UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005, 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:

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

Preferred Share Purchase Rights
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No X

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

Indicate by check mark 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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

The aggregate market value of Registrant's voting stock held by non-affiliates as of June 30, 2005, was $7,250,871,541 based on 145,075,461 such shares held on such date by non-affiliates and the average sale price for the Common Stock on such date of $49.98 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 and New York Life Insurance Company are affiliates of the Registrant. The Registrant has no non-voting common equity.

Common stock outstanding as of January 31, 2006: 146,371,022 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the definitive proxy statement for the Registrant's 2006 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, 2005.

Information included in or incorporated by reference in this Annual Report on Form 10-K, other filings with the Securities and Exchange Commission (the "SEC") and our press releases or other public statements, 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" and "Item 1A —Risk Factors" in this Annual Report on Form 10-K.

PART I

THE COMPANY

Item 1 — Business

Industry Overview

Prescription drugs are playing an ever-greater role in healthcare and today constitute the first line of treatment for many medical conditions. As pharmaceutical research opens the potential for even more effective drugs, demand can be expected to increase. For millions of people, prescription drugs equate to the hope of improved health and quality of life. At the same time, rising prescription drug costs are gradually shaping one of the most persistent challenges to health care financing. Even as pharmaceutical development opens new paths to better healthcare, we confront the possibility that high costs may limit access to these therapies.

Prescription drug costs, one of the fastest growing components of health care costs in the United States, accounted for approximately 12.2% of U.S. health care expenditures in 2005 and are expected to increase to about 15.5% in 2013 according to U.S. Centers for Medicare & Medicaid ("CMS") estimates. Based upon information included in our *2004 Annual Drug Trend* report, described below under "Company Operations—Clinical Support," annual per member unmanaged drug spending rose 10.6% in 2004. In response to cost pressures being exerted on health benefit providers such as HMOs, health insurers, employers and unions, pharmacy benefit management ("PBM") companies develop innovative strategies designed to keep medications affordable.

We help health benefit providers address access and affordability concerns resulting from rising drug costs. We manage the cost of the drug benefit by performing the following functions:

- evaluating drugs for price, value and efficacy in order to assist clients in selecting a cost-effective formulary;
- leveraging purchasing volume to deliver discounts to health benefit providers;
- promoting the use of generics and low-cost brands; and
- offering cost-effective home delivery pharmacy and specialty services which result in drug-cost savings for plan sponsors and co-payment savings for members.

We work with clients, manufacturers, pharmacists and physicians to increase efficiency in the drug distribution chain, to manage costs in the pharmacy benefit, and to improve members' health outcomes and satisfaction.

PBMs combine retail pharmacy claims processing, formulary management and home delivery pharmacy services to create an integrated product offering to manage the prescription drug benefit for payers. Some PBMs now provide specialty services to provide treatments for diseases that rely upon high-cost injectible, infused, oral, or inhaled drugs which traditional retail pharmacies are unable to supply due to their high cost and sensitive handling and storage needs ("Specialty"). PBMs also have broadened their service offerings to include disease management programs, compliance programs, outcomes research, drug therapy management programs, sophisticated data analysis and other distribution services.

Company Overview

We are one of the largest PBMs in North America and we provide a full range of pharmacy benefit management services, including retail drug card programs, home delivery pharmacy services, Specialty services, drug formulary management programs and other clinical management programs for thousands of client groups that include HMOs, health insurers, third-party administrators, employers, union-sponsored benefit plans and government health programs.

Our PBM services include:

- retail network pharmacy management
- home delivery pharmacy services
- benefit design consultation
- drug utilization review
- formulary management programs
- disease management
- compliance and therapy management programs for our clients

Our Specialty services include:

- patient care and direct specialty home delivery of injectible and infusion biopharmaceutical products to patients
- distribution of infusion drugs to patient homes, physician offices and infusion centers
- distribution of pharmaceuticals and medical supplies to providers and clinics
- third party logistics services for contracted pharma clients
- fertility services to providers and patients
- bio-pharma services including reimbursement and customized logistics solutions

Specialty services do not include the fulfillment of specialty prescriptions at retail pharmacies participating in our networks. These prescriptions are reflected in PBM retail pharmacies participating in our networks.

Pharma Business Solutions ("PBS") services include:

- distribution of pharmaceuticals to low-income patients through pharmaceutical manufacturer-sponsored and company-sponsored generic patient assistance programs
- distribution of pharmaceuticals requiring special handling or packaging
- distribution of sample units to physicians and verification of practitioner licensure through our wholly owned subsidiary, Phoenix Marketing Group, LLC ("PMG")

Our revenues are generated primarily from the delivery of prescription drugs through our contracted network of retail pharmacies, home delivery pharmacy services and Specialty services. In 2005, 2004 and 2003, revenues from the delivery of prescription drugs to our members represented 98.2% of revenues in 2005, and 98.6% of revenues in 2004 and 2003. Revenues from services, such as the administration of some clients' retail pharmacy networks, sample distribution services and certain services provided by our PBS subsidiary 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 contracts with us and through four home delivery fulfillment pharmacies and thirty-three specialty drug pharmacies that we operated as of December 31, 2005. More than 58,000 retail pharmacies, representing more than 98% of all United States retail pharmacies, participate in one or more of our networks. In 2005, we processed 437 million network pharmacy claims and dispensed 40 million home delivery pharmacy prescriptions. We also dispensed 5 million PBS and Specialty claims.

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 and our web site is www.express-scripts.com. Through our website, we make available access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports (when applicable), and other filings with the SEC. Such access is free of charge and is available as soon as reasonably practicable after such information is filed with the SEC. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers filing electronically with the SEC (which includes us). Information included on our website is not part of this annual report.

