SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000, 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: 0-20199

EXPRESS SCRIPTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	43-1420563
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
13900 Riverport Dr., Maryland Heights, Missouri	63043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (314) 770-1666

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

None

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

Class A Common Stock, $0.01 par value
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of 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. [X]

The aggregate market value of Registrant's voting stock held by non-affiliates as of January 31, 2001, was $3,582,603,430 based on 38,600,441 such shares held on such date by non-affiliates and the last sale price for the Class A Common Stock on such date of $92.8125 as reported on the Nasdaq National Market. Solely for purposes of this computation, the Registrant has assumed that all directors and executive officers of the Registrant are affiliates of the Registrant and has assumed that NYLIFE LLC is not an affiliate of the Registrant. On such date, NYLIFE LLC was the beneficial owner of 8,120,000 shares of the Registrant's Class A Common Stock, having an aggregate market value of $753,637,500.

Common stock outstanding as of January 31, 2001: 38,786,311 Shares Class A

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the definitive proxy statement for the Registrant's 2001 Annual Meeting of Stockholders, which is

expected to be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2000.

Information that we have included or incorporated by reference in this Annual Report on Form 10-K, and information that may be contained in our other filings with the Securities and Exchange Commission (the "SEC") and our press releases or other public statements, contain or may contain forward-looking statements. Please refer to a discussion of our forward looking statements and associated risks in "Item 1 --Forward Looking Statements and Associated Risks" in this Annual Report on Form 10-K.

PART I
THE COMPANY

Item 1 - Business

Industry Overview

Prescription drug costs are the fastest growing component of health care costs in the United States. The U.S. Health Care Financing Administration ("HCFA") estimates that prescription drugs accounted for approximately 8% of U.S. health care expenditures in 1998, and are expected to increase to 11% by 2008. U.S. prescription drug sales for 1998 were approximately $90.6 billion, and HCFA projects continued sales increases at an average annual growth rate of approximately 11% through 2008, compared to an average annual growth rate of approximately 6% for total health care costs during this period. Based upon information in our 1999 Annual Drug Trend report, described below under "--Clinical Support", we estimate that average drug spending will grow at an annual rate of 15% from 2000 through 2004 and average per member drug spend will grow at a compound annual rate of 15% from 1995 through 2004, and that per member drug spend in 2004 will be approximately $760 compared to $387 in 1999 and $216 in 1995. Factors underlying this trend include:

- increases in research and development expenditures by drug manufacturers, resulting in many new drug introductions
- a shorter U.S. Food and Drug Administration approval cycle for new pharmaceuticals
- high prices for new "blockbuster" drugs
- an aging population
- increased demand for prescription drugs due to increased disease awareness by patients, effective direct-to-consumer advertising by drug manufacturers and a growing reliance on medication in lieu of lifestyle changes

This trend creates a significant challenge for HMOs, health insurers, employers and unions that provide a drug benefit as part of the health plans they offer to members of their respective organizations. Certain of these health benefit providers, or "payors", engage the services of pharmacy benefit management ("PBM") companies to help them provide a cost-effective drug benefit as part of their health plan and to better understand the impact of prescription drug utilization on their overall health care expenditures.

In general, PBMs coordinate the distribution of outpatient pharmaceuticals through a combination of benefit-management services, including retail drug card programs, mail pharmacy services and formulary management programs. PBMs emerged during the late 1980s by combining traditional pharmacy claims processing and mail pharmacy services to create an integrated product offering that could help manage the prescription drug benefit for payors. During the early 1990s, numerous PBMs were created, with some providers offering a comprehensive, integrated package of services. There are an estimated 60 PBMs serving a population of approximately 180 million members and processing approximately 2.5 billion prescriptions annually. The PBM industry processed approximately $98 billion worth of prescriptions in 2000. The three largest PBMs account for approximately 55% of prescription volume or member lives.

The services offered by the more sophisticated PBMs have broadened to include disease management programs, compliance programs, outcomes research, drug therapy management programs and sophisticated data analysis.

Company Overview

We are the third largest PBM in North America. We are independent from pharmaceutical manufacturer ownership, and believe our independence is important as it allows us to make unbiased formulary recommendations to our clients, balancing both clinical efficacy and cost.

We provide a full range of pharmacy benefit management services, including retail drug card programs, mail pharmacy services, drug formulary management programs and other clinical management programs for approximately 19,000 client groups that include HMOs, health insurers, third-party administrators, employers, union-sponsored benefit plans and government health programs. As of January 1, 2001, some of our largest clients include Aetna U.S. Healthcare, Oxford Health Plans, Blue Cross Blue Shield of Massachusetts, the State of Georgia, Blue Shield of California and Mutual of Omaha.

As of January 1, 2001, our PBM services were provided to approximately 43.5 million members in the United States and Canada who were enrolled in health plans sponsored by our clients. In computing the number of members we serve we make certain estimates and adjustments. We believe different PBMs use different factors in making these estimates and adjustments. We also believe, however, that these numbers are a reasonable approximation of the actual number of members served by us.

Our PBM services include:

- network pharmacy management, mail pharmacy services, benefit design consultation, drug utilization review, formulary management programs, disease management, medical and drug data analysis services, and compliance and therapy management programs for our clients
- market research programs for pharmaceutical manufacturers
- medical information management services, which include outcome assessments, the development of data warehouses combining medical claims and prescription drug claims, and sophisticated decision support tools to evaluate disease specific interventions on cost and quality, through our wholly-owned subsidiary Practice Patterns Science, Inc. ("PPS")
- informed decision counseling services through our Express Health LineSM division

Our non-PBM services include:

- infusion therapy services through our wholly owned subsidiary, Express Scripts Infusion Services
- distribution of pharmaceuticals requiring special handling or packaging through our wholly owned subsidiary Express Scripts Specialty Distribution Services

Our revenues are primarily generated from the delivery of prescription drugs through our contractual network of retail pharmacies, mail pharmacy services and infusion therapy services. In 2000, 1999 and 1998, revenues from the delivery of prescription drugs to our members represented 94.1%, 93.4% and 98.2% of our total revenues, respectively. Revenues from services, such as the administration of contracts between our clients and the clients' retail pharmacy networks, market research programs, the sale of medical information management services, the sale of informed decision counseling services and our Specialty Distribution Services comprised the remainder of our revenues.

Prescription drugs are dispensed to members of the health plans we serve primarily through networks of retail pharmacies that are under non-exclusive contract with us and through five mail pharmacy service centers that we operate out of leased facilities. More than 55,000 retail pharmacies, representing more than 99% of all United States retail pharmacies, participate in one or more of our networks. In 2000, we processed approximately 241.8 million network pharmacy claims and 15.2 million mail pharmacy prescriptions, with an estimated total drug spending of $11.2 billion, excluding United HealthCare ("UHC") network pharmacy claims of 57.8 million having an estimating total drug spending of $2.7 billion. Our contract with UHC expired on May 31, 2000 and we transitioned the UHC membership to another provider throughout 2000.

We were incorporated in Missouri in September 1986, and were reincorporated in Delaware in March 1992. Our principal executive offices are located at 13900 Riverport Drive, Maryland Heights, Missouri 63043. Our telephone number is (314) 770-1666.

Products and Services

Pharmacy Benefit Management Services

Overview. Our PBM services involve the management of outpatient prescription drug usage to foster high quality, cost-effective pharmaceutical care through the application of managed care principles and advanced information technologies. We offer our PBM services to our clients in the United States and Canada. Our PBM services include:

- retail network pharmacy administration
- mail pharmacy services
- benefit plan design consultation
- formulary administration
- electronic point-of-sale claims processing
- drug utilization review
- the development of advanced formulary compliance and therapeutic intervention programs
- therapy management services such as prior authorization, therapy guidelines, step therapy protocols and formulary management interventions
- sophisticated management information reporting and analytic services
- outcomes assessments, the development of data warehouses combining medical claims and prescription drug claims, and sophisticated decision support tools to evaluate disease specific interventions on cost and quality
- informed decision counseling
- drug information through our DrugDigest.org and express-scripts.com websites

During 2000, 98.7% of our revenues were derived from PBM services, compared to 98.5% and 97.9% during 1999 and 1998, respectively. The number of retail pharmacy network claims processed and mail pharmacy claims processed, excluding UHC, has increased to 241.8 million and 15.2 million claims, respectively, in 2000, from 57.8 million and 2.8 million claims, respectively, in 1996. During 1999 and 1998, we processed 211.3 million, excluding UHC, and 113.2 million retail pharmacy network claims, respectively, and 10.6 million and 7.4 million mail pharmacy claims, respectively.

Retail Pharmacy Network Administration. We contract with retail pharmacies to provide prescription drugs to members of the pharmacy benefit plans managed by us. In the United States, these pharmacies typically discount the price at which they will provide drugs to members in return for designation as a network pharmacy. We manage four nationwide networks in the United States that are responsive to client preferences related to cost containment and convenience of access for members. We also manage over 400 networks of pharmacies that we have designed to meet the specific needs of some of our larger clients or that are under direct contract with our managed care clients. We manage one nationwide network in Canada.

All retail pharmacies in our pharmacy networks communicate with us on-line and in real time to process prescription drug claims. When a member of a plan presents his or her identification card at a network pharmacy, the network pharmacist sends the specified claim data in an industry-standard format through our systems, which process the claim and respond to the pharmacy, typically within one or two seconds. The electronic processing of the claim involves:

- confirming the member's eligibility for benefits under the applicable health benefit plan and the conditions to or limitations of coverage, such as the amount of copayments or deductibles the member must pay
- performing a concurrent drug utilization review analysis and alerting the pharmacist to possible drug interactions and reactions or other indications of inappropriate prescription drug usage
- updating the member's prescription drug claim record
- if the claim is accepted, confirming to the pharmacy that it will receive payment for the drug dispensed

Mail Pharmacy. We operate five mail pharmacies, located in Maryland Heights, Missouri; Tempe, Arizona; Albuquerque, New Mexico; Bensalem, Pennsylvania; and Troy, New York. These pharmacies provide members with convenient access to maintenance medications and enable our clients and us to control drug costs through operating efficiencies and economies of scale. In addition, through our mail service pharmacies we are directly involved with the prescriber and member, and are generally able to achieve a higher level of generic substitutions and therapeutic interventions than can be achieved through the retail pharmacy networks.

Benefit Plan Design and Consultation. We offer consultation and financial modeling to assist our clients in selecting a benefit plan design that meets their needs for member satisfaction and cost control. The most common benefit design options we offer to our clients are:

- financial incentives and reimbursement limitations on the drugs covered by the plan, including drug formularies, flat dollar or percentage of prescription cost copayments, deductibles or annual benefit maximum
- generic drug substitution incentives
- incentives or requirements to use only network pharmacies or to order certain drugs only by mail
- reimbursement limitations on the number of days' supply of a drug that can be obtained

The selected benefit design is entered into our electronic claims processing system, which applies the plan design parameters as claims are submitted and enables our clients and us to monitor the financial performance of the plan.

Formulary Development, Compliance and Therapy Management. Formularies are lists of drugs for which coverage is provided under the applicable plan. We have over 10 years of formulary development expertise and an extensive clinical

pharmacy department.

Our foremost consideration in the formulary development process is the clinical appropriateness of the drug, not the cost of the drug. In developing formularies, we first perform a rigorous therapeutic assessment of the drug's clinical effectiveness. After the clinical recommendation is made, it is evaluated on an economic basis. No drug is added to the formulary until our National Pharmacy & Therapeutics Committee, a panel composed of 17 independent physicians, our Chief Medical Officer and five of our pharmacists, approves it. This panel does not consider any information regarding the discount or formulary fee arrangement that might be negotiated with the manufacturer in making its clinical recommendation. This ensures that the clinical recommendation is not affected by the purchasing arrangement.

We administer a number of different formularies for our clients that identify preferred drugs whose use is encouraged or required through various benefit design features. Historically, many clients have selected a plan design that includes an open formulary in which all drugs are covered by the plan and preferred drugs, if any, are merely recommended. Other options consist of restricted formularies, in which various financial or other incentives exist for the selection of preferred drugs over their non-preferred counterparts, or closed formularies, in which benefits are available only for drugs listed on the formulary. Formulary preferences can be encouraged:

- by restricting the formulary through plan design features, such as tiered copayments, which require the member to pay a higher amount for a non-preferred drug

- through prescriber education programs, in which we or the managed care client actively seek to educate the prescribers about the formulary preferences

- through our drug choice management program, which actively promotes therapeutic and generic interchanges to clinically appropriate cost-effective products to reduce drug costs

We also provide formulary compliance services to our clients. For example, if the doctor has not prescribed the preferred drug on a client formulary, we notify the pharmacist through our claims processing system. The pharmacist or we can then contact the doctor to attempt to obtain the doctor's consent to switch the prescription to the preferred product. The doctor has the final decision-making authority in prescribing the medication. The doctor will consider the recommended substitution in light of the patient's medical history and approve or deny the substitution. We also offer innovative proprietary drug utilization review and clinical intervention programs to assist clients in managing compliance with the prescribed drug therapy by identifying potential and inappropriate prescribing practices.

Information Reporting and Analysis and Disease Management Programs. Through the use of sophisticated information and reporting systems, we are better able to manage the prescription drug benefit. We are able to analyze prescription drug data to identify cost trends and budget for expected drug costs, to assess the financial impact of plan design changes and to assist clients to identify costly utilization patterns through an on-line prescription drug decision support tool called ProActSM. This service allows our clients to analyze prescription drug data on-line.

In addition, our PPS subsidiary builds sophisticated data warehouses combining medical claims, prescription drug claims, and clinical laboratory data to provide decision support to the health care industry. Proprietary PPS applications enable users to quickly evaluate shifts in medical conditions afflicting membership and the effectiveness of interventions from a cost and quality of care perspective. PPS users can evaluate the impact of new prescription drugs on the cost and results of treating specific medical conditions. Working with leading health care organizations, PPS continues to push the sophistication of data warehouses and the applications to provide insight into the subtleties of health care delivery.

We offer disease management and education programs to assist health benefit plans and our members in managing the total health care costs associated with certain diseases, such as asthma, diabetes and cardiovascular disease. These programs are based upon the premise that patient and provider behavior can positively influence medical outcomes and reduce overall medical costs. We identify patients who may benefit from these programs through claims data analysis or self-enrollment. We conduct risk stratification surveys to establish a plan of care for individual program participants. We provide patient education primarily through a series of telephone and written communications with nurses and pharmacists, and both providers and patients receive progress reports on a regular basis. We conduct outcome surveys to analyze the clinical, personal and economic impact of the program.

Electronic Claims Processing System. Our electronic claims processing system enables us to implement sophisticated intervention programs to assist in managing prescription drug utilization. The system can be used to alert the pharmacist to generic substitution and therapeutic intervention opportunities and formulary compliance issues, or to administer prior authorization and step-therapy protocol programs at the time a claim is submitted for processing. Our claims processing system also creates a database of drug utilization information that can be accessed both at the time the prescription is dispensed and also on a retrospective basis to analyze utilization trends and prescribing patterns for more intensive management of the drug benefit.

Informed Decision Counseling. We offer health care decision counseling services through our Express Health LineSM division. This service allows a member to call a toll-free telephone number and discuss health care matters with a care counselor. The care counselor utilizes on-line decision support protocols and other guidelines to provide the member information to assist them in making an informed decision in seeking appropriate treatment. Records of each call are kept on-line for future reference. This service is available 24 hours a day and staffed by registered nurses. Some multilingual capabilities and service for the hearing impaired are also available. The care counselors make a follow-up phone call to determine the outcome of the initial call and offer additional assistance if needed. Member satisfaction and cost savings associated with redirections to appropriate care levels are measured through a combination of member surveys and system reports.

Consumer Health and Medical Information. In the summer of 1999, we launched an Internet site, DrugDigest.org to provide a comprehensive source of non-commercial, fact-based drug information. DrugDigest currently has a comprehensive portfolio of consumer-friendly drug information. This portfolio includes information about adverse drug interactions, drug side effects, drug administration tips, and other information useful in helping Express Scripts members and their health care professionals make informed medication decisions. In the coming year, DrugDigest will expand its coverage of prescription, over-the-counter, and herbal medications. The information and features available in our web-based ExpressChoice will allow enrollees to examine a more personalized version of DrugDigest that will include information about their enrollment benefits and drug costs and will generally, allow members and clients to more effectively manage their pharmacy benefit. Finally, the DrugDigest team is expanding their activities into disease management. By tightly coupling pharmaceutical and medical information, members will experience an even deeper understanding of how their medications impact their overall medical care.

Non-PBM Services

In addition to PBM services, we also provide non-PBM services including specialty distribution services and outpatient infusion therapy to our clients. During 2000, 1.3% of our revenues were derived from non-PBM services, compared to 1.5% and 2.1% during 1999 and 1998, respectively. This slight decline is partially due to the inclusion of Diversified Pharmaceutical Services ("DPS") for a full year in 2000 versus only nine months of 1999 and as a result of an increase in PBM revenues due to the conversion of clients from networks contracted by our client to one contracted by us. The decline from 1998 to 1999 is due to the acquisitions of ValueRx and DPS, which significantly increased our PBM service revenues.

Express Scripts Specialty Distribution Services. We provide specialty distribution services by assisting pharmaceutical manufacturers with the distribution of, and creation of a database of information for, products requiring special handling/packaging, products targeted to a specific physician or patient population and products distributed to indigent patients. Our services may include eligibility, fulfillment, inventory, insurance verification/authorization and reimbursement. These services are provided in our Maryland Heights, Missouri facility located next to our Corporate Headquarters.

Express Scripts Infusion Services. We provide infusion therapy services which involve the administration of prescription drugs and other products to a patient by catheter, feeding tube or intravenously, through our wholly owned subsidiary, IVTx, Inc., operating under the name Express Scripts Infusion Services. Our clients benefit from outpatient infusion therapy services because the length of hospital stays can be reduced. Rather than receiving infusion therapy in a hospital, we provide infusion therapy services to patients at home, in a physician's office or in a free-standing center operated by a managed care organization or other entity. We have facilities supporting our infusion services operations in Houston, Texas; Irvine, Texas; Columbia, Maryland; Maryland Heights, Missouri; Columbia, Missouri; Springfield, New Jersey; and West Chester, Pennsylvania.

Segment Information. Information regarding our segments appears in Note 12 of the notes to our consolidated financial
statements, which is incorporated by reference herein.

Suppliers

We maintain an extensive inventory in our mail pharmacies of brand name and generic pharmaceuticals. If a drug is not in our inventory, we can generally obtain it from a supplier within one or two business days. We purchase our pharmaceuticals either directly from manufacturers or through wholesalers. During 2000, approximately 60.0% of our pharmaceutical purchases were through one wholesaler, most of which were brand name pharmaceuticals. Generic pharmaceuticals are generally purchased directly from manufacturers. We believe that alternative sources of supply for most generic and brand name pharmaceuticals are readily available.

Clients

We are a major provider of PBM services to the managed care industry, including several large HMOs, government plans and large employers. Some of our largest managed care clients are Aetna U.S. Healthcare, Inc., Oxford Health Plans, Blue Cross Blue Shield of Massachusetts and Blue Shield of California. Some of our largest employer groups include the State of Georgia and the State of New York Empire Plan Prescription Drug Program (through a subcontracting relationship with CIGNA HealthCare). We also market our PBM services through preferred provider organizations, group purchasing organizations, health insurers, third-party administrators of health plans and union-sponsored benefit plans.

In connection with our 1999 acquisition of Diversified Pharmaceutical Services ("DPS"), we acquired the contract to serve approximately 9.5 million UHC members. The contract with UHC expired on May 31, 2000. We developed a migration plan to transition the UHC members to their new provider through 2000. We believe the termination and transition of this contract did not materially adversely affect our business and results of operations.

Medicare Prescription Drug Coverage

The federal Medicare program provides a comprehensive medical benefit program for individuals age 65 and over. Today Medicare covers only a few outpatient prescription drugs. Key policy makers on both sides of the political aisle have proposed changes to the Medicare program that would result in at least partial coverage for most outpatient prescription drugs. The Medicare population is large, and prescription drug utilization among seniors is substantially higher on average than that of other age groups.

Many of the Medicare prescription drug proposals lack important details regarding the administration of the plan. We believe that a Medicare prescription drug benefit could provide us with substantial new business opportunities, but at the same time any such program could adversely affect other aspects of our business. For example, some of our clients sell medical policies to seniors that provide a prescription drug benefit that we administer. Other clients provide a prescription drug benefit to their retirees. Depending on the plan that is ultimately adopted, a Medicare prescription drug benefit could make such policies or plans less valuable to seniors, adversely affecting that segment of our business. While we believe that there could be opportunities for new business under a Medicare plan that would more than offset any adverse effects, we can give no assurance that this would be the case.

Joint Venture and Acquisitions

On February 22, 2001, we announced that we entered into an agreement with AdvancePCS and Merck-Medco to form RxHub LLC ("RxHub"). RxHub is intended to develop an electronic exchange enabling physicians who use electronic prescribing technology to link to pharmacies, PBMs and health plans, which their patients use. The company is designed to operate as a utility for the conduit of information among all parties engaging in electronic prescribing. We will own one-third of the equity of RxHub (as will each of the other two founders), and have committed to invest up to $20 million over the next five years with approximately $6 million committed for 2001. We will record our investment in RxHub under the equity method of accounting, which requires our percentage interest in RxHub's results to be recorded in our Consolidated Statement of Operations. RxHub will be operated to cover its expected operating costs and to return the cost of capital to the founders.

As previously announced the shareholders of Centre d'autorisation et de paiement des services de sante, a leading Quebec-based PBM commonly referred to as CAPSS, accepted an offer made by our Canadian subsidiary, ESI Canada, Inc., to acquire all of the outstanding shares of CAPSS, subject to satisfaction of certain conditions, for approximately CAN$25 million (approximately US$16.5 million). The transaction, which will be accounted for under the purchase method of accounting, will be funded with our operating cash flow. We expect to close the transaction during March 2001 and it will add approximately 1.5 million lives to ESI Canada's membership base. The transaction is not expected to be dilutive to earnings in 2001 and is expected to be slightly accretive in 2002.

On April 1, 1999, we acquired DPS from SmithKline Beecham Corporation and one of its affiliates for $715 million in cash, which reflects a purchase price adjustment for closing working capital and transaction costs. The acquisition positioned us as the third largest PBM in North America in terms of total members and provided us with one of the largest managed care membership bases of any PBM. In addition, the acquisition provides us with enhanced clinical capabilities, systems and technologies.

On April 1, 1998, we acquired the PBM business known as "ValueRx" from HCA - The HealthCare Corporation (formerly known as Columbia/HCA Healthcare) for approximately $460 million in cash. Historically, while ValueRx, like us, served all segments of the PBM market, we primarily focused on managed care and smaller self-funded plan sponsors, and ValueRx concentrated on health insurance carriers and large employer and union groups.

Company Operations

General. We operate five mail pharmacies and eight member service/pharmacy help desk call centers out of leased facilities. Electronic pharmacy claims processing takes place at our Maryland Heights, Missouri and Tempe, Arizona facilities, which are maintained, managed and operated by Electronic Data Systems ("EDS"), or at facilities owned by EDS. At our Canadian facility, we have sales and marketing, client services, pharmacy help desk, clinical, provider relations and certain management information systems capabilities.

Sales and Marketing. We market and sell our PBM services in the United States primarily through an internal staff of sales directors and sales managers

located throughout the United States. The sales representatives are supported by a staff of client service representatives, clinical pharmacy managers and business analyst consultants who focus on assisting our clients in managing the rising trend in pharmacy costs. Marketing and sales in Canada are conducted by representatives located in Mississauga, Ontario. Although we cross-sell our infusion services to our PBM clients, Infusion Services and Specialty Distribution Services also employ personnel to sell these specific products.

Member Services. Although we sell our services to clients, the ultimate recipient of many of our services are the members of health plans sponsored by our clients. We believe, therefore, that client satisfaction is dependent upon member satisfaction. Members can call us toll-free, 24 hours a day, 7 days a week, to obtain information about their prescription drug plan from our trained member service representatives.

Provider Relations. Our Provider Relations group is responsible for contracting and administering our pharmacy networks. To participate in our retail pharmacy networks, pharmacies must meet certain qualifications and are periodically required to represent to us that their applicable state licensing requirements are being maintained and that they are in good standing. Pharmacies can contact our various pharmacy help desks toll-free, 24 hours a day, 7 days a week, for information and assistance in filling prescriptions for members. In addition, our Provider Relations group audits pharmacies in the retail pharmacy networks to determine compliance with the terms of the contract with our clients or us.

Clinical Support. Our Health Management Services division employs clinical pharmacists, data analysts and outcomes researchers who provide technical support for our PBM services. These staff members assist in providing high level clinical pharmacy services such as formulary development, drug information programs, clinical interventions with physicians, development of drug therapy guidelines and the evaluation of drugs for inclusion in clinically sound therapeutic intervention programs.

The Health Management Services division conducts specific data analyses to evaluate drug therapies, and analyzes and prepares reports on clinical pharmacy data for our clients. For example, in June 2000 we released our 1999 Drug Trend Report, marking our fourth consecutive year of publishing such a report. Based on a large sample of our membership base, the report examines trends in pharmaceutical utilization and cost and the factors that underlie those trends. The division also evaluates pharmacy plan design strategies and clinical offerings and conducts outcomes research studies to inform client decision-making.

Information Systems. Our Information Systems department supports our pharmacy claims processing systems and other management information systems that are essential to our operations. Uninterrupted point-of-sale electronic retail pharmacy claims processing is a significant operational requirement for us. All claims are presently processed through systems which are maintained, managed and operated by EDS at our Maryland Heights, Missouri facility and Tempe, Arizona facility, or at facilities owned by EDS, who maintains certain computer hardware for us at its facility in Plano, Texas. Disaster recovery services for all systems are provided through our EDS services agreement. We have substantial capacity for growth in our claims processing facilities.

Competition

We believe the primary competitive factors in each of our businesses are price, quality of service and scope of available services. We believe our principal competitive advantages are our independence from pharmaceutical manufacturer ownership, our strong managed care and employer group customer base which supports the development of more sophisticated PBM services, and our commitment to provide flexible and distinctive service to our clients.

There are other PBMs in the United States, most of which are smaller than us and offer their services on a local or regional basis. We do, however, compete with a number of large, national companies, including Merck-Medco Managed Care, L.L.C., a subsidiary of Merck & Co., Inc., ("Merck-Medco");

AdvancePCS and CaremarkRx, Inc.; as well as large health insurers and certain HMOs which have their own PBM capabilities. Several of these other companies may have greater financial, marketing and technological resources than us. In addition, a competitor that is owned by a pharmaceutical manufacturer may have pricing advantages that are unavailable to us and other independent PBMs. However, we believe our independence from pharmaceutical manufacturer ownership allows us to make unbiased formulary recommendations to our clients, balancing both clinical efficacy and cost.

Consolidation has been, and may continue to be, an important factor in all aspects of the pharmaceutical industry, including the PBM segment. We believe the size of our membership base provides us with the necessary economies of scale to compete effectively in a consolidating market.

Some of our PBM services, such as disease management services, informed decision counseling services and medical information management services, compete with those being offered by pharmaceutical manufacturers, other PBMs, large national companies, specialized disease management companies and information service providers. Our non-PBM services compete with a number of large national companies as well as with local providers.

Government Regulation

Various aspects of our businesses are governed by federal and state laws and regulations. Since sanctions may be imposed for violations of these laws, compliance is a significant operational requirement. We believe we are in substantial compliance with all existing legal requirements material to the operation of our businesses. There are, however, significant uncertainties involving the application of many of these legal requirements to our business. In addition, there are numerous proposed health care laws and regulations at the federal and state levels, many of which could adversely affect our business or financial position. We are unable to predict what additional 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 us. We cannot provide any assurance that federal or state governments will not impose additional restrictions or adopt interpretations of existing laws that could have a material adverse affect on our business or financial position.

Pharmacy Benefit Management Regulation Generally. Certain federal and state laws and regulations affect or may affect aspects of our PBM business. Among these are the following:

FDA Regulation. The U.S. Food and Drug Administration ("FDA") generally has authority to regulate drug promotional materials that are disseminated "by or on behalf of" a drug manufacturer. In January, 1998, the FDA issued a Notice and Draft Guidance regarding its intent to regulate certain drug promotion and switching activities of pharmacy benefit managers that are controlled, directly or indirectly, by drug manufacturers. The position taken by the FDA in the Draft Guidance was that promotional materials used by an independent PBM or managed care organization may be subject to FDA regulation depending upon the circumstances, including the nature of the relationship between the PBM, the HMO and the manufacturer. We, along with various other parties, submitted written comments to the FDA regarding the basis for FDA regulation of PBM and HMO activities. It was our position that, while the FDA may have jurisdiction to regulate drug manufacturers, the Draft Guidance went beyond the FDA's jurisdiction. After extending the comment period due to numerous industry objections to the proposed Draft, the FDA withdrew the Draft Guidance in the fall of 1998, stating that it would reconsider the basis for such a Guidance. The FDA has not addressed the issue since the withdrawal. However, there can be no assurance that the FDA will not again attempt to assert jurisdiction over certain aspects of our PBM business in the future and, in such event, the impact could materially adversely affect our operations, business or financial position.

Anti-Remuneration/Fraud and Abuse Laws. Federal law prohibits, among other things, an entity from paying or receiving, subject to certain exceptions and "safe harbors," any remuneration to induce the referral of individuals covered

by federally funded health care programs, including Medicare, Medicaid and CHAMPUS or the purchase (or the arranging for or recommending of the purchase) of items or services for which payment may be made under Medicare, Medicaid, CHAMPUS or other federally-funded health care programs. Several states also have similar laws that are not limited to services for which Medicare or Medicaid payment may be made. State laws vary and have been infrequently interpreted by courts or regulatory agencies. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in the Medicare and Medicaid programs.

The federal statute has been interpreted broadly by courts, the Office of Inspector General ("OIG") within the Department of Health and Human Services, and administrative bodies. Because of the federal statute's broad scope, federal regulations establish certain "safe harbors" from liability. Safe harbors exist for certain properly reported discounts received from vendors, certain investment interests, certain properly disclosed payments made by vendors to group purchasing organizations, and certain discount and payment arrangements between PBMs and HMO risk contractors serving Medicaid and Medicare members. A practice that does not fall within a safe harbor is not necessarily unlawful, but may be subject to scrutiny and challenge. In the absence of an applicable exception or safe harbor, a violation of the statute may occur even if only one purpose of a payment arrangement is to induce patient referrals or purchases. Among the practices that have been identified by the OIG as potentially improper under the statute are certain "product conversion programs" in which benefits are given by drug manufacturers to pharmacists or physicians for changing a prescription (or recommending or requesting such a change) from one drug to another. Such laws have been cited as a partial basis, along with state consumer protection laws discussed below, for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with such programs.

