs and health care services, pricing accuracy, expired front store products, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs and disclosures related to how personal data is used and protected.

Government Agreements and Mandates - The Company and/or its various affiliates are subject to certain consent decrees, settlement agreements, corrective action plans and corporate integrity agreements with various federal, state and local authorities relating to such matters as privacy practices, controlled substances, Medicare Part D prescription drug plans, expired products, environmental and safety matters, marketing and advertising practices, PBM, long term care and pharmacy operations and various other business practices. These agreements may contain certain ongoing reporting, monitoring or other compliance requirements for the Company. Failure to meet the Company's obligations under these agreements could result in civil or criminal remedies, financial penalties, administrative remedies, and/or exclusion from participation in federal health care programs.

Environmental and Safety Regulation - Our business is subject to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment, public health and employee safety, including, for example, regulations governing the management of hazardous substances, the cleaning up of contaminated sites, and the maintenance of safe working conditions in our stores, distribution centers and other facilities. Governmental agencies on the federal, state and local levels have, in recent years, increasingly focused on the retail and health care sectors' compliance with such laws and regulations, and have at times pursued enforcement activities. Any failure to comply with these regulations could result in fines or other sanctions by government authorities.

Health Reform Legislation - Passed in 2010, ACA affects virtually every aspect of health care in the country. In addition to establishing the framework for every individual to have health coverage, ACA enacted a number of significant health care reforms. Many of these reforms affect the coverage and plan designs that are provided by our health plan clients. As a result, these reforms impact a number of our services and business practices. Some significant ACA provisions are still being finalized (e.g., implementation of the excise tax on high-cost employer-sponsored health coverage has been delayed by Congress) and parts of ACA may still face potential Congressional changes, so the full impact of ACA on our Company is still uncertain.

Pharmacy and Professional Licensure and Regulation - We are subject to a variety of intersecting state and federal statutes and regulations that govern the wholesale distribution of drugs; operation of retail, specialty, infusion, LTC and mail order pharmacies; licensure of facilities and professionals, including pharmacists, technicians and nurses; registration of facilities with the United States Drug Enforcement Administration ("DEA") and analogous state agencies that regulate controlled substances; packaging, storing, shipping and tracking of pharmaceuticals; repackaging of drug products; labeling, medication guides and other consumer disclosures; interactions with prescribers and health care professionals; compounding of prescription medications; dispensing of controlled and non-controlled substances; counseling of patients; transfers of prescriptions; advertisement of prescription products and pharmacy services; security; inventory control; recordkeeping; reporting to Boards of Pharmacy, the United States Food and Drug Administration ("FDA"), the Consumer Product Safety Commission, the DEA and related state agencies; and other elements of pharmacy practice. Pharmacies are highly regulated and have contact with a wide variety of local, state and federal agencies, with various powers to investigate, inspect, audit or solicit information, including Boards of Pharmacy and Nursing, the DEA, the FDA, the United States Department of Justice, the United States Department of Health and Human Services ("HHS") and others. Many of these agencies have broad enforcement powers, conduct audits on a regular basis, can impose substantial fines and penalties, and may revoke the license, registration or program enrollment of a facility or professional.

Table of Contents

Telemarketing and Other Outbound Contacts - Certain federal and state laws, such as the Telephone Consumer Protection Act, give the FTC, Federal Communications Commission ("FCC") and state attorneys general the ability to regulate, and bring enforcement actions relating to, telemarketing practices and certain automated outbound contacts such as phone calls, texts or emails. Under certain circumstances, these laws may provide consumers with a private right of action. Violations of these laws could result in substantial statutory penalties and other sanctions.

Laws and Regulations Related to Our Pharmacy Services Segment

In addition to the laws and regulations discussed above that may affect our business as a whole, we are subject to federal, state and local statutes and regulations governing the operation of our Pharmacy Services Segment specifically. Among these are the following:

PBM Laws and Regulation - Legislation seeking to regulate PBM activities in a comprehensive manner has been introduced or enacted in a number of states. This legislation could adversely impact our ability to conduct business on commercially reasonable terms in states where the legislation is in effect.

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as NCQA and URAC may establish voluntary standards regarding PBM, mail or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact our health plan clients and/or the services we provide to them.

Medicare Part D - The Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers, regulates all aspects of the provision of Medicare drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. The Medicare Part D program has undergone significant legislative and regulatory changes since its inception, and continues to attract a high degree of legislative and regulatory scrutiny. The applicable government rules and regulations continue to evolve. CMS has imposed restrictions and issued new requirements to protect Medicare Part D beneficiaries and has used its authority to sanction and impose civil monetary penalties on plans for non-compliance.

Network Access Legislation - Medicare Part D and a majority of states now have some form of legislation affecting the ability to limit access to a pharmacy provider network or remove network providers. For example, certain "any willing provider" legislation may require us or our clients to admit a non-participating pharmacy if such pharmacy is willing and able to meet the plan's price and other applicable terms and conditions for network participation. These

laws could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

Also, a majority of states now have some form of legislation affecting our ability (and the health plans' ability) to conduct audits of network pharmacies regarding claims submitted to us for payment. These laws could negatively impact our ability to recover overpayments in health care payments stemming from pharmacy audits. Lastly, several states have passed legislation regulating our ability to manage and establish maximum allowable costs ("MAC") for generic prescription drugs. MAC methodology is a common cost management practice used by private and public payors (including CMS) to pay pharmacies for dispensing generic prescription drugs. MAC prices specify the allowable reimbursement by a PBM for a particular strength and dosage of a generic drug that is available from multiple manufacturers but sold at different prices. State legislation can regulate the disclosure of MAC prices and MAC price methodologies, the kinds of drugs that a PBM can pay at a MAC price, and the rights of pharmacies to appeal a MAC price established by a PBM. These laws could negatively impact our ability to establish MAC prices for generic drugs.

Contract Audits - We are subject to audits of many of our contracts, including our PBM client contracts, our PBM rebate contracts, our PBM network contracts, our contracts relating to Medicare Part D and the agreements our pharmacies enter into with other payors. Because some of our contracts are with state or federal governments or with entities contracted with state or federal agencies, audits of these agreements are often regulated by the federal or state agencies responsible for administering federal or state benefits programs, including those which operate Medicaid fee for service plans, Managed Medicaid plans, Medicare Part D plans or Medicare Advantage organizations.

Table of Contents

Federal Employee Health Benefits Program - We have a contractual arrangement with carriers for the Federal Employee Health Benefits ("FEHB") Program, such as the BlueCross BlueShield Association, to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the FEHB Act and as part of the FEHB Program. These arrangements subjects us to certain aspects of FEHB Act, and other federal regulations, such as the FEHB Acquisition Regulation, that otherwise are not applicable to us.

State Insurance Laws - PDPs and our PBM service contracts, including those in which we assume certain risks under performance guarantees or similar arrangements, are generally not subject to insurance regulation by the states. However, state departments of insurance are increasing their oversight of PBM activities due to legislation passing in several states requiring PBMs to register or obtain a license with the department. Rulemaking is either underway or has already taken place in a few states with the areas of focus on licensure requirements, pharmacy reimbursement for generics (MAC reimbursement) and pharmacy audits - most of which fall under the state insurance code. Additionally, some states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties.

As a PDP, SilverScript is subject to state insurance laws limited to licensure and solvency. In addition, PBM offerings of prescription drug coverage under certain risk arrangements may be subject to laws and regulations in various states. Such laws may require that the party at risk become licensed as an insurer, establish reserves or otherwise demonstrate financial viability. Laws that may apply in such cases include insurance laws and laws governing MCOs and limited prepaid health service plans.

ERISA Regulation - The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), provides for comprehensive federal regulation of certain employee pension and benefit plans, including private employer and union sponsored health plans and certain other plans that contract with us to provide PBM services. In general, we assist plan sponsors in the administration of the prescription drug portion of their health benefit plans in accordance with the plan designs adopted by the plan sponsors. We do not believe that the conduct of our business subjects us to the fiduciary obligations of ERISA, except when we have specifically contracted with a plan sponsor to accept limited fiduciary responsibility, such as for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan, and with respect to the Contraceptive Coverage Mandate, one of the health reforms presently included in ACA.

In addition to its fiduciary provisions, ERISA 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 broadly written and their application to specific business practices is often uncertain.

Formulary and Plan Design Regulation - A number of government entities regulate the administration of prescription drug benefits. HHS regulates how Medicare Part D formularies are developed and administered, including requiring

the inclusion of all drugs in certain classes and categories, subject to limited exceptions. Under ACA, CMS imposes drug coverage requirements for health plans required to cover essential health benefits, including plans offered through federal or state exchanges. Additionally, NAIC and health care accreditation agencies like NCQA and URAC have developed model acts and standards for formulary development that are often incorporated into government requirements. Many states regulate the scope of prescription drug coverage, as well as the delivery channels to receive such prescriptions, for insurers, MCOs and Medicaid managed care plans. The increasing government regulation of formularies could significantly affect our ability to develop and administer formularies, networks and other plan design features on behalf of our insurer, MCO and other clients. Similarly, some states prohibit health plan sponsors from implementing certain restrictive design features. This regulation could limit or preclude (i) limited networks, (ii) a requirement to use particular providers, (iii) copayment differentials among providers and (iv) formulary tiering practices.

Managed Care Reform - In addition to health reforms enacted by ACA, proposed legislation has been considered at the state level, and legislation has been enacted in several states, aimed primarily at providing additional rights and access to drugs to individuals enrolled in managed care plans. This legislation may impact the design and implementation of prescription drug benefit plans sponsored by our PBM health plan clients and/or the services we provide to them. Both the scope of the managed care reform proposals considered by state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

Table of Contents

Disease Management Services Regulation - We provide disease management programs to PBM plan members for rare medical conditions and arrange for them to receive disease management programs for common medical conditions. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing. Clinicians engaged in a professional practice in connection with the provision of disease management services must satisfy applicable state licensing requirements and must act within their scope of practice.

Third Party Administration and Other State Licensure Laws - Many states have licensure or registration laws governing certain types of administrative organizations, such as preferred provider organizations, third party administrators and companies that provide utilization review services. Several states also have licensure or registration laws governing the organizations that provide or administer consumer card programs (also known as cash card or discount card programs).

Laws and Regulations Related to Our Retail/LTC Segment

In addition to the laws and regulations discussed above that may affect our business as a whole, we are subject to federal, state and local statutes and regulations governing the operation of our Retail/LTC Segment specifically. Among these are the following:

Specific FDA Regulation - The FDA generally has authority to, among other things, regulate the manufacture, distribution, sale and labeling of many products sold through retail pharmacies, including prescription drugs, over-the-counter medications, medical devices (including mobile medical devices), cosmetics, dietary supplements and certain food items.

Retail Clinics - States regulate retail clinics operated by nurse practitioners or physician assistants through physician oversight, lab licensing and the prohibition of the corporate practice of medicine. A number of states have implemented or proposed laws or regulations that impact certain components of retail clinic operations such as physician oversight, signage, third party contracting requirements, bathroom facilities, and scope of services. These laws and regulations may affect the operation and expansion of our owned and managed retail clinics.

Available Information

CVS Health Corporation is a Delaware corporation. Our corporate office is located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500. Our common stock is listed on the New York Stock Exchange under

the trading symbol “CVS.” General information about CVS Health is available through the Company’s Web site at http://www.cvshealth.com. Our financial press releases and filings with the United States Securities and Exchange Commission (“SEC”) are available free of charge within the Investors section of our Web site at http://www.cvshealth.com/investors. In addition, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as the Company, that file electronically with the SEC. The address of that Web site is http://www.sec.gov.