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 management
- home delivery pharmacy services
- benefit design consultation
- drug utilization review
- formulary management programs
- disease management
- compliance and therapy management programs for our clients

We consult with our clients to assist them in selecting plan design features that balance the client's requirements for cost control with member convenience. For example, some clients receive a smaller discount on pricing in the retail pharmacy network or home delivery pharmacy in exchange for receiving all or a larger share of the pharmaceutical manufacturer rebates. Other clients receive a greater discount on pricing at the retail pharmacy network or home delivery pharmacy in exchange for a smaller share of the pharmaceutical manufacturer rebates.

During 2005, 88.2% of our revenues were derived by our PBM operations, compared to 94.3% and 98.5% during 2004 and 2003, respectively. This decrease is mainly due to the acquisition of Priority in 2005 and the continued growth of CuraScript. These entities comprise our Specialty segment. The number of retail pharmacy network claims processed and home delivery pharmacy claims dispensed increased to 437 million and 40 million, respectively, in 2005 from 399 million and 38 million claims, respectively, in 2004.

Retail Pharmacy Network Administration. We contract with retail pharmacies to provide prescription drugs to members of the pharmacy benefit plans we manage. In the United States, we negotiate with pharmacies to discount the price at which they will provide drugs to members. We manage 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 networks of pharmacies that are customized for or under direct contract with specific clients. In addition, we have contracted Medicare Part D provider networks that are intended to comply with or exceed CMS access requirements for the Medicare Part D Prescription Drug Program. We manage one nationwide claims network in Canada.

All retail pharmacies in our pharmacy networks communicate with us online and in real time to process prescription drug claims. When a member of a plan presents his or her identification card at a network pharmacy, the network pharmacist sends the specified member and prescription information in an industry-standard format through our systems, which process the claim and respond to the pharmacy. The electronic processing of the claim includes, among other things, the following:

- confirming the member's eligibility for benefits under the applicable health benefit plan and the conditions to or limitations of coverage
- performing a concurrent drug utilization review 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
- informing the pharmacy of the co-payment amount to be collected from the member based upon the client's plan design

Home Delivery Pharmacy. As of December 31, 2005, we operated four home delivery pharmacies located in Maryland Heights, Missouri; Albuquerque, New Mexico; Bensalem, Pennsylvania; and Tempe, Arizona. In addition to the front-end order processing that occurs at our home delivery pharmacies, we also operate two standalone front-end order processing facilities in Troy, New York and Harrisburg, Pennsylvania. Our pharmacies provide patients with convenient access to maintenance medications and enable us to manage our clients' drug costs through operating efficiencies and economies of scale. Through our home delivery pharmacies, we are directly involved with the prescriber and patient and, as a result, we believe we are generally able to achieve a higher level of generic substitutions and therapeutic interventions than can be achieved through the retail pharmacy networks.

Patient Care Contact Centers. Although we contract with health plans, the ultimate recipients of many of our services are the members of these health plans. We believe that client satisfaction is dependent upon patient satisfaction. Domestic patients can call us toll-free, 24 hours a day, 7 days a week, to obtain information about their prescription drug plan from our trained patient care advocates.

Benefit Plan Design and Consultation. We offer consultation and financial modeling to assist our clients in selecting benefit plan designs that meet 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, tiered co-payments, deductibles or annual benefit maximums
- generic drug utilization incentives
- incentives or requirements to use only certain network pharmacies or to order certain maintenance drugs (i.e. therapies for diabetes, high blood pressure, etc.) only by mail
- reimbursement limitations on the amount of a drug that can be obtained in a specific period
- by implementing utilization management programs such as Step Therapy and Prior Authorization, that focus the use of medications according to clinically developed algorithms

The client's choice of 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 many years of formulary development expertise and maintain an extensive clinical pharmacy department.

Our foremost consideration in the formulary development process is the clinical appropriateness of the drug. In developing formularies, we first perform a rigorous assessment of the available evidence regarding the drug's safety and clinical effectiveness. No drug is added to the formulary until it is approved by our National Pharmacy & Therapeutics Committee ("P&T") - a panel composed of nineteen independent physicians and pharmacists in active clinical practice, representing a variety of specialties and practice settings, typically with major academic affiliations. We fully comply with the Committee's clinical recommendations. The Committee does not consider any information regarding the discount or rebate arrangement that we might negotiate with the manufacturer in making its clinical recommendation. This is designed to ensure that the clinical recommendation is not affected by our purchasing arrangements. After the clinical recommendation is made, the drugs are evaluated on an economic basis to determine optimal cost-effectiveness.

We administer a number of different formularies for our clients that identify drugs whose use is encouraged through various benefit design features. Historically, many clients selected a plan design that included an open formulary in which all drugs were covered by the plan. Today, an increasing number of our clients are selecting formularies in which various financial or other incentives, such as three-tier co-payments, exist for the selection of formulary drugs over their non-formulary counterparts. Some clients select closed formularies, in which benefits are available only for drugs listed on the formulary. In 2005, about 69% of all claims fell into three-tier or closed categories compared to 60% for 2004 and 54% for 2003. Use of formulary drugs can be encouraged in the following ways:

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

- by educating members and physicians with respect to benefit design implications
- by promoting the use of lower cost generic alternatives
- by implementing utilization management programs such as Step Therapy and Prior Authorization, that focus the use of medications according to clinically developed algorithms

We also provide formulary compliance services to our clients. For example, if a doctor has prescribed a drug which is not on a client's formulary, we notify the pharmacist through our claims processing system. The pharmacist may then contact the doctor to attempt to obtain the doctor's consent to change the prescription to the appropriate formulary product. The doctor has the final decision-making authority in prescribing the medication.