To our knowledge, these anti-remuneration laws have not been applied to prohibit PBMs from receiving amounts from drug manufacturers in connection with drug purchasing and formulary management programs, to therapeutic intervention programs conducted by independent PBMs, or to the contractual relationships such as those we have with certain of our clients. In late 1999, it was reported that the U.S. Attorney's Office in Philadelphia had issued subpoenas to Merck-Medco and PCS (now AdvancePCS), both PBMs, and Schering-Plough Corp., a pharmaceutical manufacturer. We have not been served with any such subpoena, nor are we privy to information concerning the scope of information being requested by these subpoenas. However, the U.S. Attorney's Office has been quoted to the effect that one issue being investigated is whether certain practices engaged in by those PBMs violate certain anti-remuneration statutes. We believe that we are in substantial compliance with the legal requirements imposed by such laws and regulations, and we believe that there are material differences between drug-switching programs that have historically been challenged under these laws and the programs we offer to our clients. However, there can be no assurance that we will not be subject to scrutiny or challenge under such laws or regulations. Any such challenge could have a material adverse effect on us.

ERISA Regulation. The Employee Retirement Income Security Act of 1974 ("ERISA") regulates certain aspects of employee pension and health benefit plans, including self-funded corporate health plans with which we have agreements to provide PBM services. We believe that the conduct of our business is not generally subject to the fiduciary obligations of ERISA, and our agreements with our clients support this contention by providing that we are not the fiduciary of the applicable plan. However, there can be no assurance that the U.S. Department of Labor, which is the agency that enforces ERISA, would not assert that the fiduciary obligations imposed by the statute apply to certain aspects of our operations.

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 similar, but not identical, to the health care anti-remuneration statutes discussed in the immediately preceding section; in particular, ERISA lacks the statutory and regulatory "safe harbor" exceptions incorporated into the health care statute. Like the health care anti-remuneration laws, the

corresponding provisions of ERISA are broadly written and their application to particular cases is often uncertain. We have implemented policies, which include disclosure to health plan sponsors with respect to any commissions paid by us that might fall within the scope of such provisions, and accordingly believe we are in substantial compliance with these provisions of ERISA. However, we can provide no assurance that our policies in this regard would be found by the appropriate enforcement authorities to meet the requirements of the statute.

Proposed Changes in Canadian Healthcare System. In Canada, the provincial health plans provide universal coverage for basic health care services, but prescription drug coverage under the government plans is provided only for the elderly and the indigent. In late 1997, a proposal was made by a federal government health care task force to include coverage for prescription drugs under the provincial health insurance plans, which was endorsed by the federal government's Health Minister. This report was advisory in nature, and not binding upon the federal or provincial governments. We believe this initiative is dormant at the present time, and we are unable to determine the likelihood of adoption of the proposal in the future.

Numerous state laws and regulations also affect aspects of our PBM business. Among these are the following:

Comprehensive PBM Regulation. Although no state has passed legislation regulating PBM activities in a comprehensive manner, such legislation has been introduced previously in a number of states, and currently in Georgia. In addition, certain quasi-regulatory organizations, such as the National Association of Boards of Pharmacy ("NABP", an organization of state boards of pharmacy), the National Association of Insurance Commissioners ("NAIC", an organization of state insurance regulators), and the National Committee on Quality Assurance ("NCQA", an accreditation organization) are considering proposals to regulate PBMs and/or PBM activities, such as formulary development and utilization management. While the actions of the NABP and NAIC would not have the force of law, they may influence states to adopt any requirements or model acts they promulgate. In addition, standards established by NCQA could materially impact us directly as a PBM, and indirectly through the impact on our health plan clients.

Consumer Protection Laws. Most states have consumer protection laws that have been the basis for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with drug switching programs. In addition, pursuant to a settlement agreement entered into with seventeen states on October 25, 1995, Merck-Medco Managed Care, LLC ("Medco"), the PBM subsidiary of pharmaceutical manufacturer Merck & Co., agreed to have pharmacists affiliated with Medco mail service pharmacies disclose to physicians and patients the financial relationships between Merck, Medco, and the mail service pharmacy when such pharmacists contact physicians seeking to change a prescription from one drug to another. We believe that our contractual relationships with drug manufacturers and retail pharmacies do not include the features that were viewed by enforcement authorities as problematic in these settlement agreements. However, no assurance can be given that we will not be subject to scrutiny or challenge under one or more of these laws.

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

Legislation Affecting Plan Design. Some states have enacted legislation that prohibits certain types of managed care plan sponsors from implementing certain restrictive design features, and many states have introduced legislation to regulate various aspects of managed care plans, including provisions relating to the pharmacy benefit. For example, some states, under so-called "freedom of choice" legislation, provide that members of the plan may not be required to use

network providers, but must instead be provided with benefits even if they choose to use non-network providers. Other states have enacted legislation purporting to prohibit health plans from offering members financial incentives for use of mail service pharmacies. Legislation has been introduced in some states to prohibit or restrict therapeutic intervention, or to require coverage of all FDA approved drugs. Other states mandate coverage of certain benefits or conditions, and require health plan coverage of specific drugs if deemed medically necessary by the prescribing physician. Such legislation does not generally apply to us directly, but it may apply to certain of our clients, such as HMOs and health insurers. If such legislation were to become widely adopted and broad in scope, it could have the effect of limiting the economic benefits achievable through pharmacy benefit management. This development could have a material adverse effect on our business.

Licensure Laws. Many states have licensure or registration laws governing certain types of ancillary health care organizations, including PPOs, TPAs, and companies that provide utilization review services. The scope of these laws differs significantly from state to state, and the application of such laws to the activities of pharmacy benefit managers often is unclear. We have registered under such laws in those states in which we have concluded, after discussion with the appropriate state agency, that such registration is required. Because of increased regulatory requirements on some of our managed care clients affecting prior authorization of drugs before coverage is approved, we have obtained utilization review licenses in selected states through our new ESI Utilization Management Co. In addition, accreditation agencies' requirements for managed care organizations may also affect those delegated services we provide to such organizations.

Legislation Affecting Drug Prices. Some states have adopted so-called "most favored nation" legislation providing that a pharmacy participating in the state Medicaid program must give the state the best price that the pharmacy makes available to any third party plan. Such legislation may adversely affect our ability to negotiate discounts in the future from network pharmacies. Other states have enacted "unitary pricing" legislation, which mandates that all wholesale purchasers of drugs within the state be given access to the same discounts and incentives. Such legislation has been introduced in the past but not enacted in Missouri, Arizona, Pennsylvania, New York, and New Mexico, all states where we operate mail service pharmacies. Such legislation, if enacted in a state where one of our mail service pharmacies is located, could adversely affect our ability to negotiate discounts on our purchase of prescription drugs to be dispensed by our mail service pharmacies.

In addition, various federal and state Medicaid agencies have raised the issue of how average wholesale price ("AWP") is calculated. AWP is a standard pricing unit used throughout the industry, as well as by us, as the basis for calculating drug prices under our health plans and pharmacies and rebates with pharmaceutical manufacturers. Changes to the standard have been suggested that could alter the calculation of drug prices for federal programs. We are unable to predict whether any such changes will be adopted, and if so, if such changes would have a material adverse impact on our financial operations.

Regulation of Financial Risk Plans. Fee-for-service prescription drug plans are generally not subject to financial regulation by the states. However, if the PBM offers to provide prescription drug coverage on a capitated basis or otherwise accepts material financial risk in providing the benefit, laws in various states may regulate the plan. Such laws may require that the party at risk establish reserves or otherwise demonstrate financial responsibility. Laws that may apply in such cases include insurance laws, HMO laws or limited prepaid health service plan laws. In those cases in which we have contracts in which we are materially at risk to provide the pharmacy benefit, we believe we have complied with all applicable laws.

Many of the state laws described above may be preempted in whole or in part by ERISA, which provides for comprehensive federal regulation of employee benefit plans. However, the scope of ERISA preemption is uncertain and is subject to conflicting court rulings, and we provide services to certain clients, such as governmental entities, that are not subject to the preemption provisions of ERISA. Other state laws may be invalid in whole or in part as an

unconstitutional attempt by a state to regulate interstate commerce, but the outcome of challenges to these laws on this basis is uncertain. Accordingly, compliance with state laws and regulations remains a significant operational requirement for us.

Mail Pharmacy Regulation. Our mail service pharmacies are located in Arizona, Missouri, New Mexico, New York and Pennsylvania, and we are licensed to do business as a pharmacy in each such state. Many of the states into which we deliver pharmaceuticals have laws and regulations that require out-of-state mail service pharmacies to register with, or be licensed by, the board of pharmacy or similar regulatory body in the state. These states generally permit the mail service pharmacy to follow the laws of the state within which the mail service pharmacy is located, although two states require that we also employ a pharmacist licensed in that state. We have registered our pharmacies in every state in which such registration is required.

Other statutes and regulations affect our mail service operations. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. The Federal Trade Commission requires mail order sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the product to be sold, to fill mail orders within thirty days, and to provide clients with refunds when appropriate. The United States Postal Service has statutory authority to restrict the transmission of drugs and medicines through the mail to a degree that could have an adverse effect on our mail service operations.

Regulation of Informed Decision Counseling and Disease Management Services. Our health care decision support counseling and disease management programs are affected by many of the same types of state laws and regulations as our other activities. In addition, all states regulate the practice of medicine and the practice of nursing. We do not believe our informed decision counseling or disease management activities constitute either the practice of medicine or the practice of nursing. However, there can be no assurance that a regulatory agency in one or more states may not assert a contrary position, and we are not aware of any controlling legal precedent for services of this kind.

Privacy and Confidentiality Legislation. Most of our activities involve the receipt or use of confidential, medical information concerning individual members. In addition, we use aggregated and anonymized data for research and analysis purposes. Regulations have been proposed at the federal level and legislation has been proposed, and in some cases enacted, in several states to restrict the use and disclosure of confidential medical information. To date, no such legislation has been enacted that adversely impacts our ability to provide our services, but there can be no assurance that federal or state governments will not enact legislation, impose restrictions or adopt interpretations of existing laws that could have a material adverse effect on our operations.

In December 2000, the Department of Health and Human Services issued final privacy regulations, pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which impose extensive restrictions on the use and disclosure of individually identifiable health information by certain entities. We will be required to comply with certain aspects of the regulations. We have retained a consulting firm to assist us in assessing the steps we will have to take in complying with these regulations, which provide for a two year implementation period. While this assessment is not yet complete, we believe compliance with these regulations will have a significant impact on our business operations. We have not yet completed an assessment of the costs we will incur in complying with these regulations, and can give no assurance that such costs will not be material to us.

Even without new legislation and beyond the final federal regulations, individual health plan sponsor customers could prohibit us from including their patients' medical information in our various databases of medical data. They could also prohibit us from offering services that involve the compilation of such information.

Non-PBM Regulatory Environment. Our non-PBM activities operate in a regulatory environment that is quite similar to that of our PBM activities.

Regulation of Infusion Therapy Services. Our infusion therapy services business is subject to many of the same or similar federal and state laws and regulations affecting our pharmacy benefit management business, including anti-remuneration, physician self-referral, and other fraud and abuse type laws and regulations. In addition, some states require that providers of infusion therapy services be licensed. We are licensed as a home health agency and pharmacy in Texas, as a residential service agency and pharmacy in Maryland, and as a pharmacy in New Jersey, Missouri, Arizona and Pennsylvania. We are also licensed as a non-resident pharmacy in various states. We believe that we are in substantial compliance with such licensing requirements.

The Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), a non-profit, private organization, has established written standards for health care organizations and home care services, including standards for services provided by home infusion therapy companies. All of our infusion therapy facilities have received JCAHO accreditation, which allows us to market infusion therapy services to Medicare and Medicaid programs. If we expand our home infusion therapy services to other states or to Medicare or Medicaid programs, we may be required to comply with other applicable laws and regulations.

Future Regulation. We are unable to predict accurately what additional federal or state legislation or regulatory initiatives may be enacted in the future relating to our businesses or the health care industry in general, or what effect any such legislation or regulations might have on us. There can be no assurance that federal or state governments will not impose additional restrictions or adopt interpretations of existing laws that could have a material adverse effect on our business or financial position.

Service Marks and Trademarks

We, and our subsidiaries, have registered the service marks "Express Scripts", "PERx", "ExpressTherapeutics", "IVTx", "PERxCare", "RxWorkbench", "PTE", "InformRX", "M.U.S.I.C.", "ValueRx", "Value Health, Inc." and "Diversified", among others, with the United States Patent and Trademark Office. Our rights to these marks will continue so long as we comply with the usage, renewal filing and other legal requirements relating to the renewal of service marks. We are in the process of applying for registration of several other trademarks and service marks. If we are unable to obtain any additional registrations, we believe there would be no material adverse effect on our business.

Insurance

Our PBM operations, including the dispensing of pharmaceutical products by our mail service pharmacies, and the services rendered in connection with our disease management and informed decision counseling services, and our non-PBM operations, such as the products and services provided in connection with our infusion therapy programs (including the associated nursing services), may subject us to litigation and liability for damages. We believe that our insurance protection is adequate for our present business operations, but there can be no assurance that we will be able to maintain our professional and general liability insurance coverage in the future or that such insurance coverage will be available on acceptable terms or adequate to cover any or all potential product or professional liability claims. A successful product or professional liability claim in excess of our insurance coverage, or one for which an exclusion from coverage applies, could have a material adverse effect upon our financial position or results of operations.

Employees

As of February 1, 2001, we employed a total of 5,259 employees in the U.S. and 87 employees in Canada. Approximately 652 of the U.S. employees are members of collective bargaining units. Specifically, we employ members of the Service Employees International Union at our Bensalem, Pennsylvania facility, members of the United Auto Workers Union at our Farmington Hills, Michigan facility, and members of the United Food and Commercial Workers Union at our Albuquerque, New

Mexico facility. We believe our relationships with our employees and our unions are good.

Executive Officers of the Registrant

Pursuant to General Instruction G(3) of the Annual Report on Form 10-K, the information regarding our executive officers required by Item 401 of Regulation S-K is hereby included in Part I of this report.

Our executive officers and their ages as of March 1, 2001 are as follows:

Name	Age	Position
Barrett A. Toan	53	Chairman of the Board, President and Chief Executive Officer
David A. Lowenberg	51	Chief Operating Officer
Terrence D. Arndt	57	Senior Vice President of Marketing
Stuart L. Bascomb	59	Executive Vice President - Sales and Provider Relations and Director
Thomas M. Boudreau	49	Senior Vice President, General Counsel and Secretary
Mabel F. Chen	58	Senior Vice President and Director of Site Operations
Edward J. Tenholder	49	Senior Vice President and Chief Information Systems Officer
Mark O. Johnson	47	Senior Vice President of Integration and Administration
Linda L. Logsdon	53	Executive Vice President of Health Management Services
George Paz	45	Senior Vice President and Chief Financial Officer
Joseph W. Plum	53	Vice President and Chief Accounting Officer

Mr. Toan was elected Chairman of the Board of Directors in November 2000, Chief Executive Officer in March 1992 and President and a director in October 1990.

Mr. Lowenberg was elected Express Scripts, Inc.'s Chief Operating Officer in September 1999, and served as our Director of Site Operations from October 1994 until September 1999.

Mr. Arndt joined Express Scripts, Inc. and was elected Senior Vice President of Marketing in April 1999. Prior to joining Express Scripts, Inc., Mr. Arndt was President and Chief Operating Officer of EDI USA from July 1997 to April 1999. Mr. Arndt served as Vice President of Business Development for Card Establishment Services, a former division of CitiBank, owned by the firm of Welsh, Carson, Anderson and Stowe, from July 1994 to July 1997.

Mr. Bascomb was elected Executive Vice President in March 1989 and a director in January 2000. Mr. Bascomb has served as Executive Vice President - Sales and Provider Relations since May 1996 and served as Chief Financial Officer and Treasurer from March 1992 until May 1996.

Mr. Boudreau was elected Senior Vice President, General Counsel and Secretary in October 1994. He has served as General Counsel since June 1994.

Ms. Chen was elected Senior Vice President and Director of Site Operations in November 1999. From March 1996 until November 1999, Ms. Chen served as Vice President and General Manager of Express Scripts, Inc.'s Tempe facility. From January 1995 until joining Express Scripts, Ms. Chen served as the Director of Medicaid for the State of Arizona.

Mr. Tenholder was elected Senior Vice President and Chief Information Systems Officer in December 2000. Mr. Tenholder served as Executive Vice

President and Chief Operating Officer of Blue Cross and Blue Shield of Missouri from October 1997 to December 2000. From April 1994 to October 1997, Mr. Tenholder was Senior Vice President, Client Services and Operations of Right Choice Managed Care, Inc.

Mr. Johnson joined Express Scripts, Inc. and was elected Senior Vice President of Integration in May 1999, and has served as Senior Vice President of Integration and Administration since February 2000. Prior to joining Express Scripts, Inc., Mr. Johnson served as President of DPS from May 1998 to April 1999 and Senior Vice President, Client Service and Sales of DPS from May 1997 to May 1998. From August 1996 to May 1997, Mr. Johnson was President and Chief Executive Officer of American Day Treatment Center, Inc. and also served as Executive Vice President, Operations and Chief Operating Officer from March 1992 to August 1996.

Ms. Logsdon was elected Executive Vice President of Health Management Services in May 1999, and served as Senior Vice President of Health Management Services from May 1997 until May 1999. Ms. Logsdon served as Vice President of Demand and Disease Management from November 1996 until May 1997. Prior to joining Express Scripts, Inc. in November 1996, Ms. Logsdon served as Vice President of Corporate Services and Chief Operating Officer of United HealthCare's Midwest Companies-GenCare/Physicians Health Plan/MetraHealth, a St. Louis-based health maintenance organization, from February 1995 to October 1996.

Mr. Paz joined Express Scripts, Inc. and was elected Senior Vice President and Chief Financial Officer in January 1998. Prior to joining Express Scripts, Inc., Mr. Paz was a partner in the Chicago office of Coopers & Lybrand from December 1995 to December 1997.

Mr. Plum was elected Vice President in October 1994 and has served as Chief Accounting Officer since March 1992 and Corporate Controller since March 1989.

Forward Looking Statements and Associated Risks

Information that we have included or incorporated by reference in this Annual Report on Form 10-K, and information that may be contained in our other filings with the SEC and our press releases or other public statements, contain or may contain forward-looking statements. These forward-looking statements include, among others, statements of our plans, objectives, expectations or intentions.

Our forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Factors that might cause such a difference to occur include, but are not limited to:

- risks associated with our ability to maintain internal growth rates, or to control operating or capital costs
- continued pressure on margins resulting from client demands for enhanced service offerings and higher service levels
- competition, including price competition, and our ability to consummate contract negotiations with prospective clients, as well as competition from new competitors offering services that may in whole or in part replace services that we now provide to our customers
- adverse results in regulatory matters, the adoption of new legislation or regulations (including increased costs associated with compliance with new laws and regulations, such as privacy regulations under the Health Insurance Portability and Accountability Act (HIPAA)), more aggressive enforcement of existing legislation or regulations, or a change in the interpretation of existing legislation or regulations

- the possible termination of contracts with key clients or providers
- the possible loss of relationships with pharmaceutical manufacturers, or changes in pricing, discount or other practices of pharmaceutical manufacturers
- adverse results in litigation
- risks associated with our leverage and debt service obligations
- risks associated with our ability to continue to develop new products, services and delivery channels
- developments in the health care industry, including the impact of increases in health care costs, changes in drug utilization and cost patterns and introductions of new drugs
- risks associated with our financial commitment relating to the RxHub venture
- other risks described from time to time in our filings with the SEC

These and other relevant factors, including any other information included or incorporated by reference in this Report, and information that may be contained in our other filings with the SEC, should be carefully considered when reviewing any forward-looking statement. The occurrence of any of the following risks, among others, could materially adversely affect our business, results of operations and financial condition.

Failure to Maintain Internal Growth Rates, or to Control Operating or Capital Costs, Could Adversely Affect Our Business

We have experienced rapid internal growth over the past several years. Our ability to maintain this internal growth rate is dependent upon our ability to attract new clients, achieve growth in the membership base of our existing clients as well as cross-sell additional services to our existing clients. If we are unable to continue our client and membership growth, and manage our operating and capital costs, our results of operations and financial position could be materially adversely affected.

Competition in the PBM Industry Could Reduce Our Client Membership and Our Profit Margins

Pharmacy benefit management is a very competitive business. Our competitors include large and well-established companies that may have greater financial, marketing and technological resources than we do. One major competitor in the PBM business, Merck-Medco is a large pharmaceutical manufacturer, which may give them purchasing or other advantages over us by virtue of this ownership structure, and enable them to succeed in taking away some of our clients. Consolidation in the PBM industry, such as the recently completed acquisition of PCS, Inc. by Advance Paradigm, Inc., may also lead to increased competition among a smaller number of large PBM companies. Competition may also come from other sources in the future, including from Internet-based connectivity companies. We cannot predict what effect, if any, these new competitors may have on the marketplace or on our business.

Over the last several years intense competition in the marketplace has caused many PBMs, including us, to reduce the prices charged to clients for core services and share a larger portion of the formulary fees and related revenues received from pharmaceutical manufacturers with clients. This combination of lower pricing and increased revenue sharing, as well as increased demand for enhanced service offerings and higher service levels, has caused our operating margins to decline. We expect to continue marketing our services to larger clients, who typically have greater bargaining power than smaller clients. This might create continuing pressure on our margins. We can give no assurance that

new services provided to these clients will fully compensate for these reduced margins.

Changes in State and Federal Regulations Could Restrict Our Ability to Conduct Our Business

Numerous state and federal laws and regulations affect our business and operations. The categories include, but are not necessarily limited to:

- health care fraud and abuse laws and regulations, which prohibit certain types of referral and other payments
- the Employee Retirement Income Security Act and related regulations, which regulate many health care plans
- proposed comprehensive state PBM legislation
- consumer protection laws and regulations
- network pharmacy access laws, including "any willing provider" and "due process" legislation, that regulate aspects of our pharmacy network contracts
- legislation imposing benefit plan design restrictions, which limit how our clients can design their drug benefit plans
- various licensure laws, such as managed care and third party administrator licensure laws
- drug pricing legislation, including "most favored nation" pricing and "unitary pricing" legislation
- mail pharmacy laws and regulations o privacy and confidentiality laws and regulations, including those under the Federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA")
- Medicare prescription drug coverage proposals o other Medicare and Medicaid reimbursement regulations
- potential regulation of the PBM industry by the U.S. Food and Drug Administration
- pending legislation regarding importation of drug products into the United States

These and other regulatory matters are discussed in more detail under "Business - Government Regulation" above.

We believe we are operating our business in substantial compliance with all existing legal requirements material to the operation of our business. There are, however, significant uncertainties regarding the application of many of these legal requirements to our business, and we cannot provide any assurance that a regulatory agency charged with enforcement of any of these laws or regulations will not interpret them differently or, if there is an enforcement action brought against us, that our interpretation would prevail. In addition, there are numerous proposed healthcare laws and regulations at the federal and state levels, many of which could materially affect our ability to conduct our business or adversely affect our results of operations. We are unable to predict what additional federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the healthcare industry in general, or what affect any such legislation or regulations might have on us.

We are aware through reports in the press and other sources that a U.S. Assistant Attorney General in Philadelphia is conducting an investigation into certain practices of PBMs. These reports have indicated that some of our PBM

competitors have received subpoenas in connection with this investigation during 1999. We have not received a subpoena or been requested to testify or produce documents in connection with this investigation. Press reports indicate that a possible subject of the investigation is contractual relationships between the PBMs and pharmaceutical manufacturers. We cannot predict what effect, if any, this investigation may ultimately have on us or on the PBM industry generally.

In December 2000, the Department of Health and Human Services issued final privacy regulations, pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which impose extensive restrictions on the use and disclosure of individually identifiable health information by certain entities. We will be required to comply with certain aspects of the regulations. We have retained a consulting firm to assist us in assessing the steps we will have to take in complying with these regulations, which provide for a two year implementation period. While this assessment is not yet complete, we believe compliance with these regulations will have a significant impact on our business operations. We have not yet completed an assessment of the costs we will incur in complying with these regulations, and can give no assurance that such costs will not be material to us.

The federal Medicare program provides a comprehensive medical benefit program for individuals age 65 and over, but currently covers only a few outpatient prescription drugs. Currently key policy makers on both sides of the political aisle have proposed various changes to the Medicare program that would result in at least partial coverage for most prescription drugs. We believe that a Medicare prescription drug benefit could provide us with substantial new business opportunities, but at the same time any such program could adversely affect other aspects of our business. For instance, some of our clients sell medical policies to seniors that provide a prescription drug benefit that we administer. Other clients provide a prescription drug benefit to their retirees. Depending on the plan that is ultimately adopted, a Medicare prescription drug benefit could make such policies or plans less valuable to seniors, adversely affecting that segment of our business. While we believe that there would be opportunities for new business under a Medicare plan that would more than offset any adverse effects, we can give no assurance that this would be the case.

Failure to Retain Key Clients and Network Pharmacies Could Adversely Affect Our Business and Limit Our Access to Retail Pharmacies

We currently provide PBM services to approximately 19,000 client groups. Our acquisitions have diversified our client base and reduced our dependence on any single client. Our top 10 clients, measured as of January 1, 2001, represent approximately 29% of our total membership base, but no single client represents more than approximately 5% of our membership base. Our contracts with clients generally do not have terms of longer than three years and, in some cases, are terminable by either party on relatively short notice. Our larger clients generally distribute requests for proposals and seek bids from other PBM providers in advance of the expiration of their contracts. If several of these large clients elect not to extend their relationship with us, and we are not successful in generating sales to replace the lost business, our future business and operating results could be materially adversely affected. In addition, we believe the managed care industry is undergoing substantial consolidation, and another party that is not our client could acquire some of our managed care clients. In such case, the likelihood such client would renew its PBM contract with us could be reduced.

More than 55,000 retail pharmacies, which represent more than 99% of all United States retail pharmacies, participate in one or more of our networks. However, the top 10 retail pharmacy chains represent approximately 38% of the 55,000 pharmacies, with these pharmacy chains representing even higher concentrations in certain areas of the United States. Our contracts with retail pharmacies, which are non-exclusive, are generally terminable by either party on relatively short notice. If one or more of the top pharmacy chains elects to terminate its relationship with us, our members' access to retail pharmacies and our business could be materially adversely affected. In addition, large pharmacy chains either own PBMs today, or could attempt to acquire a PBM in the future. Ownership of PBMs by retail pharmacy chains could have material adverse effects on our relationships with such pharmacy chains and on our business and results

of operations.

Loss of Relationships with Pharmaceutical Manufacturers and Changes in the Regulation of Discounts and Formulary Fees Provided to Us by Pharmaceutical Manufacturers Could Decrease Our Profits

We maintain contractual relationships with numerous pharmaceutical manufacturers that provide us with:

- discounts at the time we purchase the drugs to be dispensed from our mail pharmacies
- formulary fees based upon sales of drugs from our mail pharmacies and through pharmacies in our retail networks
- administrative fees based upon the development and maintenance of formularies which include the particular manufacturer's products

These fees are all commonly referred to as formulary fees or formulary management fees.

We also provide various services for, or services which are funded wholly or partially by, pharmaceutical manufacturers. These services include:

- compliance programs, which involve instruction and counseling of patients concerning the importance of compliance with the drug treatment regimen prescribed by their physician
- therapy management programs, which involve education of patients having specific diseases, such as asthma and diabetes, concerning the management of their condition
- market research programs in which we provide information to manufacturers concerning drug utilization patterns

These arrangements are generally terminable by either party on relatively short notice. If several of these arrangements are terminated or materially altered by the pharmaceutical manufacturers, our operating results could be materially adversely affected. In addition, formulary fee programs, as well as some of the services we provide to the pharmaceutical manufacturers, have been the subject of debate in federal and state legislatures and various other public and governmental forums. Changes in existing laws or regulations or in their interpretations of existing laws or regulations or the adoption of new laws or regulations relating to any of these programs, may materially adversely affect our business.

Pending and Future Litigation Could Materially Affect Our Relationships with Pharmaceutical Manufacturers or Subject Us to Significant Monetary Damages

Since 1993, retail pharmacies have filed over 100 separate lawsuits against drug manufacturers, wholesalers and certain PBMs, challenging brand name drug pricing practices under various state and federal antitrust laws. The plaintiffs alleged, among other things, that the manufacturers had offered, and certain PBMs had knowingly accepted, discounts and rebates on purchases of brand name prescription drugs that violated the Federal Sherman Act. Some manufacturers settled certain of these actions, including a Sherman Act case brought on behalf of a nationwide class of retail pharmacies. The class action settlements generally provided for commitments by the manufacturers in their discounting practices to retail pharmacies. The defendants who did not settle won the Sherman Act class action on a directed verdict. With respect to the cases filed by plaintiffs who opted out of the class action, some drug manufacturers have settled certain of these actions, but such settlements are not part of the public record. The Robinson-Patman Act cases are still pending.

We are not currently a party to any of these proceedings. To date, we do not believe any of these settlements have had a material adverse effect on our business. However, we cannot provide any assurance that the terms of the settlements will not materially adversely affect us in the future or that we

will not be made a party to any separate lawsuit. In addition, we cannot predict the outcome or possible ramifications to our business of the Robinson-Patman Act cases (see Item 3 - Legal Proceedings).

We are also subject to risks relating to litigation and liability for damages in connection with our PBM operations, including the dispensing of pharmaceutical products by our mail pharmacies, the services rendered in connection with our formulary management and informed decision counseling services, and our non-PBM operations, including the products and services provided in connection with our infusion therapy programs (and the associated nursing services). We believe our insurance protection is adequate for our present operations. However, we cannot provide any assurance that we will be able to maintain our professional and general liability insurance coverage in the future or that such insurance coverage will be available on acceptable terms to cover any or all potential product or professional liability claims. A successful product or professional liability claim in excess of our insurance coverage could have a material adverse effect on our business.

Our Leverage and Debt Service Obligations Could Impede Our Operations and Flexibility

As of December 31, 2000, our net debt to net capitalization ratio is 32.7%, which means that the amount of our outstanding debt is significant compared to the net book value of our assets, and we have substantial interest expense and future repayment obligations. As of December 31, 2000, we had total consolidated debt of approximately $396.4 million. We may incur additional indebtedness in the future.

Our level of debt and the limitations imposed on us by our debt agreements could have important consequences, including the following:

- we will have to use a portion of our cash flow from operations for debt service rather than for our operations
- we may from time to time incur indebtedness under our credit facility, which is subject to a variable interest rate, making us vulnerable to increases in interest rates
- we could be less able to take advantage of significant business opportunities, such as acquisition opportunities, and react to changes in market or industry conditions
- we could be more vulnerable to general adverse economic and industry conditions
- we may be disadvantaged compared to competitors with less leverage

Furthermore, our ability to satisfy our obligations, including our debt service requirements, will be dependent upon our future performance. Factors which could affect our future performance include, without limitation, prevailing economic conditions and financial, business and other factors, many of which are beyond our control and which affect our business and operations.