Item 1A. Risk Factors

Our business is subject to various industry, economic, regulatory and other risks and uncertainties. Our business, financial condition, results of operations, cash flows and prospects could be materially adversely affected by any one or more of the following risk factors and by additional risks and uncertainties not presently known to us or that we currently deem to be immaterial:

Risks of declining gross margins in the PBM, retail pharmacy and LTC pharmacy industries.

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, increased revenue sharing, enhanced service offerings and/or higher service levels. In that regard, we maintain contractual relationships with generic pharmaceutical manufacturers and brand name pharmaceutical manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our retail network and by our specialty and mail order pharmacies (all or a portion of which may be passed on to clients). Manufacturer rebates often depend on a PBM’s ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer’s products on the PBM’s formularies. If we lose our relationship with one

Table of Contents

or more pharmaceutical manufacturers, or if the discounts or rebates provided by pharmaceutical manufacturers decline, our business and financial results could be adversely affected. Further, competitive pressures in the PBM industry have resulted in our clients sharing in a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. Market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes the use of retail “differential” or “spread”, which could negatively impact our future profitability. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the discounts or rebates we receive. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to use MAC lists and collect transmission fees, could adversely impact our profitability.

Our retail pharmacy, specialty pharmacy and LTC pharmacy operations have also been affected by the margin pressures described above, including client demands for lower prices, generic pricing and network reimbursement pressure. In addition, as competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. A shift in the mix of our pharmacy prescription volume towards programs offering lower reimbursement rates could adversely affect our margins, including the shift in pharmacy mix towards 90-day prescriptions at retail and the shift in pharmacy mix towards Medicare Part D prescriptions. Finally, the margins of our LTC business are further affected by the increased efforts of health care payors to negotiate reduced or capitated pricing arrangements. These actions could also adversely affect the margins of our LTC business.

Efforts to reduce reimbursement levels and alter health care financing practices.

The continued efforts of health maintenance organizations, managed care organizations, PBMs, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation and other legal proceedings relating to how drugs are priced, may impact our profitability. In particular, increased utilization of generic pharmaceuticals (which normally yield a higher gross profit rate than equivalent brand named drugs) has resulted in pressure to decrease reimbursement payments to retail, specialty, LTC and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate. Historically, the effect of this trend on generic profitability has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry, and it is possible that this and other external factors may enhance the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish our ability to negotiate reduced acquisition costs. Any inability to offset increased costs or to modify our activities to lessen the impact could have a significant adverse effect on our results of operations.

In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and audits at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. For example, we

anticipate that federal and state governments will continue to review and assess alternative health care delivery systems, payment methodologies and operational requirements for health care providers, including LTC facilities and pharmacies. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could negatively impact our profitability. Any action taken to repeal or replace all or significant parts of ACA could also impact our profitability, though it is unclear at this time what the full effects will be.

ACA made several significant changes to Medicaid rebates and to reimbursement. One of these changes was to revise the definition of the Average Manufacturer Price, a pricing element common to most payment formulas, and the reimbursement formula for multi-source (i.e., generic) drugs. This change has negatively affected our reimbursement. In addition, ACA made other changes that affect the coverage and plan designs that are or will be provided by many of our health plan clients, including the requirement for health insurers to meet a minimum medical loss ratio to avoid having to pay rebates to enrollees. These ACA changes may not affect our business directly, but they could indirectly impact our services and/or business practices.

A highly competitive business environment.

Each of our retail pharmacy, LTC pharmacy, retail health clinic and pharmacy services operations currently operates in a highly competitive and evolving health care environment.

Table of Contents

The competitive success of our retail pharmacy business, as well as our specialty pharmacy operations with non-Caremark payors, is derived by their ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. As a pharmacy retail business, we compete with other drugstore chains, supermarkets, on-line and other discount retailers, independent pharmacies, membership clubs, convenience stores and mass merchants, some of which are aggressively expanding into markets we serve. We also face competition from other retail health clinics, as well as other mail order pharmacies and PBMs. Disruptive innovation by existing or new competitors could alter the competitive landscape in the future and require us to accurately identify and assess such changes and make timely and effective changes to our strategies and business model to compete effectively. Competition may also come from other sources in the future. Changes in market dynamics or the actions of competitors or manufacturers, including industry consolidation, the emergence of new competitors and strategic alliances, and the exclusion from new narrow or restricted networks, could materially and adversely impact us.

We could also be adversely affected if we fail to identify or effectively respond to changes in market dynamics. For example, specialty pharmacy represents a significant and growing proportion of prescription drug spending in the United States, a significant portion of which is dispensed outside of traditional retail pharmacies. Because our specialty pharmacy operations focuses on complex and high-cost medications that serve a relatively limited universe of patients, the future growth of this business depends to a significant extent upon expanding our ability to access key drugs and successfully penetrate key treatment categories.

The competitive success of our LTC pharmacy operations is dependent upon our ability to compete in each geographic region where we have operations. In the geographic regions we serve, we compete with PharMerica, our largest competitor, as well as with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Our long-term care customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. We believe that the assisted living segment, where residents can choose which pharmacy will provide them with pharmaceuticals, is projected to grow the most as a percentage of the total LTC sector over the near term. The ability of a resident of an assisted living facility to select the pharmacy that supplies him or her with pharmaceuticals could adversely affect our business, financial condition and results of operations because there can be no assurance that such resident will select us.

The competitive success of our pharmacy services business is impacted by its ability to establish and maintain contractual relationships with network pharmacies in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. Competitors in the PBM industry (e.g., Express Scripts, OptumRx, Prime Therapeutics, MedImpact and Humana), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Competition may also come from other sources in the future. In addition, changes in the overall composition of our pharmacy networks, or reduced pharmacy access under our networks, could adversely affect our claims volume and/or our competitiveness generally.

Competitors in each of our business areas may offer services and pricing terms that we may not be willing or able to offer. Strong competition in the PBM marketplace has generated greater client demand for lower pricing, increased revenue sharing and enhanced product and service offerings. Unless we can demonstrate enhanced value to our clients through innovative product and service offerings, particularly in a rapidly changing health care industry, we may be unable to remain competitive.

Changes in U.S. policy, laws and regulations, including reform of the United States health care system.

The results of the November 2016 elections continue to generate some uncertainty with respect to, and could result in, significant changes in legislation, regulation and government policy that could significantly impact our business and the health care and retail industries. While it is not possible to predict whether and when any such changes will occur or what form any such changes may take (including through the use of Executive Orders), specific proposals discussed by the Presidential Administration could have a material adverse effect on our business, liquidity and results of operations include, but are not limited to, immigration policies, the modification of ACA. Other significant changes to health care system legislation or regulation as well as changes with respect to tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries are also possible.

Table of Contents

Potential modification to ACA, significant changes to Medicaid funding or even significant destabilization of the Health Insurance Marketplaces could impact the number of Americans with health insurance and, consequently, prescription drug coverage. Further changes to ACA are possible and we cannot predict the effect, if any, on future changes to ACA, the implementation or failure to implement the outstanding provisions of ACA, or the enactment of new health care system legislation to replace current legislation may have on our retail pharmacy, LTC pharmacy, specialty pharmacy and pharmacy services operations.

In addition, much of the branded and generic drug product that we sell in our retail, mail and specialty pharmacies, and much of the other merchandise we sell, is manufactured in whole or in substantial part outside of the United States. In most cases, the products or merchandise are imported by others and sold to us. As a result, significant changes in tax or trade policies, tariffs or trade relations between the United States and other countries, such as the imposition of unilateral tariffs on imported products, could result in significant increases in our costs, restrict our access to suppliers, depress economic activity, and have a material impact on our business, liquidity and results of operations. In addition, other countries may change their business and trade policies and such changes, as well as any negative sentiments towards the United States in response to increased import tariffs and other changes in U.S. trade regulations, could adversely affect our business.

Risks related to compliance with a broad and complex regulatory framework.

Our business is subject to numerous federal, state and local laws and regulations. See “Business - Government Regulation.” In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and enforcement activity at both the federal and state levels. Further, uncertainties exist regarding the application of many of these legal requirements to our business. In addition, it is possible that certain provisions of the current health care reform legislation may be modified, repealed or otherwise invalidated. Changes in these laws and regulations and the related interpretations and enforcement practices may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; significant fines or monetary penalties; suspension or disgorgement of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of registrations or licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation section; accounting standards; financial disclosure; securities laws and regulations; federal anti-trust laws; tax laws and regulations and their possible reform; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous materials and wastes; and laws and regulations of the FTC, the FCC, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell, such as Boards of Pharmacy. The FDA, DEA and various states regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the federal and various states’ controlled substances acts and their accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend our registrations and licenses, seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws

and regulations. In addition, our business interests outside of the United States are subject to the Foreign Corrupt Practices Act and other applicable domestic and international laws and regulations. We are also subject to the terms of various government agreements and mandates, including those described in the Government Regulation section. In that regard, our business, financial position and results of operations could be adversely affected by existing and new government legislative, regulatory action and enforcement activity, including, without limitation, any one or more of the following:

- federal and state laws and regulations concerning the submission of claims for reimbursement by Medicare, Medicaid and other government programs, whether at retail, mail, specialty or LTC;
- federal and state laws and regulations governing the purchase, distribution, tracking, management, compounding, dispensing and reimbursement of prescription drugs and related services, whether at retail, mail, specialty or LTC, and applicable registration or licensing requirements;
- heighted enforcement of controlled substances regulations;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;

Table of Contents

- the frequency and rate of approvals by the FDA of new brand name and generic drugs, or of over-the-counter status for brand name drugs;
- rules and regulations issued pursuant to HIPAA and the HITECH Act; and other federal and state laws affecting the collection, use, disclosure and transmission of health or other personal information, such as federal laws on information privacy precipitated by concerns about information collection through the Internet, state security breach laws and state laws limiting the use and disclosure of prescriber information;
- health care fraud and abuse laws regulations;
- consumer protection laws affecting our health care services, our loyalty programs, our drug discount card programs, the products we sell, the informational calls we make and/or the marketing of our goods and services;
- federal, state and local environmental, health and safety laws and regulations applicable to our business, including the management of hazardous substances, storage and transportation of hazardous materials, and various recordkeeping disclosure and procedure requirements promulgated by the Occupational Safety and Health Administration that may apply to our operations;
- health care reform, managed care reform and plan design legislation;
- laws against the corporate practice of medicine;
- FDA regulation affecting the retail, LTC, specialty or PBM industry;
- government regulation of the development, administration, review and updating of formularies and drug lists including requirements and/or limitations around formulary tiering and patient cost sharing;
- state laws and regulations related to increased oversight of PBM activities by state departments of insurance pharmacy reimbursement for generics and pharmacy audits;
- drug pricing legislation, including “most favored nation” pricing;
- federal and state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access legislation or regulations, including “any willing provider” laws, on our ability to manage pharmacy networks;
- ERISA and related regulations;
- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;
- Medicare and Medicaid regulations applicable to our business, in particular our LTC pharmacies and those of our client’s facilities;
- ongoing compliance with consent decrees, corporate integrity agreements, corrective action plans and other agreements with government agencies;
- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

The possibility of client losses and/or the failure to win new business.