We also offer innovative clinical intervention programs to assist and manage patient quality of life, client drug trend, and physician communication/education. These programs encompass comprehensive point of service and retrospective drug utilization review, physician profiling, academic detailing, prior authorization, disease care management, and clinical guideline dissemination to physicians.

Rebate Programs. We develop, manage and administer rebate programs that allow pharmaceutical manufactures to provide rebates on utilization of their products by members of our clients' benefit plans. The level to which a client may choose to receive a portion of the rebates paid to us by participating manufacturers varies by client (see "Products and Services - Pharmacy Benefit Management Services - Overview"). In situations where we pay all or a portion of rebates to the client, our clients have a contractual right to audit our calculation of their rebate payment to ensure they have received the amount to which they are entitled.

The platform upon which our rebate programs are currently built is called the "preferred savings grid" or "PSG" program. Under the PSG program, rebates are determined based on the characteristics of the formulary design selected by the client and their pharmacy benefit structure. Historically, we have also managed a separate rebate program under which rebate amounts were determined based on the relative market share of each product. In addition, beginning in 2006, rebates available on utilization of pharmaceutical products paid for under the federal Medicare Part D benefit will be captured through a rebate program specifically designed and operated for that purpose. This Medicare Part D rebate program is designed based on the PSG program. The amount of rebates generated by these types of programs is a function of the particular product dispensed and the level of utilization that occurs. Manufacturers participating in our rebate programs pay us administrative fees in connection with the services and systems we provide through the rebate program.

Once the formulary has been selected by the client, clients can participate in one of the rebate arrangements we offer. The level of participation in our rebate programs varies by client (see "Products and Services - Pharmacy Benefit Management Services - Overview").

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 analyze prescription drug data to identify cost trends and budget for expected drug costs, assess the financial impact of plan design changes and assist clients in identifying costly utilization patterns through an online prescription drug decision support tool.

We offer disease management and education programs to members in managing clinical outcomes and the total health care costs associated with certain conditions such as asthma, diabetes and cardiovascular disease. These programs are based on the premise that better informed patient and physician 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 offer a tiered approach to member education and wellness, ranging from information provided through our Internet site, to educational mailings, to our intensive one-on-one registered nurse or pharmacist counseling. The programs include providing patient profiles directly to their physicians, as well as measurements of the clinical, personal and economic outcomes of the programs.

Electronic Claims Processing System. A significant tool in providing our PBM services is our electronic claims processing system which enables us to implement sophisticated intervention programs to assist in managing prescription drug utilization. The system can alert the pharmacist to generic substitution and therapeutic intervention opportunities as well as formulary compliance issues, or 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.

Consumer Health and Drug Information. We maintain a public website, www.DrugDigest.org, dedicated to helping consumers make informed decisions about using drugs. During 2004, the Health on the Net Foundation granted DrugDigest.org Health On the Net ("HON") Code accreditation for providing reliable online health information. In 2004 and 2005, it was rated among the best websites for unbiased drug information by Business Week, Reader's Digest, the Wall Street Journal, The Webby Award and others.

Much of the information on DrugDigest.org is written by pharmacists - primarily doctors of pharmacy who are also affiliated with academic institutions. All the materials used on DrugDigest.org are reviewed for accuracy and timeliness. In 2005, DrugDigest.org expanded its interactive tools providing consumers an opportunity to take an even more active role in maintaining their own health. The consumer-friendly information on DrugDigest.org includes:

- a drug interaction checker
- a drug side effect comparison tool
- audible drug name pronunciations

- comparisons of different drugs used to treat the same health condition
- information on health conditions and their treatments
- instructional videos showing administration of specific drug dosage forms
- monographs on drugs and dietary supplements
- photographs of pills and capsules
- interactive care pathways and health risk assessments

Many features of DrugDigest.org are available in the limited-access member website at www.express-scripts.com. The member website gives our clients' members access to personalized current and, in many cases, previous drug histories. Members can use the interactive tools from DrugDigest.org to check for drug interactions and find possible side effects for all of the drugs they take.

To facilitate communications between members and physicians, health condition information from DrugDigest.org has been compiled into "For Your Physician Visit", which is available on the member website. Using it, members complete and print appropriate checklists on conditions such as diabetes and depression. Discussing the completed checklists gives both the member and the physician a better understanding of the member's true health status.

Additional tools that are available through www.express-scripts.com assist members in choosing and managing their prescription benefits. In the member website, individual profiles include specific enrollment and copayment information. Through Express Choice and Express Preview, members can compare benefit packages and estimate annual prescription costs before the plan's benefit year begins. They can determine how variables such as generic usage, mandatory mail programs and step therapy will affect their costs. The separate Price Check feature informs members of current prescription costs based on exact benefit structures and also alerts members if more cost-effective options are available for the prescribed drug.