Our bank credit facility is secured by the capital stock of each of our existing and subsequently acquired domestic subsidiaries, excluding Practice Patterns Science, Inc., Great Plains Reinsurance Co., ValueRx of Michigan, Inc., Diversified NY IPA, Inc., and Diversified Pharmaceutical Services (Puerto Rico), Inc., and 65% of the stock of our foreign subsidiaries. If we are unable to meet our obligations under this bank credit facility, these creditors could exercise their rights as secured parties and take possession of the pledged capital stock of these subsidiaries. This would materially adversely affect our results of operations and financial condition.

Failure to Continue to Develop New Products, Services and Delivery Channels May Adversely Affect Our Business

We operate in a highly competitive environment. We, as well as our

competitors, continually develop new products and services to assist our clients in managing the pharmacy benefit. If we are unsuccessful in continuing to develop innovative products and services, our ability to attract new clients and retain existing clients may suffer.

Technology is also an important component of our business, as we continue to utilize new and better channels, such as the Internet, to communicate and interact with our clients, members and business partners. If our competitors are more successful than us in employing this technology, our ability to attract new clients, retain existing clients and operate efficiently may suffer.

Efforts to Reduce Health Care Costs and Alter Health Care Financing Practices Could Adversely Affect Our Business

Efforts are being made in the United States to control health care costs, including prescription drug costs, in response to, among other things, increases in prescription drug utilization rates and drug prices. If these efforts are successful or if prescription drug utilization rates were to decrease significantly, our business and results of operations could be materially adversely affected.

We have designed our business to compete within the current structure of the U.S. health care system. Changing political, economic and regulatory influences may affect health care financing and reimbursement practices. If the current health care financing and reimbursement system changes significantly, our business could be materially adversely affected. Congress is currently considering proposals to reform the U.S. health care system. These proposals may increase governmental involvement in health care and PBM services, and otherwise change the way our clients do business. Health care organizations may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that we provide. We cannot predict what effect, if any, these proposals may have on our business. Other legislative or market-driven changes in the health care system that we cannot anticipate could also materially adversely affect our business.

Our Commitment to Invest in RxHub Could Impede Our Ability to Pursue Other Opportunities

We have entered into a joint venture agreement with AdvancePCS and Merck-Medco to form RxHub, which is designed to operate as a utility for the conduit of information between pharmacies, PBMs and health plans. In doing so, we have committed to invest up to $20 million over the next five years to fund the venture. Committing our future cash flow to this investment my limit our ability to invest in other opportunities.

Item 2 - Properties

We operate our United States and Canadian PBM and non-PBM businesses out of leased facilities throughout the United States and Canada.

PBM Facilities	Non-PBM Facilities
Maryland Heights, Missouri	Maryland Heights, Missouri
Earth City, Missouri	Columbia, Missouri
Tempe, Arizona	Irvine, Texas
Bloomington, Minnesota	Houston, Texas
Bensalem, Pennsylvania	Columbia, Maryland
Troy, New York	Springfield, New Jersey
Farmington Hills, Michigan	West Chester, Pennsylvania
Albuquerque, New Mexico	
Horsham, Pennsylvania	
Mississauga, Ontario	

Our Maryland Heights, Missouri facility houses our corporate offices. Express Scripts Infusion Services and Specialty Distribution Services corporate offices are also located at our Maryland Heights, Missouri facility. Specialty Distribution Services is operated out of our facility in Maryland Heights, Missouri. We believe our facilities have been generally well maintained and are in good operating condition. Our existing facilities contain approximately

1,300,000 square feet in area, in the aggregate.

We own and lease computer systems at the processing centers. In late 1999, we entered into a five year agreement with EDS to outsource our information systems operations. Under the terms of the agreement, EDS has responsibility for operating and maintaining the computer systems. Our software for drug utilization review and other products has been developed internally by us or purchased under perpetual, nonexclusive license agreements with third parties. Our computer systems at each site are extensively integrated and share common files through local and wide area networks. Uninterruptable power supply and diesel generators allow our computers, telephone systems and mail pharmacy at each major site to continue to function during a power outage. To protect against loss of data and extended downtime, we store software and redundant files at both on-site and off-site facilities on a regular basis and have contingency operation plans in place. We cannot, however, provide any assurance that our contingency or disaster recovery plans would adequately address all relevant issues.

Item 3 - Legal Proceedings

As discussed in detail in our Quarterly Report on Form 10-Q for the period ended June 30, 1998, filed with the Securities and Exchange Commission on August 13, 1998 (the "Second Quarter, 1998 10-Q"), we acquired all of the outstanding capital stock of Value Health, Inc., a Delaware corporation ("Value Health"), and Managed Prescription Network, Inc., a Delaware corporation ("MPN") from HCA-The Healthcare Corporation (formerly, "Columbia HCA/HealthCare Corporation") ("HCA") and its affiliates on April 1, 1998 (the "Acquisition"). Value Health, MPN and/or their subsidiaries (collectively, the "Acquired Entities"), were party to various legal proceedings, investigations or claims at the time of the Acquisition. The effect of these actions on our future financial results is not subject to reasonable estimation because considerable uncertainty exists about the outcomes. Nevertheless, in the opinion of management, the ultimate liabilities resulting from any such lawsuits, investigations or claims now pending should not materially affect our consolidated financial position, results of operations or cash flows. A brief description of the most notable of the proceedings follows:

Bash, et al. v. Value Health, Inc., et al., No. 3:97cv2711 (JCH)(D.Conn.) ("Bash"). On December 15, 1995, a purported shareholder class action lawsuit was filed by Irwin Bash and Leykin, Hyman & Bash Associates in the United States District Court for the District of New Mexico against Diagnostek, Inc. ("Diagnostek"), Nunzio P. DeSantis, William Baron, and Courtland Miller (all former Diagnostek officers). Also named as defendants in Bash are Value Health, Inc. ("Value Health"), Robert E. Patricelli, William J. McBride and Steven J. Shulman (certain of Value Health's former officers). The Bash Complaint asserts that Value Health and certain other defendants made false or misleading statements to the public in connection with Value Health's acquisition of Diagnostek in 1995, and that Diagnostek and certain of its former officers and directors made false or misleading statements concerning its financial condition prior to the acquisition by Value Health. The Bash Complaint asserts claims under the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as common law claims, and seeks certification of a class consisting of all persons (with certain exclusions) who purchased or otherwise acquired (a) Diagnostek common stock from March 27, 1994 through July 28, 1995; (b) Value Health common stock pursuant to a Proxy and Prospectus and merger in which their Diagnostek shares were converted into Value Health shares; and (c) Value Health common stock from March 27, 1995 through November 7, 1995. The Bash Complaint does not specify the amount of damages sought. On March 26, 1996, the former Diagnostek officers filed a motion seeking either dismissal of the case or a transfer to the District of Connecticut, where the earlier-filed Freedman action (discussed below) was pending. In the late summer of 1997, the Bash plaintiffs filed an Amended Complaint that deleted those allegations that overlapped with the allegations contained in an earlier lawsuit filed against Diagnostek and certain of its former officers. A formal order approving the settlement of this earlier lawsuit was entered by the United States District Court for the District of New Mexico on November 21, 1997. In addition, defendants filed a renewed motion to transfer the action to Connecticut. On October 24, 1997, an answer was

filed on behalf of Value Health, Diagnostek, and the former directors and officers of Value Health who had been named as defendants. On November 28, 1997, the New Mexico court entered an order transferring the action to Connecticut. On February 4, 1998, the court ordered that plaintiffs in the Freedman action, discussed below, share all discovery obtained from the defendants and third parties in their lawsuit with the plaintiffs in the Bash lawsuit. On March 17, 1998, the defendants filed a motion to consolidate this lawsuit with the Freedman lawsuit discussed below, and the court granted the motion on April 24, 1998.

Freedman, et al. v. Value Health, Inc., et al., No. 3:95 CV 2038 (JCH)(D.Conn). On September 22 and 25, 1995, two related lawsuits were filed against Value Health and certain other defendants in the United States District Court for the District of Connecticut. On February 16, 1996, a single, consolidated class action complaint was filed covering both suits (the "Freedman Complaint"), naming as defendants Value Health, Robert E. Patricelli, William J. McBride, Steven J. Shulman, David M. Wurzer, David J. McDonnell, Walter J. McNerny, Rodman W. Moorhead, III, Constance P. Newman, and John L. Vogelstein, all former Value Health directors and officers, and Nunzio P. DeSantis, the former president of Diagnostek. The Freedman Complaint alleges that Value Health and certain other defendants made false or misleading statements to the public in connection with Value Health's acquisition of Diagnostek in 1995. The Freedman Complaint asserts claims under the Securities Act of 1933 and the Securities Exchange Act of 1934, and seeks certification of a class consisting of all persons (with certain exceptions) who purchased shares of Value Health common stock during the period March 27, 1995 (the date certain adverse developments were disclosed by Value Health). The Freedman Complaint does not specify the amount of damages sought. On March 17, 1998, the defendants filed a motion to consolidate this lawsuit with the Bash lawsuit, discussed above, and the motion was granted on April 24, 1998.

In the consolidated Bash and Freedman action, the court granted plaintiffs' motions for class certification and certified a class consisting of (i) all persons who purchased or otherwise acquired shares of Value Health during the period from April 3, 1995, through and including November 7, 1995, including those who acquired shares in connection with the Diagnostek merger; and (ii) all persons who purchased or otherwise acquired shares of Diagnostek during the period from March 27, 1995, through and including July 28, 1995. Fact discovery in the consolidated lawsuit is complete, and expert discovery will be completed over the course of the next several months. Motions for summary judgment were filed by both the plaintiffs and the defendants, and a hearing on the motions is scheduled for February 28, 2001. No trial date has been set.

In connection with the Acquisition, HCA has agreed to defend and hold the Company and its affiliates (including Value Health) harmless from and against any liability that may arise in connection with either of the foregoing proceedings. Consequently, the Company does not believe it will incur any material liability in connection with the foregoing matters.

In addition, in the ordinary course of our business, there have arisen various legal proceedings, investigations or claims now pending against our subsidiaries unrelated to the Acquisition and us. The effect of these actions on future financial results is not subject to reasonable estimation because considerable uncertainty exists about the outcomes. Nevertheless, in the opinion of management, the ultimate liabilities resulting from any such lawsuits, investigations or claims now pending will not materially affect our consolidated financial position, results of operations or cash flows.

Since 1993, retail pharmacies have filed over 100 separate lawsuits against drug manufacturers, wholesalers and certain PBMs, challenging brand name drug pricing practices under various state and federal antitrust laws. The plaintiffs alleged, among other things, that the manufacturers had offered, and certain PBMs had knowingly accepted, discounts and rebates on purchases of brand name prescription drugs that violated the federal Robinson-Patman Act. Some plaintiffs also filed claims against the drug manufacturers and drug wholesalers alleging a conspiracy not to discount pharmaceutical drugs in violation of Section 1 of the Sherman Act, and these claims were certified as a class action. Some of the drug manufacturers settled both the Sherman Act and the Robinson

Patman claims against them. The class action Sherman Act settlements generally provide that the manufacturers will not refuse to pay discounts or rebates to retail pharmacies based on their status as such. Settlements with plaintiffs who opted out of the class are not part of the public record. The drug manufacturer and wholesaler defendants in the class action who did not settle went to trial and were dismissed by the court on a motion for directed verdict. That dismissal was affirmed by the Court of Appeals for the Seventh Circuit. One aspect of the case was remanded to the trial court and has now been dismissed. Plaintiffs who opted out of the class action will still have the opportunity to try their Sherman Act claims in separate lawsuits. The class action did not involve the Robinson-Patman claims, so many of those matters are still pending. We are not a party to any of these proceedings. To date, we do not believe any settlements have had a material adverse effect on our business. However, we cannot provide any assurance that the terms of the settlements will not materially adversely affect us in the future. In addition, we cannot predict the outcome or possible ramifications to our business of the cases in which the plaintiffs are trying their claims separately, and we cannot provide any assurance that we will not be made a party to any such separate lawsuits in the future.

Item 4 - Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

Item 5 - Market For Registrant's Common Equity and Related Stockholder Matters

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Market Information. Our Class A Common Stock is traded on the Nasdaq National Market ("Nasdaq") tier of The Nasdaq Stock Market under the symbol "ESRX". The high and low prices, as reported by the Nasdaq, are set forth below for the periods indicated.

	Fiscal Year 2000		Fiscal Year 1999	
Class A Common Stock	High	Low	High	Low
First Quarter	$ 67.0000	$ 28.5000	$ 105.5000	$ 59.1250
Second Quarter	66.6250	34.6250	91.0000	55.0000
Third Quarter	78.0000	56.2500	92.3750	61.5000
Fourth Quarter	107.0000	63.7500	88.6875	44.3750

Our Class B Common Stock has no established public trading market and there are no shares outstanding as of December 31, 2000.

Holders. As of January 31, 2001, there were 403 stockholders of record of our Class A Common Stock. We estimate there are approximately 30,000 beneficial owners of the Class A Common Stock.

Dividends. The Board of Directors has not declared any cash dividends on our common stock since the initial public offering. The Board of Directors does not currently intend to declare any cash dividends in the foreseeable future. The terms of our existing credit facility and the indenture under which our public debt was issued contain certain restrictions on our ability to declare or pay cash dividends.

Recent Sales of Unregistered Securities

None.

Item 6 - Selected Financial Data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related notes, and "Item 7 --Management's Discussion and Analysis of Financial Condition and Results of Operations".

(in thousands, except per share data)	Year Ended December 31, 2000(2)	1999(3)	1998(4)	1997	1996
Statement of Operations Data:					
Revenues:					
Revenues	$ 6,776,441	$ 4,285,104	$ 2,824,872	$ 1,230,634	$ 773,615
Other revenues	10,423	3,000	-	-	-
	6,786,864	4,288,104	2,824,872	1,230,634	773,615
Costs and expenses:					
Cost of revenues	6,247,192	3,826,905	2,584,997	1,119,167	684,882
Selling, general and administrative	339,460	294,194	148,990	62,617	49,103
Non-recurring charges	-	30,221	1,651	-	-
	6,586,652	4,151,320	2,735,638	1,181,784	733,985
Operating income	200,212	136,784	89,234	48,850	39,630
Other (expense) income, net	(204,680)	128,682	(12,994)	5,856	3,450
(Loss) income before income taxes	(4,468)	265,466	76,240	54,706	43,080
Provision for income taxes	3,553	108,098	33,566	21,277	16,932
(Loss) income before extraordinary loss	(8,021)	157,368	42,674	33,429	26,148
Extraordinary loss on early retirement of debt	(1,105)	(7,150)	-	-	-
Net (loss) income	$ (9,126)	$ 150,218	$ 42,674	$ 33,429	$ 26,148
Basic earnings per share:(1)					
Before extraordinary loss	$ (0.21)	$ 4.36	$ 1.29	$ 1.02	$ 0.81
Extraordinary loss on early retirement of debt	(0.03)	(0.20)	-	-	-
Net (loss) income	$ (0.24)	$ 4.16	$ 1.29	$ 1.02	$ 0.81
Diluted earnings per share:(1)					
Before extraordinary loss	$ (0.21)	$ 4.25	$ 1.27	$ 1.01	$ 0.80
Extraordinary loss on early retiremen of debt	(0.03)	(0.19)	-	-	-
Net (loss) income	$ (0.24)	$ 4.06	$ 1.27	$ 1.01	$ 0.80
Weighted average shares outstanding:(1)					
Basic	38,196	36,095	33,105	32,713	32,160
Diluted(5)	38,196	37,033	33,698	33,122	32,700
Balance Sheet Data:					
Cash and cash equivalents	$ 53,204	$ 132,630	$ 122,589	$ 64,155	$ 25,211
Working capital	(117,775)	(34,003)	117,611	166,062	128,259
Total assets	2,276,664	2,487,311	1,095,461	402,508	300,425
Debt:					
Short-term debt	-	-	54,000	-	-
Long-term debt	396,441	635,873	306,000	-	-
Stockholders' equity	705,244	699,482	249,694	203,701	164,090
Selected Data:					
Pharmacy benefit covered lives(6)	43,500	48,000	23,500	12,300	10,000
Annual drug spending(7)	$13,874,691	$11,160,389	$ 4,495,088	$ 2,486,380	$ 1,635,890
Network pharmacy claims processed	299,584	273,909	113,177	73,164	57,838
Mail pharmacy prescriptions filled	15,183	10,608	7,426	3,899	2,770
EBITDA(8)	$ 278,827	$ 208,651	$ 115,683	$ 59,320	$ 46,337
Cash flows provided by operating activities	$ 245,910	$ 214,059	$ 126,574	$ 52,391	$ 29,863
Cash flows (used in) investing activities	$ (73,578)	$ (759,576)	$ (426,052)	$ (16,455)	$ (64,808)
Cash flows (used in) provided by financing activities	$ (251,627)	$ 555,450	$ 357,959	$ 3,033	$ 48,652

<FN>

(1) Earnings per share and weighted average shares outstanding have been restated to reflect the two-for-one stock split effective October 30, 1998.

(2) Includes a non-cash write-off of $165,207 ($103,089 net of tax) of our investment in PlanetRx. Includes an ordinary gain of $1,500 ($926 net of tax) on the restructuring of our interest rate swap agreements. Excluding these amounts, our basic and diluted earnings per share before extraordinary loss would have been $2.46 and $2.41, respectively.

(3) Includes the acquisition of DPS effective April 1, 1999. Also includes non-recurring operating charges and a one-time non-operating gain of $30,221 ($18,188 net of tax) and $182,930 ($112,037 net of tax), respectively. Excluding these amounts, our basic and diluted earnings per share before extraordinary loss would have been $1.76 and $1.72, respectively.

(4) Includes the acquisition of ValueRx effective April 1, 1998. Also includes a non-recurring charge of $1,651 ($1,002 net of tax). Excluding this charge, our basic and diluted earnings per share would have been $1.32 and $1.30, respectively.

(5) In accordance with FAS 128, basic weighted average shares were used to calculate 2000 diluted EPS as the 2000 net loss and the actual diluted weighted average shares (39,033 as of December 31, 2000) cause diluted EPS to be anti-dilutive.

(6) Reflects the addition or loss of members to arrive at January 1, 2001, 2000, 1999, 1998 or 1997 membership. In computing the number of lives we serve we make certain estimates and adjustments. We believe different PBMs use different factors in making these estimates and adjustments. We also believe, however, that these numbers are a reasonable approximation of the actual number of lives served by us.

(7) Drug spending is a measure of the gross aggregate dollar value of drug expenditures of all programs managed by us. The difference between annual drug spending and revenue reported by us is the combined effect of excluding from reported revenues:

- the drug ingredient cost for those clients that have established their own pharmacy networks
- the expenditures for drugs of those companies on formulary-only programs managed by us
- the co-pay portion of drug expenditures that are the responsibility of members of health plans serviced by us

Therefore, drug spending provides a common basis to quantify the drug expenditures managed by a company. Drug spend, however, is not an accepted reporting measurement under generally accepted accounting principles and should not be considered as an alternative to revenue.

(8) EBITDA is earnings before other income (expense), interest, taxes, depreciation and amortization, or operating income plus depreciation and amortization. EBITDA is presented because it is a widely accepted indicator of a company's ability to incur and service indebtedness. EBITDA, however, should not be considered as an alternative to net income, as a measure of operating performance, as an alternative to cash flow or as a measure of liquidity. In addition, our calculation of EBITDA may not be identical to that used by other companies.
</FN>

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We derive our revenues primarily from the sale of pharmacy benefit management ("PBM") services in the United States and Canada. Our PBM revenues generally include administrative fees, dispensing fees and ingredient costs of pharmaceuticals dispensed from retail pharmacies included in one of our networks or from one of our mail pharmacies, and the associated costs are recorded in cost of revenues (the "Gross Basis"). Where we only administer the contracts between our clients and the clients' network pharmacies, we record as revenues only the administrative fee we receive from our activities (the "Net Basis"). We also derive PBM revenues from the sale of informed decision counseling services through our Express Health LineSM division, and the sale of medical information management services (which include the development of data warehouses to combine medical claims and prescription drug claims), disease management support services and quality and outcomes assessments through our Health Management Services ("HMS") division and Practice Patterns Science, Inc. ("PPS") subsidiary.

Non-PBM revenues are derived from administrative fees received from drug manufacturers for the dispensing or distribution of pharmaceuticals requiring special handling or packaging through our Express Scripts Specialty Distribution Services subsidiary ("SDS"). Non-PBM revenues are also generated from the sale of pharmaceuticals for and the provision of infusion therapy services through our Express Scripts Infusion Services subsidiary.

Reflecting the addition of new client groups at January 1, 2001, our membership was approximately 43.5 million members compared to approximately 38.5 million members as of January 1, 2000, representing a 13.0% increase. The membership count excludes 9.5 million members at January 1, 2000 served under the United HealthCare ("UHC") contract, which expired on May 31, 2000. We developed a migration plan to transition the UHC members to their new provider throughout 2000. The migration is now complete. The increase in membership from January 1, 2000 is due in part to the addition of new clients such as the State of Georgia. Additionally, we continue to develop new products and services for sale to existing clients and pharmaceutical manufacturers and expand the services provided to existing clients. During 2000, approximately 6.3 million members began utilizing expanded services that provide for more advanced formulary management and the addition of mail and network services where only one or two of these services were previously utilized. In 1999, we increased membership by approximately 15.0 million members from 23.5 million members as of January 1, 1999, representing a 63.8% increase. This increase excludes the impact of approximately 9.5 million UHC members added during 1999. The increase from January 1, 1999 is primarily due to our second major acquisition on April 1, 1999, discussed below. The increase in membership in 1998 was primarily due to the purchase of ValueRx on April 1, 1998. In computing the number of lives we serve we make certain estimates and adjustments. We believe different PBMs use different factors in making these estimates and adjustments. We also believe, however, that these numbers are a reasonable approximation of the actual number

of lives served by us.

As previously discussed, on April 1, 1999, we acquired Diversified Pharmaceutical Services, Inc. and Diversified Pharmaceutical Services (Puerto Rico) Inc. (collectively, "DPS"), from SmithKline Beecham Corporation ("SmithKline Beecham") and SmithKline Beecham InterCredit BV for approximately $715 million, which includes a purchase price adjustment for closing working capital and transaction costs. On April 1, 1998, we consummated our first major acquisition by acquiring Value Health, Inc. and Managed Prescription Network, Inc. (collectively, "ValueRx"), the PBM operations of HCA-The Healthcare Corporation (formerly, "Columbia/HCA Healthcare Corporation"), for approximately $460 million in cash, which includes transaction costs and executive management severance costs of approximately $6.7 million and $8.3 million, respectively. Consequently, our operating results include those of DPS from April 1, 1999 and ValueRx from April 1, 1998. The net assets acquired from DPS and ValueRx have been recorded at their estimated fair value, resulting in $754,236,000 and $278,113,000 of goodwill, respectively, that is being amortized over 30 years. Both acquisitions have been accounted for under the purchase method of accounting.

RESULTS OF OPERATIONS

REVENUES

(in thousands)	Year Ended December 31, 2000	Increase/ (Decrease)	1999	Increase	1998
Gross Basis revenues	$ 6,483,866	61.8%	$ 4,007,077	46.1%	$ 2,742,485
Net Basis revenues	204,531	(3.6)%	212,217	837.9%	22,626
Other revenues	10,423	247.4%	3,000	nm	-
Total PBM revenues	6,698,820	58.7%	4,222,294	52.7%	2,765,111
Non-PBM revenues	88,044	33.8%	65,810	10.1%	59,761
Total revenues	$ 6,786,864	58.3%	$ 4,288,104	51.8%	$ 2,824,872

nm = not meaningful

Our growth in PBM revenues during 2000 over 1999 is primarily due to a combination of the following factors: the conversion of historical Express Scripts and DPS clients to our own retail pharmacy networks; higher utilization; increased membership; the conversion of certain clients to a manufacturer formulary management program in which we derive an administrative fee for our services, which is recorded in revenue, from a program whereby amounts received from pharmaceutical manufacturers are recorded as a reduction of cost of revenues; higher drug ingredient costs resulting from price increases for existing drugs and new drugs introduced into the marketplace; and DPS revenues being reported for all of 2000 compared to only nine months of 1999. These increases were slightly offset by the reduction in Net Basis revenues received under the UHC contract since its termination in May 2000. Our growth in PBM revenues during 1999 over 1998 is primarily due to the inclusion of ValueRx for the full twelve months of 1999 compared to only nine months of 1998, the inclusion of DPS for nine months of 1999, increased member utilization and higher drug ingredient costs resulting from price increases for existing drugs, new drugs introduced into the marketplace and changes in therapeutic mix and dosage.

Revenues for network pharmacy claims increased $1,813,434,000, or 59.6%, in 2000 over 1999 and $1,039,588,000, or 51.8%, in 1999 over 1998. Network pharmacy claims processed increased 9.4% to 299,584,000 in 2000 over 1999. The average revenue per network pharmacy claim increased 46.4% to $16.28 over 1999 primarily as a result of the increased rate of historical Express Scripts and DPS clients moving from retail pharmacy networks contracted by the clients to one contracted by us. As previously discussed under "--Overview", we record the associated revenues for clients utilizing our retail pharmacy networks on the Gross Basis, therefore this shift to our retail pharmacy networks results in increased Gross Basis revenues. During 1999, network pharmacy claims processed increased 273,909,000 over 1998. The average revenue per network pharmacy claim decreased

37.2% in 1999 from 1998 primarily due to the acquisition of DPS, as the DPS contracts required us to record revenue on the Net Basis which substantially reduces the average revenue per network pharmacy claim. Excluding DPS, the average revenue per network pharmacy claim increased 8.2% over 1998.

Mail pharmacy services revenues and mail pharmacy services prescriptions filled increased $631,914,000, or 56.1% and 4,575,000, or 43.1%, respectively, during 2000 over 1999. These increases are primarily due to the addition of new members with high mail utilization rates, the cross-selling of mail pharmacy services and increased utilization by existing members. Revenues for mail pharmacy services increased $389,244,000, or 52.8%, in 1999 over 1998 as a result of the growth in mail pharmacy claims processed of 3,182,000, or 42.8% in 1999 over 1998. These increases are primarily due to the acquisitions of ValueRx and DPS, increased utilization by existing members as well as the addition of new members. The average revenue per mail pharmacy claim increased 9.1% in 2000 over 1999 and 7.0% in 1999 over 1998 primarily due to higher drug ingredient costs as stated above.

Other revenue increased $7,423,000 during 2000 over 1999 due to fees received under our agreement with PlanetRx.com, Inc. ("PlanetRx"), which became effective in December 1999. Effective July 5, 2000 we restructured our agreement with PlanetRx in exchange for a one-time cash payment of $8,000,000. Approximately $3,700,000 of the payment represents amounts earned through the second quarter of 2000, the remaining $4,300,000 represents a fee for the termination of the prior contract. No additional cash payments will be paid to us under the restructured agreement.

The increase in revenue for non-PBM services during 2000 compared to 1999 is primarily due to additional volume within SDS resulting from a new contract that took effect during the fourth quarter of 1999. The increase in revenue for non-PBM services in 1999 is primarily due to additional business within SDS and continued changes in the product mix sold in our Infusion Services business that resulted in higher drug ingredient costs. This increase was partially offset by the reduction in revenue from our managed vision business due to the restructuring of this operation during 1999.

COSTS AND EXPENSES

(in thousands)	Year Ended December 31, 2000	Increase	1999	Increase	1998
PBM cost of revenues	$ 6,186,415	63.9%	$ 3,774,618	48.6%	$ 2,540,360
Percentage of total PBM revenues	92.4%		89.4%		91.9%
Non-PBM cost of revenues	60,777	16.2%	52,287	17.1%	44,637
Percentage of non-PBM revenues	69.0%		79.5%		74.7%
Total Cost of revenues	6,247,192	63.2%	3,826,905	48.0%	2,584,997
Percentage of total revenues	92.0%		89.2%		91.5%
Selling, general and administrative	272,049	17.5%	231,543	78.0%	130,116
Percentage of total revenues	4.0%		5.4%		4.6%
Depreciation and amortization(1)	67,411	7.6%	62,651	231.9%	18,874
Percentage of total revenues	1.0%		1.5%		0.7%
Non-recurring expenses	-	nm	30,221	1,730.5%	1,651
Percentage of total revenues	0.0%		0.7%		0.1%
Total costs and expenses	$ 6,586,652	58.7%	$ 4,151,320	51.7%	$ 2,735,638
Percentage of total revenues	97.1%		96.8%		96.8%

<FN>

(1) Represents depreciation and amortization expense included in selling, general and administrative expenses on our Statement of Operations. Cost of revenues, above, also includes depreciation and amortization expense on property and equipment of $11,204, $9,216 and $7,575 for the years ended 2000, 1999 and 1998, respectively.
</FN>
nm = not meaningful

Our cost of revenues for PBM services as a percentage of total PBM revenues has increased during 2000 over 1999 primarily due to converting both historical Express Scripts and DPS clients from pharmacy networks contracted by the client to one contracted by us, for which we record the drug ingredient cost in cost of

revenues (see further discussion under "--Overview"), continued margin pressures due to pricing, and changes in the product mix. These increases in cost of revenues were partially offset by increases in amounts received from pharmaceutical manufacturers for our formulary management programs during 2000. Cost of revenues for PBM services as a percentage of total PBM revenues decreased in 1999 from 1998 primarily due to the acquisition of DPS, as discussed above, DPS recorded revenues under the Net Basis. Excluding DPS, the gross margin percentage for the year ended December 31, 1999 decreased to 7.4% from 8.1% for the year ended December 31, 1998. The decrease is primarily due to the conversion of historical Express Scripts clients from pharmacy networks contracted by the client to one contracted by us, lower drug ingredient margins resulting from changes in therapeutic mix, lower pricing offered to clients and increased formulary management revenue sharing partially offset by improving margins from our HMS business.

Cost of revenues for non-PBM services decreased as a percentage of non-PBM revenues in 2000 from 1999 primarily due to additional volume of business within SDS, which represents a larger percentage of non-PBM revenues, where we record as revenue only our administrative fee for distributing pharmaceutical manufacturers' products. SDS has also been able to derive operating cost efficiencies as a result of the increase in volume serviced under the contract that took effect in the fourth quarter of 1999, as discussed above. Cost of revenues for non-PBM services increased as a percentage of non-PBM revenues over 1998 primarily due to the continued change in product mix sold, resulting in additional costs of approximately $2,141,000. In addition, cost of revenues from SDS increased 88.9% over 1998 as a result of establishing a new facility to support a larger operation.

Selling, general and administrative expenses, excluding depreciation and amortization, increased $40,506,000, or 17.5%, in 2000 over 1999 and $101,427,000, or 78.0%, in 1999 over 1998. The increase in 2000 is primarily due to expenditures required to expand the operational and administrative support functions to enhance management of the pharmacy benefit as well as the inclusion of DPS for a full twelve months during 2000 versus nine months of 1999. The increase in 1999 is primarily due to our acquisition of DPS, costs incurred during the integration of DPS and ValueRx, costs incurred in funding our information technology enhancements, costs required to expand the operational and administrative support functions to enhance management of the pharmacy benefit, and the inclusion of ValueRx for a full twelve months. During 2000, 1999 and 1998, we capitalized $36,518,000, $15,997,000 and $10,244,000, respectively, in new systems development costs. However, as a percentage of total revenues, selling, general and administrative expenses, excluding depreciation and amortization, for 2000 decreased to 4.0% from 5.4% in 1999 and 4.6% in 1998 due to converting clients to networks contracted by us.