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM’s client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. Our clients are generally well informed and organized, can move between our competitors and often seek competing bids prior to expiration of their contracts. In addition, the reputational impact of a service-related incident could negatively affect our business. These factors, together with the impact of competitive pressures, could make it difficult for us to attract new clients, retain existing clients and cross-sell additional services. Further, the PBM industry has been affected by consolidation activity that may continue in the

future. In the event one or more of our PBM clients is acquired by an entity that is not also our client, we may be unable to retain all or a portion of the acquired business. These circumstances, either individually or in the aggregate, could result in an adverse effect on our business and financial results. Therefore, we continually face challenges in competing for new PBM business and retaining or renewing our existing PBM business. With respect to our LTC business, reimbursement from skilled nursing facilities for prescriptions we dispense is determined pursuant to our agreements with those skilled nursing facilities. The termination of these agreements generally causes our ability to provide services to any of the residents of that facility to cease, resulting in the loss of revenue from any source for those residents. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms.

Table of Contents

Additionally, with respect to our retail and LTC pharmacy businesses, reimbursement under Medicare Part D, as well as reimbursement from certain private third-party payors, is determined pursuant to agreements that we negotiate with those payors or their pharmacy benefit manager representatives. The loss of those agreements, or a material change in the terms of those agreements, could negatively impact the Company. In addition, restricted networks that exclude our retail or specialty pharmacies negatively impact those businesses.

Risks relating to the market availability, suppliers and safety profiles of prescription drugs that we purchase and sell.

We dispense significant volumes of brand-name and generic drugs from our retail, LTC, specialty and mail-order pharmacies and through our PBM's network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, or drugs become subject to greater restrictions as controlled substances, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced.

Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can result in lower prescription utilization. In addition, future FDA rulings could restrict the supply or increase the cost of products sold to our customers. Our volumes, net revenues, profitability and cash flows may decline as a result of such regulatory rulings or market changes.

Further, we acquire a substantial amount of our mail and specialty pharmacies' prescription drug supply from a limited number of suppliers. Our agreements with these suppliers are often short-term and easily cancelable by either party without cause. In addition, these agreements may limit our ability to provide services for competing drugs during the term of the agreement and may allow the supplier to distribute through channels other than ours. Certain of these agreements also allow pricing and other terms to be adjusted periodically for changing market conditions or required service levels. A termination or modification to any of these relationships could have a material adverse effect on our business, financial condition and results of operations. Moreover, many products distributed by our specialty pharmacy business are manufactured with ingredients that are susceptible to supply shortages. In some cases, we depend upon a single source of supply.

In addition, our suppliers are independent entities subject to their own operational and financial risks that are outside our control. If our current suppliers were to stop selling prescription drugs to us or delay delivery, including as a result of supply shortages, supplier production disruptions, supplier quality issues, closing or bankruptcies of our suppliers, or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all.

A disruption in our business operations could occur as a result of contamination of drugs, a failure to maintain necessary shipment and storage conditions, errors in mail order processing, the unavailability of prescription drugs provided by suppliers, labor disruptions or other unanticipated disruptions at our mail order facilities, call centers, data centers or corporate facilities, among other factors. Such disruption could reduce our ability to process and dispense prescriptions and provide products and services to our customers.

In the event any products we distribute are in limited supply for significant periods of time, our financial condition and results of operations could be materially and adversely affected.

Risks related to the frequency and rate of the introduction and pricing of generic drugs and brand name prescription products.

The profitability of our business is dependent upon the utilization of prescription drug products. Utilization trends are affected by, among other factors, the introduction of new and successful prescription pharmaceuticals as well as lower-priced generic alternatives to existing brand name products, as the sale of generic alternatives normally yield higher gross margins than brand name equivalents. In addition, inflation in the price of the brand name drugs can affect utilization, particularly given the increase in high deductible health plans. Accordingly, our business could be impacted by a slowdown or delay in the number or magnitude of new and successful prescription pharmaceuticals and/or generic alternatives, as well as the pricing of brand name drugs.

Table of Contents

The health of the economy in general and in the markets we serve.

Our business is affected by the economy and consumer confidence in general, including various economic factors, inflation and changes in consumer purchasing power, preferences and/or spending patterns. It is possible that an unfavorable, uncertain or volatile economic environment will cause a decline in drug and health care services utilization and dampen demand for pharmacy benefit management services as well as consumer demand for products sold in our retail stores. Further economic conditions including interest rate fluctuations, changes in capital market conditions and regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms. These changes in conditions could result in an adverse effect on our business and financial results. This could be further exacerbated by the increasing prevalence of high deductible health plans and health plan designs favoring co-insurance over co-payments.

The failure or disruption of our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.

Many aspects of our operations are dependent on our information systems and the information collected, processed, stored, and handled by these systems. We rely heavily on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, claims processing, ExtraCare customer loyalty program, finance, human resource and other processes. Throughout oubottom;">

Amortization of intangibles
9,974

10,819

Share-based compensation expense
18,533

8,348

Equity in earnings, net of dividends related to earnings
(2,801
)

(2,125
)
Gain on remeasurement of previously held equity interest
—

(14,199
)
Deferred income taxes
295

5,765

Other
1,101

127

Changes in operating assets and liabilities
(35,205
)

(63,401
)
Net cash provided by operating activities
182,045

109,973

Investing activities:

Capital expenditures
(116,788
)

(129,661
)
Acquisition of businesses, net of cash acquired
(37,478
)

(34,396
)
Investment in joint ventures
—

(4,300
)
Cash from consolidation of joint venture

3,395

—

Proceeds from sale of fixed assets
156

4,846

Net cash used in investing activities
(150,715
)

(163,511
)
Financing activities:

Increase in short-term debt, net
1,703

973

Principal payments on long-term debt
(9,787
)

(6,239
)
Purchase of noncontrolling interests
—

(1,262
)
Repurchase of common stock
(23,800
)

—

Proceeds from exercise of warrants
2,498

8,540

Taxes withheld and paid on employees' share based payment awards
(11,979
)

(1,330
)
Other
101

(173
)
Net cash (used in) provided by financing activities
(41,264
)

509

Effects of exchange rate changes on cash and cash equivalents
(7,880
)

17,743

Changes in cash and cash equivalents
(17,814
)

(35,286
)
Cash and cash equivalents at beginning of period
378,243

267,270

Cash and cash equivalents at end of period
$
360,429

$
231,984

The accompanying notes are an integral part of these financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

1. Overview

Basis of presentation

Cooper-Standard Holdings Inc. (together with its consolidated subsidiaries, the "Company" or "Cooper Standard"), through its wholly-owned subsidiary, Cooper-Standard Automotive Inc. ("CSA U.S."), is a leading manufacturer of sealing, fuel and brake delivery, fluid transfer, and anti-vibration systems. The Company's products are primarily for use in passenger vehicles and light trucks that are manufactured by global automotive original equipment manufacturers ("OEMs") and replacement markets. The Company conducts substantially all of its activities through its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") for interim financial information and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Annual Report"), as filed with the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("U.S. GAAP") for complete financial statements. These financial statements include all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of the Company. Certain prior period amounts have been reclassified to conform to the current period financial statement presentation. The operating results for the interim period ended September 30, 2016 are not necessarily indicative of results for the full year. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Recently adopted accounting pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The guidance simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is permitted, and the Company adopted this guidance during the second quarter of 2016. The provisions related to forfeitures were adopted on a modified retrospective basis to record actual forfeitures as they occur in the Company's condensed consolidated financial statements, and the impact from adoption resulted in a cumulative effect adjustment of $473 to retained earnings. Provisions related to income taxes were adopted prospectively from January 1, 2016, and resulted in a tax benefit of $3,212 for the three months ended June 30, 2016. Provisions related to the statement of cash flows have been adopted prospectively and result in the recognition of excess tax benefits in cash provided by operating activities.

In July 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement - Period Adjustments. This ASU requires an acquirer to recognize adjustments to estimated amounts identified during the measurement period in the reporting period in which the adjustment is determined and not restate prior amounts disclosed. This guidance was effective for annual and interim reporting periods beginning after December 15, 2015. The Company adopted this guidance effective January 1, 2016. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU amends the consolidation guidance under U.S. GAAP. This guidance was effective for annual and interim reporting periods beginning after December 15, 2015. The Company adopted this guidance effective January 1, 2016. The adoption of this ASU had no impact on the Company's condensed consolidated financial statements.

Recently issued accounting pronouncements

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments provide guidance on eight specific cash flow issues, thereby reducing diversity in practice. The amendments are effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires companies to use a retrospective transition method upon adoption. The Company is currently evaluating the impact of adopting this guidance on its condensed consolidated financial statements.
In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. This guidance eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for the equity method. The guidance requires that an equity method investor add the cost of acquiring the additional interest to the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance revises existing U.S. GAAP by requiring lessees to recognize assets and liabilities for all leases (with an exception of short-term leases). This guidance is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires companies to use a modified retrospective approach upon adoption. The Company is currently evaluating the impact of adopting this guidance on its condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU requires entities to measure most inventory at the lower of cost and net realizable value rather than at the lower of cost or market. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting this guidance on its condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements: Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern. This guidance is effective for annual and interim reporting periods ending after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of this guidance is that a company should recognize revenue to depict the transfer of promised goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In July 2015, the FASB issued ASU 2015-14, which delays the effective date of this guidance to annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date of annual and interim reporting periods beginning after December 15, 2016. The guidance allows for companies to use either a full retrospective or a modified retrospective approach when adopting. The Company is currently evaluating the impact of adopting this guidance on its condensed consolidated financial statements.

2. Acquisitions

AMI Acquisition

In the third quarter of 2016, the Company acquired the North American fuel and brake business of AMI Industries for cash consideration of $32,000 (the “AMI Acquisition”). This acquisition directly aligns with the Company's growth strategy by expanding the Company's fuel and brake business. The results of operations of the North American fuel and brake business of AMI Industries are included in the Company's condensed consolidated financial statements from the date of acquisition, August 15, 2016, and reported within the North American segment. This acquisition was accounted for as a business combination, with the total purchase price allocated on a preliminary basis using information available, resulting in the recognition of goodwill of $7,175 in the third quarter of 2016. Also in the third quarter of 2016, the Company agreed to purchase the China fuel and brake business of AMI Industries, which is subject to regulatory approval and is expected to close in the first quarter of 2017.

Shenya Acquisition

In the first quarter of 2015, the Company completed the acquisition of an additional 47.5% of Huayu-Cooper Standard Sealing Systems Co. (“Shenya”), increasing its ownership to 95%, for cash consideration of $59,320 of which $34,396 was paid in the nine months ended September 30, 2015. The business acquired in the transaction is operated from Shenya’s manufacturing locations in China. Shenya primarily supplies sealing systems and components to the automotive industry. This acquisition is directly aligned with the Company’s growth strategy by strengthening important customer relationships in the automotive sealing systems market. The results of operations of Shenya are included in the Company’s condensed consolidated financial statements from the date of acquisition, February 27, 2015, and reported within the Asia Pacific segment. Prior to the acquisition, the Company held a 47.5%

unconsolidated equity interest in Shenya. The estimated fair value of the equity interest at the date of acquisition was $41,378, resulting in a gain of $14,199 recorded in other (expense) income, net for the nine months ended September 30, 2015.

In the second quarter of 2016, the Company acquired a business in furtherance of the Company's Shenya operations. The total purchase price of the acquisition was $5,478, of which the Company made a deposit of $3,020 during the first quarter of 2016 and issued a note payable for $2,458 in the second quarter of 2016, which was subsequently paid during July 2016. The Company recognized $2,972 of goodwill as a result of this acquisition in the second quarter of 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

In the third quarter of 2016, the Company obtained control of its 51%-owned joint venture, Shenya Sealing (Guangzhou) Company Limited ("Guangzhou") through an amendment of the joint venture governing document. This joint venture was previously accounted for as an investment under the equity method. The results of operations of Guangzhou are included in the Company's condensed consolidated financial statements from the date of consolidation, August 4, 2016, and reported within the Asia Pacific segment. Business combination accounting was completed on a preliminary basis using information available, resulting in the recognition of goodwill of $10,869 in the third quarter of 2016. There was no gain or loss recognized on the remeasurement of the Company's equity method investment in Guangzhou for the three months ended September 30, 2016.

3. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by reportable operating segment for the nine months ended September 30, 2016 are summarized as follows:

	North America	Europe	Asia Pacific	Total
Balance as of December 31, 2015	$ 114,109	$11,056	$ 24,054	$149,219
Acquisition	7,175	—	2,972	10,147
Consolidation of joint venture	—	—	10,869	10,869
Foreign exchange translation	790	384	(615)	559
Balance as of September 30, 2016	$ 122,074	$11,440	$ 37,280	$170,794

Goodwill is tested for impairment by reporting unit either annually or when events or circumstances indicate that an impairment may exist. There were no indicators of potential impairment during the nine months ended September 30, 2016.

Intangible Assets

The following table presents intangible assets and accumulated amortization balances of the Company as of September 30, 2016 and December 31, 2015, respectively:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$135,482	$ (70,075)	$65,407
Developed technology	8,971	(8,449)	522
Other	21,668	(1,649)	20,019
Balance as of September 30, 2016	$166,121	$ (80,173)	$85,948
Customer relationships	$115,285	$ (61,375)	$53,910
Developed technology	8,854	(7,673)	1,181
Other	16,290	(679)	15,611
Balance as of December 31, 2015	$140,429	$ (69,727)	$70,702

In the third quarter of 2016, the Company acquired intangible assets of $19,410 in conjunction with the AMI Acquisition. This consisted of $19,000 related to customer relationships and $410 related to patents with weighted average amortization periods of 11 and 15 years, respectively.

Also in the third quarter of 2016, the Company recorded intangible assets of $6,605 in conjunction with the consolidation of Guangzhou. This consisted of $1,313 related to customer relationships and $5,292 related to land-use right with weighted average amortization periods of approximately 7 and 45 years, respectively.

Amortization expense totaled $3,457 and $3,599 for the three months ended September 30, 2016 and 2015, respectively, and $9,974 and $10,819 for the nine months ended September 30, 2016 and 2015, respectively. Amortization expense is estimated to be approximately $13,600 for the year ending December 31, 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

4. Restructuring

On an ongoing basis, the Company evaluates its business and objectives to ensure that it is properly configured and sized based on changing market conditions. Accordingly, the Company has initiated certain restructuring initiatives, including plant rationalizations and targeted workforce reduction efforts, as deemed appropriate.

In addition to previously initiated actions, in January 2015, the Company announced its intention to further restructure its European manufacturing footprint based on the then current and anticipated market demands. The total estimated cost of this initiative, which is expected to be completed in 2017, is approximately $125,000, of which approximately $78,000 has been incurred to date.

The Company previously implemented several other restructuring initiatives, including the closure or consolidation of facilities throughout the world and the reorganization of the Company's operating structure. While substantially complete, the Company continues to incur costs with respect to some of these initiatives, primarily related to the disposal of the respective facilities.

The Company's restructuring charges consist of severance, retention and outplacement services, and severance-related postemployment benefits (collectively, “employee separation costs”), other related exit costs and asset impairments related to restructuring activities.

The following table summarizes the restructuring expense by segment for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
North America	$306	$1,342	$1,661	$3,062
Europe	9,691	7,134	30,184	31,683
Asia Pacific	433	64	1,623	64
Total	$10,430	$8,540	$33,468	$34,809

The following table summarizes the activity for restructuring initiatives for the nine months ended September 30, 2016:

	Employee Separation Costs	Other Exit Costs	Total
Balance as of December 31, 2015	$ 32,707	$1,768	$34,475
Expense	12,345	21,123	33,468
Cash payments	(24,363)	(21,248)	(45,611)
Foreign exchange translation and other	1,251	181	1,432
Balance as of September 30, 2016	$ 21,940	$1,824	$23,764

5. Inventories

Inventories were comprised of the following as of September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Finished goods	$ 41,245	$ 43,031
Work in process	36,669	32,863
Raw materials and supplies	83,098	73,751
	$ 161,012	$ 149,645

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

6. Debt

Outstanding debt consisted of the following as of September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Term loan	$ 725,489	$ 729,841
Other borrowings	54,338	48,071
Total debt	$ 779,827	$ 777,912
Less current portion	(53,139)	(45,494)
Total long-term debt	$ 726,688	$ 732,418

Term Loan Facility

On April 4, 2014, certain subsidiaries of the Company entered into a Term Loan Facility (the "Term Loan Facility") in order to (i) refinance the then-outstanding Senior Notes and Senior PIK Toggle Notes, including applicable call premiums and accrued and unpaid interest, (ii) pay related fees and expenses and (iii) provide for working capital and other general corporate purposes. The Term Loan Facility provides for loans in an aggregate principal amount of $750,000 and may be increased (or a new term loan facility added) by an amount that will not cause the consolidated first lien debt ratio to exceed 2.25 to 1.00 plus $300,000. All obligations of the borrower are guaranteed jointly and severally on a senior secured basis by the direct parent company of the borrower and each existing and subsequently acquired direct or indirect wholly-owned U.S. restricted subsidiary of the borrower. The obligations are secured by amongst other items (a) a first priority security interest (subject to permitted liens and other customary exceptions) on (i) all the capital stock in restricted subsidiaries directly held by the borrower and each of the guarantors (limited to 65% of the capital stock of any foreign subsidiaries), (ii) substantially all plant, material owned real property located in the U.S. and equipment of the borrower and the guarantors and (iii) all other personal property of the borrower and the guarantors, and (b) a second priority security interest (subject to permitted liens and other customary exceptions) in accounts receivable of the borrowers and the guarantors arising from the sale of goods and services, inventory, excluding certain collateral and subject to certain limitations. Loans under the Term Loan Facility bear interest at a rate equal to, at the Borrower's option, LIBOR, subject to a 1.00% LIBOR Floor plus an applicable margin of 3.00% or the base rate option (the highest of the Federal Funds rate, plus 0.50%, prime rate, or one-month Eurodollar rate plus 1.00%), plus an applicable margin of 2.00%. The Term Loan Facility matures on April 4, 2021. On April 4, 2014, the aggregate principal amount of $750,000 was fully drawn to extinguish the Senior Notes and the Senior PIK Toggle Notes and to pay related fees and expenses. Debt issuance costs of approximately $7,900 were incurred on this transaction, along with the original issue discount of $3,750. Both the debt issuance costs and the original issue discount are amortized into interest expense over the term of the Term Loan Facility. As of September 30, 2016, the principal amount of $733,125 was outstanding. As of September 30, 2016, the Company had $2,411 of unamortized original issue discount and unamortized issuance costs of $5,225.

Senior ABL Facility

On April 4, 2014, CS Intermediate Holdco 1 LLC ("Parent"), CSA U.S. (the "U.S. Borrower"), Cooper-Standard Automotive Canada Limited (the "Canadian Borrower"), Cooper-Standard Automotive International Holdings BV (the "European Borrower" and, together with the U.S. Borrower and Canadian Borrower, the "Borrowers"), and certain subsidiaries of the U.S. Borrower entered into the Second Amended and Restated Loan Agreement (the "Senior ABL Facility"), which amended and restated the then existing senior secured asset based revolving agreement dated May 27, 2010, in order to permit the Term Loan Facility and other related transactions. The Senior ABL Facility provided for an aggregate revolving loan availability of up to $150,000, subject to borrowing base availability, including a $60,000 letter of credit sub-facility and a $25,000 swing line sub-facility. The Senior ABL Facility also provided for an uncommitted $105,000 incremental loan facility, for a potential total Senior ABL Facility of $255,000 (if requested by the borrowers and the lenders agree to fund such increase).

On June 11, 2014, the same parties entered into Amendment No. 1 to the Senior ABL Facility, which increased the aggregate revolving loan availability to $180,000, subject to borrowing base availability, principally by expanding a

tooling receivable category of eligible borrowing base availability for the U.S. borrower and Canadian borrower. The Senior ABL Facility, as amended, also now provides for an uncommitted $75,000 incremental loan facility, for a potential total Senior ABL Facility of $255,000 (if requested by the borrowers and the lenders agree to fund such increase). No consent of any lender (other than those participating in the increase) is required to effect any such increase.

As of September 30, 2016, there were no borrowings under the Senior ABL Facility, and subject to borrowing base availability, the Company had $180,000 in availability less outstanding letters of credit of $57,084.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

Subsequent Event

On November 2, 2016, CSA U.S. issued $400,000 aggregate principal amount of 5.625% Senior Notes due 2026 (the "Senior Notes") and amended its existing Senior ABL Facility and Term Loan Facility (the "Debt Refinancing"). The Company used the proceeds of the Senior Notes to repay the non-extended term loan outstanding under the Term Loan Facility and to pay fees and expenses related to the Debt Refinancing. The remaining term loan of $340,000 was extended to November 2023. The Senior ABL Facility was extended to November 2021 and its aggregate revolving loan availability increased to $210,000, subject to borrowing base availability.

7. Pension and Postretirement Benefits other than Pensions

The following tables disclose the components of net periodic benefit (income) cost for the three and nine months ended September 30, 2016 and 2015 for the Company's defined benefit plans and other postretirement benefit plans:

	Pension Benefits			
	Three Months Ended September 30,			
	2016		2015	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	$202	$ 861	$232	$ 868
Interest cost	3,145	1,267	3,084	1,261
Expected return on plan assets	(3,959)	(788)	(4,421)	(830)
Amortization of prior service cost and actuarial loss	429	555	276	665
Other	—	—	—	114
Net periodic benefit (income) cost	$(183)	$ 1,895	$(829)	$ 2,078

	Pension Benefits			
	Nine Months Ended September 30,			
	2016		2015	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	$606	$ 2,575	$696	$ 2,633
Interest cost	9,435	3,805	9,252	3,845
Expected return on plan assets	(11,877)	(2,367)	(13,263)	(2,559)
Amortization of prior service cost and actuarial loss	1,287	1,664	828	2,012
Other	—	—	—	355
Net periodic benefit (income) cost	$(549)	$ 5,677	$(2,487)	$ 6,286

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

	Other Postretirement Benefits Three Months Ended September 30,			
	2016		2015	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	$90	$ 94	$109	$ 93
Interest cost	346	172	353	165
Amortization of prior service credit and actuarial gain	(507)	(16)	(396)	(5)
Other	1	—	6	—
Net periodic benefit (income) cost	$(70)	$ 250	$72	$ 253

	Other Postretirement Benefits Nine Months Ended September 30,			
	2016		2015	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	$270	$ 280	$327	$ 290
Interest cost	1,038	510	1,059	516
Amortization of prior service credit and actuarial gain	(1,521)	(47)	(1,188)	(15)
Other	3	—	18	—
Net periodic benefit (income) cost	$(210)	$ 743	$216	$ 791

The Company made a discretionary contribution of $6,378 to its U.S. pension plan in the three months ended September 30, 2016.

8. Income Taxes

The Company is required to determine its effective tax rate each quarter based upon its estimated annual effective tax rate. The Company is also required to record the tax impact of certain unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year where no tax benefit can be recognized are excluded from the estimated annual effective tax rate.