Specialty Services

Overview. In 2005, our collective Specialty offering was greatly enhanced with the acquisition of Priority Healthcare ("Priority"). Collectively under the CuraScript name, we now operate five integrated brands that service the patient through multiple paths: Payors, Providers and Pharma. CuraScriptSP operates specialty pharmacies in eight states with primary operations located in Orlando, Florida. These locations provide patient care and direct specialty home delivery to our patients. CuraScriptIP, primarily based in Louisville, KY, sends infusion pharmaceuticals to multiple alternate pharmacy sites which then coordinate distributing the pharmaceuticals to patients' homes, physicians' offices and infusion centers. CuraScriptSD provides specialty distribution of pharmaceuticals and medical supplies direct to providers and clinics, performs third-party logistics services for contracted pharmaceutical manufacturers and operates a Group Purchasing Organization ("GPO") for many of our clients. We currently operate CuraScriptSD specialty distribution centers located in Grove City, OH and Sparks, NV. FreedomFP provides fertility services to both providers and patients and is located in Byfield, MA. Finally, HealthBridge provides Bio-Pharma services including reimbursement and customized logistics solutions. In total, the collective CuraScript brand diversely positions us solidly within the specialty market and truly serves as a pathway to the patient.

During 2005, 10.0% of our revenues were derived from Specialty services, compared to 4.1% during 2004. This increase is mainly due to the acquisition of Priority in 2005 and the growth of CuraScript.

Patient Services. Services to patients include coordinated delivery of specialty pharmaceuticals and management of multiple facets of a patient's treatment which can include personal instruction on the self-administration of a patient's therapy, clinical support, support with billing and reimbursement issues and a range of educational materials, including online information portals. We employ a team of specialists including doctors of pharmacy, nurse clinicians, social workers, patient care coordinators and insurance specialists, who are involved in the care we provide to each patient. We work closely with health care providers to monitor medications and dosages and our pharmacists screen each prescription for negative interactions. We utilize clinically based CARELogic programs to provide therapy-specific care management of the injectible therapy, including appropriateness, compliance, dosing and cost control. Our team of specialists is available to answer patients' questions through our toll-free customer service center, including access to pharmacists 24 hours per day, 7 days a week.

Physician Services. Through our CuraScriptsSD business unit we provide distribution services primarily to office and clinic-based physicians treating chronic disease patients who regularly order high-dollar-value pharmaceuticals. We are able to provide to these physicians competitive pricing on pharmaceuticals and medical supplies.

Biotech Services. In our June 2005 *Specialty Pharmacy Management Guide and Trend Report*, we reported at the end of 2004 there were more than 324 specialty drugs in clinical trials. For new biopharmaceuticals being launched, we can provide biotech manufacturers product distribution management services. We design strategies tailored to each product's needs with a focus on identifying opportunities to educate the marketplace regarding drug effectiveness, proper utilization and payor acceptance.

We also provide a range of centralized supply chain services which can include sampling programs, patient assistance programs, and clinical trial assistance as well as specialized shipping and storage and customized dosing.

Payor Services. We offer health plan providers and their members customized disease-specific treatment programs which cover both pharmacy and medical benefits. In addition to helping payors design a customized plan, we assist with eligibility review, prior authorization coordination, monitoring and reporting of patient therapy adherence as well as electronic claims processing and billing. Our monitoring and reporting of patient therapy includes clinical tracking, plan-specific reports, and provider treatment and dispensing patterns. We are able to provide a clinical and financial picture of plan members with chronic illnesses which measures pharmacy expenses and patients' treatment progress.

We have developed a comprehensive oncology program, OncoScripts, whereby we work with managed care organizations to help manage the cost of chemotherapy drugs and injectibles infused in physician offices and cancer centers. We help managed care organizations develop a specific formulary based on the latest economic and clinical data. Our services include clinical review of ordered drugs prior to dispensing and shipment based on dosing standards and protocols set by American Society of Clinical Oncology guidelines and specific stability standards established by the pharmaceutical manufacturer. We also provide access to utilization and cost reports that can be customized based on customer needs.

PBS Services

In addition to PBM and Specialty services, we also provide certain services through our PBS unit including:

- distribution of pharmaceuticals to low-income patients through manufacturer-sponsored and company-sponsored generic patient assistance programs
- distribution of pharmaceuticals requiring special handling or packaging on behalf of pharmaceutical manufacturers
- distribution of sample units to physicians and verification of practitioner licensure through our wholly owned PMG subsidiary

During 2005, 1.9% of our revenues were derived from PBS services, compared to 1.6% and 1.5% during 2004 and 2003, respectively.

Express Scripts Specialty Distribution Services ("SDS"). We provide specialty distribution services, consisting of the distribution of, and creation of a database of information for, products requiring special handling or packaging, products targeted to a specific physician or patient population, and products distributed to low-income patients. Our services include eligibility, fulfillment, inventory, insurance verification/authorization and payment. Specialty distribution revenues are derived from administrative fees received from drug manufacturers and from buying and selling pharmaceuticals. We also administer sample card programs for certain manufacturers where the ingredient costs of pharmaceuticals dispensed from retail pharmacies are included in revenues, as well as costs of revenues. SDS services are provided from our Maryland Heights, Missouri facility.

Phoenix Marketing Group. PMG is a leader in sample accountability, database management and practitioner verification services for the pharmaceutical industry, operating the nation's largest prescription drug sample fulfillment business.

Segment Information.

Information regarding our segments appears in Note 11 of the notes to our consolidated financial statements. Effective in October 2005, we began managing our Specialty business as a separate operating segment. Previously, our Specialty business was part of our domestic PBM operating segment. The change is primarily due to the acquisition of Priority (see "—Overview") on October 14, 2005. As described above, our Specialty segment consists of our CuraScript (acquired in January 2004) and Priority businesses.

Suppliers

Home Delivery Pharmacy Suppliers. We maintain a large inventory of brand name and generic pharmaceuticals in our home delivery pharmacies. If a drug is not in our inventory, we can generally obtain it from a supplier within one business day. We purchase our pharmaceuticals either directly from manufacturers or through wholesalers. Currently, approximately 95% of our branded pharmaceutical purchases by our PBM segment are through one wholesaler. 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.