Depreciation and amortization increased during 2000 over 1999 due to the expansion of our operations and enhancement of our information systems to better serve our clients. This increase was slightly offset by the decrease in amortization of customer contracts as a result of the UHC customer contract intangible asset being fully amortized during 2000. The remaining increase in 2000 was primarily due to the acquisition of DPS, as 1999 only included amortization of the DPS goodwill and other intangible assets for nine months. Depreciation and amortization substantially increased during 1999 over 1998 due to the acquisitions of DPS and ValueRx. During 2000, we recorded amortization expense for goodwill and other intangible assets of $53,638,000 compared to $53,297,000 in 1999 and $12,183,000 in 1998.

During 1999, we recorded the following items in our Consolidated Statement of Operations in the non-recurring charges line (there were no such items during 2000):

- During the second quarter of 1999, we incurred a $9,400,000 charge for the consolidation of our Plymouth, Minnesota facility into our Bloomington, Minnesota facility. In December 1999 and September 2000, the associated accrual was reduced by $2,301,000 and $44,000, primarily as a result of subleasing a portion of the unoccupied space. The consolidation plan

included the relocation of all employees at the Plymouth facility to the Bloomington facility that began in August 1999, with completion delayed until the first quarter of 2001. Included in the charge were anticipated cash expenditures of approximately $4,779,000 for lease termination fees and rent on unoccupied space to be paid through April 2001 and anticipated non-cash charges of approximately $2,276,000 for the write-down of leasehold improvements and furniture and fixtures. The charge does not include any costs associated with the physical relocation of the employees.

- During December 1999, we recorded a pre-tax restructuring charge of $2,633,000 associated with the outsourcing of our computer operations to Electronic Data Systems Corporation. The principal actions of the plan included cash expenditures of approximately $2,148,000 for the transition of 51 employees to the outsourcer and the elimination of contractual obligations of ValueRx, which had no future economic benefit to us, and non-cash charges of approximately $485,000 due to the reduction in the carrying value of certain capitalized software to its net realizable value. This plan was completed during the second quarter of 2000 when remaining cash payments were made.

- Also in December 1999, we recorded a pre-tax restructuring charge of $969,000 associated with restructuring our PPS majority-owned subsidiary and the purchase of the remaining PPS common stock from management. The charge consisted of cash expenditures of $559,000 relating to stock compensation expense and $410,000 of severance payments to 9 employees. This plan was completed in January 2000.

- In conjunction with the sale of the assets of YourPharmacy.com, Inc. to PlanetRx, we recorded a $19,520,000 stock compensation charge relating to former YourPharmacy.com employees. The amount of the charge was determined using the initial public offering price of $16 per share for PlanetRx common stock.

OTHER INCOME (EXPENSE), NET

Our interest expense, net has decreased $14,775,000 during 2000 compared to 1999. The decrease is a result of utilizing the $299,378,000 proceeds from our June 1999 common stock offering to repay a portion of our credit facility, as well as utilizing $344,131,000 of our own cash to pay-down our credit facility from June 1999 through December 31, 2000. Associated with the prepayment of our loans during 2000, we recorded an ordinary gain in interest expense of $1.5 million due to the restructuring of our interest rate swap agreements (see "--Market Risk"). Additionally, we have repurchased $10,115,000 of our Senior Notes as of December 31, 2000 (see "--Liquidity and Capital Resources"). Interest expense, net increased in 1999 over 1998 primarily due to the debt incurred to purchase DPS (see "--Liquidity and Capital Resources").

During 2000, we recorded a $165,207,000 ($103,089,000 net of tax) non-cash impairment charge on our investment in PlanetRx common stock as the loss in value was deemed to be other than temporary. Any unrealized loss associated with recording our investment in PlanetRx at current market value previously recorded in stockholders' equity was written off to the current period earnings, in addition to any additional charges necessary to write-off our investment in accordance with Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Additionally, during 2000, we made charitable donations of 200,000 shares of our PlanetRx common stock (after giving effect to the December 4, 2000 8-for-1

reverse stock split) and realized selling, general and administrative expense related to the donation of approximately $713,000. Therefore, our ownership of PlanetRx as of December 31, 2000 consists of approximately 1,096,000 common shares, or 17.8%, of PlanetRx common shares outstanding (after giving effect to the December 4, 2000 8-for-1 reverse stock split) which are carried at no value.

During 1999, we recognized a one-time non-cash gain of $182,930,000 related to the sale of the assets of YourPharmacy.com, Inc. in exchange for a 19.9% ownership interest in PlanetRx.

PROVISION FOR INCOME TAXES

Our effective tax rate for 2000 is a negative 79.5% compared to a positive 40.7% for 1999. Excluding the tax effect of the marketable securities write-off and the ordinary gain on the restructuring of our swaps (see "--Liquidity and Capital Resources") in 2000, and the one-time gain (see "--Other Income (Expense), Net") and non-recurring items (see "--Cost and Expenses") in 1999, our effective tax rates would have been 40.9% and 43.7% for 2000 and 1999. Our effective tax rates also decreased in 1999 to 40.7% from 44.0% in 1998. These decreases are primarily due to the reduction in the non-deductible goodwill and customer contract amortization expense associated with the ValueRx acquisition as a percentage of income before income taxes. The goodwill and customer contract amortization for the DPS acquisition is deductible for income tax purposes due to the filing of an Internal Revenue Code ss.338(h)(10) election.

NET INCOME AND EARNINGS PER SHARE

Our net income decreased $159,344,000, or 106.1%, in 2000 from 1999, and increased $107,544,000, or 252.0%, in 1999 over 1998. Net income was affected by the following one-time items:

Year Ended December 31, 2000

- A non-cash impairment charge during the second and fourth quarters of 2000 totaling $165,207,000 ($103,089,000 net of tax) relating to our PlanetRx investment (see "--Other Income (Expense), Net")

- An extraordinary loss on the early retirement of debt due to the write-off of deferred financing fees during the third and fourth quarters of 2000 totaling $1,790,000 ($1,105,000 net of tax) discussed in "--Liquidity and Capital Resources"

- An ordinary gain in the amount of $1,500,000 ($926,000 net of tax) on the restructuring of our interest rate swap agreements related to the early retirement of debt in the third quarter of 2000 (see "--Market Risk") Year Ended December 31, 1999

- Non-recurring charges discussed in "--Cost and Expenses" totaling $30,221,000 ($18,188,000 net of tax)

- One-time gain of $182,930,000 ($112,037,000 net of tax) discussed in "--Other Income (Expense), Net"

- An extraordinary loss on the early retirement of debt during the second and third quarters of 1999 totaling $11,642,000 ($7,150,000 net of tax)

Excluding these one-time items and excluding financing costs on the temporary debt associated with the acquisition of DPS after assuming our equity and Senior Notes offerings had been completed on April 1, 1999, net income for 2000 would have been $94,142,000, or $2.46 per basic share and $2.41 per diluted share, compared to $63,519,000, or $1.81 per basic share and $1.77 per diluted share for 1999, respectively.

Basic and diluted weighted average shares outstanding for 2000 increased

5.8% and 3.1%, respectively, over 1999. The increase for both basic and diluted shares outstanding is primarily related to the exercise of stock options during 2000.

LIQUIDITY AND CAPITAL RESOURCES

During 2000, net cash provided by operations increased $31,851,000 to $245,910,000 from $214,059,000 in 1999. This increase is primarily due to increased profitability, excluding the effect of the non-cash write-off of our investment in PlanetRx stock (see "--Other Income (Expense), Net"), and bringing our inventory levels down after increasing our inventory during the fourth quarter of 1999 for our mail pharmacies' anticipation of potentially higher demand due to our members' Year 2000 concerns.

Days sales outstanding ("DSO") increased slightly to 31.2 days at December 31, 2000 from 27.7 days at December 31, 1999, but is still down from 36.9 days at December 31, 1998 due to the acquisition of DPS. Gross revenues must be used to calculate DSO due to the impact of the Gross Basis versus the Net Basis of recording revenues, as discussed in "--Overview" and "--Revenues". The accounts receivable balance includes the cost of the pharmaceutical dispensed, which may not be included in revenues, as required by generally accepted accounting principles, based on the contractual terms embedded in client and pharmacy contracts. The following table presents our DSO for the years ended:

(in thousands)	December 31, 2000	1999	1998
Total revenues	$ 6,786,864	$ 4,288,104	$ 2,824,872
Client/pharmacy pass through	2,812,150	3,570,108	726,960
Gross revenues	$ 9,599,014	$ 7,858,212	$ 3,551,832
Average monthly gross receivables	$ 818,551	$ 597,160	$ 359,423
DSO	31.2	27.7	36.9

Our allowance for doubtful accounts has increased $5,396,000, or 31.2%, to $22,677,000 at December 31, 2000 from $17,281,000 at December 31, 1999 primarily due to increased reserves for infusion services business. As a percentage of at risk receivables (which represent receivables for which there is no corresponding payable obligation), the allowance for doubtful accounts was 3.2% at December 31, 2000 compared to 2.6% at December 31, 1999 and 3.9% at December 31, 1998. The percentage reduction from December 31, 1998 to December 31, 1999 is attributable to the final adjustment, in accordance with generally accepted accounting principles, to the ValueRx opening balance sheet allowance for doubtful accounts and goodwill based upon the actual collection of ValueRx receivables.

Our investment in net working capital decreased significantly to a $117,775,000 deficit from a $34,003,000 deficit as of December 31, 1999 and a $117,611,000 excess as of December 31, 1998. This reduction in 2000 is primarily due to our reduction in cash through our capital expenditures and debt prepayments (discussed below) as well as timing of collections and payments.

We previously announced that we anticipated our cash flow from operations would be temporarily reduced due to the termination of the UHC contract during the third quarter of 2000. We subsequently negotiated a revision to the previously announced transition plan with UHC which extended the transition period and delayed the anticipated temporary cash reduction through the first quarter of 2001. The transition of UHC members was completed by December 31, 2000. We expect to fund the remaining payables associated with the termination of the UHC contract in 2001 primarily with operating cash flow. We will continue to utilize our operating cash flows for future debt prepayments, possible stock repurchases, integration costs, technology initiatives and other normal

operating cash needs as we deem appropriate.

Our capital expenditures in 2000 increased $43,260,000, or 117.1%, over 1999 primarily due to our concerted effort to invest in our information technology to enhance the services provided to our clients, the continued renovation of our St. Louis operations facilities and integration related activities as a result of our acquisitions. We expect to continue investing in technology that will provide efficiencies in operations, manage growth and enhance the service provided to our clients. We expect to fund future anticipated capital expenditures primarily with operating cash flow or, to the extent necessary, with working capital borrowings under our $300 million revolving credit facility, discussed below. The $13,105,000 increase in 1999 capital expenditures over 1998 was due to the aforementioned items as well as the completion of our corporate headquarters.

During September 2000, we sold our Albuquerque, New Mexico property and building for $7,806,000. These assets were then leased back from the purchaser over a period of 10 years with the option to extend the terms up to an additional 10 years. The resulting lease is being accounted for as an operating lease, and the resulting deferred gain of $4,136,000 is being amortized over the 10 year life of the lease.

During 2000, we utilized our own internally generated cash to repay $100 million on our bank revolving credit facility (described below), to prepay $130 million of our Term A loans (described below), to repurchase $10,115,000 of our Senior Notes on the open market and to repurchase 790,000 shares of our Class A Common Stock for $30,247,000. As of December 31, 2000, we have repurchased a total of 1,265,000 shares of our Class A Common Stock under the stock repurchase program that we announced on October 25, 1996. Our Board of Directors approved the repurchase of up to 2,500,000 shares, and placed no limit on the duration of the program. Additional debt repayments or common stock repurchases, if any, will be made in such amounts and at such times as we deem appropriate based upon prevailing market and business conditions, subject to restrictions on stock repurchases contained in our bank credit facility and the Indenture which governs our Senior Notes.

We have a credit facility with a commercial bank syndicate consisting of $155 million of Term A loans and a $300 million revolving credit facility. As a result of the prepayment of our Term A loans noted above, we recorded an extraordinary charge during 2000 for the deferred financing fees in the amount of $1,105,000, net of tax. The prepayments on the Term A loans eliminate the scheduled principal payments for fiscal years 2001, 2002 and a portion of the scheduled principal payment for fiscal year 2003. Beginning in March 2003, we are required to make annual principal payments on the Term A loans of $26,750,000 in 2003, $62,700,000 in 2004 and $65,550,000 in 2005. The capital stock of each of our existing and subsequently acquired domestic subsidiaries, excluding PPS, Great Plains Reinsurance Co., ValueRx of Michigan, Inc., Diversified NY IPA, Inc. and Diversified Pharmaceutical Services (Puerto Rico), Inc., and 65% of the stock of our foreign subsidiaries have been pledged as collateral for the credit facility.

Our credit facility requires us to pay interest quarterly on an interest rate spread based on several London Interbank Offered Rates ("LIBOR") or base rate options. Using a LIBOR spread, the Term A loans had an interest rate of 7.52% on December 31, 2000. During 2000, the LIBOR interest rate spread was reduced to 1.0% based upon calculations set forth in our credit facility. To alleviate interest rate volatility, we have entered into two separate swap arrangements, which are discussed in "--Market Risk" below. The credit facility contains covenants that limit the indebtedness we may incur, dividends paid and the amount of annual capital expenditures. The covenants also establish a minimum interest coverage ratio, a maximum leverage ratio, and a minimum fixed charge coverage ratio. In addition, we are required to pay an annual fee of 0.25%, payable in quarterly installments, on the unused portion of the revolving credit facility ($300 million at December 31, 2000). At December 31, 2000, we are in compliance with all covenants associated with the credit facility.

In June 1999, we issued $250 million of 9.625% Senior Notes due 2009, which require interest to be paid semi-annually on June 15 and December 15. The Senior

Notes are callable at specified prepayment premiums beginning in June 2004. The Senior Notes are unconditionally and jointly and severally guaranteed by our wholly-owned domestic subsidiaries other than PPS, Great Plains Reinsurance Co., ValueRx of Michigan, Inc., Diversified NY IPA, Inc., and Diversified Pharmaceutical Services (Puerto Rico), Inc. During the second quarter of 2000, we repurchased $10,115,000 of our Senior Notes on the open market for $10,150,000, which includes $385,000 of accrued interest.

We regularly review potential acquisitions and affiliation opportunities. We believe that available cash resources, bank financing or the issuance of additional common stock could be used to finance future acquisitions or affiliations. However, there can be no assurance we will make new acquisitions or affiliations in 2001 or thereafter.

OTHER MATTERS

On February 22, 2001, we announced that we entered into an agreement with AdvancePCS and Merck-Medco to form RxHub LLC ("RxHub"). RxHub is intended to develop an electronic exchange enabling physicians who use electronic prescribing technology to link to pharmacies, PBMs and health plans, which their patients use. The company is designed to operate as a utility for the conduit of information among all parties engaging in electronic prescribing. We will own one-third of the equity of RxHub (as will each of the other two founders), and have committed to invest up to $20 million over the next five years with approximately $6 million committed for 2001. We will record our investment in RxHub under the equity method of accounting, which requires our percentage interest in RxHub's results to be recorded in our Consolidated Statement of Operations. RxHub will be operated to cover its expected operating costs and to return the cost of capital to the founders.

As previously announced the shareholders of Centre d'autorisation et de paiement des services de sante, a leading Quebec-based PBM commonly referred to as CAPSS, accepted an offer made by our Canadian subsidiary, ESI Canada, Inc., to acquire all of the outstanding shares of CAPSS, subject to satisfaction of certain conditions, for approximately CAN$25 million (approximately US$16.5 million). The transaction, which will be accounted for under the purchase method of accounting, will be funded with our operating cash flow. We expect to close the transaction during March 2001 and it will add approximately 1.5 million lives to ESI Canada's membership base. The transaction is not expected to be dilutive to earnings in 2001 and is expected to be slightly accretive in 2002.

Prior to November 7, 2000, NYLife Healthcare Management, Inc., a subsidiary of New York Life Insurance Company, owned all of our outstanding shares of Class B Common Stock. On November 7, 2000, NYLife Healthcare Management, Inc. exchanged each outstanding share of Class B Common Stock for one share of our Class A Common Stock and then immediately distributed such shares to NYLIFE LLC, another subsidiary of New York Life. Consequently, on November 7, 2000, we reacquired all of our outstanding Class B Common Stock and currently hold it as treasury shares. Immediately following the exchange and distribution to NYLIFE LLC, NYLIFE LLC completed the sale of 6,900,000 shares of our Class A Common Stock to the public through a secondary offering. Contemporaneous with this stock offering, the Express Scripts Automatic Exchange Security Trust, a closed-end investment company that is not affiliated with us, sold 3,450,000 investment units to the public. Upon maturity of the investment units, the Trust may deliver up to 3,450,000 shares of our Class A Common Stock owned by NYLIFE LLC to the holders of the investment units. We did not receive any proceeds from the secondary offering or the offering by the Trust.

At December 31, 2000, NYLIFE LLC owned shares of our Class A Common Stock representing approximately 20.8% of the combined voting power of all classes of our common stock, which includes the right to vote 3,450,000 Class A Common Stock that the Trust may deliver upon exchange of the Trust issued investment units. New York Life has agreed on behalf of itself and its subsidiaries, to vote these 3,450,000 shares of our Class A Common Stock prior to delivery thereof by the Trust to the holders of the Trust investment units in the same proportion and to the same effect as the votes cast by our other stockholders at any meeting of stockholders, subject to the following exceptions: New York Life has agreed to vote its 8,120,000 shares (which includes the above described

3,450,000 shares) in favor of the slate of nominees for directors recommended by our Board of Directors for election by stockholders (provided that, so long as New York Life is entitled to representation on the Board of Directors, such slate includes New York Life's nominees) and the adoption of the Express Scripts, Inc.2000 Long-Term Incentive Plan.

In June 1998, Financial Accounting Standards Board Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") was issued. FAS 133 requires all derivatives to be recognized as either assets or liabilities in the statement of financial position and measured at fair value. In addition, FAS 133 specifies the accounting for changes in the fair value of a derivative based on the intended use of the derivative and the resulting designation. The effective date for FAS 133 was originally effective for all fiscal quarters of fiscal years beginning after June 15, 1999. However, the Financial Accounting Standards Board has deferred the effective date so that it will begin for all fiscal quarters of fiscal years beginning after June 15, 2000, and will be applicable to our first quarter of fiscal year 2001. Our present interest rate swaps (see "-Market Risk") will be considered cash flow hedges. Accordingly, the fair value of the swaps will be reported on the balance sheet as an asset or liability. The corresponding unrealized gain or loss representing the effective portion of these hedges will be recognized in stockholders' equity and other comprehensive income and any changes in unrealized gains or losses from the initial measurement date related to the ineffective portion of the hedges will be recognized in earnings concurrent with the interest expense on our underlying variable rate debt. If we had adopted FAS 133 as of December 31, 2000, we would have recorded the unrealized loss of $991,000 as a liability and a decrease in stockholders' equity.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). In June 2000, the SEC issued SAB 101B to defer the effective date for implementation of SAB 101 until the fourth quarter of fiscal 2000. In addition, Emerging Issues Task Force Issue 99-19, "Recording Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19") was issued in July 2000 with implementation required no later than the fourth quarter of fiscal 2000. SAB 101 and EITF 99-19 summarize certain views in applying generally accepted accounting principles to revenue recognition in financial statements. The necessary adjustments to our revenue recognition policies in order to comply with SAB 101 and EITF 99-19 did not have a material effect on our financial statements.

In December 2000, the Department of Health and Human Services issued final privacy regulations, pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), which impose extensive restrictions on the use and disclosure of individually identifiable health information by certain entities. We will be required to comply with certain aspects of the regulations. We have retained a consulting firm to assist us in assessing the steps we will have to take in complying with these regulations, which provide for a two year implementation period. While this assessment is not yet complete, we believe compliance with these regulations will have a significant impact on our business operations. We have not yet completed an assessment of the costs we will incur in complying with these regulations, and can give no assurance that such costs will not be material to us.

IMPACT OF INFLATION

Changes in prices charged by manufacturers and wholesalers for pharmaceuticals affect our revenues and cost of revenues. To date, we have been able to recover substantially all price increases from our clients under the terms of our agreements, although under selected arrangements in which we have performance measurements on drug costs with our clients we could be adversely affected by inflation in drug costs if the result is an overall increase in the cost of the drug plan to the client. To date, changes in pharmaceutical prices have not had a significant adverse affect on us.

MARKET RISK

In conjunction with the prepayment of the Term A loans, we restructured our existing interest rate swap agreements, reducing the notional amounts of the

swaps to a combined $100 million as of December 31, 2000. We received $2,397,000 to restructure our swap agreements, of which $1,500,000 ($926,000 net of tax) was recognized against interest expense as an ordinary gain related to the prepayment of debt and the remaining $897,000 has been deferred and will be amortized over the remaining term of the loans.

Our first interest rate swap agreement became effective during 1998 and has a notional principal amount of $49 million with a fixed rate of interest of 5.88% per annum, plus the interest rate spread of 1.0% as of December 31, 2000. Under the restructured agreement, the notional principal amount will reduce to approximately $47 million in April 2001 until maturing in October 2001.

Our second interest rate swap agreement became effective during 2000 and has a notional principal amount of $51 million with a fixed rate of interest of 6.25% per annum, plus the interest rate spread of 1.0% as of December 31, 2000. Under the restructured agreement, the notional principal amount will increase to approximately $53 million in April 2001, to approximately $98 million in October 2001 and to $100 million in April 2002. Beginning in April 2003, the notional principal amount will be reduced to $60 million and in April 2004 will be reduced to $20 million until maturing in April 2005.

As a result, we have, in effect, converted 64.5% of our variable rate debt to fixed rate debt under our credit facility at December 31, 2000. Beginning in October 2000, we have converted approximately $100 million of our variable rate debt to fixed rate debt until April 2003 when the notional amount reduces to $60 million and April 2004 when the notional amount reduces to $20 million.

Interest rate risk is monitored on the basis of changes in the fair value and a sensitivity analysis is used to determine the impact interest rate changes will have on the fair value of the interest rate swaps, measuring the change in the net present value arising from the change in the interest rate. The fair value of the swaps are then determined by calculating the present value of all cash flows expected to arise thereunder, with future interest rate levels implied from prevailing mid-market yields for money-market instruments, interest rate futures and/or prevailing mid-market swap rates. Anticipated cash flows are then discounted on the assumption of a continuously compounding zero-coupon yield curve. A 10 basis point decline in interest rates at December 31, 2000 would have caused the fair value of the swaps to decrease by $434,000, resulting in a liability with a fair value of $1,425,000.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Response to this item is included in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations--Market Risk" above.

Item 8 - Consolidated Financial Statements and Supplementary Data

Report of Independent Accountants

To the Board of Directors and
Stockholders of Express Scripts, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 65 present fairly, in all material respects, the financial position of Express Scripts, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 65 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally

accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
St. Louis, Missouri
February 5, 2001, except as to the first two paragraphs of Note 2 which are as of February 22, 2001

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)	December 31, 2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 53,204	$ 132,630
Receivables, net	802,790	783,086
Inventories	110,053	113,248
Deferred taxes	22,180	32,248
Prepaid expenses and other current assets	9,942	5,143
Total current assets	998,169	1,066,355
Investment in marketable securities	-	150,365
Property and equipment, net	147,709	97,573
Goodwill, net	967,017	982,496
Other intangible assets, net	157,094	183,420
Other assets	6,655	7,102
Total assets	$ 2,276,644	$ 2,487,311
Liabilities and Stockholders' Equity		
Current liabilities:		
Claims and rebates payable	$ 878,622	$ 850,630
Accounts payable	94,407	112,731
Accrued expenses	142,915	136,997
Total current liabilities	1,115,944	1,100,358
Long-term debt	396,441	635,873
Other liabilities	59,015	51,598
Total liabilities	1,571,400	1,787,829
Commitments and Contingencies (Notes 3, 6 and 8)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, and no shares issued and outstanding	-	-
Class A Common Stock, $0.01 par value, 150,000,000 shares authorized, 39,044,000 and 23,981,000 shares issued and outstanding, respectively	390	240
Class B Common Stock, $0.01 par value, 31,000,000 shares authorized, no shares and 15,020,000 shares issued and outstanding, respectively	-	150
Additional paid-in capital	441,387	418,921
Unearned compensation under employee compensation plans	(13,676)	-
Accumulated other comprehensive income	(97)	(9,521)
Retained earnings	287,414	296,540
	715,418	706,330
Class A Common Stock in treasury at cost, 270,000 and 465,000 shares, respectively	(10,174)	(6,848)
Total stockholders' equity	705,244	699,482
Total liabilities and stockholders' equity	$ 2,276,644	$ 2,487,311

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31,

(in thousands, except per share data)	2000	1999	1998
Revenues:			
Revenues	$ 6,776,441	$ 4,285,104	$ 2,824,872
Other revenues	10,423	3,000	-
	6,786,864	4,288,104	2,824,872
Costs and expenses:			
Cost of revenues	6,247,192	3,826,905	2,584,997
Selling, general and administrative	339,460	294,194	148,990
Non-recurring	-	30,221	1,651
	6,586,652	4,151,320	2,735,638
Operating income	200,212	136,784	89,234
Other income (expense):			
Interest income	8,430	5,762	7,236
Interest expense	(47,903)	(60,010)	(20,230)
Write-off of marketable securities	(165,207)	-	-
Gain on sale of assets	-	182,930	-
	(204,680)	128,682	(12,994)
(Loss) income before income taxes	(4,468)	265,466	76,240
Provision for income taxes	3,553	108,098	33,566
(Loss) income before extraordinary loss	(8,021)	157,368	42,674
Extraordinary loss on early retirement of debt, net of taxes	(1,105)	(7,150)	-
Net (loss) income	$ (9,126)	$ 150,218	$ 42,674
Basic earnings per share:			
Before extraordinary loss	$ (0.21)	$ 4.36	$ 1.29
Extraordinary loss on early retirement of debt	(0.03)	(0.20)	-
Net (loss) income	$ (0.24)	$ 4.16	$ 1.29
Weighted average number of common shares outstanding during the period - Basic EPS	38,196	36,095	33,105
Diluted earnings per share:			
Before extraordinary loss	$ (0.21)	$ 4.25	$ 1.27
Extraordinary loss on early retirement of debt	(0.03)	(0.19)	-
Net (loss) income	$ (0.24)	$ 4.06	$ 1.27
Weighted average number of common shares outstanding during the period - Diluted EPS	38,196	37,033	33,698

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Number of Shares		Amount							
(in thousands)	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned Compensation Under Employee Compensation Plans	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
Balance at December 31, 1997	9,238	7,510	$ 93	$ 75	$106,901	$ -	$ (27)	$103,64	$(6,989)	$203,701
Comprehensive income:										
Net income	-	-	-	-	-	-	-	42,674	-	42,674
Other comprehensive income, Foreign currency translation adjustment	-	-	-	-	-	-	(47)	-	-	(47)
Comprehensive income	-	-	-	-	-	-	(47)	42,674	-	42,627
Issuance of stock dividend	9,239	7,510	92	75	(167)	-	-	-	-	-
Exercise of stock options	133	-	1	-	2,020	-	-	-	-	2,021
Tax benefit relating to employee stock options	-	-	-	-	1,345	-	-	-	-	1,345
Balance at December 31, 1998	18,610	15,020	186	150	110,099	-	(74)	146,322	(6,989)	249,694
Comprehensive income:										
Net income	-	-	-	-	-	-	-	150,218	-	150,218
Other comprehensive income, Foreign currency translation adjustment	-	-	-	-	-	-	108	-	-	108
Unrealized loss on investment,										

net of taxes	-	-	-	-	-	-	(9,555)	-	-	(9,555)
Comprehensive income	-	-	-	-	-	-	(9,447)	150,218	-	140,771
Issuance of common stock	5,175	-	52	-	299,326	-	-	-	-	299,378
Common stock issued under employee plans	10	-	-	-	551	-	-	-	-	551
Exercise of stock options	186	-	2	-	5,744	-	-	-	141	5,887
Tax benefit relating to employee stock options	-	-	-	-	3,201	-	-	-	-	3,201
Balance at December 31, 1999	23,981	15,020	240	150	418,921	-	(9,521)	296,540	(6,848)	699,482
Comprehensive income:										
Net loss	-	-	-	-	-	-	-	(9,126)	-	(9,126)
Other comprehensive income,										
Foreign currency translation adjustment	-	-	-	-	-	-	(131)	-	-	(131)
Recognition of prior period unrealized loss on investment	-	-	-	-	-	-	9,555	-	-	9,555
Comprehensive income (loss)	-	-	-	-	-	-	9,424	(9,126)		298
Conversion of Class B Common Stock to Class A Common Stock	15,020	(15,020)	150	(150)	-	-	-	-		-
Treasury stock acquired	-	-	-	-	-	-	-	-	(30,247)	(30,247)
Common stock issued under employee plans	43	-	-	-	9,031	(15,160)	-	-	7,607	1,478
Amortization of unearned compensation under employee plans	-	-	-	-	-	1,484	-	-	-	1,484
Exercise of stock options	-	-	-	-	(2,021)	-	-	-	19,314	17,293
Tax benefit relating to employee stock options	-	-	-	-	15,456	-	-	-	-	15,456
Balance at December 31, 2000	39,044	-	$ 390	$ -	$441,387	$(13,676)	$ (97)	$287,414	$(10,174)	$705,244

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net (loss) income	$ (9,126)	$ 150,218	$ 42,674
Adjustments to reconcile net income to net cash Provided by operating activities:			
Depreciation and amortization	78,615	71,867	26,449
Deferred income taxes	(42,092)	76,217	10,068
Bad debt expense	12,843	4,989	4,583
Write-off of marketable securities	165,207	-	-
Gain on sale of assets, net of cash paid	-	(185,650)	-
Non-recurring charges, net of cash paid	-	22,281	1,467
Tax benefit relating to employee stock options	15,456	3,201	1,345
Extraordinary loss on early retirement of debt	1,790	11,642	-
Other, net	4,521	2,164	609
Changes in operating assets and liabilities, net of changes resulting from acquisitions:			
Receivables	(35,286)	(217,977)	(35,083)
Inventories	3,103	(54,059)	(15,417)
Other current and non-current assets	745	(2,177)	756
Claims and rebates payable	29,806	279,714	107,660
Other current and non-current liabilities	20,328	51,629	(18,537)
Net cash provided by operating activities	245,910	214,059	126,574
Cash flows from investing activities:			
Purchases of property and equipment	(80,218)	(36,958)	(23,853)
Proceeds from sale of property and equipment	8,831	-	-
Acquisitions, net of cash acquired	-	(722,618)	(460,137)
Short-term investments	(2,191)	-	57,938
Net cash (used in) investing activities	(73,578)	(759,576)	(426,052)
Cash flows from financing activities:			
Repayment of long-term debt	(240,069)	(1,015,000)	-
Proceeds from long-term debt	-	1,290,950	360,000
Treasury stock acquired	(30,247)	-	-
Net proceeds from issuance of common stock	-	299,378	-
Deferred financing fees	-	(26,316)	(4,062)
Cash received from employee stock-based plans	18,689	6,438	2,021
Net cash (used in) provided by financing activities	(251,627)	555,450	357,959
Effect of foreign currency translation adjustment	(131)	108	(47)
Net (decrease) increase in cash and cash equivalents	(79,426)	10,041	58,434
Cash and cash equivalents at beginning of year	132,630	122,589	64,155
Cash and cash equivalents at end of year	$ 53,204	$ 132,630	$ 122,589

Supplemental data:			
Cash paid during the year for:			
Restructuring charges	$ 3,318	$ 4,683	$ 184
Income taxes	30,814	1,080	17,202
Interest	48,172	61,607	13,568

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. Summary of significant accounting policies

Organization and operations. We are one of the largest full-service pharmacy benefit management ("PBM") companies independent of pharmaceutical manufacturer ownership in North America. We provide health care management and administration services on behalf of clients that include health maintenance organizations, health insurers, third-party administrators, employers and union-sponsored benefit plans. Our fully integrated PBM services include network claims processing, mail pharmacy services, benefit design consultation, drug utilization review, formulary management, disease management, medical and drug data analysis services, medical information management services (which include the development of data warehouses to combine medical claims and prescription drug claims), disease management support services and outcome assessments through our Health Management Services division and Practice Patterns Science, Inc. ("PPS") subsidiary, and informed decision counseling services through our Express Health LineSM division. We also provide non-PBM services which include distribution services through our Express Scripts Specialty Distribution Services subsidiary ("SDS"), infusion therapy services through our wholly-owned subsidiary IVTx, Inc., operating as Express Scripts Infusion Services, and, prior to September 1, 1998, provided managed vision care programs through our wholly-owned subsidiary Express Scripts Vision Corporation.