The effective tax rate for the three and nine months ended September 30, 2016 was 25% and 29%, respectively. The effective tax rate for the three and nine months ended September 30, 2015 was 28% and 33%, respectively. The effective tax rate for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was lower primarily due to the tax benefits related to the U.S. research tax credit and the early adoption of ASU 2016-09 related to share-based compensation reflected in the 2016 effective tax rate which was not statutory in the three and nine months ended September 30, 2015. The income tax rate for the three and nine months ended September 30, 2016 varies from statutory rates primarily due to the impact of income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate, the inability to record a tax benefit for pre-tax losses in certain foreign jurisdictions to the extent not offset by other categories of income, tax credits, income tax incentives, excess tax benefits related to share-based compensation, withholding taxes and other permanent items. Further, the Company’s current and future provision for income taxes may be impacted by the recognition of valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

9. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2016 and 2015, net of related tax, are as follows:

	Three Months Ended September 30, 2016			
	Cumulative currency translation adjustment	Benefit plan liabilities	Fair value change of derivatives	Total
Balance as of June 30, 2016	$(120,780)	$(84,595)	$ (4,766)	$(210,141)
Other comprehensive income (loss) before reclassifications	2,681 (1)	(497)	828	3,012
Amounts reclassified from accumulated other comprehensive income (loss)	—	348 (2)	1,053 (3)	1,401
Balance as of September 30, 2016	$(118,099)	$(84,744)	$ (2,885)	$(205,728)

(1) Includes $511 of other comprehensive income related to intra-entity foreign currency balances that are of a long-term investment nature.

(2) Includes actuarial losses of $555, offset by prior service credits of $79, net of tax of $128. See Note 7.

(3) Includes losses related to the interest rate swap of $803 included in interest expense, net of interest income, and losses related to foreign exchange contracts of $769 included in cost of products sold, net of tax of $519.

	Three Months Ended September 30, 2015			
	Cumulative currency translation adjustment	Benefit plan liabilities	Fair value change of derivatives	Total
Balance as of June 30, 2015	$(92,364)	$(82,040)	$ (2,942)	$(177,346)
Other comprehensive income (loss) before reclassifications	(27,474) (1)	481	(784)	(27,777)
Amounts reclassified from accumulated other comprehensive income (loss)	—	390 (2)	413 (3)	803
Balance as of September 30, 2015	$(119,838)	$(81,169)	$ (3,313)	$(204,320)

(1) Includes $4,332 of other comprehensive loss related to intra-entity foreign currency balances that are of a long-term investment nature.

(2) Includes actuarial losses of $606, offset by prior service credits of $72, net of tax of $144. See Note 7.

(3) Includes losses related to foreign exchange contracts of $635 included in cost of products sold, net of tax of $222.

	Nine Months Ended September 30, 2016			
	Cumulative currency translation adjustment	Benefit plan liabilities	Fair value change of derivatives	Total
Balance as of December 31, 2015	$(130,661)	$(84,124)	$ (2,280)	$(217,065)
Other comprehensive income (loss) before reclassifications	12,562 (1)	(1,638)	(3,803)	7,121
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,018 (2)	3,198 (3)	4,216
Balance as of September 30, 2016	$(118,099)	$(84,744)	$ (2,885)	$(205,728)

(1) Includes $9,699 of other comprehensive income related to intra-entity foreign currency balances that are of a long-term investment nature.

(2) Includes actuarial losses of $1,636, offset by prior service credits of $246, net of tax of $372. See Note 7.

(3) Includes losses related to the interest rate swap of $2,393 included in interest expense, net of interest income, and losses related to foreign exchange contracts of $2,380 included in cost of products sold, net of tax of $1,575.

15

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

	Nine Months Ended September 30, 2015			
	Cumulative currency translation adjustment	Benefit plan liabilities	Fair value change of derivatives	Total
Balance as of December 31, 2014	$(50,371)	$(86,861)	$ (2,011)	$(139,243)
Other comprehensive income (loss) before reclassifications	(67,858)[1]	4,502	(1,903)	(65,259)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,609)[2]	1,190 [3]	601 [4]	182
Balance as of September 30, 2015	$(119,838)	$(81,169)	$ (3,313)	$(204,320)

(1) Includes $18,265 of other comprehensive loss related to intra-entity foreign currency balances that are of a long-term investment nature.
(2) Includes $300 reclassed to paid-in capital related to the purchase of noncontrolling interests.
(3) Includes actuarial losses of $1,871, offset by prior service credits of $244, net of tax of $437. See Note 7.
(4) Includes losses related to foreign exchange contracts of $925 included in cost of products sold, net of tax of $324.

10. Net Income Per Share Attributable to Cooper-Standard Holdings Inc.

Basic net income per share attributable to Cooper-Standard Holdings Inc. was computed by dividing net income attributable to Cooper-Standard Holdings Inc. by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share attributable to Cooper-Standard Holdings Inc. was computed using the treasury stock method by dividing diluted net income available to Cooper-Standard Holdings Inc. by the weighted average number of shares of common stock outstanding, including the dilutive effect of common stock equivalents, using the average share price during the period.

A summary of information used to compute basic and diluted net income per share attributable to Cooper-Standard Holdings Inc. is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income attributable to Cooper-Standard Holdings Inc.	$36,362	$ 32,732	$107,874	$ 90,215
Increase (decrease) in fair value of share-based awards	37	(17)	49	—
Diluted net income available to Cooper-Standard Holdings Inc. common stockholders	$36,399	$ 32,715	$107,923	$ 90,215
Basic weighted average shares of common stock outstanding	17,469,156	17,294,155	17,388,541	17,137,331
Dilutive effect of common stock equivalents	1,291,507	1,135,858	1,315,037	1,190,579
Diluted weighted average shares of common stock outstanding	18,760,663	18,430,013	18,703,578	18,327,910
Basic net income per share attributable to Cooper-Standard Holdings Inc.	$2.08	$ 1.89	$6.20	$ 5.26
Diluted net income per share attributable to Cooper-Standard Holdings Inc.	$1.94	$ 1.78	$5.77	$ 4.92

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

The effect of certain common share equivalents was excluded from the computation of weighted average diluted shares outstanding as inclusion would have been antidilutive. A summary of common stock equivalents excluded from the computation of weighted average diluted shares outstanding is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Number of options	—	145,900	—	145,900
Exercise price	—	$64.74-70.20	—	$64.74-70.20

11. Share-Based Compensation

Under the Company's incentive plans, stock options, restricted common stock, restricted preferred stock, unrestricted common stock, restricted stock units and performance units have been granted to key employees and directors. Total compensation expense recognized was $7,640 and $3,384 for the three months ended September 30, 2016 and 2015, respectively, and $18,533 and $8,348 for the nine months ended September 30, 2016 and 2015, respectively.

12. Common Stock

In March 2016, certain selling stockholders affiliated with Silver Point Capital, L.P., Oak Hill Advisors, L.P. and Capital World Investors (the “Selling Stockholders”) sold 2,278,031 shares, including overallotments, of the Company’s common stock at a public offering price of $68.00 per share, in a secondary public offering. Of the 2,278,031 shares sold in the offering, 350,000 shares were purchased by the Company for $23,800. The Company paid the underwriting discounts and commissions payable on the shares sold by the Selling Stockholders, excluding the shares the Company repurchased, resulting in $5,900 of fees incurred for the nine months ended September 30, 2016, which is included in other (expense) income, net in the condensed consolidated statement of net income. The Company also incurred approximately $600 of other expenses related to legal and audit services for the nine months ended September 30, 2016, which is included in selling, administration & engineering expenses in the condensed consolidated statement of net income. The Company did not sell or receive any proceeds from the sales of shares by the Selling Stockholders.

13. Other (Expense) Income, Net

The components of other (expense) income, net are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gain on remeasurement of previously held equity interest	$—	$—	$—	$14,199
Foreign currency losses	(331)	(3,049)	(2,035)	(3,482)
Secondary offering underwriting fees	—	—	(5,900)	—
Loss on sale of receivables	(207)	(232)	(674)	(810)
Miscellaneous income	20	—	20	—
Other (expense) income, net	$(518)	$(3,281)	$(8,589)	$9,907

14. Related Party Transactions

Sales to Nishikawa Cooper, LLC (“NISCO”), a 40%-owned joint venture accounted for as an investment under the equity method, totaled $9,029 and $9,619 for the three months ended September 30, 2016 and 2015, respectively, and $26,027 and $27,756 for the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, the Company received from NISCO a dividend of $1,880 and $680, respectively, all of which was related to earnings.

In March 2016, as part of the secondary offering, the Company paid $5,900 of fees incurred on behalf of the Selling Stockholders (see Note 12. “Common Stock”).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

15. Fair Value Measurements and Financial Instruments

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy is utilized, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Items Measured at Fair Value on a Recurring Basis

Estimates of the fair value of foreign currency and interest rate derivative instruments are determined using exchange traded prices and rates. The Company also considers the risk of non-performance in the estimation of fair value and includes an adjustment for non-performance risk in the measure of fair value of derivative instruments. In certain instances where market data is not available, the Company uses management judgment to develop assumptions that are used to determine fair value. Fair value measurements and the fair value hierarchy level for the Company's liabilities measured or disclosed at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, are shown below:

	September 30, 2016	December 31, 2015	Input
Forward foreign exchange contracts - other current assets	$ 355	$ 900	Level 2
Forward foreign exchange contracts - accrued liabilities	(507)	(79)	Level 2
Interest rate swaps - other current assets	35	32	Level 2
Interest rate swaps - other assets	46	38	Level 2
Interest rate swaps - accrued liabilities	(2,973)	(2,991)	Level 2
Interest rate swaps - other liabilities	(1,499)	(1,739)	Level 2

Items Measured at Fair Value on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, the Company measures certain assets and liabilities at fair value on a nonrecurring basis, which are not included in the table above. As these nonrecurring fair value measurements are generally determined using unobservable inputs, these fair value measurements are classified within Level 3 of the fair value hierarchy. For further information on assets and liabilities measured at fair value on a nonrecurring basis see Note 2. "Acquisitions" and Note 4. "Restructuring."

Items Not Carried At Fair Value

Fair values of the Term Loan Facility approximated $728,209 and $714,332 as of September 30, 2016 and December 31, 2015, respectively, based on quoted market prices, compared to the recorded value of $725,489 and $729,841 as of September 30, 2016 and December 31, 2015, respectively. This fair value measurement was classified within Level 1 of the fair value hierarchy.

Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments, including forwards and swap contracts, to manage its exposures to fluctuations in foreign exchange and interest rates. For a fair value hedge, both the effective and ineffective, if significant, portions are recorded in earnings and reflected in the condensed consolidated statements of net income. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in accumulated other comprehensive loss in the consolidated balance sheet. The ineffective portion, if significant, is recorded in other income or expense. When the underlying hedged transaction is realized or the hedged transaction is no longer probable, the gain or loss included in accumulated other comprehensive loss is recorded in earnings and reflected in the condensed consolidated statements of net income on the same line as the gain or loss on the hedged item

attributable to the hedged risk.

The Company formally documents its hedge relationships, including the identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the cash flow hedges. The Company

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

also formally assesses whether a cash flow hedge is highly effective in offsetting changes in the cash flows of the hedged item. Derivatives are recorded at fair value in other current assets, other assets, accrued liabilities and other liabilities. The Company is exposed to credit risk in the event of nonperformance by its counterparties on its derivative financial instruments. The Company mitigates this credit risk exposure by entering into agreements directly with major financial institutions with high credit standards that are expected to fully satisfy their obligations under the contracts.

Cash Flow Hedges

Forward foreign exchange contracts—The Company uses forward contracts to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates that impact the Company's foreign currency transactions. The principal currencies hedged by the Company include various European currencies, the Canadian Dollar, the Mexican Peso, and the Brazilian Real. As of September 30, 2016, the notional amount of these contracts was $62,247. The amount reclassified from accumulated other comprehensive loss into cost of products sold was $769 and $2,380 for the three and nine months ended September 30, 2016, respectively. These foreign currency derivative contracts consist of hedges of transactions up to June 2017.