Specialty Suppliers. We maintain a large inventory of biopharmaceutical and biotech injectibles in our specialty pharmacies along with other high cost oral agents used to treat patients with rare or chronic disease. If a drug is not in our inventory, we can generally obtain it from a supplier within one business day. We purchase our pharmaceuticals either directly from manufacturers or through wholesalers. Currently, approximately 75% of our purchases by our Specialty segment are through one wholesaler. Due to the unique nature of the specialty market, the services patients require and our reach nationally, we are able to purchase and supply most of the current limited distributed drugs.

Clients

We are a provider of PBM services to several market segments and our clients include HMOs, health insurers, third-party administrators, employers, union-sponsored benefit plans and government health programs. We provide Specialty services to customers who include office-based oncologists, renal dialysis clinics, ambulatory surgery centers, primary care physicians, retina specialists, third party payors and patients.

Our top five clients represented 23.6%, 22.8%, and 17.8% of revenues during 2005, 2004 and 2003 respectively. None of our clients accounted for 10% or more of our consolidated revenues in fiscal years 2005, 2004 or 2003.

Medicare Prescription Drug Coverage

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA") created the federal Voluntary Prescription Drug Benefit Program under "Part D" of the Social Security Act. As of January 1, 2006, eligible Medicare beneficiaries are able to obtain prescription drug coverage under Part D by enrolling in a prescription drug plan ("PDP") or a "Medicare Advantage" plan that offers prescription drug coverage (an "MA-PD"). Employers offering eligible prescription drug coverage for their Medicare-eligible retirees can receive a subsidy payment under Part D for a portion of the costs associated with providing such coverage to beneficiaries who do not enroll in a PDP or MA-PD.

Our services support clients who have elected to become a PDP or an MA-PD. Our services also support the needs of employers seeking subsidy payments available under Part D for coverage provided to their Medicare-eligible retirees. We provide PBM services to these clients as well as new Part D functions that include managing member true out of pocket costs ("TrOOP"), creation of the prescription data event ("PDE"), medication therapy management ("MTM") services, and various reporting required by CMS. In addition, we have filed a Notice of Intent to become a PDP sponsor in 2007 and are evaluating our options in this regard.

The MMA also implemented a short-term prescription drug discount card program to provide certain Medicare beneficiaries with access to discounts and, in some cases, federally-funded assistance, in connection with their prescription drug purchases during 2004, 2005 and the beginning of 2006. Together with the National Association of Chain Drug Stores ("NACDS"), beginning in 2004, we sponsored a Medicare-endorsed prescription drug discount card through Pharmacy Care Alliance, Inc. ("PCA"), a jointly controlled organization. We provide PBM services to PCA, including the negotiation of discounts from individual retailers and pharmaceutical manufacturers, the enrollment of cardholders and the processing of claims. We will continue to support the PCA card through termination of the program in May 2006. Currently, we have filed a Notice of Intent to become a PDP sponsor in 2007 and are evaluating our options.

Acquisitions and Joint Ventures

On October 14, 2005, we acquired the capital stock of Priority Healthcare Corporation, Inc. ("Priority") in a cash transaction for $28 per share, or approximately $1.3 billion. The acquisition was accomplished through the merger of one of our wholly-owned subsidiaries with and into Priority. Priority, headquartered in Lake Mary, Florida, is among the nation's largest Specialty and distribution companies, with approximately $1.7 billion in annual revenue during 2004 and approximately $1.1 billion in revenue for the six months ended July 2, 2005. This acquisition is expected to enhance our Specialty business. The $1.3 billion purchase price was financed with approximately $167 million of cash on hand and the remainder by adding $1.6 billion in Term A loans through a new credit facility which replaced our prior credit facility. As a result of this refinancing, we wrote-off approximately $4 million in deferred financing fees relating to our prior credit facility in the fourth quarter of 2005.

Aetna Specialty Pharmacy, a joint venture existing between Priority and Aetna, Inc. ("Aetna"), was 60% owned by Priority and 40% by Aetna. Upon a change in control of Priority, the joint venture agreement provided Aetna with an option to purchase Priority's 60% ownership share of the joint venture. Aetna exercised its option and on December 30, 2005 purchased Priority's 60% ownership share of Aetna Specialty Pharmacy. The gain on the assets sold, which was not material, reduced the amount of goodwill we recorded through the Priority acquisition.

On January 30, 2004, we purchased the capital stock of CuraScript, Inc. ("CuraScript") for a purchase price of approximately $333 million. CuraScript is one of the nation's largest Specialty services companies, serving over 175 managed care organizations, 30 Medicaid programs and the Medicare program, and operating seven specialty pharmacies throughout the United States. The acquisition enhances our ability to provide comprehensive clinical services in many disease states.

Company Operations

General. As of December 31, 2005, we operated four home delivery pharmacies, two standalone front-end processing centers, and nine patient contact centers out of leased and owned facilities; and our Specialty segment operated thirty-three specialty drug pharmacies. Electronic pharmacy claims processing takes place at facilities owned by EDS and by IBM. At our Canadian facilities, we have sales and marketing, client services, pharmacy help desk, clinical, provider relations and certain management information systems capabilities.

Sales and Marketing. In the United States, our sales managers and directors market and sell PBM services, supported by a team of client-service representatives, clinical pharmacy managers and benefit analysis consultants. This team works with clients to make prescription drug use safer and more affordable. A dedicated sales staff cross-markets Specialty services to our PBM clients. In addition, sales personnel dedicated to our Specialty business unit use direct marketing to generate new customers and solidify existing customer relationships. In Canada, marketing and sales efforts are conducted by our staff based in Mississauga, Ontario.