Basis of presentation. The consolidated financial statements include our accounts and those of all our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements conforms to generally accepted accounting principles in the U.S., and requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and assumptions.

Cash and cash equivalents. Cash and cash equivalents include cash on hand and investments with original maturities of three months or less. In 1999, we changed banking relationships resulting in certain cash disbursement accounts being maintained by banks not holding our cash concentration accounts. As a result, cash disbursement accounts carrying negative balances of $83,691,000 and $113,732,000 have been reclassified to claims and rebates payable at December 31, 2000 and 1999, respectively.

Accounts receivable. As of December 31, 2000 and 1999, unbilled receivables were $394,205,000 and $354,370,000, respectively. Unbilled receivables are billed to clients typically within 30 days based on the contractual billing schedule agreed upon with the client. As of December 31, 2000 and 1999, we have allowances for doubtful accounts of $22,677,000 and $17,281,000, respectively.

Inventories. Inventories consist of prescription drugs and medical supplies that are stated at the lower of first-in first-out cost or market.

Property and equipment. Property and equipment is carried at cost and is depreciated using the straight-line method over estimated useful lives of seven years for furniture, five years for equipment and purchased computer software and three years for personal computers. Leasehold improvements are amortized on a straight-line basis over the term of the lease or the useful life of the asset, if shorter. Expenditures for repairs, maintenance and renewals are

charged to income as incurred. Expenditures which improve an asset or extend its estimated useful life are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Software development costs. Research and development expenditures relating to the development of software to be marketed to clients, or to be used for internal purposes, are charged to expense until technological feasibility is established. Thereafter, the remaining software production costs up to the date of general release to customers, or to the date placed into production, are capitalized and included as Property and Equipment. During 2000, 1999 and 1998, $36,518,000, $15,997,000 and $10,244,000 in software development costs were capitalized, respectively, primarily due to the integration of our acquisitions and enhancements to our information systems. Capitalized software development costs amounted to $81,933,000 and $42,353,000 at December 31, 2000 and 1999, respectively. Amortization of the capitalized amounts commences on the date of general release to customers, or the date placed into production, and is computed on a product-by-product basis using the straight-line method over the remaining estimated economic life of the product but not more than five years. Reductions, if any, in the carrying value of capitalized software costs to net realizable value are expensed. Amortization expense in 2000, 1999 and 1998 was $6,535,000, $3,810,000 and $1,968,000, respectively.

Marketable securities. All investments not included as cash and cash equivalents are accounted for under Financial Accounting Standards Board Statement ("FAS") 115, "Accounting for Certain Investments in Debt and Equity Securities." Available-for-sale securities are reported at fair value, which is based upon quoted market prices, with unrealized gains and losses, net of tax, reported as a component of other comprehensive income in stockholders' equity until recognized. Unrealized losses are recognized as expense when a decline in fair value is determined to be other than temporary.

Goodwill. Goodwill is amortized on a straight-line basis over periods from 10 to 30 years. The amount reported is net of accumulated amortization of $71,348,000 and $36,317,000 at December 31, 2000 and 1999, respectively. Amortization expense, included in selling, general and administrative expenses, was $35,031,000, $28,203,000 and $7,863,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Other intangible assets. Other intangible assets include, but are not limited to, customer contracts, non-compete agreements and deferred financing fees and are amortized on a straight-line basis over periods from 2 to 20 years. The amount reported is net of accumulated amortization of $55,954,000 and $34,918,000 at December 31, 2000 and 1999, respectively. Amortization expense for customer contracts and non-compete agreements included in selling, general and administrative expenses was $18,607,000, $25,094,000 and $4,320,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Amortization expense for deferred financing fees included in interest expense was $2,391,000, $2,241,000, and $609,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Contractual agreements. We have entered into corporate alliances with certain of our clients whereby shares of our Class A Common Stock were awarded as advance discounts to the clients. We account for these agreements as follows:

Between December 15, 1995 and November 20, 1997 - For agreements entered into between these dates, we utilize the provisions of FAS 123, "Accounting for Stock-Based Compensation," which requires that all stock issued to nonemployees be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued. We have adopted FAS 123 as it relates to stock issued or to be issued under client alliances based on fair value at the date the agreement was consummated.

Subsequent to November 20, 1997 - In November 1997, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus that the value of equity instruments issued for consideration other than employee services should be

initially determined on the date on which a "firm commitment" for performance first exists by the provider of goods or services. Firm commitment is defined as a commitment pursuant to which performance by a provider of goods or services is probable because of sufficiently large disincentives for nonperformance. The consensus must be applied for all new arrangements and modifications of existing arrangements entered into from November 20, 1997. The consensus only addresses the date upon which fair value is determined and does not change the accounting based upon fair value as prescribed by FAS 123. We have not entered into any such arrangements subsequent to November 20, 1997.

Shares issued on the effective date of the contractual agreement are considered outstanding and included in basic and diluted earnings per share computations when issued. Shares issuable upon the satisfaction of certain conditions are considered outstanding and included in basic and dilutive earnings per share computation when all necessary conditions have been satisfied by the end of the period. If all necessary conditions have not been satisfied by the end of the period, the number of shares included in the dilutive earnings per share computation is based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period and if the result would be dilutive. The value of the shares of stock awarded as advance discounts is recorded as a deferred cost and included in other intangible assets. The deferred cost is recognized in selling, general and administrative expenses over the period of the contract.

Impairment of long lived assets. We evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets, including goodwill, may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. In our opinion, other than the write-down of long-lived assets associated with our facilities consolidation and computer operations outsourcing, no such impairment existed as of December 31, 2000 or 1999 (see Note 6).

Derivative financial instruments. We have entered into interest rate swap agreements in order to manage exposure to interest rate risk. We do not hold or issue derivative financial instruments for trading purposes. The interest rate swaps are designated as a hedge of our variable interest rate payments. Amounts received or paid are accrued as interest receivable or payable and as interest income or expense. The fair values of interest rate swap agreements are based on market prices. The fair values represent the estimated amount we would receive/pay to terminate the agreements taking into consideration current interest rates.

In June 1998, the FASB issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities". FAS 133 requires all derivatives to be recognized as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. In addition, FAS 133 specifies the accounting for changes in the fair value of a derivative based on the intended use of the derivative and the resulting designation. The effective date for FAS 133 was originally effective for all fiscal quarters of fiscal years beginning after June 1, 1999. However, the FASB has deferred the effective date so that it will begin for all fiscal quarters of fiscal years beginning after June 15, 2000, and will be applicable to our first quarter of fiscal year 2001. Our present interest rate swaps (see Note 5) will be considered cash flow hedges. Accordingly, the change in the fair values of the swaps will be reported on the balance sheet as an asset or liability. The corresponding unrealized gain or loss representing the effective portion of these hedges will be recognized in stockholders' equity and other comprehensive income and any changes in unrealized gain or loss from the initial measurement date related to the ineffective portion of the hedges will be recognized in earnings concurrent with the interest expense on our underlying variable rate debt. If we had adopted FAS 133 as of December 31, 2000, we would have recorded an unrealized loss of $991,000 as a liability and a decrease in stockholders' equity during 2000.

Fair value of financial instruments. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments. The fair value, which approximates the carrying value, of our Credit Facility was estimated using either quoted market prices or the current rates offered to us for debt with similar maturity. The fair value of the swaps (a liability of $991,000 and an asset of $6,867,000 at December 31, 2000 and 1999, respectively) was based on quoted market prices, which reflect the present values of the difference between estimated future fixed rate payments and future variable rate receipts. The fair value of our senior note facility ($245,882,000 and $255,000,000 at December 31, 2000 and 1999, respectively) was estimated based on quoted market prices.

Revenue recognition. Revenues from dispensing prescription and non-prescription medical products from our mail pharmacies are recorded upon shipment. Revenue from sales of prescription drugs by pharmacies in our nationwide network and pharmacy claims processing revenues are recognized when the claims are processed. When we dispense pharmaceuticals from our mail service pharmacies to members of health benefit plans sponsored by our clients or when we have an independent contractual obligation to pay our network pharmacy providers for benefits provided to members of our clients' pharmacy benefit plans, we include payments from plan sponsors for these benefits as revenue and ingredient costs or payments to these pharmacy providers in cost of revenues (the "Gross Basis"). If we are merely administering the plan sponsors' network pharmacy contracts we record only the administrative or dispensing fees derived from our contracts with the plan sponsors as revenue (the "Net Basis").

Management services provided to drug manufacturers include various services relating to administration of manufacturer rebate programs. Revenues relating to these services are recognized as earned based upon detailed drug utilization data. Rebates payable to customers in accordance with the applicable contracts are excluded from revenues and expenses.

Retail pharmacy and mail pharmacy revenues are recognized based upon actual scripts adjudicated and therefore require no estimation.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). In June 2000, the SEC issued SAB 101B to defer the effective date for implementation of SAB 101 until the fourth quarter of fiscal 2000. In addition, EITF Issue 99-19, "Recording Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19") was issued in July 2000 with implementation required no later than the fourth quarter of fiscal 2000. SAB 101 and EITF 99-19 summarize certain views in applying generally accepted accounting principles to revenue recognition in financial statements. The necessary adjustments to our revenue recognition policies in order to comply with SAB 101 and EITF 99-19 did not have a material effect on our financial statements.

Cost of revenues. Cost of revenues includes product costs, pharmacy claims payments and other direct costs associated with dispensing prescriptions, including shipping and handling and non-prescription medical products and claims processing operations, offset by fees received from pharmaceutical manufacturers in connection with our drug purchasing and formulary management programs. We estimate fees receivable from pharmaceutical manufacturers on a quarterly basis converting total prescriptions dispensed to estimated rebatable scripts (i.e., those prescriptions with respect to which we are contractually entitled to submit claims for rebates) multiplied by the contractually agreed manufacturer rebate amount. Estimated fees receivable from pharmaceutical manufacturers are recorded when we determine them to be realizable, and realization is not dependent upon future pharmaceutical sales. Estimates are revised once the actual rebatable scripts are calculated and rebates are billed to the manufacturer.

Income taxes. Deferred tax assets and liabilities are recognized based on temporary differences between financial statement basis and tax basis of assets and liabilities using presently enacted tax rates.

Earnings per share. Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings

per share is computed in the same manner as basic earnings per share but adds the number of additional common shares that would have been outstanding for the period if the potential dilutive common shares had been issued. The difference between the number of weighted average shares used in the basic and diluted calculation for all years are outstanding stock options and stock warrants (833,000, 938,000 and 593,000 in 2000, 1999 and 1998, respectively), any unvested shares and shares issuable pursuant to employee elected deferral under the executive deferred compensation plan (3,000 in 2000) and restricted stock we have issued (1,000 in 2000), all calculated under the "treasury stock" method in accordance with FAS 128, "Earnings Per Share". Due to the net loss in 2000, all potentially dilutive common shares have been excluded due to anti-dilution.

Foreign currency translation. The financial statements of ESI Canada, Inc. are translated into U.S. Dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. The functional currency for ESI Canada, Inc. is the local currency and cumulative translation adjustments are recorded within the other comprehensive income component of stockholders' equity.

Employee stock-based compensation. We account for employee stock options in accordance with Accounting Principles Board No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under APB 25, we apply the intrinsic value method of accounting and, therefore, have not recognized compensation expense for options granted, because options have only been granted at a price equal to market value at the time of grant. During 1996, FAS 123 became effective for us. FAS 123 prescribes the recognition of compensation expense based on the fair value of options determined on the grant date. However, FAS 123 grants an exception that allows companies currently applying APB 25 to continue using that method. We have, therefore, elected to continue applying the intrinsic value method under APB 25. For companies that choose to continue applying the intrinsic value method, FAS 123 mandates certain pro forma disclosures as if the fair value method had been utilized (see Note 10).

Comprehensive income. Other than net income, our two components of comprehensive income are changes in the foreign currency translation adjustments and unrealized losses on available-for-sale securities. We have displayed comprehensive income within the Statement of Changes in Stockholders' Equity.

Segment reporting. The relative segment information is derived from the management approach which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of our reportable segments (see Note 12).

2. Changes in business

Joint venture. On February 22, 2001, we announced that we entered into an agreement with AdvancePCS and Merck-Medco to form RxHub LLC ("RxHub"). RxHub is intended to develop an electronic exchange enabling physicians who use electronic prescribing technology to link to pharmacies, PBMs and health plans, which their patients use. The company is designed to operate as a utility for the conduit of information among all parties engaging in electronic prescribing. We will own one-third of the equity of RxHub (as will each of the other two founders), and have committed to invest up to $20 million over the next five years with approximately $6 million committed for 2001. We will record our investment in RxHub under the equity method of accounting, which requires our percentage interest in RxHub's results to be recorded in our Consolidated Statement of Operations. RxHub will be operated to cover its expected operating costs and to return the cost of capital to the founders.

Acquisitions. As previously announced the shareholders of Centre d'autorisation et de paiement des services de sante, a leading Quebec-based PBM commonly referred to as CAPSS, accepted an offer made by our Canadian subsidiary, ESI Canada, Inc., to acquire all of the outstanding shares of CAPSS, subject to satisfaction of certain conditions, for approximately CAN$25 million (approximately US$16.5 million). The transaction, which will be accounted for under the purchase method of accounting, will be funded with our operating cash flow. We expect to close the transaction during March 2001 and it will add

approximately 1.5 million lives to ESI Canada's membership base. The transaction is not expected to be dilutive to earnings in 2001 and is expected to be slightly accretive in 2002.

On April 1, 1999, we completed our acquisition of Diversified Pharmaceutical Services, Inc. and Diversified Pharmaceutical Services (Puerto Rico) Inc. (collectively, "DPS"), from SmithKline Beecham Corporation and SmithKline Beecham InterCredit BV (collectively, "SB") for approximately $715 million, which includes a purchase price adjustment for closing working capital and transaction costs. We filed an Internal Revenue Code ss.338(h)(10) election, making amortization expense of intangible assets, including goodwill, tax deductible. We used approximately $48 million of our own cash and financed the remainder of the purchase price and related acquisition costs.

The acquisition has been accounted for using the purchase method of accounting. The results of operations of DPS have been included in the consolidated financial statements and PBM segment since April 1, 1999. The purchase price has been allocated based on the estimated fair values of net assets acquired at the date of the acquisition. The excess of purchase price over tangible net assets acquired has been allocated to other intangible assets consisting of customer contracts in the amount of $129,500,000 which began amortizing in 1999 using the straight-line method over the estimated useful lives of 2 to 20 years and goodwill in the amount of $754,236,000 which is being amortized using the straight-line method over the estimated useful life of 30 years. In conjunction with the acquisition, DPS retained the following liabilities:

(in thousands)	
Fair value of assets acquired	$ 1,028,848
Cash paid for the capital stock	(714,678)
Liabilities retained	$ 314,170

The following unaudited pro forma information presents a summary of our combined results of operations and those of DPS as if the acquisition had occurred at the beginning of the period presented, along with certain pro forma adjustments to give effect to amortization of goodwill, other intangible assets, interest expense on acquisition debt and other adjustments. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date, nor is it an indication of trends in future results.

(in thousands, except per share data)	Year Ended December 31, 1999
Total revenues	$ 4,353,470
Income before extraordinary loss	158,423
Extraordinary loss	(7,150)
Net income	$ 151,273
Basic earnings per share	
Before extraordinary loss	$ 4.39
Extraordinary loss	(0.20)
Net income	$ 4.19
Diluted earnings per share	
Before extraordinary loss	$ 4.28
Extraordinary loss	(0.19)
Net income	$ 4.09

As previously disclosed, on April 1, 1998, we acquired all of the

outstanding capital stock of Value Health, Inc. Managed Prescriptions Network, Inc. (collectively known as "ValueRx") from HCA-The Healthcare Corporation (formerly, "Columbia/HCA Healthcare Corporation ") for approximately $460 million. Consequently, our operating results include those of ValueRx from April 1, 1998. The net assets acquired from ValueRx have been recorded at their estimated fair value, resulting in $278,113,000 of goodwill that is being amortized over 30 years and $57,653,000 of other intangible assets which are being amortized over 2 to 20 years. This acquisition has been accounted for under the purchase method of accounting.

Sale of assets. On August 31, 1999, we, along with YourPharmacy.com, Inc. ("YPC"), our wholly-owned subsidiary, entered into an Asset Contribution and Reorganization Agreement (the "Contribution Agreement") with PlanetRx, PRX Holdings, Inc. ("Holdings"), and PRX Acquisition Corp. ("Acquisition Sub"). Pursuant to the Contribution Agreement, YPC agreed to contribute certain operating assets constituting its e-commerce business in prescription and non-prescription drugs and health and beauty aids to Holdings in exchange for 19.9% of the post-initial public offering common equity of Holdings (the "IPO"), and PlanetRx was also to assume certain obligations of YPC. Simultaneously with this transaction, Acquisition Sub was to merge into PlanetRx and PlanetRx shareholders would receive stock in Holdings, which would change its name to "PlanetRx.com, Inc." As a result of the transactions, YPC would be a 19.9% shareholder in the new PlanetRx (formerly Holdings), which would conduct business as an Internet pharmacy.

On October 13, 1999, the transactions described in the Contribution Agreement were consummated, YPC received 10,369,990 unregistered shares, or 19.9%, of the common equity of PlanetRx, and PlanetRx assumed options granted to YPC employees which converted into options to purchase approximately 1.8 million shares of PlanetRx common stock. In connection with the IPO, we also executed a 180 day lock-up agreement that prevented us from selling our shares until April 10, 2000. The consummation of the transaction occurred immediately preceding the closing of PlanetRx's IPO of common stock. Based on the IPO price of $16 per share, YPC received consideration valued at $165,920,000. We recorded a one-time gain during 1999 (in other income) of $182,930,000 on the transaction, and a one-time stock compensation expense during 1999 (included in non-recurring expenses) of $19,520,000 relating to the YPC employee stock options. We accounted for this investment in PlanetRx on the cost method and reported our investment on the balance sheet under the caption "investment in marketable securities" at fair value in accordance with FAS 115 (see Note 1).

As part of our agreement, PlanetRx was to pay us an annual fee of $11,650,000 and reimbursement for certain expenses of $3,000,000 over a 5 year term, which could be extended to 10 years if we meet certain performance measures. Additionally, we were eligible to receive an incremental fee based upon the number of our members who placed their first order for prescription drug or non-prescription merchandise with PlanetRx. We recorded $10,423,000 and $3,000,000 of revenue during 2000 and 1999, respectively. We also reduced selling and general administrative expenses by $1,500,000 and $750,000 for reimbursement of certain expenses relating to our Internet initiative during 2000 and 1999, respectively.

Effective July 5, 2000, we restructured our agreement with PlanetRx in exchange for a one-time cash payment of $8 million. Approximately $3.7 million of the payment represents amounts earned through the second quarter of 2000, the remaining $4.3 million represents a fee for the termination of the prior contract. No additional cash payments will be paid to us under the restructured agreement.

During 2000, we recorded a non-cash impairment charge to write-off our investment in PlanetRx common stock as the loss in value was deemed to be other than temporary. Therefore, any unrealized losses associated with recording our investment in PlanetRx at current market value that we had recorded in stockholders' equity were written off to the current period earnings, in addition to any additional charges necessary to write-off our investment. Additionally, during 2000 we donated approximately 200,000 shares (after giving effect to the 8-for-1 reverse stock split on December 4, 2000) of PlanetRx common stock and realized expenses related to the donation of approximately

$713,000. At December 31, 2000 we own approximately 1,096,000 shares (after giving effect to the 8-for-1 reverse stock split on December 4, 2000) of PlanetRx which are carried at no value.

3. Contractual agreements

Effective January 1, 1996, we executed a multi-year contract with The Manufacturers Life Insurance Company ("Manulife"), to provide PBM services in Canada. Under the terms of the agreement, we are the exclusive third-party provider of PBM services to Manulife's Canadian clients. We will also issue shares of our Class A Common Stock as an advance discount to Manulife based upon achievement of certain volumes of Manulife pharmacy claims we process. No shares will be issued until after the fourth year of the agreement. The shares will be issued based on volumes reached in years four through six. We anticipate issuing no more than 474,000 shares to Manulife over a period up to the first six years of the agreement. Except for certain exemptions from registration under the 1933 Act, any shares issued to Manulife cannot be traded until they have been registered under the 1933 Act and any applicable state securities laws. In accordance with the terms of the agreement, no stock has been issued since inception.

If Manulife has not exercised an early termination option at the end of the sixth or tenth year of the agreement, we will issue at each of those times a ten-year warrant as an advance discount to purchase up to approximately 237,000 additional shares of our Class A Common Stock exercisable at 85% of the market price at those times. The actual number of shares for which such warrant is to be issued is based on the volume of Manulife pharmacy claims we process in year six and year ten, respectively.

Pursuant to an agreement with Coventry Corporation, an operator of health maintenance organizations located principally in Pennsylvania and Missouri, on January 3, 1995, we issued 50,000 shares of Class A Common Stock as an advance discount to Coventry in a private placement. These shares were valued at $13.69 per share, the split-adjusted per share market value of our Class A Common Stock on November 22, 1994, which was the date the agreement was consummated and the obligation of the parties became unconditional. No revision of the consideration for the transaction occurred between November 22, 1994 and January 3, 1995. The shares issued to Coventry were being amortized over a six-year period. However, due to Coventry extending the agreement for only two years instead of three years, as discussed below, the estimated useful life of the shares issued has been reduced to five years and ended in 1999. Amortization expense was $171,000 for each of the years ended December 31, 1999 and 1998, respectively. Except for certain exemptions from registration under the 1933 Act, these shares cannot be traded until they have been registered under the 1933 Act and any applicable state securities laws.

Effective January 1, 1998, Coventry renewed the agreement for a two-year term through December 31, 1999. As part of the agreement, we issued warrants as an advance discount to purchase an additional 50,000 shares of our Class A Common Stock, exercisable at 90% of the market value at the time of renewal. During 1998, we expensed the advance discount, which represented 10% of the market value.

4. Property and equipment

Property and equipment, at cost, consists of the following:

	December 31,	
(in thousands)	2000	1999
Land	$ 400	$ 2,051
Building	-	3,076
Furniture	18,210	12,873
Equipment	87,515	64,204
Computer software	101,075	55,054
Leasehold improvements	14,594	9,922
	221,794	147,180

Less accumulated depreciation and amortization	74,085	49,607
	$ 147,709	$ 97,573

5. Financing

Long-term debt consists of:

(in thousands)	December 31, 2000	1999
Revolving credit facility due March 31, 2005 with an interest rate of 7.94% at December 31, 1999	$ -	$ 100,000
Term A loans due March 31, 2005 with an interest rate of 7.52% and 7.94% at December 31, 2000 and 1999, and a deferred interest rate swap gain of $847 at December 31, 2000	155,847	285,000
9.625% Senior Notes due June 15, 2009, net of an unamortized discount of $1,024 and $1,146, and an unamortized interest rate lock of $1,733 and $2,019	240,594	250,873
Total long-term debt	$ 396,441	$ 635,873

We have a credit facility with a commercial bank syndicate which consists of $155 million of Term A loans and a $300 million revolving credit facility. During 2000, we utilized $130 million of our own internally generated cash to prepay a portion of our Term A loans. As a result of the prepayment, we recorded an extraordinary charge during 2000 for the deferred financing fees in the amount of $1,790,000 ($1,105,000 net of tax). The prepayment on the Term A loans eliminated the scheduled principal payments for fiscal years 2001, 2002 and a portion of the scheduled principal payment for fiscal year 2003. Beginning in March 2003, we are required to make annual principal payments on the Term A loans of $26,750,000 in 2003, $62,700,000 in 2004 and $65,550,000 in 2005. The capital stock of each of our existing and subsequently acquired domestic subsidiaries, excluding PPS, Great Plains Reinsurance Co., ValueRx of Michigan, Inc., Diversified NY IPA, Inc. and Diversified Pharmaceutical Services (Puerto Rico), Inc., and 65% of the stock of our foreign subsidiaries have been pledged as collateral for the credit facility.

The credit facility requires us to pay interest quarterly on an interest rate spread based on several London Interbank Offered Rates ("LIBOR") or base rate options. To alleviate interest rate volatility, we have entered into two separate swap arrangements, which are discussed below. The credit facility contains covenants that limit the indebtedness we may incur, dividends paid and the amount of annual capital expenditures. The covenants also establish a minimum interest coverage ratio, a maximum leverage ratio, and a minimum fixed charge coverage ratio. In addition, we are required to pay an annual fee of 0.25%, payable in quarterly installments, on the unused portion of the revolving credit facility ($300 million at December 31, 2000). At December 31, 2000, we are in compliance with all covenants associated with the credit facility.

In June 1999, we issued $250 million of 9.625% Senior Notes due 2009, which require interest to be paid semi-annually on June 15 and December 15. The Senior Notes are callable at specified prepayment premiums beginning in June 2004. The Senior Notes are unconditionally and jointly and severally guaranteed by our wholly-owned domestic subsidiaries other than PPS, Great Plains Reinsurance Co., ValueRx of Michigan, Inc., Diversified NY IPA, Inc., and Diversified Pharmaceutical Services (Puerto Rico), Inc. During the second quarter of 2000, we repurchased $10,115,000 of our Senior Notes on the open market for $10,150,000, which includes $385,000 of accrued interest.

The following represents the schedule of current maturities for our long-term debt (in thousands):

Year Ended December 31,	
2001	$ -
2002	-
2003	26,750
2004	62,700
2005	65,550
	$ 155,000

In conjunction with the prepayment of the Term A loans, we restructured our existing interest rate swap agreements, reducing the notional amounts of the swaps to a combined $100 million as of December 31, 2000. We received $2,397,000 to restructure our swap agreements, of which $1,500,000 ($926,000 net of tax) was recognized against interest expense as an ordinary gain related to the prepayment of debt and the remaining $897,000 has been deferred and is being amortized over the remaining term of the loans. Under the restructured swap agreements, we have, in effect, converted approximately $100 million of our variable rate debt to fixed rate debt until April 2003 when the notional amount reduces to $60 million and April 2004 when the notional amount reduces to $20 million.

During 1999, we entered into an interest rate lock with Bankers' Trust Company related to our offering of $250 million Senior Notes. Upon issuance of the Senior Notes, we received $2,135,000, which is being amortized against interest expense over the term of the Senior Notes. Interest expense was reduced by $286,000 and $116,000 during 2000 and 1999, respectively.

6. Corporate restructuring

During the second quarter of 1999, we recorded a pre-tax restructuring charge of $9,400,000 associated with the consolidation of our Plymouth, Minnesota facility into our Bloomington, Minnesota facility. In December 1999 and September 2000, the associated accrual was reduced by $2,301,000 and $44,000, primarily as a result of subleasing a portion of the unoccupied space. The consolidation plan includes the relocation of all employees at the Plymouth facility to the Bloomington facility that began in August 1999, with completion delayed until the first quarter of 2001 from the previously disclosed third quarter of 2000. Included in the restructuring charge are anticipated cash expenditures of approximately $4,779,000 for lease termination fees and rent on unoccupied space (which payments will continue through April 2001, when the lease expires) and anticipated non-cash charges of approximately $2,276,000 for the write-down of leasehold improvements and furniture and fixtures. The restructuring charge does not include any costs associated with the physical relocation of the employees.

During December 1999, we recorded a pre-tax restructuring charge of $2,633,000 associated with the outsourcing of our computer operations to Electronic Data Systems Corporation. The principal actions of the plan included cash expenditures of approximately $2,148,000 for the transition of 51 employees to the outsourcer and the elimination of contractual obligations of ValueRx which had no future economic benefit to us, and non-cash charges of approximately $485,000 due to the reduction in the carrying value of certain capitalized software to its net realizable value. The plan was completed during the second quarter of 2000 when all cash payments were made.

Also in December 1999, we recorded a pre-tax restructuring charge of $969,000 associated with restructuring our PPS majority-owned subsidiary and the purchase of the remaining PPS common stock from management. The charge consists of cash expenditures of $559,000 relating to stock compensation expense and $410,000 of severance payments to 9 employees (of which $133,000 was paid during December 1999). This plan was completed in January 2000.

(in thousands)	Balance at December 31, 1998	1999 Charges	1999 Usage	Balance at December 31, 1999	2000 Reversals	2000 Usage	Balance at December 31, 2000

Non-cash Write-down of long-lived assets	$ 531	$ 2,761	$ 3,264	$ 28	$ -	$ -	$ 28
Cash Employee transition costs	232	1,725	365	1,592	-	1,592	-
Stock compensation	-	559	-	559	-	559	-
Lease termination fees and rent	-	5,656	4,318	1,338	44	1,167	127
	$ 763	$ 10,701	$ 7,947	$ 3,517	$ 44	$ 3,318	$ 155

All of the restructuring charges which include tangible assets to be disposed of are written down to their net realizable value, less cost of disposal. We expect recovery to approximate its cost of disposal. Considerable management judgment is necessary to estimate fair value; accordingly, actual results could vary from such estimates.