Interest rate swaps - In August 2014, the Company entered into interest rate swap transactions to manage cash flow variability associated with its variable rate Term Loan Facility. The interest rate swap contracts, which fix the interest payments of variable rate debt instruments, are used to manage exposure to fluctuations in interest rates. As of September 30, 2016, the notional amount of these contracts was $300,000 with maturities through September 2018. The fair market value of all outstanding interest rate swap and other derivative contracts is subject to changes in value due to changes in interest rates. The amount reclassified from accumulated other comprehensive loss into interest expense, net of interest income was $803 and $2,393 for the three and nine months ended September 30, 2016, respectively. The amount to be reclassified in the next twelve months is expected to be approximately $2,937.

16. Accounts Receivable Factoring

As a part of its working capital management, the Company sells certain receivables through third party financial institutions with and without recourse. The amount sold varies each month based on the amount of underlying receivables and cash flow needs of the Company. The Company continues to service the receivables.

As of September 30, 2016 and December 31, 2015, the Company had $66,901 and $63,473, respectively, outstanding under receivable transfer agreements without recourse entered into by various locations. The total amount of accounts receivable factored without recourse was $188,934 and $207,432 for the nine months ended September 30, 2016 and 2015, respectively. Costs incurred on the sale of receivables were $391 and $468 for the three months ended September 30, 2016 and 2015, respectively, and $1,286 and $1,658 for the nine months ended September 30, 2016 and 2015, respectively. These amounts are recorded in other (expense) income, net and interest expense, net of interest income in the condensed consolidated statements of net income.

As of September 30, 2016 and December 31, 2015, the Company had $6,297 and $3,433, respectively, outstanding under receivable transfer agreements with recourse. The secured borrowings are recorded in debt payable within one year, and receivables are pledged equal to the balance of the borrowings. The total amount of accounts receivable factored with recourse was $46,610 and $27,383 for the nine months ended September 30, 2016 and 2015, respectively. Costs incurred on the sale of receivables were $55 and $38 for the three months ended September 30, 2016 and 2015, respectively, and $185 and $115 for the nine months ended September 30, 2016 and 2015, respectively. These amounts are recorded in other (expense) income, net and interest expense, net of interest income in the condensed consolidated statements of net income.

17. Commitments and Contingencies

The Company is periodically involved in claims, litigation and various legal matters that arise in the ordinary course of business. In addition, the Company conducts and monitors environmental investigations and remedial actions at certain locations. The Company accrues for litigation exposure when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified. As of September 30, 2016, the Company does not believe that there is a

reasonable possibility that any material loss exceeding the amounts already recognized for litigation claims and matters, if any, has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, the Company's financial condition and results of operations could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

On March 30, 2016, a putative class action complaint alleging conspiracy to fix the price of body sealing products used in automobiles and other light-duty vehicles was filed in Ontario against numerous automotive suppliers, including Cooper-Standard Holdings Inc., CSA U.S. and Cooper-Standard Automotive Canada Limited ("CS Defendants") and Nishikawa Cooper LLC, a joint venture in which the Company holds a 40% interest. Plaintiffs purport to be indirect purchasers of body sealing products supplied by the CS Defendants and/or the other defendants during the relevant period. The plaintiffs seek recovery of damages against all defendants in an amount to be determined, punitive damages, as well as pre-judgment and post-judgment interest and related costs and expenses of the litigation. The Company believes the claims asserted against the CS Defendants are without merit and intends to vigorously defend against these claims. Further, the Company does not believe that there is a material loss that is probable and reasonably estimable related to these claims.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)
(Dollar amounts in thousands except per share and share amounts)

18. Business Segments

The Company has determined that it operates in four reportable segments, North America, Europe, Asia Pacific and South America. The Company's principal products within each of these segments are sealing, fuel and brake delivery, fluid transfer and anti-vibration systems. The Company evaluates segment performance based on segment profit before tax. The results of each segment include certain allocations for general, administrative, interest and other shared costs.

The following tables detail information on the Company's business segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales to external customers				
North America	$450,795	$456,352	$1,361,183	$1,327,262
Europe	242,773	247,275	794,411	784,387
Asia Pacific	137,174	102,080	380,483	299,619
South America	24,914	21,824	61,380	77,134
Consolidated	$855,656	$827,531	$2,597,457	$2,488,402
Intersegment sales				
North America	$3,409	$3,037	$9,908	$10,933
Europe	3,600	3,103	10,081	8,523
Asia Pacific	1,426	2,196	3,925	5,032
South America	1	28	5	45
Eliminations	(8,436)	(8,364)	(23,919)	(24,533)
Consolidated	$—	$—	$—	$—
Segment profit (loss)				
North America	$55,031	$58,327	$169,857	$156,978
Europe	(5,632)	(4,766)	(7,510)	(6,377)
Asia Pacific	3,037	(690)	6,073	3,745
South America	(3,265)	(7,484)	(16,685)	(20,114)
Consolidated	$49,171	$45,387	$151,735	$134,232

	September 30, 2016	December 31, 2015
Segment assets		
North America	$ 956,265	$ 864,647
Europe	708,615	631,309
Asia Pacific	575,745	508,704
South America	47,708	39,117
Eliminations and other	174,971	260,515
Consolidated	$ 2,463,304	$ 2,304,292

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations presents information related to the condensed consolidated results of operations of the Company, including the impact of restructuring costs on the Company's results, a discussion of the past results and future outlook of each of the Company's segments, and information concerning both the liquidity and capital resources of the Company. The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the notes included elsewhere in this report, contains certain forward-looking statements relating to anticipated future financial condition and operating results of the Company and its current business plans. In the future, the financial condition and operating results of the Company could differ materially from those discussed herein and its current business plans could be altered in response to market conditions and other factors beyond the Company's control. Important factors that could cause or contribute to such differences or changes include those discussed elsewhere in this report (see "Forward-Looking Statements" below) and in our 2015 Annual Report (see Item 1A. Risk Factors).

Business Environment and Outlook

Our business is directly affected by the automotive vehicle production rates in North America, Europe, Asia Pacific and the South America regions. New vehicle demand is mostly driven by macro-economic factors, such as interest rates, manufacturer and dealer sales incentives, fuel prices, consumer confidence, employment levels, income growth trends and government and tax incentives.

The global automotive industry remains susceptible to uncertain economic conditions that could adversely impact new vehicle demand. With relative stability in the U.S. economy and indications of improvement in the European economy, global economic sentiment nonetheless remains cautious given continued geopolitical uncertainty, oil supply and demand issues, and fluctuating foreign exchange rates. Ongoing volatility with economic conditions in Brazil and a recent slowing in the pace of economic growth in China, continue to impact light vehicle production volumes.

Details on light vehicle production in certain regions for the three and nine months ended September 30, 2016 and 2015 are provided in the following table:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In millions of units)	2016[2]	2015[1]	% Change	2016[2]	2015[1]	% Change
North America	4.5	4.4	2.0%	13.5	13.2	2.7%
Europe	4.7	4.8	(1.8)%	16.1	15.7	2.6%
Asia Pacific[2]	11.2	10.1	11.0%	34.4	32.6	5.4%
South America	0.7	0.8	(10.5)%	2.0	2.4	(16.2)%

(1) Production data based on IHS Automotive, October 2016.

(2) Includes China units of 6.0 and 4.8 for the three months ended September 30, 2016 and 2015, respectively, and 18.4 and 16.5 for the nine months ended September 30, 2016 and 2015, respectively.

Competition in the automotive supplier industry is intense and has increased in recent years as OEMs have demonstrated a preference for stronger relationships with fewer suppliers. There are typically three or more significant competitors and numerous smaller competitors for most of the products we produce. Automotive suppliers with a global manufacturing footprint capable of fully servicing customers around the world will continue to shape the success of suppliers going forward.

OEMs have shifted some research and development, design and testing responsibility to suppliers, while at the same time shortening new product cycle times. To remain competitive, suppliers must have state-of-the-art engineering and design capabilities and must be able to continuously improve their engineering, design and manufacturing processes to effectively service the customer. Suppliers are increasingly expected to collaborate on, or assume the product design and development of, key automotive components and to provide innovative solutions to meet evolving technologies aimed at improved emissions and fuel economy.

Consolidations and market share shifts among vehicle manufacturers continue to put additional pressures on the supply chain. Pricing and market pressures will continue to drive our focus on reducing our overall cost structure through continuous improvement initiatives, capital redeployment, restructuring and other cost management

processes.

Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
	(dollar amounts in thousands)					
Sales	$855,656	$827,531	$28,125	$2,597,457	$2,488,402	$109,055
Cost of products sold	690,984	679,083	11,901	2,101,000	2,055,124	45,876
Gross profit	164,672	148,448	16,224	496,457	433,278	63,179
Selling, administration & engineering expenses	92,368	79,065	13,303	268,498	239,455	29,043
Amortization of intangibles	3,457	3,599	(142)	9,974	10,819	(845)
Restructuring charges	10,430	8,540	1,890	33,468	34,809	(1,341)
Other operating loss	—	—	—	155	—	155
Operating profit	58,417	57,244	1,173	184,362	148,195	36,167
Interest expense, net of interest income	(10,114)	(9,487)	(627)	(29,861)	(27,912)	(1,949)
Equity in earnings of affiliates	1,386	911	475	5,823	4,042	1,781
Other (expense) income, net	(518)	(3,281)	2,763	(8,589)	9,907	(18,496)
Income before income taxes	49,171	45,387	3,784	151,735	134,232	17,503
Income tax expense	12,525	12,869	(344)	43,312	44,052	(740)
Net income	36,646	32,518	4,128	108,423	90,180	18,243
Net (income) loss attributable to noncontrolling interests	(284)	214	(498)	(549)	35	(584)
Net income attributable to Cooper-Standard Holdings Inc.	$36,362	$32,732	$3,630	$107,874	$90,215	$17,659

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

Sales. Sales for the three months ended September 30, 2016 increased $28.1 million, or 3.4%, compared to the three months ended September 30, 2015, primarily due to improved volume and product mix in both North America and Asia Pacific, the AMI Acquisition and consolidation of a previously unconsolidated joint venture, partially offset by unfavorable foreign exchange of $5.5 million, the divestiture of our hard coat plastic exterior trim business, decreased volumes in Europe and customer price reductions.

Cost of Products Sold. Cost of products sold is primarily comprised of material, labor, manufacturing overhead, depreciation and amortization and other direct operating expenses. Cost of products sold for the three months ended September 30, 2016 increased $11.9 million, or 1.8%, compared to the three months ended September 30, 2015. Materials comprise the largest component of our cost of products sold and represented approximately 50% and 51% of the total cost of products sold for each of the three months ended September 30, 2016 and 2015, respectively. Cost of sales was impacted by higher production volumes in North America and Asia Pacific. These items were partially offset by decreased volumes in Europe and South America, the divestiture of our hard coat plastic exterior trim business and continuous improvement savings.

Gross Profit. Gross profit for the three months ended September 30, 2016 increased $16.2 million, or 10.9%, compared to the three months ended September 30, 2015. As a percentage of sales, gross profit was 19.2% and 17.9% for the three months ended September 30, 2016 and 2015, respectively. The increase in gross profit was driven primarily by continuous improvement and material cost savings and improved volume and mix in North America and Asia Pacific. These items were partially offset by customer price reductions and decreased volumes in Europe.

Selling, Administration and Engineering. Selling, administration and engineering expense for the three months ended September 30, 2016 was $92.4 million, or 10.8% of sales, compared to $79.1 million, or 9.6% of sales, for the three months ended September 30, 2015. Selling, administration and engineering expense for the three months ended September 30, 2016 was impacted primarily by higher compensation-related costs, as well as investments to support growth.