Client and Patient Services. Although we contract with health plans, the ultimate recipients of many of our services are the members of these health plans. We believe that client satisfaction is dependent upon member satisfaction. Domestic 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, including the requirement that all applicable state and/or licensing requirements are being maintained. Pharmacies can contact our pharmacy help desk toll-free, 24 hours a day, 7 days a week, for information and assistance in filling prescriptions for our clients' members. In addition, our Provider Relations group audits pharmacies in the retail pharmacy networks to determine compliance with the terms of their contracts.

Clinical Support for our PBM services is provided by our staff of pharmacists and physicians. Assisted by experienced data analysts and a research team, these health professionals are responsible for pharmacy services such as the drug pipeline, emerging safety issues, drug information services, drug evaluation, formulary management, utilization management, and clinical interventions with physicians, pharmacists, and members. These health professionals also interact with our P&T Committee - an independent group of practicing physicians that consists of generalists and specialists - to ensure that decisions are evidence-based, clinically sound, and meet current practice standards.

The mission of our *Research Team* is to conduct timely, rigorous and objective research that supports evidence-based pharmacy benefit management. Using pharmacy and medical claims data together with member surveys, the research department conducts studies to evaluate clinical, economic and member impact of pharmacy benefits. Topics of ongoing interest center on the impact of clinical offerings, the evolution of pharmacy benefit designs and the cost-effectiveness of drug therapies. For example, the release of our 2004 Drug Trend Report in June 2005 marked our eighth consecutive year of tracking prescription drug trends. Based on a large sample of our membership, the Report not only examines trends in pharmaceutical utilization and cost, it also investigates the factors that underlie those trends. The current Drug Trend Report and results of our other studies are shared at our annual Outcomes Conference. We also present at other client forums, speak at professional meetings and publish in health-related journals.

Information Technology. Our Information Technology department supports our pharmacy claims processing systems, our specialty pharmacy 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. Claims for our PBM segment are presently processed in the US through systems which are maintained, managed and operated domestically by EDS. Canadian claims are processed through systems maintained, managed and operated by IBM. We have substantial capacity for growth in our US and Canadian claims processing facilities.

Specialty pharmacy operations are supported by multiple pharmacy systems which are maintained, managed and operated internally. We are currently in the process of standardizing our Specialty operations on a common application and platform. Integration to a single Specialty platform is expected to be completed by the end of 2006.

Disaster recovery services for certain of our systems are provided through our EDS services agreement and SunGard Recovery Services. For systems not covered by these outsourcing arrangements, disaster recovery and business continuity planning is managed internally under our corporate disaster recovery programs.

Competition

We believe the primary competitive factors in each of our businesses are price, quality and scope of service. We believe our principal competitive advantages are our strong managed care and employer group customer base that 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, many of which are smaller than us and offer their services on a local or regional basis. We also compete with a number of large, national companies, including Medco Health Solutions, Inc. (“Medco”) and CaremarkRx, Inc. (“Caremark”), as well as large health insurers and certain HMOs which have their own PBM and Specialty capabilities. Several of these competitors may have greater financial, marketing and technological resources than us.

Consolidation, including the acquisitions of AdvancePCS by Caremark in 2004 and of Accredo Health, Inc. by Medco in 2005, has been, and may continue to be an important factor in the PBM and Specialty industries. 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, compete with those being offered by pharmaceutical manufacturers, other PBMs, large national companies, specialized disease management companies and information service providers. Our Specialty and PBS services compete with a number of large national companies as well as with local providers.

Government Regulation

Many aspects of our businesses are regulated 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 operating our business in substantial compliance with all existing legal requirements material to the operation of our businesses. There are, however, significant uncertainties involving the application of 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 effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

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

Anti-Kickback Laws. Subject to certain exceptions and “safe harbors,” the federal anti-kickback statute generally prohibits, among other things, knowingly and willfully paying or offering any payment or other remuneration to induce a person to purchase, lease, order, or arrange for (or recommend purchasing, leasing, or ordering) items (including prescription drugs) or services reimbursable in whole or in part under Medicare, Medicaid or another federal health care program. The anti-kickback statute also generally prohibits soliciting or receiving payments or other remuneration for these purposes. Several states also have similar laws, some of which apply similar anti-kickback prohibitions to items or services reimbursable by HMOs, private insurers and other non-governmental payors. These state laws vary and have been infrequently interpreted by courts or regulatory agencies. Sanctions for violating these federal and state anti-kickback laws may include criminal and civil fines and exclusion from participation in the Medicare and Medicaid programs.

The federal anti-kickback statute has been interpreted broadly by courts, the Office of Inspector General (“OIG”) within the Department of Health and Human Services ("HHS"), and administrative bodies. Because of the federal statute’s broad scope, federal regulations establish certain “safe harbors” from liability. Safe harbors exist for certain properly reported discounts received from vendors, certain investment interests, certain payments for personal services, certain properly disclosed payments made by vendors to GPOs, and certain discount and payment arrangements with 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 were 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. See Item 3 - Legal Proceedings for discussion of current proceedings relating to these laws or regulations.

The OIG issued the final Compliance Program Guidance for Pharmaceutical Manufacturers (the "Guidance") on April 28, 2003. The Guidance, which represents OIG's general views and is not legally binding, contains guidelines for the design and operation of voluntary programs by pharmaceutical manufacturers to promote compliance with the laws relating to federal health care programs. In addition, the Guidance identifies certain risk areas for pharmaceutical manufacturers, including certain types of arrangements between manufacturers and PBMs, pharmacies, physicians and others that have the potential to implicate the anti-kickback statute. The Guidance contains a discussion of how manufacturers can structure their arrangements with PBMs, such as rebate programs and formulary support activities, to comply with the anti-kickback statute.