7. Income taxes

The income tax provision consists of the following:

(in thousands)	Year Ended December 31, 2000	1999	1998
Current provision:			
Federal	$ 40,515	$ 26,933	$ 20,171
State	5,668	4,190	3,049
Foreign	(538)	758	278
Total current provision	45,645	31,881	23,498
Deferred provision:			
Federal	(37,757)	68,627	8,694
State	(4,335)	7,590	1,374
Total deferred provision	(42,092)	76,217	10,068
Total current and deferred provision	$ 3,553	$ 108,098	$ 33,566

Income taxes included in the Consolidated Statement of Operations are:

(in thousands)	Year Ended December 31, 2000	1999	1998
Continuing operations	$ 3,553	$ 108,098	$ 33,566
Extraordinary loss on early retirement of debt	(685)	(4,492)	-
	$ 2,868	$ 103,606	$ 33,566

A reconciliation of the statutory federal income tax rate and the effective tax rate follows (the effect of foreign taxes on the effective tax rate for 2000, 1999 and 1998 is immaterial):

	Year Ended December 31, 2000	1999	1998
Statutory federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.3	3.6	3.8
Non-deductible amortization of goodwill and customer contracts	(103.6)	1.8	4.9
Other, net	(14.2)	0.3	0.3
Effective tax rate	(79.5)%	40.7%	44.0%

The deferred tax assets and deferred tax liabilities recorded in the consolidated balance sheet are as follows:

(in thousands)	December 31, 2000	1999
Deferred tax assets:		
Allowance for doubtful accounts	$ 9,087	$ 5,744
Accrued expenses	16,203	23,864
Depreciation and property differences	-	7,112
Non-compete agreements	2,292	2,008
Net operating loss carryforward	2,975	7,829
Unrealized loss on investments	-	6,000
Other	2,366	693
Gross deferred tax assets	32,923	53,250
Deferred tax liabilities:		
Gain on sale of assets	-	(62,987)
Depreciation and property differences	(17,799)	-
Goodwill and customer contract amortization	(15,026)	(7,942)
Other	(2,341)	(985)
Gross deferred tax liabilities	(35,166)	(71,914)
Net deferred tax liabilities	$ (2,243)	$ (18,664)

8. Commitments and contingencies

During September 2000, we sold our Albuquerque, New Mexico property and building for $7,806,000. These assets were then leased back from the purchaser over a period of 10 years with the option to extend the terms up to an additional 10 years. The resulting lease is being accounted for as an operating lease, and the resulting deferred gain of $4,136,000 is being amortized over the 10 year life of the lease.

We have entered into noncancellable agreements to lease certain office and distribution facilities with remaining terms from one to ten years. Rental expense under the office and distribution facilities leases in 2000, 1999 and 1998 was $12,041,000, $11,147,000 and $3,876,000, respectively. The future minimum lease payments due under noncancellable operating leases are as follows (in thousands):

Year Ended December 31,	
2001	$ 13,702
2002	13,140
2003	12,980
2004	13,007
2005	12,722
Thereafter	34,333
	$ 99,884

For the year ended December 31, 2000, approximately 60.0% of our pharmaceutical purchases were through one wholesaler. We believe other alternative sources are readily available and that no other concentration risks exist at December 31, 2000.

In the ordinary course of business (which includes the business conducted by DPS and ValueRx prior to acquiring them on April 1, 1999 and April 1, 1998, respectively), various legal proceedings, investigations or claims pending have arisen against us and our subsidiaries (ValueRx and DPS continue to be a party to proceedings that arose prior to their April 1, 1998 and April 1, 1999 respective acquisition dates). The effect of these actions on future financial results is not subject to reasonable estimation because considerable uncertainty

exists about the outcomes. Nevertheless, in our opinion, the ultimate liabilities resulting from any such lawsuits, investigations or claims now pending are not expected to materially affect our consolidated financial position, results of operations or cash flows.

9. Common stock

Prior to November 7, 2000, NYLife Healthcare Management, Inc., a subsidiary of New York Life Insurance Company, owned all of our outstanding shares of Class B Common Stock. On November 7, 2000, NYLife Healthcare Management, Inc. exchanged each outstanding share of Class B Common Stock for one share of our Class A Common Stock and then immediately distributed such shares to NYLIFE LLC, another subsidiary of New York Life. Consequently, on November 7, 2000, we reacquired all of our outstanding Class B Common Stock and currently hold it as treasury shares. Immediately following the exchange and distribution to NYLIFE LLC, NYLIFE LLC completed the sale of 6,900,000 shares of our Class A Common Stock to the public through a secondary offering. Contemporaneous with this stock offering, the Express Scripts Automatic Exchange Security Trust, a closed-end investment company that is not affiliated with us, sold 3,450,000 investment units to the public. Upon maturity of the investment units, the Trust may deliver up to 3,450,000 shares of our Class A Common Stock owned by NYLIFE LLC to the holders of the investment units. We did not receive any proceeds from the secondary offering or the offering by the Trust.

At December 31, 2000, NYLIFE LLC owned shares of our Class A Common Stock representing approximately 20.8% of the combined voting power of all classes of our common stock, which includes the right to vote 3,450,000 Class A Common Stock that the Trust may deliver upon exchange of the Trust issued investment units. New York Life has agreed on behalf of itself and its subsidiaries, to vote these 3,450,000 shares of our Class A Common Stock prior to delivery thereof by the Trust to the holders of the Trust investment units in the same proportion and to the same effect as the votes cast by our other stockholders at any meeting of stockholders, subject to the following exceptions: New York Life has agreed to vote its 8,120,000 shares (which includes the above described 3,450,000 shares) in favor of the slate of nominees for directors recommended by our Board of Directors for election by stockholders (provided that, so long as New York Life is entitled to representation on the Board of Directors, such slate includes New York Life's nominees) and the adoption of the Express Scripts, Inc. 2000 Long-Term Incentive Plan.

As of December 31, 2000, we have repurchased a total of 1,265,000 shares of our Class A Common Stock under the open-market stock repurchase program we announced on October 25, 1996, of which, 790,000 shares were repurchased during 2000. Approximately 766,000 shares have been utilized for stock option exercises and 219,000 shares have been utilized for restricted stock awards during 2000. Our Board of Directors approved the repurchase of up to 2,500,000 shares, and placed no limit on the duration of the program. Additional purchases, if any, will be in such amounts and at such times as we deem appropriate based upon prevailing market and business conditions, subject to certain restrictions on stock repurchases contained in our bank credit facility and the Indenture covering our Senior Notes.

As of December 31, 2000, approximately 4,659,000 shares of our Class A Common Stock have been reserved for issuance to organizations with which we have signed contractual agreements (see Note 3) and for employee benefit plans (see Note 10).

In June 1999, we consummated our offering of 5,175,000 shares of our Class A Common Stock at a price of $61 per share. The net proceeds of $299,378,000 were used to retire the $150 million senior subordinated bridge credit facility and a portion of the Term B loans under the $1.05 billion credit facility.

In October 1998, we announced a two-for-one stock split of our Class A and Class B Common Stock for stockholders of record on October 20, 1998, effective October 30, 1998. The split was effected in the form of a dividend by issuance of one additional share of Class A Common Stock for each share of Class A Common Stock outstanding and one additional share of Class B Common Stock for each

share of Class B Common Stock outstanding. The earnings per share and the weighted average number of shares outstanding for basic and diluted earnings per share have been adjusted for the stock split except on the Consolidated Statement of Changes in Stockholders' Equity.

10. Employee benefit plans and stock-based compensation plans

Retirement savings plan. We offer all of our full-time employees a retirement savings plan under Section 401(k) of the Internal Revenue Code. Employees may elect to enter a written salary deferral agreement under which a maximum of 15% of their salary, subject to aggregate limits required under the Internal Revenue Code, may be contributed to the plan. We match 100% of the first 4% of the employees' compensation contributed to the Plan. For the years ended December 31, 2000, 1999 and 1998, we had contribution expense of approximately $4,718,000, $3,604,000 and $1,751,000, respectively.

Employee stock purchase plan. In December 1998, our Board of Directors approved an employee stock purchase plan, effective March 1, 1999, that qualifies under Section 423 of the Internal Revenue Code and permits all employees, excluding certain management level employees, to purchase shares of our Class A Common Stock. Participating employees may elect to contribute up to 10% of their salary to purchase common stock at the end of each six month participation period at a purchase price equal to 85% of the fair market value of our Class A Common Stock at the end of the participation period. During 2000 and 1999, approximately 32,000 and 10,000 shares of our Class A Common Stock were issued under the plan, respectively. Class A Common Stock reserved for future employee purchases under the plan is 209,000 at December 31, 2000.

Deferred compensation plan. In December 1998, the Compensation Committee of the Board of Directors approved a non-qualified deferred compensation plan (the "Executive Deferred Compensation Plan"), effective January 1, 1999, that provides benefits payable to eligible key employees at retirement, termination or death. Benefit payments are funded by a combination of contributions from participants and us. Participants become fully vested in our contributions on the third anniversary of the end of the plan year for which the contribution is credited to their account. For 2000, our contribution was equal to 6% of each qualified participant's total annual compensation, with 25% being invested in our Class A Common Stock and the remaining being allocated to a variety of investment options. We incurred approximately $89,000 and $224,000 of compensation expense in 2000 and 1999, respectively. In addition, we recorded $797,000 of compensation expense in 1998 as a past service contribution which was equal to 8% of each participant's total annual cash compensation for the period of the participant's past service with us in a senior executive capacity. At December 31, 2000, 50,000 shares of Class A Common Stock have been reserved for future issuance under the plan.

Stock-based compensation plans. In August 2000, the Board of Directors adopted the Express Scripts, Inc. 2000 Long-Term Incentive Plan which was subsequently amended in February 2001 (as amended, the "2000 LTIP"), which provides for the grant of various equity awards to our officers, Board of Directors and key employees selected by the Compensation Committee of the Board of Directors. The 2000 LTIP is subject to approval of our stockholders. As of December 31, 2000, 271,000 shares of Class A Common Stock have been reserved for issuance under this plan. During 2000, we granted approximately 219,000 restricted shares of Class A Common Stock, issued from shares held in treasury, under the 2000 LTIP to certain of our officers and employees. These shares are subject to various cliff-vesting periods from three to ten years with provisions allowing for accelerated vesting based upon specific performance criteria. Prior to vesting, these restricted shares are subject to forfeiture to us without consideration upon termination of employment under certain circumstances. Approximately 6,600 shares have been forfeited as of February 28, 2001. Unearned compensation of $14,841,000 relating to the restricted shares has been recorded as a separate component of stockholders' equity and is being amortized to non-cash compensation expense over the estimated vesting periods.

As a result of the Board's adoption of the 2000 LTIP, and subject to stockholder approval of the 2000 LTIP, no additional awards will be granted under either of our 1992 amended and restated stock option plans (discussed

below) or under our 1994 amended and restated Stock Option Plan (discussed below). However, these plans are still in existence as there are outstanding grants under these plans.

In April 1992, we adopted a stock option plan that we amended and restated in 1995 and amended in 1999, which provided for the grant of nonqualified stock options and incentive stock options to our officers and key employees selected by the Compensation Committee of the Board of Directors. In June 1994, the Board of Directors adopted the Express Scripts, Inc. 1994 Stock Option Plan, also amended and restated in 1995 and amended in 1997, 1998 and 1999. Under either plan, the exercise price of the options was not less than the fair market value of the shares at the time of grant, and the options typically vest over a five-year period from the date of grant.

In April 1992, we also adopted a stock option plan that was amended and restated in 1995 and amended in 1996 and 1999 that provided for the grant of nonqualified stock options to purchase 48,000 shares to each director who is not an employee of ours or our affiliates. In addition, the second amendment to the plan gave each non-employee director who was serving in such capacity as of the date of the second amendment the option to purchase 2,500 additional shares. The second amendment options will vest over three years. The plan provides that the options vest over a two-, three- or five-year period from the date of grant depending upon the circumstances of the grant.

We apply APB 25 and related interpretations in accounting for our plans. Accordingly, compensation cost has been recorded based upon the intrinsic value method of accounting for restricted stock and no compensation cost has been recognized for our stock options plans. Had compensation cost for our stock option based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed by FAS 123, our net income and earnings per share would have been reduced to the pro forma amounts indicated below. Note that due to the adoption of the methodology prescribed by FAS 123, the pro forma results shown below only reflect the impact of options granted in 2000, 1999 and 1998. Because future options may be granted and vesting typically occurs over a five year period, the pro forma impact shown for 2000, 1999 and 1998 is not necessarily representative of the impact in future years.

(in thousands, except per share data)	2000	1999	1998
Net income			
As reported	$ (9,126)	$ 150,218	$ 42,674
Pro forma	(19,796)	142,753	38,585
Basic earnings per share			
As reported	$ (0.24)	$ 4.16	$ 1.29
Pro forma	(0.52)	3.95	1.16
Diluted earnings per share			
As reported	$ (0.24)	$ 4.06	$ 1.27
Pro forma	(0.52)	3.86	1.14

The fair value of options granted (which is amortized to expense over the option vesting period in determining the pro forma impact), is estimated on the date of grant using the Black-Scholes multiple option-pricing model with the following weighted average assumptions:

	2000	1999	1998
Expected life of option	1-6 years	2-7 years	2-7 years
Risk-free interest rate	6.0%-6.7%	4.6%-6.3%	4.1%-5.9%
Expected volatility of stock	56%-60%	59%	44%
Expected dividend yield	None	None	None

A summary of the status of our fixed stock option plans as of December 31, 2000, 1999 and 1998, and changes during the years ending on those dates is presented below.

(share data in thousands)	2000 Shares	2000 Weighted-Average Exercise Price	1999 Shares	1999 Weighted-Average Exercise Price	1998 Shares	1998 Weighted-Average Exercise Price
Outstanding at beginning of year	3,286	$ 35.24	2,780	$ 28.02	1,702	$ 17.21
Granted	891	48.06	843	60.43	1,866	40.65
Exercised	(777)	22.32	(196)	30.28	(133)	14.71
Forfeited/Cancelled	(176)	48.55	(141)	50.35	(655)	38.82
Outstanding at end of year	3,224	41.16	3,286	35.24	2,780	28.02
Options exercisable at year end	1,262		1,391		800	
Weighted-average fair value of options granted during the year	$ 21.69		$ 32.40		$ 18.07	

The following table summarizes information about fixed stock options outstanding at December 31, 2000:

Range of Exercise Prices (share data in thousands)	Options Outstanding: Number Outstanding at 12/31/00	Options Outstanding: Weighted-Average Remaining Contractual Life	Options Outstanding: Weighted-Average Exercise Price	Options Exercisable: Number Exercisable at 12/31/00	Options Exercisable: Weighted-Average Exercise Price
$ 3.25 - 17.00	515	5.84	$ 13.89	433	$ 13.44
20.81 - 35.63	789	6.71	28.88	412	27.81
38.31 - 51.63	1,005	7.70	44.59	152	48.17
54.88 - 67.38	721	8.54	58.66	237	58.99
70.16 - 88.56	194	7.83	80.63	28	80.82
$ 3.25 - 88.56	3,224	7.26	$ 41.16	1,262	$ 32.35

11. Condensed consolidating financial statements

Our Senior Notes are unconditionally and jointly and severally guaranteed by our wholly-owned domestic subsidiaries other than PPS, Great Plains Reinsurance Co., ValueRx of Michigan, Inc., Diversified NY IPA, Inc., and Diversified Pharmaceutical Services (Puerto Rico), Inc. Separate financial statements of the Guarantors are not presented as we have determined them not to be material to investors. Therefore, the following condensed consolidating financial information has been prepared using the equity method of accounting in accordance with the requirements for presentation of such information. We believe that this information, presented in lieu of complete financial statements for each of the guarantor subsidiaries, provides sufficient detail to allow investors to determine the nature of the assets held by, and the operations of, each of the consolidating groups. As of January 1, 2000, we undertook an internal corporate reorganization to eliminate various entities whose existence was deemed to be no longer necessary, including, among others, ValueRx, and to create several new entities to conduct certain activities, including SDS and ESI Mail Pharmacy Service, Inc. ("ESI MPS"). Consequently, the assets, liabilities and operations of ValueRx are incorporated into those of the issuer, Express Scripts, Inc. and the assets, liabilities and operations of SDS and ESI MPS are incorporated into those of the Guarantors for 2000.

Condensed Consolidating Balance Sheet

(in thousands)	Scripts, Inc.	Guarantors	Non-Guarantors	Eliminations	Consolidated
As of December 31, 2000					
Current assets	$ 755,995	$ 236,311	$ 5,863	$ -	$ 998,169
Property and equipment, net	120,754	24,724	2,231	-	147,709
Investments in subsidiaries	866,561	-	2,261	(868,822)	-
Intercompany	(216,039)	223,144	(7,105)	-	-
Goodwill, net	251,139	711,062	4,816	-	967,017
Other intangible assets, net	55,175	101,640	279	-	157,094
Other assets	77,505	(73,162)	2,312	-	6,655
Total assets	$ 1,911,091	$ 1,223,719	$ 10,657	$ (868,822)	$ 2,276,644
Current liabilities	$ 630,888	$ 478,583	$ 6,473	$ -	$ 1,115,944
Long-term debt	396,441	-	-	-	396,441
Other liabilities	125,264	(64,514)	(1,735)	-	59,015
Stockholders' equity	758,497	809,650	5,919	(868,822)	705,244
Total liabilities and stockholders' equity	$ 1,911,091	$ 1,223,719	$ 10,657	$ (868,822)	$ 2,276,644
As of December 31, 1999					
Current assets	$ 549,374	$ 509,702	$ 7,279	$ -	$ 1,066,355
Property and equipment, net	39,036	55,776	2,761	-	97,573
Investments in subsidiaries	725,468	-	2,261	(727,729)	-
Investments in marketable securities	-	150,365	-	-	150,365
Intercompany	463,438	(463,241)	(197)	-	-
Goodwill, net	168	976,759	5,569	-	982,496
Other intangible assets, net	22,458	160,901	61	-	183,420
Other assets	13,179	(6,493)	563	(147)	7,102
Total assets	$ 1,813,121	$ 1,383,769	$ 18,297	$ (727,876)	$ 2,487,311
Current liabilities	$ 527,312	$ 563,457	$ 9,589	$ -	$ 1,100,358
Long-term debt	635,873	-	-	-	635,873
Other liabilities	83,365	(33,018)	1,251	-	51,598
Stockholders' equity	566,571	853,330	7,457	(727,876)	699,482
Total liabilities and stockholders' equity	$ 1,813,121	$ 1,383,769	$ 18,297	$ (727,876)	$ 2,487,311

Condensed Consolidating Statement of Operations

(in thousands)	Express Scripts, Inc.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2000					
Total revenues	$ 4,262,854	$ 2,512,197	$ 11,813	$ -	$ 6,786,864
Operating expenses	4,159,946	2,411,737	14,969	-	6,586,652
Operating income (loss)	102,908	100,460	(3,156)	-	200,212
Write-off of marketable securities	-	(165,207)	-	-	(165,207)
Interest (expense) income	(39,506)	(12)	45	-	(39,473)
Income (loss) before tax effect	63,402	(64,759)	(3,111)	-	(4,468)
Income tax provision (benefit)	25,935	(21,079)	(1,303)	-	3,553
Income (loss) before extraordinary loss	37,467	(43,680)	(1,808)	-	(8,021)
Extraordinary loss on early retirement of debt	(1,105)	-	-	-	(1,105)
Net income (loss)	$ 36,362	$ (43,680)	$ (1,808)	$ -	$ (9,126)
Year ended December 31, 1999					
Total revenues	$ 2,257,952	$ 1,989,237	$ 40,915	$ -	$ 4,288,104
Operating expenses	2,140,144	1,971,696	39,480	-	4,151,320
Operating income	117,808	17,541	1,435	-	136,784
Gain on sale of assets	-	182,930	-	-	182,930
Interest (expense) income	(54,700)	292	160	-	(54,248)
Income before tax provision	63,108	200,763	1,595	-	265,466
Income tax provision	34,799	72,031	1,268	-	108,098
Income before extraordinary loss	28,309	128,732	327	-	157,368
Extraordinary loss on early retirement of debt	(7,150)	-	-	-	(7,150)
Net income	$ 21,159	$ 128,732	$ 327	$ -	$ 150,218
Year ended December 31, 1998					
Total revenues	$ 1,646,807	$ 1,167,387	$ 10,678	$ -	$ 2,824,872
Operating expenses	1,584,731	1,139,387	11,520	-	2,735,638
Operating income (loss)	62,076	28,000	(842)	-	89,234
Interest (expense) income	(13,943)	846	103	-	(12,994)
Income (loss) before tax provision	48,133	28,846	(739)	-	76,240
Income tax provision	17,903	15,377	286	-	33,566
Net income (loss)	$ 30,230	$ 13,469	$ (1,025)	$ -	$ 42,674

Condensed Consolidating Statement of Cash Flows

(in thousands)	Express Scripts, Inc.	Guarantors	Non-Guarantors	Eliminations	Consolidated
Year ended December 31, 2000					
Net cash (used in) provided by operating activities	$ (313,023)	$ 567,294	$ (8,214)	$ (147)	$ 245,910
Cash flows from investing activities:					
Purchase of property and equipment	(107,171)	27,215	(262)	-	(80,218)
Proceeds from sales of property and equipment	8,831	-	-	-	8,831
Other	(2,191)	-	-	-	(2,191)
Net cash (used in) provided by investing activities	(100,531)	27,215	(262)	-	(73,578)
Cash flows from financing activities:					
Repayment of long-term debt	(240,069)	-	-	-	(240,069)
Treasury stock acquired	(30,247)	-	-	-	(30,247)
Other	18,689	-	-	-	18,689
Net transactions with parent	689,901	(697,226)	7,178	147	-
Net cash provided by (used in) financing activities	438,274	(697,226)	7,178	147	(251,627)
Effect of foreign currency translation adjustment	(131)	-	-	-	(131)
Net increase (decrease) in cash and cash equivalents	24,589	(102,717)	(1,298)	-	(79,426)
Cash and cash equivalents at beginning of year	123,722	4,198	4,710	-	132,630
Cash and cash equivalents at end of year	$ 148,311	$ (98,519)	$ 3,412	$ -	$ 53,204
Year ended December 31, 1999					
Net cash provided by (used in) operating activities	$ 229,381	$ (24,216)	$ 8,747	$ 147	$ 214,059
Cash flows from investing activities:					
Purchase of property and equipment	(23,656)	(12,652)	(650)	-	(36,958)
Acquisitions, net of cash acquired	-	(716,735)	(5,883)	-	(722,618)
Net cash (used in) provided by investing activities	(23,656)	(729,387)	(6,533)	-	(759,576)
Cash flows from financing activities:					
Repayment of long-term debt	(1,015,000)	-	-	-	(1,015,000)
Proceeds from long-term debt	1,290,950	-	-	-	1,290,950
Net proceeds from issuance of common stock	299,378	-	-	-	299,378
Deferred financing fees	(26,316)	-	-	-	(26,316)
Other	6,438	-	-	-	6,438
Net transactions with parent	(755,474)	754,976	645	(147)	-
Net cash (used in) provided by financing activities	(200,024)	754,976	645	(147)	555,450
Effect of foreign currency translation adjustment	108	-	-	-	108
Net increase in cash and cash equivalents	5,809	1,373	2,859	-	10,041
Cash and cash equivalents at beginning of year	117,913	2,825	1,851	-	122,589
Cash and cash equivalents at end of year	$ 123,722	$ 4,198	$ 4,710	$ -	$ 132,630

12. Segment information

We are organized on the basis of services offered and have determined we have two reportable segments: PBM services and non-PBM services (defined in Note 1 "organization and operations"). We manage the pharmacy benefit within an operating segment that encompasses a fully-integrated PBM service. The remaining three operating service lines (IVTx, SDS and Vision) have been aggregated into a non-PBM reporting segment.

The following table presents information about the reportable segments for the years ended December 31:

(in thousands)	PBM	Non-PBM	Total
2000			
Total revenues	$ 6,698,820	$ 88,044	$ 6,786,864
Depreciation and amortization expense	77,830	785	78,615
Interest income	8,430	-	8,430
Interest expense	47,898	5	47,903

Income before income taxes	(19,666)	15,198	(4,468)
Total assets	2,227,348	49,296	2,276,644
Capital expenditures	78,065	2,153	80,218
1999			
Total revenues	$ 4,222,294	$ 65,810	$ 4,288,104
Depreciation and amortization expense	71,156	711	71,867
Interest income	5,761	1	5,762
Interest expense	60,001	9	60,010
Income before income taxes	259,182	6,284	265,466
Total assets	2,479,746	7,565	2,487,311
Capital expenditures	35,895	1,063	36,958
1998			
Total revenues	$ 2,765,111	$ 59,761	$ 2,824,872
Depreciation and amortization expense	25,466	983	26,449
Interest income	7,235	1	7,236
Interest expense	20,218	12	20,230
Income before income taxes	70,107	6,133	76,240
Total assets	1,068,715	26,746	1,095,461
Capital expenditures	23,432	421	23,853

13. Quarterly financial data (unaudited)

	Quarters			
(in thousands, except per share data)	First	Second(1)	Third(2)	Fourth(3)
Fiscal 2000				
Total revenues	$ 1,475,509	$ 1,653,367	$ 1,736,489	$ 1,921,499
Cost of revenues	1,343,063	1,515,964	1,603,650	1,784,515
Selling, general and administrative	83,371	87,421	82,687	85,981
Operating income	49,075	49,982	50,152	51,003
Extraordinary loss on early retirement of debt	-	-	(898)	(207)
Net income (loss)	$ 21,432	$ (74,177)	$ 23,875	$ 19,744
Basic earnings per share:				
Before extraordinary loss	$ 0.56	$ (1.96)	$ 0.64	$ 0.52
Extraordinary loss on early retirement of debt	-	-	(0.02)	(0.01)
Net income (loss)	$ 0.56	$ (1.96)	$ 0.62	$ 0.51
Diluted earnings per share:(4)				
Before extraordinary loss	$ 0.55	$ (1.96)	$ 0.63	$ 0.51
Extraordinary loss on early retirement of debt	-	-	(0.02)	(0.01)
Net income (loss)	$ 0.55	$ (1.96)	$ 0.61	$ 0.50

<FN>

(1) Includes a non-cash write-off of $155,500 ($97,032 net of tax) on our investment in PlanetRx. Excluding this amount, our basic and diluted earnings per share would have been $0.60 and $0.59, respectively.
(2) Includes an ordinary gain of $1,500 ($926 net of tax) on the restructuring of our interest rate swap agreements. Excluding this amount, our basic and diluted earnings per share before extraordinary items would have been $0.62 and $0.61, respectively.
(3) Includes a non-cash write-off of $9,707 ($6,057 net of tax) on our investment in PlanetRx. Excluding this amount, our basic and diluted earnings per share would have been $0.68 and $0.66, respectively.
(4) In accordance with FAS 128, basic weighted average shares were used to calculate second quarter 2000 diluted EPS as the net loss and the actual diluted weighted average shares (38,507 as of June 30, 2000) cause diluted EPS to be anti-dilutive.
</FN>

	Quarters			
(in thousands, except per share data)	First	Second(1)	Third	Fourth(2)
Fiscal 1999				
Total revenues	$ 899,087	$ 996,749	$ 1,083,496	$ 1,308,772

Cost of revenues	823,647	869,989	958,987	1,174,282
Selling, general and administrative	46,440	81,897	78,761	87,096
Operating income	29,000	35,463	45,748	26,573
Extraordinary loss on early retirement of debt	-	(6,597)	(553)	-
Net income	$ 13,543	$ 421	$ 16,995	$ 119,259
Basic earnings per share:				
Before extraordinary loss	$ 0.41	$ 0.20	$ 0.46	$ 3.10
Extraordinary loss on early retirement of debt	-	(0.19)	(0.02)	-
Net income	$ 0.41	$ 0.01	$ 0.44	$ 3.10
Diluted earnings per share:				
Before extraordinary loss	$ 0.40	$ 0.20	$ 0.45	$ 3.03
Extraordinary loss on early retirement of debt	-	(0.19)	(0.02)	-
Net income	$ 0.40	$ 0.01	$ 0.43	$ 3.03

<FN>

(1) Includes the acquisition of DPS effective April 1, 1999. Also includes a non-recurring operating charge of $9,400 ($5,773 net of tax). Excluding this amount, our basic and diluted earnings per share before extraordinary items would have been $0.38 and $0.37, respectively.

(2) Includes non-recurring operating charges and a one-time non-operating gain of $20,821 ($12,415 net of tax) and $182,903 ($112,037 net of tax), respectively. Excluding these amounts, our basic and diluted earnings per share before extraordinary items would have been $0.51 and $0.50, respectively.

</FN>

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10 - Directors and Executive Officers of the Registrant

The information required by this item will be incorporated by reference from our definitive Proxy Statement for our 2001 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A (the "Proxy Statement") under the heading "I. Election of Directors"; provided that the Compensation Committee Report on Executive Compensation, the Audit Committee Report and the performance graph contained in the Proxy Statement shall not be deemed to be incorporated herein; and further provided that some of the information regarding our executive officers required by Item 401 of Regulation S-K has been included in Part I of this report.

Item 11 - Executive Compensation

The information required by this item will be incorporated by reference from the Proxy Statement under the headings "Directors' Compensation," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation."

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The information required by this item will be incorporated by reference from the Proxy Statement under the headings "Security Ownership of Certain Beneficial Owners and Management."

Item 13 - Certain Relationships and Related Transactions

The information required by this item will be incorporated by reference from the Proxy Statement under the heading "Certain Relationships and Related Transactions."

PART IV

Item 14 - Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents filed as part of this Report

(1) Financial Statements

The following report of independent accountants and our consolidated financial statements are contained in this Report on the page indicated

	Page No. In Form 10-K
Report of Independent Accountants	38
Consolidated Balance Sheet as of December 31, 2000 and 1999	39
Consolidated Statement of Operations for the years ended December 31, 2000, 1999 and 1998	40
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998	41
Consolidated Statement of Cash Flows for the years ended December 31, 2000, 1999 and 1998	42
Notes to Consolidated Financial Statements	43

(2) The following financial statement schedule is contained in this Report on the page indicated.

Financial Statement Schedule:	Page No. In Form 10-K
VIII. Valuation and Qualifying Accounts and Reserves for the years ended December 31, 2000, 1999 and 1998	69

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

(3) List of Exhibits

See Index to Exhibits on pages 70 - 75

(b) Reports on Form 8-K

(i) On October 17, 2000, we filed a Current Report on Form 8-K, dated October 17, 2000 under Items 5 and 7, regarding a press release we issued concerning our third quarter 2000 financial performance.

(ii) On October 18, 2000, we filed a Current Report on Form 8-K, dated October 17, 2000 under Items 5 and 7, regarding an amendment to the employment agreement between the Company and Mr. Toan, our President and Chief Executive Officer.

(iii) On October 31, 2000, we filed a Current

Report on Form 8-K, dated October 31, 2000 under Item 5, regarding our 1999 Drug Trend Report dated June 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXPRESS SCRIPTS, INC.