Restructuring. Restructuring charges for the three months ended September 30, 2016 increased $1.9 million compared to the three months ended September 30, 2015. Restructuring charges consisted primarily of expenses incurred related to our European restructuring initiative.

Interest Expense, Net. Net interest expense for the three months ended September 30, 2016 increased $0.6 million compared to the three months ended September 30, 2015, which resulted primarily from interest and debt issuance cost amortization recorded on the Term Loan Facility.

Other (Expense) Income, Net. Other expense for the three months ended September 30, 2016 was $0.5 million, consisting primarily of foreign currency losses of $0.3 million and losses on sales of receivables of $0.2 million. Other expense for the three months ended September 30, 2015 was $3.3 million, which consisted of $3.1 million of foreign currency losses and $0.2 million losses on sales of receivables.

Income Tax Expense. Income tax expense for the three months ended September 30, 2016 was $12.5 million on earnings before income taxes of $49.2 million. This compares to income tax expense of $12.9 million on earnings before income taxes of $45.4 million for the same period of 2015. The effective tax rate for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was lower primarily due to the tax benefits related to the US research tax credit and the early adoption of ASU 2016-09 related to share-based compensation reflected in the 2016 effective tax rate which was not statutory in the three months ended September 30, 2015. The income tax rate for the three months ended September 30, 2016 varied from statutory rates due primarily to the impact of income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate, the inability to record a tax benefit for pre-tax losses in certain foreign jurisdictions to the extent not offset by other categories of income, tax credits, income tax incentives, excess tax benefits related to stock based compensation, withholding taxes, and other permanent items. Further, the Company’s current and future provision for income taxes may be impacted by the recognition of valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized.

Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

Sales. Sales for the nine months ended September 30, 2016 increased $109.1 million, or 4.4%, compared to the nine months ended September 30, 2015, primarily due to improved volume and product mix in North America, Europe and Asia Pacific, as well as our recent acquisitions and consolidation of a previously unconsolidated joint venture, partially offset by unfavorable foreign exchange of $44.8 million, the divestiture of our hard coat plastic exterior trim business, decreased volumes in South America, and customer price reductions.

Cost of Products Sold. Cost of products sold is primarily comprised of material, labor, manufacturing overhead, depreciation and amortization and other direct operating expenses. Cost of products sold for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, increased $45.9 million, or 2.2%, compared to the nine months ended September 30, 2015. Materials comprise the largest component of our cost of products sold and represented approximately 50% of the total cost of products sold for each of the nine months ended September 30, 2016 and 2015. Cost of sales was impacted by higher production volumes in North America, Europe and Asia Pacific, as well as our recent acquisitions. These items were partially offset by decreased volumes in South America, the divestiture of our hard coat plastic exterior trim business and continuous improvement savings.

Gross Profit. Gross profit for the nine months ended September 30, 2016 increased $63.2 million, or 14.6% compared to the nine months ended September 30, 2015. As a percentage of sales, gross profit was 19.1% and 17.4% for the nine months ended September 30, 2016 and 2015, respectively. The increase in gross profit was driven primarily by continuous improvement and material cost savings, improved volume and product mix in North America, Europe and Asia Pacific, and our recent acquisitions. These items were partially offset by unfavorable foreign exchange, customer price reductions and decreased volumes in South America.

Selling, Administration and Engineering. Selling, administration and engineering expense for the nine months ended September 30, 2016 was $268.5 million, or 10.3% of sales, compared to $239.5 million, or 9.6% of sales, for the nine months ended September 30, 2015. Selling, administration and engineering expense for the nine months ended September 30, 2016 was impacted primarily by higher compensation-related costs, as well as investments to support growth.

Restructuring. Restructuring charges for the nine months ended September 30, 2016 decreased $1.3 million compared to the nine months ended September 30, 2015. Restructuring charges consisted primarily of expenses incurred related to our European restructuring initiative.

Interest Expense, Net. Net interest expense for the nine months ended September 30, 2016 increased $1.9 million compared to the nine months ended September 30, 2015, which resulted primarily from interest and debt issuance cost amortization recorded on the Term Loan Facility.

Other (Expense) Income, Net. Other expense for the nine months ended September 30, 2016 was $8.6 million, consisting of secondary offering underwriting fees of $5.9 million, foreign currency losses of $2.0 million, and losses on sales of receivables of $0.7 million. Other income for the nine months ended September 30, 2015 was $9.9 million, which consisted of

the gain from the remeasurement of our previously held equity interest in Shenya of $14.2 million, partially offset by $3.5 million of foreign currency losses and $0.8 million losses on sales of receivables.

Income Tax Expense. Income tax expense for the nine months ended September 30, 2016 was $43.3 million on earnings before income taxes of $151.7 million. This compares to income tax expense of $44.1 million on earnings before income taxes of $134.2 million for the same period of 2015. The effective tax rate for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was lower primarily due to the tax benefits related to the US research tax credit and the early adoption of an ASU related to share-based compensation reflected in the 2016 effective tax rate which was not statutory in the nine months ended September 30, 2016. The income tax rate for the nine months ended September 30, 2016 varied from statutory rates due primarily to the impact of income taxes on foreign earnings taxed at rates lower than the U.S. statutory rate, the inability to record a tax benefit for pre-tax losses in certain foreign jurisdictions to the extent not offset by other categories of income, tax credits, income tax incentives, excess tax benefits related to stock based compensation, withholding taxes, and other permanent items. Further, the Company’s current and future provision for income taxes may be impacted by the recognition of valuation allowances in certain countries. The Company intends to maintain these allowances until it is more likely than not that the deferred tax assets will be realized.

Segment Results of Operations

The following table presents sales and segment profit (loss) for each of the reportable segments for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
	(dollar amounts in thousands)					
Sales to external customers						
North America	$450,795	$456,352	$(5,557)	$1,361,183	$1,327,262	$33,921
Europe	242,773	247,275	(4,502)	794,411	784,387	10,024
Asia Pacific	137,174	102,080	35,094	380,483	299,619	80,864
South America	24,914	21,824	3,090	61,380	77,134	(15,754)
Consolidated	$855,656	$827,531	$28,125	$2,597,457	$2,488,402	$109,055
Segment profit (loss)						
North America	$55,031	$58,327	$(3,296)	$169,857	$156,978	$12,879
Europe	(5,632)	(4,766)	(866)	(7,510)	(6,377)	(1,133)
Asia Pacific	3,037	(690)	3,727	6,073	3,745	2,328
South America	(3,265)	(7,484)	4,219	(16,685)	(20,114)	3,429
Consolidated	$49,171	$45,387	$3,784	$151,735	$134,232	$17,503

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

North America. Sales for the three months ended September 30, 2016 decreased $5.6 million, or 1.2%, compared to the three months ended September 30, 2015, primarily due to the divestiture of our hard coat plastic exterior trim business, customer price reductions and unfavorable foreign exchange of $1.9 million, partially offset by an improvement in volume and product mix and the acquisition of AMI Industries' fuel and brake business. Segment profit for the three months ended September 30, 2016 decreased by $3.3 million, primarily due to customer price reductions and higher compensation-related costs, partially offset by the favorable impact of continuous improvement, material cost savings and an improvement in volume and product mix.

Europe. Sales for the three months ended September 30, 2016 decreased $4.5 million, or 1.8%, compared to the three months ended September 30, 2015, primarily due to a decrease in volume and product mix and customer price reductions, partially offset by favorable foreign exchange of $0.6 million. Segment loss for the three months ended September 30, 2016 increased by $0.9 million, primarily due to planned restructuring, a decrease in volume and product mix and customer price reductions, partially offset by the favorable impact of continuous improvement and material cost savings.

Asia Pacific. Sales for the three months ended September 30, 2016 increased $35.1 million, or 34.4%, compared to the three months ended September 30, 2015, primarily due to improved volume and product mix and consolidation of a previously unconsolidated joint venture, partially offset by unfavorable foreign exchange of $6.2 million. Segment profit for the three

months ended September 30, 2016 increased by $3.7 million primarily driven by the favorable impact of continuous improvement, material cost savings and an improvement in volume and product mix.

South America. Sales for the three months ended September 30, 2016 increased $3.1 million, or 14.2%, compared to the three months ended September 30, 2015, primarily due to favorable foreign exchange of $2.0 million. Segment loss for the three months ended September 30, 2016 improved by $4.2 million primarily due to price and material cost savings.

Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

North America. Sales for the nine months ended September 30, 2016 increased $33.9 million, or 2.6%, compared to the nine months ended September 30, 2015, primarily due to an improvement in volume and product mix and the acquisition of AMI Industries' fuel and brake business, partially offset by unfavorable foreign exchange of $21.1 million, the divestiture of our hard coat plastic exterior trim business and customer price reductions. Segment profit for the nine months ended September 30, 2016 increased by $12.9 million, primarily due to the favorable impact of continuous improvement, material cost savings and an improvement in volume and product mix, partially offset by customer price reductions and higher compensation-related costs.

Europe. Sales for the nine months ended September 30, 2016 increased $10.0 million, or 1.3%, compared to the nine months ended September 30, 2015, primarily due to an improvement in volume and product mix and favorable foreign exchange of $1.1 million, partially offset by customer price reductions. Segment loss for the nine months ended September 30, 2016 increased by $1.1 million, primarily due to customer price reductions and the non-recurrence of a $14.2 million gain on remeasurement of a previously held equity interest in Shenya recognized in the second quarter of 2015 as the legal ownership was held by one of our European entities, partially offset by the favorable impact of continuous improvement, material cost savings and an improvement in volume and product mix.

Asia Pacific. Sales for the nine months ended September 30, 2016 increased $80.9 million, or 27.0%, compared to the nine months ended September 30, 2015, primarily due to improved volume and product mix, our recent acquisitions and consolidation of a previously unconsolidated joint venture, partially offset by unfavorable foreign exchange of $17.8 million. Segment profit for the nine months ended September 30, 2016 increased by $2.3 million primarily due to our recent acquisitions, an improvement in volume and product mix, the impact of continuous improvement and material cost savings, partially offset by increased interest expense as a result of expansion in the region.

South America. Sales for the nine months ended September 30, 2016 decreased $15.8 million, or 20.4%, compared to the nine months ended September 30, 2015, primarily due to a decrease in volumes and unfavorable foreign exchange of $7.0 million. Segment loss for the nine months ended September 30, 2016 improved by $3.4 million primarily due to price and material cost savings, partially offset by decreased volumes.

Liquidity and Capital Resources

Short and Long-Term Liquidity Considerations and Risks

We intend to fund our ongoing working capital, capital expenditures, debt service and other funding requirements through a combination of cash flows from operations, cash on hand, borrowings under our Senior ABL Facility and receivables factoring. We anticipate that these funding sources will be sufficient to meet our needs for the next twelve months. However, our ability to fund our working capital needs, debt payments and other obligations, and to comply with the financial covenants, including borrowing base limitations, under our Senior ABL Facility, depends on our future operating performance and cash flow and many factors outside of our control, including the costs of raw materials, the state of the overall automotive industry and financial and economic conditions and other factors. The Company utilizes intercompany loans and equity contributions to fund its worldwide operations. There may be country specific regulations which may restrict or result in increased costs in the repatriation of these funds. See Note 6. “Debt” to the condensed consolidated financial statements for additional information.