Stark Law. The federal physician self-referral law, known as the "Stark Law," prohibits physicians from referring Medicare or Medicaid beneficiaries for "designated health services" (which include, among other things, outpatient prescription drugs) to an entity with which the physician or an immediate family member of the physician has a financial relationship and prohibits the entity receiving a prohibited referral from presenting a claim to Medicare or Medicaid for the designated health service furnished under the prohibited referral. Our mail service pharmacies dispense certain outpatient prescription drugs that may be directly or indirectly reimbursed by the Medicare or Medicaid programs, potentially making us subject to the Stark Law's requirements with respect to such pharmacy operations.

Possible penalties for violation of the Stark Law include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and Medicare and Medicaid program exclusion. The Stark Law contains certain statutory exceptions for physician referrals and physician financial relationships, and the CMS has promulgated regulations under the Stark Law which provide some guidance on interpretation of the scope of and exceptions to the Stark Law.

State Self-Referral Laws. Our home delivery services may also be subject to statutes and regulations that prohibit payments for referral of individuals from or by physicians to health care providers with whom the physicians have a financial relationship. These state laws and their exceptions may vary from the federal Stark Law and vary significantly from state to state. Some of these state statutes and regulations apply to items and services reimbursed by private payors. Violation of these laws may result in prohibition of payment for items or services provided, loss of pharmacy or health care provider licenses, fines and criminal penalties. State self-referral laws are often vague, and, in many cases, have not been widely interpreted by courts or regulatory agencies.

False Claims Act and Related Criminal Provisions. The federal False Claims Act (the "False Claims Act") imposes civil penalties for knowingly making or causing to be made false claims with respect to governmental programs, such as Medicare and Medicaid, for services not rendered, or for misrepresenting actual services rendered, in order to obtain higher reimbursement. Private individuals may bring qui tam or "whistle blower" suits against providers under the False Claims Act, which authorizes the payment of a portion of any recovery to the individual bringing suit. Such actions are initially required to be filed under seal pending their review by the Department of Justice. A few federal district courts have recently interpreted the False Claims Act as applying to claims for reimbursement that violate the anti-kickback statute or federal physician self-referral law under certain circumstances. The False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties for small billing errors that are replicated in a large number of claims, as each individual claim could be deemed to be a separate violation of the False Claims Act. Criminal provisions that are similar to the False Claims Act provide that if a corporation is convicted of presenting a claim or making a statement that it knows to be false, fictitious or fraudulent to any federal agency it may be fined. Some states also have enacted statutes similar to the False Claims Act which may include criminal penalties, substantial fines, and treble damages.

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

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-kickback statutes discussed in the preceding paragraphs; in particular, ERISA lacks the statutory and regulatory "safe harbor" exceptions incorporated into many of the above-discussed statutes. Like the health care anti-kickback laws, the corresponding provisions of ERISA are broadly written and their application to particular cases is often uncertain. See Item 3 - Legal Proceedings for discussion of current proceedings relating to these laws or regulations.

Effective January 2004, the DOL issued claims procedure regulations ("Claims Rules") that create standards applicable to our clients that are regulated under ERISA for initial and appeal level decisions, time frames for decision making, and enhanced disclosure rights for claimants. We have implemented, and will implement in the future, changes to our operational processes, as necessary to accommodate our clients' compliance needs.

FDA Regulation. The U.S. Food and Drug Administration (the "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 PBMs. The FDA withdrew the Draft Guidance in the fall of 1998, stating that it would reconsider the basis for such Guidance. The FDA has not addressed the issue since the withdrawal of the Guidance. The FDA also enforces federal laws restricting the importation of prescription drugs into the United States from Canada and other countries.

Comprehensive PBM Regulation. Legislation regulating PBM activities in a comprehensive manner has been and continues to be considered in a number of states. In the past, certain organizations, such as the National Association of Insurance Commissioners ("NAIC," an organization of state insurance regulators), and the National Committee on Quality Assurance ("NCQA," an accreditation organization) as well as certain state pharmacy boards have considered proposals to regulate PBMs and/or PBM activities, such as formulary development and utilization management. While the actions of the NAIC would not have the force of law, they may influence states to adopt model legislation that such organizations promulgate. In addition, standards established by NCQA could materially impact us directly as a PBM, and indirectly through the impact on our managed care and health insurance clients.

Consumer Protection Laws. Most states have consumer protection laws that previously 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. See Item 3 - Legal Proceedings for discussion of current proceedings relating to these laws or regulations.

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 managed care plan sponsors from implementing certain restrictive benefit plan design features, and many states have introduced legislation to regulate various aspects of managed care plans, including provisions relating to the pharmacy benefit. For example, some states, under so-called "freedom of choice" legislation, provide 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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Licensure Laws. Many states have licensure or registration laws governing certain types of managed care organizations, including preferred provider oganizations ("PPOs"), third party administrators ("TPAs"), and companies that provide utilization review services. The scope of these laws differs from state to state, and the application of such laws to the activities of PBMs 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 subsidiary, ESI Utilization Management Co. In addition, accreditation agencies' requirements for managed care organizations and Medicare Part D regulations for PDP and MA-PDPs may affect the services we provide to such organizations.