February 26, 2001 By: /s/ Barrett A. Toan
Barrett A. Toan, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Barrett A. Toan Barrett A. Toan	President, Chief Executive Officer and Chairman of the Board Of Directors	February 26, 2001
/s/ George Paz George Paz	Senior Vice President and Chief Financial Officer	February 26, 2001
/s/ Joseph W. Plum Joseph W. Plum	Vice President and Chief Accounting Officer	February 26, 2001
/s/ Stuart L. Bascomb Stuart L. Bascomb	Director	February 26, 2001
/s/ Gary G. Benanav Gary G. Benanav	Director	February 26, 2001
/s/ Frank J. Borelli Frank J. Borelli	Director	February 27, 2001
/s/ Barbara B. Hill Barbara B. Hill	Director	February 23, 2001
Richard A. Norling	Director	
/s/ Seymour Sternberg Seymour Sternberg	Director	February 28, 2001
/s/ Howard L. Waltman Howard L. Waltman	Director	February 27, 2001
/s/ Norman Zachary Norman Zachary	Director	February 26, 2001

EXPRESS SCRIPTS, INC.
Schedule VIII - Valuation and Qualifying Accounts and Reserves
Years Ended December 31, 2000, 1999 and 1998

Col. A	Col. B	Col. C	Col. D	Col. E

Description	Balance at Beginning of Period	Additions: Charges to Costs and Expenses	Additions: Charges to Other and Accounts	(Deductions)	Balance at End of Period
Allowance for Doubtful Accounts Receivable					
Year Ended 12/31/98	$ 4,801,563	$ 4,583,008	$ 9,570,069(1)	$ 1,148,356	$ 17,806,284
Year Ended 12/31/99	$ 17,806,284	$ 4,989,041	$ (937,616)(2)	$ 4,576,997	$ 17,280,712
Year Ended 12/31/00	$ 17,280,712	$ 12,843,253	$ (1,370,986)(3)	$ 6,075,618	$ 22,677,361

<FN>

(1) Represents the opening balance sheet for our April 1, 1998 acquisition of ValueRx.
(2) Represents the opening balance sheet adjustment for ValueRx and the opening balance sheet for our April 1, 1999 acquisition of DPS.
(3) Represents the opening balance sheet adjustment for DPS.

</FN>

INDEX TO EXHIBITS
(Express Scripts, Inc. - Commission File Number 0-20199)

Exhibit Number	Exhibit
2.1(2)	Stock Purchase Agreement by and among SmithKline Beecham Corporation, SmithKline Beecham InterCredit BV and Express Scripts, Inc., dated as of February 9, 1999, and certain related Schedules, incorporated by reference to Exhibit No. 2.1 to the Company's Current Report on Form 8-K filed February 18, 1999.
2.2	Asset Contribution and Reorganization Agreement dated August 31, 1999 by and among PlanetRx.com, Inc., PRX Holdings, Inc., PRX Acquisition, Corp., YourPharmacy.com, Inc., and Express Scripts, Inc. (incorporated by reference to the Exhibit No. 2.1 to PlanetRx's Registration Statement on Form S-1, as amended (Registration Number 333-82485)).
3.1	Certificate of Incorporation of the Company, as amended, incorporated by reference to Exhibit No. 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1999.
3.2(1)	Third Amended and Restated Bylaws, as amended.
4.1	Form of Certificate for Class A Common Stock, incorporated by reference to Exhibit No. 4.1 to the Company's Registration Statement on Form S-1 filed June 9, 1992 (Registration Number 33-46974).
4.2	Indenture, dated as of June 16, 1999, among the Company, Bankers Trust Company, as trustee, and Guarantors named therein, incorporated by reference to Exhibit No. 4.4 to the Company's Registration Statement on Form S-4 filed August 4, 1999 (Registration Number 333-83133).
4.3	Supplemental Indenture, dated as of October 6, 1999, to Indenture dated as of June 16, 1999, among the Company, Bankers Trust Company, as trustee, and Guarantors named therein, incorporated by reference to Exhibit No. 4.3 to the Company's Annual Report on Form 10-K for the year ending December 31, 1999.
4.4	Second Supplemental Indenture, dated as of July 19, 2000, to Indenture dated as of June 16, 1999, among the Company, Bankers Trust Company, as trustee, and Guarantors named therein, incorporated by reference to Exhibit No. 4.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30,

2000.

4.5 Stockholder and Registration Rights Agreement dated as of October 6, 2000 between the Company and New York Life Insurance Company, incorporated by reference to Exhibit No. 4.2 to the Company's Amendment No. 1 to Registration Statement on Form S-3 filed October 17, 2000 (Registration Number 333-47572).

4.6 Asset Acquisition Agreement dated October 17, 2000, between NYLIFE Healthcare Management, Inc., the Company, NYLIFE LLC and New York Life Insurance Company, incorporated by reference to Exhibit No. 4.3 to the Company's amendment No. 1 to the Registration Statement on Form S-3 filed October 17, 2000 (Registration Number 333-47572).

10.1 Lease Agreement dated March 3, 1992, between Riverport, Inc. and Douglas Development Company--Irvine Partnership in commendam and the Company, incorporated by reference to Exhibit No. 10.21 to the Registration Statement on Form S-1 filed June 9, 1992 (Registration Number 33-46974).

10.2 First Amendment to Lease dated as of December 29, 1992, between Sverdrup/MDRC Joint Venture and the Company, incorporated by reference to Exhibit No. 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1993.

10.3 Second Amendment to Lease dated as of May 28, 1993, between Sverdrup/MDRC Joint Venture and the Company, incorporated by reference to Exhibit No. 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1993.

10.4 Third Amendment to Lease entered into as of October 15, 1993, by and between Sverdrup/MDRC Joint Venture and the Company, incorporated by reference to Exhibit No. 10.69 to the Company's Annual Report on Form 10-K for the year ending 1993.

10.5 Fourth Amendment to Lease dated as of March 24, 1994, by and between Sverdrup/MDRC Joint Venture and the Company, incorporated by reference to Exhibit No. 10.70 to the Company's Annual Report on Form 10-K for the year ending 1993.

10.6 Fifth Amendment to Lease made and entered into June 30, 1994, between Sverdrup/MDRC Joint Venture and the Company, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1994.

10.7 Sixth Amendment to Lease made and entered into January 31, 1995, between Sverdrup/MDRC Joint Venture and the Company, incorporated by reference to Exhibit No. 10.70 to the Company's Annual Report on Form 10-K for the year ending 1994.

10.8 Seventh Amendment to Lease dated as of August 14, 1998, by and between Duke Realty Limited Partnership, by and through its general partner, Duke Realty Investments, Inc., and the Company, incorporated by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 1998.

10.9 Eighth Amendment to Lease dated as of August 14, 1998, by and between Duke Realty Limited Partnership, by and through its general partner, Duke Realty Investments, Inc., and the Company, incorporated by reference to Exhibit No. 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 1998.

10.10 Ninth Amendment to Lease dated as of February 19, 1999, by and between Duke Realty Limited Partnership, by and through its

general partner, Duke Realty Investments, Inc., and the Company, incorporated by reference to Exhibit No. 10.29 to the Company's Annual Report on Form 10-K/A for the year ending 1998.

10.11(3) Express Scripts, Inc. 1992 Stock Option Plan, incorporated by reference to Exhibit No. 10.23 to the Registration Statement on Form S-1 filed June 9, 1992 (Registration Number 33-46974).

10.12(3) Express Scripts, Inc. Stock Option Plan for Outside Directors, incorporated by reference to Exhibit No. 10.24 to the Registration Statement on Form S-1 filed June 9, 1992 (Registration Number 33-46974).

10.13(3) Express Scripts, Inc. 1994 Stock Option Plan, incorporated by reference to Exhibit No. 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1994.

10.14(3) Amended and Restated Express Scripts, Inc. 1992 Employee Stock Option Plan, incorporated by reference to Exhibit No. 10.78 to the Company's Annual Report on Form 10-K for the year ending 1994.

10.15(3) First Amendment to Express Scripts, Inc. Amended and Restated 1992 Stock Option Plan incorporated by reference to Exhibit D to the Company's Proxy Statement dated April 22, 1999.

10.16(3) Second Amendment to Express Scripts, Inc. Amended and Restated 1992 Stock Option Plan incorporated by reference to Exhibit F to the Company's Proxy Statement dated April 22, 1999.

10.17(3) Amended and Restated Express Scripts, Inc. Stock Option Plan for Outside Directors, incorporated by reference to Exhibit No. 10.79 to the Company's Annual Report on Form 10-K for the year ending 1994.

10.18(3) First Amendment to Express Scripts, Inc. Amended and Restated 1992 Stock Option Plan for Outside Directors incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 9, 1996.

10.19(3) Second Amendment to Express Scripts, Inc. Amended and Restated 1992 Stock Option Plan for Outside Directors incorporated by reference to Exhibit G to the Company's Proxy Statement dated April 22, 1999.

10.20(3) Amended and Restated Express Scripts, Inc. 1994 Stock Option Plan incorporated by reference to Exhibit No. 10.80 to the Company's Annual Report on Form 10-K for the year ending 1994.

10.21(3) First Amendment to Express Scripts, Inc. Amended and Restated 1994 Stock Option Plan incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 16, 1997.

10.22(3) Second Amendment to Express Scripts, Inc. Amended and Restated 1994 Stock Option Plan incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 21, 1998.

10.23(3) Third Amendment to Express Scripts, Inc. Amended and Restated 1994 Stock Option Plan, incorporated by reference to Exhibit C to the Company's Proxy Statement dated April 22, 1999.

10.24(3) Fourth Amendment to Express Scripts, Inc. Amended and Restated 1994 Stock Option Plan, incorporated by reference to Exhibit E to the Company's Proxy Statement dated April 22, 1999.

10.25(3) Express Scripts, Inc. 2000 Long Term Incentive Plan, incorporated by reference to Exhibit No. 4.3 to the Company's Registration Statement on Form S-8, filed with the Securities and

Exchange Commission on August 9, 2000 (Registration Number 333-43336).

10.26(3) Express Scripts, Inc. Employee Stock Purchase Plan incorporated by reference to Exhibit No. 4.1 to the Company's Registration Statement on Form S-8 filed December 29, 1998 (Registration Number 333-69855).

10.27(3) Express Scripts, Inc. Executive Deferred Compensation Plan, as amended, incorporated by reference to Exhibit No 10.1 to the Company's Quarterly Report on From 10-Q for the quarter ending June 30, 2000.

10.28(3) Employment Agreement effective as of April 1, 1999, between Barrett A. Toan and the Company, incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 1999.

10.29(3) Amendment to the Employment Agreement between the Company and Barrett A. Toan, incorporated by reference to Exhibit No. 10.1 to the Company's Current Report on Form 8-K dated October 17, 2000 and filed October 18, 2000.

10.30(3) Form of Severance Agreement dated as of January 27, 1998, between the Company and each of the following individuals: Stuart L. Bascomb, Thomas M. Boudreau, Linda L. Logsdon, David A. Lowenberg, George Paz, Terrence D. Arndt (agreement dated as of May 26, 1999), Mabel Chen (agreement dated as of Novemebr 23, 1999), Mark O. Johnson (agreement dated as of May 26, 1999) and Edward J. Tenholder (dated December 4, 2000) incorporated by reference to Exhibit No. 10.70 to the Company's Annual Report on Form 10-K for the year ending December 31, 1997.

10.31 Credit Agreement dated as of April 1, 1999 among the Company, the Lenders listed therein, Credit Suisse First Boston as lead Arranger, Administrative Agent and Collateral Agent, Bankers Trust Company as Syndication Agent, BT Alex. Brown Incorporated as Co-Arranger, The First National Bank of Chicago as Co-Documentation Agent, and Mercantile Bank, N.A. as co-Documentation Agent, incorporated by reference to Exhibit No. 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1999.

10.32 Amendment No.1 to Credit Agreement dated as of April 1, 1999 among the Company, the Lenders listed therein, Credit Suisse First Boston as Lead Arranger, Administrative Agent and BT Alex. Brown Incorporated as Co-Arranger, The First National Bank of Chicago as Co-Documentation Agent, and Mercantile Bank, N.A. as Co-Documentation Agent, incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 1999.

10.33 Amendment No. 2 to Credit Agreement dated as of April 1, 1999 among the Company, the Lenders listed therein, Credit Suisse First Boston as Lead Arranger, Administrative Agent and Collateral Agent, Bankers Trust Company as Syndication Agent, BT Alex. Brown Incorporated as Co-Arranger, The First National Bank of Chicago as Co-Documentation Agent, and Mercantile Bank, N.A. as Co-Documentation Agent, incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 1999.

10.34 Amendment No. 3 and Waiver to Credit Agreement dated as of April 1, 1999 among the Company, the Lenders listed therein, Credit Suisse First Boston as Lead Arranger, Administrative Agent and Collateral Agent, Bankers Trust Company as Syndication Agent, BT Alex. Brown Incorporated as Co-Arranger, The First National Bank of Chicago as Co-Documentation Agent, and Mercantile Bank,

	N.A. as Co-Documentation Agent, incorporated by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 1999.
10.35	Subsidiary Guaranty dated as of April 1, 1999, in favor of Credit Suisse First Boston as Collateral Agent and the Lenders listed in the Credit Agreement, by the following parties: Managed Prescription Network, Inc., Value Health, Inc., IVTx, Inc., Express Scripts Vision Corp., ESI/VRx Sales Development Co., HealthCare Services, Inc., MHI, Inc., ValueRx, Inc., ValueRx Pharmacy Program, Inc., Diversified Pharmaceutical Services, Inc., ESI OnLine, Inc., incorporated by reference to Exhibit No. 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1999.
10.36	Company Pledge Agreement dated as of April 1, 1999, by the Company in favor of Credit Suisse First Boston as Collateral Agent and the Lenders listed in the Credit Agreement, incorporated by reference to Exhibit No. 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1999.
10.37	Subsidiary Pledge Agreement dated as of April 1, 1999, in favor of Credit Suisse First Boston as Collateral Agent and the Lenders listed in the Credit Agreement, by the following parties: ESI Canada Holdings, Inc., Value Health, Inc., ValueRx, Inc., incorporated by reference to Exhibit No. 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1999.
10.38	International Swap Dealers Association, Inc. Master Agreement dated as of April 3, 1998, between the Company and The First National Bank of Chicago, incorporated by reference to Exhibit No. 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 1998.
10.39	Swap Transaction Confirmation Agreement between the Company and Bankers Trust Company dated June 17, 1999, incorporated by reference to Exhibit No. 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 1999.
10.40(4)	Agreement dated June 19, 2000 by and among the Company and PlanetRx.com, Inc., incorporated by reference to Exhibit No. 7 to Schedule 13D dated June 19, 2000 (filed June 29, 2000), filed by the Company with respect to PlanetRx.com, Inc.
10.41	Amended and Restated Investor's Rights Agreement dated as of June 3, 1999, incorporated by reference to the Exhibit No. 4.2 to PlanetRx's Registration Statement on Form S-1, as amended (Registration Number 333-82485).
10.42	Amendment of Amended and Restated Investor's Rights Agreement dated as of October 13, 1999 by and between PlanetRx.com, Inc. and YourPharmacy.com, Inc. (incorporated by reference to Exhibit 4 to Schedule 13D dated October 21, 1999 filed October 22, 1999) filed by Express Scripts, Inc. with respect to PlanetRx.com, Inc. (File No. 000-27437).
12.1(1)	Computation of Ratios of Earnings to Fixed Charges.
21.1(1)	List of Subsidiaries.
23.1(1)	Consent of PricewaterhouseCoopers LLP.

[FN]

1 Filed herein.
2 The Company agrees to furnish supplementally a copy of any omitted schedule

to this agreement to the Commission upon request.
3 Management contract or compensatory plan or arrangement.
4 Confidential treatment was granted for certain portions of this exhibit.
</FN>

THIRD AMENDED AND RESTATED
BYLAWS
OF
EXPRESS SCRIPTS, INC.

Adopted November 21, 2000
(as amended)

1. MEETINGS OF STOCKHOLDERS.

1.1 Annual Meeting. The annual meeting of stockholders shall be held on the date and at the time fixed from time to time by the board of directors (the "Board"), provided, that each successive annual meeting shall be held on the fourth Wednesday in May of each year if not a legal holiday, and if a legal holiday then on the next succeeding day not a legal holiday, or on such other date or time and at such place as may be determined from time to time by resolutions adopted by the Board.

1.2 Special Meetings. Subject to the rights of the holders of any series of preferred stock under the Certificate of Incorporation, as amended, of the corporation (the "Certificate of Incorporation"), special meetings of the stockholders may be called by the chairman of the Board or the chief executive officer or by resolution of the Board. Only business related to the purposes set forth in the notice of the meeting may be transacted at a special meeting.

1.3 Place and Time of Meetings. Meetings of the stockholders may be held in or outside Delaware at the place and time specified by the Board; provided that the Board may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of the State of Delaware (the "General Corporation Law of Delaware").

1.4 Notice of Meeting; Waiver of Notice. (a) Written or printed notice of each meeting of stockholders shall be given by or at the direction of the secretary or the chief executive officer of the corporation to each stockholder entitled to vote at the meeting, except that (a) it shall not be necessary to give notice to any stockholder who properly waives notice before or after the meeting, whether in writing or by electronic transmission or otherwise, and (b) no notice of an adjourned meeting need be given except when required under Section 1.6 of these Bylaws or by law. Each notice of a meeting shall be given, personally or by mail or, as provided below, by means of electronic transmission, not less than ten (10) nor more than sixty (60) days before the meeting and shall state the time and place of the meeting, or if held by remote communications, the means of remote communication by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and unless it is the annual meeting, shall state at whose direction or request the meeting is called and the purposes for which it is called. The attendance of any stockholder at a meeting, without protesting at the beginning of the meeting that the meeting is not lawfully called or convened, shall constitute a waiver of notice by him or her. Any previously scheduled meeting of stockholders may be postponed, and (unless the Certificate of Incorporation otherwise provides) any special meeting of stockholders may be canceled, by resolution of the Board upon public disclosure (as defined in Section 1.13(a)) given on or prior to the date previously scheduled for such meeting of stockholders.

(b) Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to a stockholder may be given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked (1) if the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent and (2) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the

giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. For purposes of these Bylaws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

(c) Notice shall be deemed given, if mailed, when deposited in the United States mail with postage prepaid, if addressed to a stockholder at his or her address on the corporation's records. Notice given by electronic transmission shall be deemed given: (1) if by facsimile, when directed to a number at which the stockholder has consented to receive notice; (2) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (3) if by posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) by any other form of electronic transmission, when directed to the stockholder.

(d) An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given, whether by a form of electronic transmission or otherwise, shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

1.5 Quorum; Voting; Validation of Meeting. (a) The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the person presiding over the meeting or (ii) the stockholders by the vote of the holders of a majority of the stock, present in person or represented by proxy shall have power to adjourn the meeting in accordance with Section 1.6 of these Bylaws.

(b) When a quorum is present at any meeting, a plurality of the votes present in person or represented by proxy and entitled to vote on the election of a director shall be sufficient to elect directors, subject to the rights of the holders of preferred stock to elect directors under specified circumstances pursuant to the Certificate of Incorporation. On all other matters, the vote of the holders of a majority of the stock having voting power on such matter present in person or represented by proxy shall decide any question brought before such meetings, unless the question is one upon which, by express provision of the laws of the State of Delaware or of the Certificate of Incorporation or these Bylaws, a vote of a greater number or voting by classes is required, in which case such express provision shall govern and control the decision of the question.

(c) If a quorum is initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

(d) The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy.

1.6 Adjourned Meeting; Notice. (a) Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the voting power of the shares represented at that meeting, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 1.5 of these Bylaws.

(b) When any meeting of stockholders, either annual or special, is adjourned to another time or place or means of remote communication, notice need

not be given of the adjourned meeting if the time and place, if any, thereof, and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than thirty (30) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Section 1.4 of these Bylaws. At any adjourned meeting the corporation may transact any business that might have been transacted at the original meeting.

1.7 Voting. (a) The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 1.8 of these Bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

(b) Except as may be otherwise provided in the Certificate of Incorporation, by these Bylaws or as required by law, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder which has voting power upon the matter in question.

(c) Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote the remaining shares against the proposal; but if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively or otherwise indicates how the number of shares to be voted affirmatively is to be determined, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares which the stockholder is entitled to vote.

(d) Voting need not be by ballot unless requested by a stockholder at the meeting or ordered by the chairman of the meeting; however, all elections of directors shall be by written ballot, unless otherwise provided in the Certificate of Incorporation; provided, that if authorized by the Board, a written ballot may be submitted by electronic transmission, provided that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxyholder.

1.8 Record Date for Stockholder Notice. (a) For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat, the Board may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Certificate of Incorporation, by these Bylaws, by agreement or by applicable law.

(b) If the Board does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(c) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting, but the Board shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

(d) The record date for any other lawful purpose shall be as provided in Section 5.8 of these Bylaws.

1.9 Proxies. Every person entitled to vote for directors, or on any

other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy filed with the secretary of the corporation. A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the person. No such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the secretary of the corporation.

A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is received by the secretary of the corporation.

1.10 List of Stockholders. Not less than 10 days prior to the date of any meeting of stockholders, the secretary of the corporation shall prepare a complete list of stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of such stockholder; provided, that the corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. For a period of not less than 10 days prior to the meeting, the list shall be available during ordinary business hours for inspection by any stockholder for any purpose germane to the meeting. During this period, the list shall be kept either (1) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting or (2) during ordinary business hours, at the principal place of business of the corporation. If the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

1.11 Notice of Stockholder Nominee. Only persons who are nominated in accordance with the procedures set forth in this paragraph shall be eligible for election by the stockholders as directors of the corporation. Nominations of persons for election to the Board may be made at a meeting of stockholders (a) by or at the direction of the Board, or (b) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of the corporation entitled to vote for the election of directors at such meeting who complies with the procedures set forth in this paragraph. Such nominations by any stockholder shall be made pursuant to timely notice in proper written form to the secretary of the corporation in accordance with this paragraph. To be timely, a stockholder's notice must be delivered to or mailed to and received by the secretary at the principal executive offices of the corporation not less than 90 days nor more than 120 days in advance of the first anniversary of the preceding year's annual meeting; provided, however, that in the event that (i) no annual meeting was held in the previous year or (ii) the date of the annual meeting has been changed by more than 30 days from the date of the previous year's meeting, or in the event of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. In no event shall the public disclosure of an adjournment or postponement of a stockholders meeting commence a new time period for the giving of a stockholders notice as described above. To be in proper

written form, such stockholders' notice to the secretary shall set forth in writing (a) as to each person whom such stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (or any successor thereto) (the "Exchange Act"), including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as director if elected as well as (i) such person's name, age, business address and residence address, (ii) his or her principal occupation or employment, (iii) the class and number of shares of the corporation that are beneficially owned by such person, and (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder; and (b) as to such stockholder (i) the name and address, as they appear on the corporation's books, of such stockholder and the beneficial owner, if any, on whose behalf the nomination is made, and (ii) the class and number of shares of the corporation which are beneficially owned by such stockholder and the beneficial owner, if any, on whose behalf the nomination is made, and any material interest of such stockholder and owner. At the request of the Board, any person nominated by the Board for election as a director shall furnish to the secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election by the stockholders as a director unless nominated in accordance with the procedures set forth in the Bylaws of the corporation. The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by the Bylaws of the corporation, and if he or she shall so determine, he or she shall so declare at the meeting that the defective nomination shall be disregarded.

1.12 Stockholder Proposals. At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board. At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (b) otherwise properly brought before the meeting by or at the direction of the Board, or (c) by any stockholder who complies with the procedures set forth in this paragraph. For business properly to be brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice must be delivered to or mailed to and received by the secretary at the principal executive offices of the corporation not less than 90 days nor more than 120 days in advance of the first anniversary of the preceding year's annual meeting; provided, however, that in the event that (i) no annual meeting was held in the previous year or (ii) the date of the annual meeting has been changed by more than 30 days from the date of the previous year's meeting, not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. In no event shall the public disclosure of an adjournment or postponement of a stockholders meeting commence a new time period for the giving of a stockholders notice as described above. To be in proper written form, such stockholder's notice to the secretary shall set forth in writing as to each matter such stockholder proposed to bring before the annual meeting (a) a brief description of the business desired to be brought before the meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (c) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment) and the reasons for conducting such business at the meeting, (d) the class and number of shares of the corporation which are owned beneficially by such stockholder and the beneficial owner, if any, on whose behalf the proposal is made, (e) any material interest in such business of the stockholder or the beneficial owner, if any, on whose behalf the proposal is made, (f) any other information that is required to

be provided by the stockholder pursuant to Regulation 14A under the Exchange Act in such stockholder's capacity as a proponent of a stockholder proposal, (g) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, and (h) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (i) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or (ii) otherwise to solicit proxies from stockholders in support of such proposal. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this paragraph. The chairman of an annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting in accordance with the provisions of this paragraph, and, if he or she should so determine, he or she shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

1.13 Public Disclosure; Conduct of Nominations and Proposals by Stockholders. (a) For purposes of Sections 1.4(a), 1.11 and 1.12 hereof, "public disclosure" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press, Reuters or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(b) Notwithstanding the foregoing provisions of these Sections 1.11 and 1.12, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

(c) Notwithstanding the foregoing provisions of Sections 1.11 and 1.12, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in Sections 1.11 and 1.12. Nothing in these Sections 1.11 and 1.12 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors under specified circumstances pursuant to the Certificate of Incorporation.

1.14 Meeting Required. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken for or in connection with any corporate action, such vote may only be taken at an annual or special meeting with prior notice, except as provided in the Certificate of Incorporation.

1.15 Organization. (a) Meetings of stockholders shall be presided over by the chairman of the Board, if any, or in his or her absence by the vice chairman of the Board, if any, or in his or her absence, by the chief executive officer, if any, or in his or her absence by a chairman of the meeting, which chairman must be an officer or director of the corporation and must be designated as chairman of the meeting by the Board. The secretary, or in his or her absence an assistant secretary, or in his or her absence a person whom the person presiding over the meeting shall appoint, shall act as secretary of the meeting and keep a record of the proceedings thereof.

(b) The Board shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem appropriate. Subject to such rules and regulations of the Board, if any, the person presiding over the meeting shall have the right and authority to convene and adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such

acts as, in the judgment of the person presiding over the meeting, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the person presiding over the meeting shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting and matters which are to be voted on by ballot. The person presiding over the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if the person presiding over the meeting should so determine and declare, any such matter or business shall not be transacted or considered. Unless and to the extent determined by the Board or the person presiding over the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

1.16 Inspectors of Election. Before any meeting of stockholders, the Board may, and shall if required by law, appoint one or more inspectors of election, who may be employees of the corporation, to act at the meeting or its adjournment and to make a written report thereof. If any person appointed as inspector fails to appear or fails or refuses to act, then the person presiding over the meeting may, and upon the request of any stockholder or a stockholder's proxy, shall appoint a person to fill that vacancy.

Such inspectors shall:

(a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies and ballots;

(b) receive votes and ballots, including, if applicable, votes and ballots submitted by means of electronic transmission;

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) determine when the polls shall close;

(e) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspector or inspectors;

(f) certify their determination of the number of shares of the corporation represented at the meeting and such inspectors' count of all votes and ballots, which certification and report shall specify such other information as may be required by law; and

(g) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

Each inspector of election shall perform his or her duties impartially, in good faith, to the best of his or her ability and as expeditiously as is practical, and before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector of election with strict impartiality and according to the best of his or her ability. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the corporation, the inspectors may consider such information as is permitted by applicable law. If there are three (3) or more inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

1.17 Election Out of Section 203. Pursuant to the corporation's original Certificate of Incorporation, the corporation has expressly elected not to be governed by Section 203 of the General Corporation Law of Delaware.

2. BOARD OF DIRECTORS.

2.1 Number, Qualification, Election and Term of Directors. Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the Certificate of Incorporation, the business and affairs of the corporation shall be managed by or under the direction of the Board. Subject to the rights of the holders of any series of preferred stock, the number of directors may be fixed or changed from time to time by resolution of a majority of the entire Board; provided the number shall be no less than seven (7) and no more than fifteen (15), or, if the number is not fixed, the number shall be ten (10), but no decrease may shorten the term of any incumbent director. Directors shall be elected at each annual meeting of stockholders, as provided in Section 1.5(b), and shall hold office until the next annual meeting of stockholders and until the election and qualification of their respective successors, subject to the provisions of Section 2.9. As used in these Bylaws, the term "entire Board" means the total number of directors which the corporation would have if there were no vacancies on the Board.

2.2 Quorum and Manner of Acting. (a) A majority of the entire Board shall constitute a quorum for the transaction of business at any meeting, except as provided in Section 2.10 of these Bylaws. In the absence of a quorum a majority of the directors present may adjourn any meeting from time to time until a quorum is present. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the Board, subject to the provisions of the Certificate of Incorporation and applicable law.

(b) A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

2.3 Place of Meetings. Meetings of the Board may be held in or outside Delaware.

2.4 Annual and Regular Meetings. Annual meetings of the Board for the election of officers and consideration of other matters shall be held either (a) without notice immediately after the annual meeting of stockholders and at the same place, or (b) as soon as practicable after the annual meeting of stockholders, on notice as provided in Section 2.6 of these Bylaws. Regular meetings of the Board may be held without notice and, unless otherwise specified by the Board, shall be held in accordance with a schedule and at such locations as determined from time to time by the Board, provided no less than five (5) such meetings shall beheld each year. If the day fixed for a regular meeting is a legal holiday, the meeting shall be held on the next business day.

2.5 Special Meetings. Special meetings of the Board may be called by the chairman of the board, the chief executive officeror by a majority of the directors in office.

2.6 Notice of Meetings; Waiver of Notice. Notice of the time and place of each special meeting of the Board, and of each annual meeting not held immediately after the annual meeting of stockholders and at the same place, shall be given to each director in advance of the time set for such meeting as provided herein; provided, that if the meeting is to be held at the principal executive offices of the corporation, the notice need not specify the place of the meeting. Except for amendments to the Bylaws, as provided under Section 6.9, notice of a special meeting need not state the purpose or purposes for which the meeting is called and, unless indicated in the notice thereof, any and all business may be transacted at a special meeting. Notice need not be given to any director who submits a signed waiver of notice before or after the meeting or who attends the meeting without protesting at the beginning of the meeting the

transaction of any business because the meeting was not lawfully called or convened. Notice of any adjourned meeting need not be given, other than by announcement at the meeting at which the adjournment is taken unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified herein to the directors who were not present at the time of adjournment. Notice of a special meeting may be given by any one or more of the following methods and the method used need not be the same for each director being notified:

(a) Written notice sent by mail at least three (3) days prior to the meeting;

(b) Personal service at least twenty-four (24) hours prior to the time of the meeting;

(c) Telegraphic notice at least twenty-four (24) hours prior to the time of the meeting, said notice to be sent as a straight full-rate telegram;

(d) Telephonic notice at least twenty-four (24) hours prior to the time of the meeting; or

(e) Facsimile or other means of electronic transmission at least twenty-four (24) hours prior to the time of the meeting.

Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director.

2.7 Board or Committee Action Without a Meeting. Any action required or permitted to be taken by the Board or by any committee of the Board may be taken without a meeting if all of the members of the Board or of the committee individually or collectively consent in writing or by electronic transmission to the adoption of a resolution authorizing the action. Such action by written consent shall have the same force and affect as a unanimous vote of the Board. The resolution and the written consents or electronic transmission or transmissions by the members of the Board or the committee shall be filed with the minutes of the proceeding of the Board or of the committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

2.8 Participation in Board or Committee Meetings by Conference Telephone. Any or all members of the Board or of any committee of the Board may participate in a meeting of the Board or of the committee by means of a conference telephone or other communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

2.9 Resignation and Removal of Directors. Any director may resign at any time by delivering his or her resignation in writing, including by means of electronic transmission, to the president or secretary of the corporation, to take effect at the time specified in the resignation; the acceptance of a resignation, unless required by its terms, shall not be necessary to make it effective. Subject to applicable law and the rights of the holders of any series of preferred stock with respect to such series of preferred stock, any or all of the directors may be removed at any time, either with or without cause, by vote of the holders of a majority of the stock having voting power and entitled to vote thereon.

2.10 Vacancies. Subject to applicable law and the rights of the holders of any series of preferred stock with respect to such series of preferred stock, any vacancy in the Board, including one created by an increase in the authorized number of directors, may be filled for the unexpired term by a majority vote of the remaining directors, although less than a quorum.

2.11 Compensation. Directors and members of committees shall receive such compensation as the Board determines, together with reimbursement of their reasonable expenses in connection with the performance of their duties. A director may also be paid for serving the corporation, its affiliates or subsidiaries in other capacities.

2.12 Notice to Members of the Board of Directors. Each member of the Board shall file with the secretary of the corporation an address to which mail or telegraphic notices shall be sent, a telephone number to which a telephonic or facsimile notice may be transmitted and, at the sole discretion of a director, such electronic address to which other electronic transmissions may be sent. A notice mailed, telegraphed, telephoned or transmitted by facsimile or other means of electronic transmission in accordance with the instructions provided by the director shall be deemed sufficient notice. Such address or telephone number may be changed at any time and from time to time by a director by giving written notice of such change to the secretary. Failure on the part of any director to keep an address and telephone number on file with the secretary (but not including an address for other electronic transmissions) shall automatically constitute a waiver of notice of any regular or special meeting of the Board which might be held during the period of time that such address and telephone number are not on file with the Secretary. A notice shall be deemed to be mailed when deposited in the United States mail, postage prepaid. A notice shall be deemed to be telegraphed when the notice is delivered to the transmitter of the telegram and either payment or provision for payment is made by the corporation. Notice shall be deemed to be given by telephone if the notice is transmitted over the telephone to some person (whether or not such person is the director) or message recording device answering the telephone at the number which the director has placed on file with the Secretary. Notice shall be deemed to be given by facsimile or other means of electronic transmission when sent to the telephone number or other address which the director has placed on file with the secretary.

2.13 Organization. Meetings of the Board shall be presided over by the chairman of the Board, if any, or in his or her absence by the vice chairman of the Board, if any, or in his or her absence by the chief executive officer, if any, or in his or her absence by the president, if any. In the absence of all such directors, a president pro tem chosen by a majority of the directors present shall preside at the meeting. The secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

3. COMMITTEES.

3.1 Audit Committee. The Board by resolution shall designate an Audit Committee consisting of three directors or such other number as may be specified by the Board, which shall review the internal financial controls of the corporation, and the integrity of its financial reporting, and have such other powers and duties as the Board determines. The Board shall adopt a charter, which may be amended from time to time, setting for the powers and duties of the Audit Committee. The members of the Audit Committee shall serve at the pleasure of the Board. All action of the Audit Committee shall be reported to the Board at its next meeting.

3.2 Compensation Committee. The Board by resolution shall designate a Compensation Committee consisting of three directors or such other number as may be specified by the Board, which shall administer the corporation's compensation plans and have such other powers and duties as the Board determines. The members of the Compensation Committee shall serve at the pleasure of the Board. All action of the Compensation Committee shall be reported to the Board at its next meeting. The Board shall adopt a charter, which may be amended from time to time, setting forth the powers and duties of the Compensation Committee.

3.3 Corporate Governance Committee. The Board by resolution shall designate a Corporate Governance Committee consisting of three directors or such other number as may be specified by the Board, which shall nominate candidates for election to the Board and have such other powers and duties as the Board determines. The members of the Corporate Governance Committee shall serve at the

pleasure of the Board. All action of the Corporate Governance Committee shall be reported to the Board at its next meeting. The Board shall adopt a Charter, which may be amended from time to time, setting forth the powers and duties of the Corporate Governance Committee.

3.4 Other Committees. The Board, by resolution adopted by a majority of the entire Board, may designate other committees of directors of one or more directors, which shall serve at the Board's pleasure and have such powers and duties as the Board determines.

3.5 Meetings and Action of Committees. (a) The Board may designate one or more directors as alternate members of any committee (other than the Audit Committee), who may replace any absent or disqualified member at any meeting of the committee. Each committee shall keep regular minutes of its meetings and report the same to the Board at its next meeting. Each committee may adopt rules of procedure and shall meet as provided by those rules or by resolutions of the Board.

(b) Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article 2 of these Bylaws, including Section 2.2 (quorum and manner of acting), Section 2.3 (place of meetings), Section 2.4 (annual and regular meetings), Section 2.5 (special meetings), 2.6 (notice of meetings and waiver of notice), Section 2.7 (board or committee action without a meeting), Section 2.8 (participation in board or committee meetings by conference telephone), Section 2.12 (notice to members of the board of directors), and Section 2.13 (organization), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, (i) that the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee, (ii) that special meetings of committees may also be called by resolution of the Board, (iii) that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee; (iv) that a majority of the members of a committee shall constitute a quorum for the transaction of business at any meeting; and (v) that the affirmative vote of a majority of the members of a committee shall be required to take action in respect of any matter presented to or requiring the approval of the committee.

3.6 Election Pursuant to Section 141(c)(2). By resolution of the Board, the corporation has elected pursuant to Section 141(c) of the General Corporation Law of Delaware to be governed by paragraph (2) of Section 141(c) in respect of committees of the Board.

4. OFFICERS.

4.1 Number; Security. The executive officers of the corporation shall consist of a chief executive officer, a president, one or more vice presidents (including executive vice president(s) and senior vice president(s) if the Board so determines), a secretary and a treasurer and a chief financial officer who shall be chosen by the Board and such other officers, including but not limited to a chairman of the Board, a vice chairman of the Board, as the Board shall deem expedient, who shall be chosen in such manner and hold their offices for such terms as the Board may prescribe. Any two or more offices may be held by the same person. Either the chairman of the Board or the president, as the Board may designate from time to time, shall be the chief executive officer of the corporation. The Board may from time to time designate the president or any executive vice president as the chief operating officer of the corporation. Any vice president, treasurer or assistant treasurer, or assistant secretary, respectively, may exercise any of the powers of the president, the chief financial officer, or the secretary, respectively, as directed by the Board and shall perform such other duties as are imposed upon such officer by the Bylaws or the Board. The Board may require any officer, agent or employee to give security for the faithful performance of his duties.

4.2 Election; Term of Office; Salaries. The term of office and salary of each of the officers of the corporation and the manner and time of the payment of such salaries shall be fixed and determined by the Board and may be

altered by said Board from time to time at its pleasure, subject to the rights, if any, of said officers under any contract of employment; provided, that the Board may designate such responsibilities to the Compensation Committee and may also authorize the chief executive officer or the president to establish the salaries of officers appointed pursuant to Section 4.3.

4.3 Subordinate Officers. The Board may appoint subordinate officers (including assistant secretaries and assistant treasurers), agents or employees, each of whom shall hold office for such period and have such powers and duties as the Board determines. The Board may delegate to any executive officer or to any committee the power to appoint and define the powers and duties of any subordinate officers, agents or employees.

4.4 Resignation and Removal of Officers. Any officer may resign at any time by delivering his resignation in writing to the chief executive officer, president or secretary of the corporation, to take effect at the time specified in the resignation; the acceptance of a resignation, unless required by its terms, shall not be necessary to make it effective. Any officer elected or appointed by the Board or appointed by an executive officer or by a committee may be removed by the Board either with or without cause, and in the case of an officer appointed by an executive officer or by a committee, by the officer or committee who appointed him or her or by the president.

4.5 Vacancies. A vacancy in any office may be filled for the unexpired term in the manner prescribed in Sections 4.2 and 4.3 of these Bylaws for election or appointment to the office.

4.6 Chairman of the Board. The chairman of the Board, if such an officer shall be chosen, shall have general supervision, direction and control of the corporation's business and its officers, and, if present, preside at meetings of the stockholders and the Board and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board or as may be prescribed by these Bylaws. The chairman of the Board shall report to the Board.

4.7 Vice Chairman of the Board. The vice chairman of the Board, if there shall be one, shall, in the case of the absence, disability or death of the chairman of the Board, exercise all the powers and perform all the duties of the chairman of the Board. The vice chairman shall have such other powers and perform such other duties as may be granted or prescribed by the Board.

4.8 Chief Executive Officer. Subject to the control of the Board, the chief executive officer of the corporation shall have general supervision over the business of the corporation; the powers and duties of the chief executive officer shall be:

(a) To affix the signature of the corporation to all deeds, conveyances, mortgages, leases, obligations, bonds, certificates and other papers and instruments in writing which have been authorized by the Board or which, in the judgment of the chief executive officer, should be executed on behalf of the corporation, and to sign certificates for shares of capital stock of the corporation.

(b) To have such other powers and be subject to such other duties as the Board may from time to time prescribe.

4.9 President. The powers and duties of the president are:

(a)To affix the signature of the corporation to all deeds, conveyances, mortgages, leases, obligations, bonds, certificates and other papers and instruments in writing which have been authorized by the Board or which, in the judgment of the president, should be executed on behalf of the corporation, and to sign certificates for shares of capital stock of the corporation.

(b) To have such other powers and be subject to such other duties as the Board may from time to time prescribe.

4.10 Vice President. In case of the absence, disability or death of the president, the elected vice president, or one of the elected vice presidents, shall exercise all the powers and perform all the duties of the president. If there is more than one elected vice president, the order in which the elected vice presidents shall succeed to the powers and duties of the president shall be as fixed by the Board. The elected vice president or elected vice presidents shall have such other powers and perform such other duties as may be granted or prescribed by the Board.

Vice presidents appointed pursuant to Section 4.3 shall have such powers and duties as may be fixed by the chairman of the Board or president, except that such appointed vice presidents may not exercise the powers and duties of the president. Each vice president shall have such powers and duties as the Board or the president assigns to him or her.

4.11 Secretary. The powers and duties of the secretary are:

(a) To keep a book of minutes at the principal office of the corporation, or such other place as the Board may order, of all meetings of its directors and stockholders with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.

(b) To keep the seal of the corporation, if any, and affix the same, if any, to all instruments which may require it.

(c) To keep or cause to be kept at the principal office of the corporation, or at the office of the transfer agent or agents, a share register, or duplicate share registers, showing the names of the stockholders and their addresses, the number of and classes of shares, and the number and date of cancellation of every certificate surrendered for cancellation.

(d) To keep a supply of certificates for shares of the corporation, to fill in all certificates issued, and to make a proper record of each such issuance; provided, that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents.

(e) To transfer upon the share books of the corporation any and all shares of the corporation; provided, that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents, and the method of transfer of each certificate shall be subject to the reasonable regulations of the transfer agent to which the certificate is presented for transfer, and also, if the corporation then has one or more duly appointed and acting registrars, to the reasonable regulations of the registrar to which the new certificate is presented for registration; and provided, further that no certificate for shares of stock shall be issued or delivered or, if issued or delivered, shall have any validity whatsoever until and unless it has been signed or authenticated in the manner provided in Section 5.1 hereof.

(f) To make service and publication of all notices that may be necessary or proper, and without command or direction from anyone. In case of the absence, disability, refusal, or neglect of the secretary to make service or publication of any notices, then such notices may be served and/or published by the president or a vice president, or by any person thereunto authorized by either of them or by the board of directors or by the holders of a majority of the outstanding shares of the corporation.

(g) To sign certificates for shares of capital stock of the corporation.

(h) Generally to do and perform all such duties as pertain to the

office of secretary and as may be required by the Board.

4.12 Treasurer. The treasurer shall be or shall be under the direction of the chief financial officer of the corporation, and shall be in charge of the corporation's books and accounts. Subject to the control of the Board, he or she shall have such other powers and duties as the Board or the president assigns to him or her.

4.13 Chief Financial Officer. The powers and duties of the chief financial officer are:

(a) To supervise the corporate-wide treasury functions and financial reporting to external bodies.

(b) To have the custody of all funds, securities, evidence of indebtedness and other valuable documents of the corporation and, at the chief financial officer's discretion, to cause any or all thereof to be deposited for account of the corporation at such depositary as may be designated from time to time by the Board.

(c) To receive or cause to be received, and to give or cause to be given, receipts and acquittances for monies paid in for the account of the corporation.

(d) To disburse, or cause to be disbursed, all funds of the corporation as may be directed by the Board, taking proper vouchers for such disbursements.

(e) To render to the chief executive officer and president, and to the Board, whenever they may require, accounts of all transactions and of the financial condition of the corporation.

(f) Generally to do and perform all such duties as pertain to the office of chief financial officer and as may be required by the Board.

5. SHARES.

5.1 Shares of the Corporation. The shares of the corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice chairman of the board of directors or by the president or a vice-president, and by the secretary or an assistant secretary, or the treasurer or an assistant treasurer, representing the number of shares registered in certificate form. The signatures of any such officers thereon may be facsimiles. The seal of the corporation shall be impressed, by original or by facsimile, printed or engraved, on all such certificates. The certificate shall also be signed by the transfer agent and a registrar and the signature of either the transfer agent or the registrar may also be facsimile, engraved or printed. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the corporation with the same effect as if such officer, transfer agent, or registrar had not ceased to be such officer, transfer agent, or registrar at the date of its issue.

5.2 Special Designation on Certificates. If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights or each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences

and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

5.3 Lost, Stolen, Destroyed and Mutilated Certificates. The owner of any stock of the corporation shall immediately notify the corporation of any loss, theft, destruction or mutilation of any certificate therefor, and the corporation may issue uncertificated shares or a new certificate for stock in the place of any certificate theretofore issued by it and alleged to have been lost, stolen or destroyed, and the Board may, in its discretion, require the owner of the lost, stolen or destroyed certificate or his or her legal representatives to give the corporation a bond in such sum, limited or unlimited, and in such form and with such surety or sureties, as the Board shall in its uncontrolled discretion determine, to indemnify the corporation against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate, or the issuance of any such new certificate or uncertificated shares. The Board may, however, in its discretion refuse to issue any such new certificate or uncertificated shares except pursuant to legal proceedings under the laws of the State of Delaware in such case made and provided.

5.4 Stock Records. The corporation or a transfer agent shall keep stock books in which shall be recorded the number of shares issued, the names of the owners of the shares, the number owned by them respectively, whether such shares are represented by certificates or are uncertificated, and the transfer of such shares with the date of transfer.

5.5 Transfers. Transfers of stock shall be made only on the stock transfer record of the corporation upon surrender of the certificate or certificates being transferred which certificate shall be properly endorsed for transfer or accompanied by a duly executed stock power, except in the case of uncertificated shares, for which the transfer shall be made only upon receipt of transfer documentation reasonably acceptable to the corporation. Whenever a certificate is endorsed by or accompanied by a stock power executed by someone other than the person or persons named in the certificate, or the transfer documentation for the uncertificated shares is executed by someone other than the holder of record thereof, evidence of authority to transfer same shall also be submitted with the certificate or transfer documentation. All certificates surrendered to the corporation for transfer shall be canceled.

5.6 Regulations Governing Issuance and Transfers of Shares. The Board shall have the power and authority to make all such rules and regulations as it shall deem expedient concerning the issue, transfer and registration of shares of stock of the corporation.

5.7 Transfer Agents and Registrars. The Board may appoint, or authorize one or more officers to appoint, one or more transfer agents and one or more registrars.

5.8 Record Date for Purposes Other than Notice and Voting. For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted and which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the

corporation after the record date so fixed, except as otherwise provided in the Certificate of Incorporation, by these Bylaws, by agreement or by law. If the Board does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board adopts the applicable resolution.

6. MISCELLANEOUS.

6.1 Seal. The Board shall adopt a corporate seal, which shall be in the form of a circle and shall bear the corporation's name and the year and state in which is was incorporated.

6.2 Fiscal Year. The Board may determine the corporation's fiscal year. Until changed by the Board, the corporation's fiscal year shall be the calendar year.

6.3 Voting of Shares in Other Corporations. Shares in other corporations which are held by the corporation may be represented and voted by the president or a vice president of this corporation or by proxy or proxies appointed by one of them. The Board may, however, appoint some other person to vote the shares.

6.4 Checks; Drafts; Evidences of Indebtedness. From time to time, the Board shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

6.5 Corporate Contracts and Instruments; How Executed. The Board, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

6.6 Construction; Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, the term "person" includes both a corporation and a natural person, and the masculine gender includes the feminine gender and vice versa.

6.7 Provisions Additional to Provisions of Law. All restrictions, limitations, requirements and other provisions of these Bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

6.8 Provisions Contrary to Provisions of Law. Any article, section, subsection, subdivision, sentence, clause or phrase of these Bylaws which upon being construed in the manner provided in Section 6.7 hereof, shall be contrary to or inconsistent with any applicable provisions of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these Bylaws, it being hereby declared that these Bylaws would have been adopted and each article, section, subsection, subdivision, sentence, clause or phrase thereof, irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

6.9 Amendments.1 Bylaws may be amended, repealed or adopted by a majority of the entire Board, provided that written notice of any such proposed

action shall have been given to each director prior to such meeting, or that notice of such addition, amendment, alteration or report shall have been given at the preceding meeting of the Board. The Bylaws may also be amended, repealed or adopted by the affirmative vote of the holders of a majority of the voting power of the stock issued and outstanding and entitled to vote thereon; provided, however, that any proposed alteration or repeal of, or the adoption of any Bylaw inconsistent with, Section 1.2, 1.3, 1.4, 1.5, 1.11, 1.12, 1.13 or 1.17 of Article 1 of the Bylaws or Section 2.1, 2.2, 2.9 or 2.10 of Article 2 of the Bylaws or Section 6.10 of the Bylaws or this sentence, by the stockholders shall require the affirmative vote of the holders of at least 66 2/3% of the voting power of all stock then issued and outstanding and entitled to vote thereon, voting together as a single class; and, provided, further, however, that in the case of any such stockholder action at a special meeting of stockholders, notice of the proposed alteration, repeal or adoption of the new Bylaw or Bylaws must be contained in the notice of such special meeting. The fact that the power to amend these Bylaws has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to amend, adopt or repeal bylaws.

Whenever an amendment or new bylaw is adopted, it shall be copied in the book of bylaws with the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

6.10 Indemnification and Insurance. 1

(a) Generally.

(1) The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was or has agreed to serve at the request of the corporation as a director or officer of the corporation, or is or was serving or has agreed to serve at the request of the corporation as a director or officer (which, for purposes hereof, shall include a trustee or similar capacity)of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity.

(2) The corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was or has agreed to serve at the request of the corporation as an employee or agent of the corporation, or is or was serving or has agreed to serve at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity.

(3) The indemnification provided by this subsection (a) shall be from and against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the indemnitee or on his or her behalf in connection with such action, suit or proceeding and any appeal therefrom, but shall only be provided if the indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action, suit or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

(4) Notwithstanding the foregoing provisions of this subsection (a), in the case of an action or suit by or in the right of the corporation to procure a judgment in its favor (i) the indemnification provided by this subsection (a) shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit, and (ii) no indemnification shall be made in respect of any

claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless, and only to the extent that, the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

(5) The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

(b) Successful Defense. To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsection (a) hereof or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith. If a director or officer is not wholly successful, on the merits or otherwise, in any action, suit or proceeding but is successful, on the merits or otherwise, as to any claim, issue or matter in such action, suit or proceeding, the corporation shall indemnify such person against all expenses (including attorneys' fees) actually and reasonably incurred by such person or on his or her behalf relating to each successfully resolved claim, issue or matter. For purposes of this Section 6.10 and without limitation, the termination of a claim, issue or matter in an action, suit or proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

(c) Determination That Indemnification Is Proper. Any indemnification of a person entitled to indemnity under subsection (a)(1) hereof shall (unless otherwise ordered by a court) be made by the corporation unless a determination is made that indemnification of such person is not proper in the circumstances because he or she has not met the applicable standard of conduct set forth in subsection (a)(3) hereof. Any indemnification of a person entitled to indemnity under subsection (a)(2) hereof may (unless otherwise ordered by a court) be made by the corporation upon a determination that indemnification of such person is proper in the circumstances because he or she has met the applicable standard of conduct set forth in subsection (a)(3) hereof. Any such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even if less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders.

(d) Advance Payment of Expenses; Notification and Defense of Claim.

(i) Expenses (including attorneys' fees) incurred by a director or officer in defending a threatened or pending civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as authorized in this Section. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

(ii) Promptly after receipt by a director, officer, employee or agent of notice of the commencement of any action, suit or proceeding, such person shall, if a claim thereof is to be made against the corporation hereunder, notify the corporation of the commencement thereof. The failure to promptly notify the corporation will not relieve the corporation from any liability that it may have to such person hereunder, except to the extent the corporation is prejudiced in its defense of such action, suit or proceeding as a

result of such failure.

(iii) The Board of Directors may authorize the corporation's counsel to represent a director, officer, employee or agent in any action, suit or proceeding, whether or not the corporation is a party to such action, suit or proceeding. In the event the corporation shall be obligated to pay the expenses of any person with respect to an action, suit or proceeding, as provided in this Section 6.10, the corporation, if appropriate, shall be entitled to assume the defense of such action, suit or proceeding, with counsel reasonably acceptable to such person, upon the delivery to such person of written notice of its election to do so. After delivery of such notice, approval of such counsel by such person and the retention of such counsel by the corporation, the corporation will not be liable to such person under this Section 6.10 for any fees of counsel subsequently incurred by such person with respect to the same action, suit or proceeding, provided that (i) the director, officer, employee or agent shall have the right to employ his or her counsel in such action, suit or proceeding at such person's expense and (b) if (i) the employment of counsel by such person has been previously authorized in writing by the corporation, (ii) counsel to the director, officer, employee or agent shall have reasonably concluded that there may be a conflict of interest or position on any significant issue between the corporation and such person in the conduct of any such defense or (iii) the corporation shall not, in fact, have employed counsel to assume the defense of such action, suit or proceeding, then the fees and expenses of such person's counsel shall be at the expense of the corporation.

(iv) Notwithstanding any other provision of this Section 6.10 to the contrary, to the extent that any director or officer is, by reason of his or her corporate status, a witness or otherwise participates in any action, suit or proceeding at a time when such person is not a party in the action, suit or proceeding, the corporation shall indemnify such person against all expenses (including attorneys' fees) actually and reasonably incurred by such person or on his or her behalf in connection therewith.

(e) Procedure for Indemnification of Required Indemnitees. Any indem-nification of a person the corporation is required to indemnify under subsection (a) hereof, or advance of costs, charges and expenses of a person the corporation is required to pay under subsection (d) hereof, shall be made promptly, and in any event within 60 days, upon the written request of such person. If the corporation fails to respond within 60 days, then the request for indemnification shall be deemed to be approved. The right to indemnification or advances as granted by this Section 6.10 shall be enforceable by the person the corporation is required to indemnify under subsection (a) hereof in any court of competent jurisdiction if the corporation denies such request, in whole or in part. Such person's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be indemnified by the corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under subsection (d) hereof where the required undertaking, if any, has been received by the corporation) that the claimant has not met the standard of conduct set forth in subsection (a) hereof, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in subsection (a) hereof, nor the fact that there has been an actual determination by the corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

A director or officer shall be presumed to be entitled to indemnification under this Section 6.10 upon submission of a request for indemnification pursuant to this subsection (e), and the corporation shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. Such presumption shall be used as a basis for a determination of entitlement to indemnification unless the corporation provides information sufficient to overcome such presumption by clear and convincing

evidence.

(f) Survival; Preservation of Other Rights. The provisions of this Section 6.10 shall be deemed to be a contract between the corporation and each director, officer, employee and agent who serves in such capacity at any time while these provisions as well as the relevant provisions of the General Corporation Law of the State of Delaware are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any action, suit, or proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a "contract right" may not be modified retroactively without the consent of such director, officer, employee or agent. The indemnification provided by this Section 6.10 shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(g) Indemnification Agreements. Without limiting the provisions of this Section 6.10, the corporation is authorized from time to time, without further action by the stockholders of the corporation, to enter into agreements with any director, officer, employee or agent of the corporation providing such rights of indemnification as the corporation may deem appropriate, up to the maximum extent permitted by law. Any agreement entered into by the corporation with a director may be authorized by the other directors, and such authorization shall not be invalid on the basis that similar agreements may have been or may thereafter be entered into with other directors.

(h) Insurance and Subrogation

(i) The corporation may purchase and maintain insurance on behalf of any person who is or was or has agreed to serve at the request of the corporation as a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against, and incurred by, him or her or on his or her behalf in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of this Section 6.10.

(ii) In the event of any payment by the corporation under this Section 6.10, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of such person, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the corporation to bring suit to enforce such rights in accordance with the terms of such insurance policy.

(iii) The corporation shall not be liable under this Section 6.10 to make any payment of amounts otherwise indemnifiable hereunder (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) if and to the extent that such person has otherwise actually received such payment under the Certificate of Incorporation or these Bylaws or any insurance policy, contract, agreement or otherwise.

(i) Certain Definitions. For purposes of this Section 6.10, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents so that any person who is or was a director, officer employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture,

trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Section 6.10 with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Section 6.10, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Section 6.10.

(j) Limitation on Indemnification. Notwithstanding any other provision herein to the contrary, the corporation shall not be obligated pursuant to these Bylaws:

(a) To indemnify or advance expenses to a director, officer, employee or agent with respect to proceedings (or part thereof) initiated by such person, except with respect to proceedings brought to establish or enforce a right to indemnification (which shall be governed by the provisions of this Section 6.10), unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the corporation.

(b) To indemnify a director, officer, employee or agent for any expenses incurred by such person with respect to any proceeding instituted by such person to enforce or interpret these Bylaws, if a court of competent jurisdiction determines that each of the material assertions made by such person in such proceedings was not made in good faith or was frivolous;

(c) To indemnify a director, officer, employee or agent for expenses or the payment of profits arising from the purchases and sale by such person of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

(k) Certain Settlement Provisions. The corporation shall have no obligation to indemnify any director, officer, employee or agent under this Section 6.10 for amounts paid in settlement of any action, suit or proceeding without the corporation's prior written consent, which shall not be unreasonably withheld. The corporation shall not settle any action, suit or proceeding in any manner that would impose any fine or other obligation on any director or officer or employee or agent without such person's prior written consent.

(l) Savings Clause. If this Section 6.10 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director or officer and may indemnify each employee or agent of the corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation, to the full extent permitted by any applicable portion of this Section 6.10 that shall not have been invalidated and to the full extent permitted by applicable law.

(m) Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for herein is held by a court of competent jurisdiction to be unavailable to a director or officer in whole or in part, it is agreed that, in such event, the corporation shall contribute to the payment of such director's or officer's costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, but not including an action by or in

the right of the corporation, in an amount that is just and equitable in the circumstances, taking into account, among other things, contributions by other directors and officers of the corporation or others pursuant to indemnification agreements or otherwise; provided, that, without limiting the generality of the foregoing, such contribution shall not be required where such holding by the court is due to (i) the failure of such director or officer to meet the standard of conduct set forth in subsection (a) hereof, or (ii) any limitation on indemnification set forth in subsection (h)(iii), (j) or (k) hereof.

(n) Form and Delivery of Communications. Any notice, request or other communication required or permitted to be given to the corporation under this Section 6.10 shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the General Counsel or Secretary of the corporation at its principal executive offices.

(o) Subsequent Legislation. If the General Corporation Law of Delaware is amended after adoption of this Section 6.10 to expand further the indemnification permitted to directors or officers, then the corporation shall indemnify such persons to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

[FN]
1 As Amended February 6, 2001
</FN>

EXPRESS SCRIPTS, INC.
STATEMENT OF RATIOS OF EARNINGS TO FIXED CHARGES
YEARS ENDED DECEMBER 31, 2000, 1999, 1998, 1997, AND 1996

	Year Ended December 31,				
(in thousands)	2000	1999	1998	1997	1996
Fixed charges:					
Interest expense (1)	$ 47,903	$ 60,010	$ 20,230	$ 225	$ 59
Interest portion of rental expense	4,014	3,716	1,292	757	700
Total fixed charges	51,917	63,726	21,522	982	759
Earnings:					
Income before income taxes and extraordinary items (2)	(4,468)	265,466	76,240	54,706	43,080
Total adjusted earnings	$ 47,449	$ 329,192	$ 97,762	$ 55,688	$ 43,839
Ratio of earnings to fixed charges	0.91	5.17	4.54	56.71	57.76

<FN>
(1) Interest expense includes the amortization on our deferred financing fees.

(2) Income before income taxes and extraordinary items includes a non-cash write-off of our investment in marketable securities, non-recurring charges and a one-time gain on sale of assets.
</FN>

Subsidiary	State of Incorporation	D/B/A
Diversified NY IPA, Inc.	New York	None
Diversified Pharmaceutical Services (Puerto Rico), Inc.	Puerto Rico	None
Diversified Pharmaceutical Services, Inc.	Minnesota	None
ESI Canada Holdings, Inc.	New Brunswick, Canada	None
ESI Canada, Inc.	New Brunswick, Canada	None
ESI Claims, Inc.	Delaware	None
ESI Mail Pharmacy Services, Inc.	Delaware	None
ESI Utilization Management Co.	Delaware	None
Express Scripts Sales Development Co.	Delaware	None
Express Scripts Specialty Distribution Services, Inc.	Delaware	None
Express Scripts Vision Corporation	Delaware	ESI Vision Care
IVTx, Inc.	Delaware	Express Scripts Infusion Services
Great Plains Reinsurance Company	Arizona	None
Practice Patterns Science, Inc.	Delaware	None
Value Health, Inc.	Delaware	None
ValueRx of Michigan, Inc.	Michigan	None
YourPharmacy.com, Inc.	Delaware	None
607486 Alberta Ltd.	Alberta, Canada	None

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-43336, 333-80255, 333-72441, 333-69855, 333-48779, 333-48767, 333-48765, 333-27983, 333-04291, 33-64094, 33-64278, 33-93106) of Express Scripts, Inc. of our report dated February 5, 2001, except as to the first two paragraphs of Note 2 which are as of February 22, 2001, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
St. Louis, Missouri
February 27, 2001