On November 2, 2016, CSA U.S. issued $400,000 aggregate principal amount of 5.625% Senior Notes due 2026 (the “Senior Notes”) and amended its existing Senior ABL Facility and Term Loan Facility (the “Debt Refinancing”). We used the proceeds of the Senior Notes to repay the non-extended term loan outstanding under the Term Loan Facility and to pay fees and expenses related to the Debt Refinancing. The remaining term loan of $340,000 was extended to November 2023. The Senior ABL Facility was extended to November 2021 and its aggregate revolving loan availability increased to $210,000, subject to borrowing base availability.

Cash Flows

Operating Activities. Net cash provided by operations was $182.0 million for the nine months ended September 30, 2016, which consisted primarily of positive cash provided from increased cash earnings, partially offset by $35.2 million of net cash used that related to changes in operating assets and liabilities. The changes in operating assets and liabilities were primarily a

result of increased accounts receivables, partially offset by increased accounts payable. Net cash provided by operations was $110.0 million for the nine months ended September 30, 2015, which included $63.4 million of cash used that related to changes in operating assets and liabilities.

Investing Activities. Net cash used in investing activities was $150.7 million for the nine months ended September 30, 2016, which consisted primarily of $116.8 million of capital spending and $37.5 million for the acquisition of businesses, partially offset by the cash received from the consolidation of a joint venture. Net cash used in investing activities was $163.5 million for the nine months ended September 30, 2015, which consisted primarily of $129.7 million of capital spending and $34.4 million for the Shenya acquisition and $4.3 million for investment in joint ventures, offset by proceeds of $4.8 million for the sale of fixed assets and other. We anticipate that we will spend approximately $155 million to $165 million on capital expenditures in 2016.

Financing Activities. Net cash used in financing activities totaled $41.3 million for the nine months ended September 30, 2016, which consisted primarily of $23.8 million for the repurchase of common stock in conjunction with the secondary offering, payments on long-term debt of $9.8 million, and taxes withheld and paid on employees' share based awards of $12.0 million, partially offset by $2.5 million proceeds from the exercise of stock warrants and an increase in short term debt of $1.7 million. Net cash provided by financing activities totaled $0.5 million for the nine months ended September 30, 2015, which consisted primarily of $8.5 million related to the exercise of stock warrants and an increase in short term debt of $1.0 million, partially offset by payments on long-term debt of $6.2 million, taxes withheld and paid on employees' share based awards of $1.3 million, and the purchase of noncontrolling interests of $1.3 million.

Non-GAAP Financial Measures

In evaluating our business, management considers EBITDA and Adjusted EBITDA to be key indicators of our operating performance. Our management also uses EBITDA and Adjusted EBITDA:

- because similar measures are utilized in the calculation of the financial covenants and ratios contained in our financing arrangements;
- in developing our internal budgets and forecasts;
- as a significant factor in evaluating our management for compensation purposes;
- in evaluating potential acquisitions;
- in comparing our current operating results with corresponding historical periods and with the operational performance of other companies in our industry; and
- in presentations to the members of our board of directors to enable our board of directors to have the same measurement basis of operating performance as is used by management in their assessments of performance and in forecasting and budgeting for our company.

In addition, we believe EBITDA and Adjusted EBITDA and similar measures are widely used by investors, securities analysts and other interested parties in evaluating our performance. We define Adjusted EBITDA as net income plus income tax expense, interest expense, net of interest income, depreciation and amortization or EBITDA, as adjusted for items that management does not consider to be reflective of our core operating performance. These adjustments include, but are not limited to, restructuring costs, impairment charges, non-cash fair value adjustments, acquisition related costs, and non-cash stock based compensation.

We calculate EBITDA and Adjusted EBITDA by adjusting net income to eliminate the impact of items we do not consider indicative of our ongoing operating performance. EBITDA and Adjusted EBITDA are not financial measurements recognized under U.S. GAAP, and when analyzing our operating performance, investors should use EBITDA and Adjusted EBITDA as a supplement to, and not as alternatives for, net income, operating income, or any other performance measure derived in accordance with U.S. GAAP, nor as an alternative to cash flow from operating activities as a measure of our liquidity. EBITDA and Adjusted EBITDA have limitations as analytical tools, and they should not be considered in isolation or as substitutes for analysis of our results of operations as reported under U.S. GAAP. These limitations include:

- they do not reflect our cash expenditures or future requirements for capital expenditure or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;

- they do not reflect interest expense or cash requirements necessary to service interest or principal payments under our Term Loan Facility and Senior ABL Facility;
- they do not reflect certain tax payments that may represent a reduction in cash available to us;
- although depreciation and amortization are non-cash charges, the assets being depreciated or amortized may have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and

- other companies, including companies in our industry, may calculate these measures differently and, as the number of differences in the way companies calculate these measures increases, the degree of their usefulness as a comparative measure correspondingly decreases.

In addition, in evaluating Adjusted EBITDA, it should be noted that in the future, we may incur expenses similar to the adjustments in the below presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual items.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA from net income, which is the most comparable financial measure in accordance with U.S. GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(dollar amounts in thousands)			
Net income attributable to Cooper-Standard Holdings Inc.	$36,362	$32,732	$107,874	$90,215
Income tax expense	12,525	12,869	43,312	44,052
Interest expense, net of interest income	10,114	9,487	29,861	27,912
Depreciation and amortization	31,325	29,303	91,699	85,277
EBITDA	$90,326	$84,391	$272,746	$247,456
Gain on remeasurement of previously held equity interest [1]	—	—	—	(14,199)
Restructuring charges	10,430	8,540	33,468	34,809
Secondary offering underwriting fees and other expenses [2]	—	—	6,500	—
Amortization of inventory write-up [3]	—	—	—	1,419
Acquisition costs	—	353	—	1,352
Other	—	60	155	222
Adjusted EBITDA	$100,756	$93,344	$312,869	$271,059

(1) Gain on remeasurement of previously held equity interest in Shenya.

(2) Fees and other expenses associated with the March 2016 secondary offering.

(3) Amortization of write-up of inventory to fair value for the Shenya acquisition.

Recent Accounting Pronouncements

See Note 1. “Overview” to the condensed consolidated financial statements included elsewhere in this Form 10-Q.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of U.S. federal securities laws, and we intend that such forward-looking statements be subject to the safe harbor created thereby. We make forward-looking statements in this Quarterly Report on Form 10-Q and may make such statements in future filings with the SEC. We may also make forward-looking statements in our press releases or other public or stockholder communications. These forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends, and other information that is not historical information and, in particular, appear under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Risk Factors,” and “Business Environment and Outlook.” When used in this report, the words “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “believe,” “forecast,” or future or conditional verbs, such as “will,” “should,” “could,” “may,” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management’s examination of historical operating trends and data are based upon our current expectations and various assumptions. Our expectations, beliefs, and projections are expressed in good faith and we believe there is a reasonable basis for them. However, we cannot assure you that these expectations, beliefs, and projections will be achieved. Forward-looking statements are not guarantees of future performance and are subject to significant risks and uncertainties that may cause actual results or achievements to be materially different from the future results or achievements expressed or implied by the forward-looking statements.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements in this report. Such risks and uncertainties include, among others: prolonged or material contractions in automotive sales and production volumes; escalating pricing pressures; loss of large customers or significant platforms; our ability to successfully compete in the automotive parts industry; availability and increasing volatility in costs of manufactured

components and raw materials; disruption in our supply base; risks associated with our non-U.S. operations; foreign currency exchange rate fluctuations; our ability to control the operations of our joint ventures for our sole benefit; our substantial debt; our ability to obtain adequate financing sources in the future; operating and financial restrictions imposed on us under our term loan facility and the ABL facility; the underfunding of our pension plans; significant changes in discount rates and the actual return on pension assets; effectiveness of our continuous improvement programs and other cost savings plans; manufacturing facility closings or consolidation; our ability to execute new program launches; our ability to meet customers' needs for new and improved products; the possibility that our acquisition strategy may not be successful; product liability, warranty and recall claims brought against us; environmental, health and safety laws and other laws and regulations; work stoppages or other labor disruptions; the ability of our intellectual property to withstand legal challenges; cyber-attacks or other disruptions in our information technology systems; the possible volatility of our annual effective tax rate; the possibility of future impairment charges to our goodwill and long-lived assets; the concentrated ownership of our stock which may allow a few owners to exert significant control over us; and our dependence on our subsidiaries for cash to satisfy our obligations. See Item 1A. Risk Factors, in our 2015 Annual Report for additional information regarding these and other risks and uncertainties. There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

You should not place undue reliance on these forward-looking statements. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the quantitative and qualitative information about the Company’s market risk from those previously disclosed in the Company’s 2015 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Based on that evaluation, the Company’s Chief Executive Officer along with the Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this Report.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are periodically involved in claims, litigation and various legal matters that arise in the ordinary course of business. In addition, we conduct and monitor environmental investigations and remedial actions at certain locations. We accrue for litigation exposure when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified. As of September 30, 2016, management does not believe that there is a reasonable possibility that any material loss exceeding the amounts already recognized for our litigation claims and matters, if any, has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, our financial condition and results of operations could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.

On March 30, 2016, a putative class action complaint alleging conspiracy to fix the price of body sealing products used in automobiles and other light-duty vehicles was filed in Ontario against numerous automotive suppliers, including the CS Defendants and Nishikawa Cooper LLC, a joint venture in which the Company holds a 40% interest. Plaintiffs purport to be indirect purchasers of body sealing products supplied by the CS Defendants and/or the other defendants during the relevant period. The plaintiffs seek recovery of damages against all defendants in an amount to be determined, punitive damages, as well as pre-judgment and post-judgment interest and related costs and expenses of the litigation. The Company believes the claims asserted against the CS Defendants are without merit and intends to vigorously defend against these claims. Further, the Company does not believe that there is a material loss that is probable and reasonably estimable related to these claims.

Item 1A. Risk Factors

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2015 Annual Report which could materially impact our business, financial condition or future results. Risks disclosed in the 2015 Annual Report are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may materially adversely impact our business, financial condition or operating results.

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

(c) Purchases of Equity Securities By the Issuer and Affiliated Purchasers

On March 14, 2016, the Company announced that its Board of Directors approved a securities repurchase program (the “Program”) authorizing the Company to repurchase, in the aggregate, up to $125 million of its outstanding common stock or warrants to purchase common stock. The authorization replaces the remaining balance of a previous $50 million repurchase program authorized in May 2013 pursuant to which the Company has repurchased approximately 198,990 shares at a total cost (including fees) of $9.8 million. Under the Program, repurchases may be made on the open market or through private transactions, as determined by the Company’s management and in accordance with prevailing market conditions and federal securities laws and regulations. Of the $125 million authorization under the Program, the Company used $23.8 million of cash on hand to purchase 350,000 of the shares being offered by the Selling Stockholders in connection with the secondary offering of the Company’s common stock that was completed in March 2016. The Company expects to fund any future repurchases from cash on hand and future cash flows from operations. The Company is not obligated to acquire a particular amount of securities, and the Program may be discontinued at any time at the Company’s discretion. No repurchases were made in the current reporting period. Approximately $101.2 million dollar value of shares may yet be purchased under the Program.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
10.1*	Form of Cooper-Standard Holdings Inc. 2011 Omnibus Incentive Plan Special Retention Award Agreement (stock-settled award).
31.1*	Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
31.2*	Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Submitted electronically with the Report.

SIGNATURES

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

COOPER-STANDARD HOLDINGS INC.

November 2, 2016	/S/ MATTHEW W. HARDT
	Matthew W. Hardt
Date	Chief Financial Officer
	(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
10.1*	Form of Cooper-Standard Holdings Inc. 2011 Omnibus Incentive Plan Special Retention Award Agreement (stock-settled award).
31.1*	Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
31.2*	Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Submitted electronically with the Report.