Legislation and Regulation 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 and other enforcement officials are investigating the effects of pharmaceutical industry pricing practices such as how average wholesale price ("AWP") is calculated and how pharmaceutical manufacturers report their "best price" on a drug under the federal Medicaid rebate program. AWP is a standard pricing measure (calculated by a third-party such as First Data Bank) used throughout the industry, including us, as a basis for calculating drug prices under our contracts with health plans and pharmacies and rebates with pharmaceutical manufacturers. Changes to the AWP 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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Further, the federal Medicaid rebate program requires participating drug manufacturers to provide rebates on all drugs purchased by state Medicaid programs. Manufacturers of brand name products must provide a rebate equivalent to the greater of (a) 15.1% of the "average manufacturer price" ("AMP") paid by wholesalers for products distributed to the retail pharmacy class of trade and (b) the difference between AMP and the "best price" available to essentially any customer other than the Medicaid program, with certain exceptions. We negotiate rebates with drug manufacturers and, in certain circumstances, sell services to drug manufacturers. Investigations have been commenced by certain governmental entities which question whether "best prices" were properly calculated, reported and paid by the manufacturers to the Medicaid programs. We are not responsible for such calculations, reports or payments. There can be no assurance, however, that our ability to negotiate rebates with, or sell services to, drug manufacturers will not be materially adversely affected by such investigations in the future.

Regulation of Financial Risk Plans. Fee-for-service prescription drug plans generally are not subject to financial regulation by the states. However, if a PBM offers to provide prescription drug coverage on a capitated basis or otherwise accepts material financial risk in providing the benefit, laws in various states may regulate the PBM. 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.

State Fiduciary Legislation. Statutes have been introduced in several states which purport to declare that a PBM is a fiduciary with respect to its clients. The fiduciary obligations that such statutes would impose would be similar, but not identical, to the scope of fiduciary obligations under ERISA. To date only two jurisdictions -- Maine and the District of Columbia - have enacted such a statute. Our trade association, Pharmaceutical Care Management Association ("PCMA"), has filed suit in federal courts in Maine and the District of Columbia alleging, among other things, that the statute is preempted by ERISA with respect to welfare plans that are subject to ERISA. In the Maine case the United States District Court upheld the statute and recently that decision was affirmed by the United States Court of Appeals. In the District of Columbia case, a preliminary injunction was obtained to stop enforcement of the statute. No final decision has been issued by the court. Widespread enactment of such statutes could have a material adverse effect upon our financial condition, results of operations and cash flows.

Regulation of Disease Management Services. Our 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 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.

ERISA Preemption. Many of the state laws described above may be preempted in whole or in part by ERISA, with respect to self-funded plans 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 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.

Home Delivery Regulation. Our mail service pharmacies are located in Arizona, Missouri, New Mexico, New York, New Jersey, Pennsylvania, California, Texas, and Florida, and we are licensed to do business as a pharmacy in each such state. Most of the states into which we deliver pharmaceuticals have laws 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 home delivery service to follow the laws of the state in which the home delivery service is located, although certain states require that we also employ a pharmacist licensed in that state. We believe we have registered each of our pharmacies in every state in which such registration is required.

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

HIPAA and Other Privacy 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 and in some cases provide access to such data to pharmaceutical manufacturers. Various federal and state laws, including the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") (discussed below), currently regulate and restrict the use and disclosure of confidential medical information and new legislation is proposed from time to time in various states. To date, no such laws have been adopted that adversely impact 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 HHS issued final privacy regulations, pursuant to HIPAA, which, among other things, imposes restrictions on the use and disclosure of individually identifiable health information by certain entities. The compliance date for the final privacy regulations was April 14, 2003. We believe we are in compliance, in all material respects, with the privacy regulations to the extent they apply to us. HHS issued final regulations establishing certain electronic transaction standards and code sets in August 2000, with some modifications published in February 2003. The compliance deadline for these regulations was October 16, 2002 (or, for certain small health care plans and entities that submitted an appropriate plan for compliance to the Secretary of HHS, October 16, 2003) and we believe we are in compliance, in all material respects, with the transaction standards. Final security regulations under HIPAA were published on February 20, 2003, and the latest compliance date for these regulations was April 21, 2005. We believe we are in compliance, in all material respects, with the regulations, to the extent they apply to us.

Specialty Services Environment. Many of the laws and regulations cited above with respect to our PBM activities also apply with respect to our various specialty services through CuraScript. Of particular relevance are the federal and state anti-kickback laws, federal Stark law, state physician self-referral laws, the state home delivery regulations and HIPAA, which are described above. CuraScript's pharmacists and nurses are licensed in those states where their activity requires it. Various CuraScript pharmacy facilities also maintain certain Medicare licenses and state Medicaid licenses as pharmacies providing services under these programs. Participation in these programs requires our pharmacies to comply with the applicable Medicare and state Medicaid provider rules and regulations, and exposes the pharmacies to various changes the federal and state governments may impose regarding reimbursement amounts to be paid to participating providers under these programs. In addition, various CuraScript pharmacy facilities are participating providers under the new Part D Medicare program created pursuant to The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). As a condition to becoming a participating provider under Part D of the Act, the CuraScript pharmacies are required to adhere to certain requirements applicable to the Part D Medicare program. In addition, as a condition to conducting its wholesale business, CuraScript must maintain various permits and licenses with the appropriate state and federal agencies, and is subject to various wholesale distributor laws that regulate the conduct of wholesale distributors, including, but not limited to, maintaining pedigree papers in certain instances.

PBS Regulatory Environment. Our PBS activities operate in a regulatory environment that is quite similar to that of our PBM activities. In particular, one of our subsidiaries, PMG, conducts certain activities, including the distribution of drug samples, that are subject to the requirements of the federal Prescription Drug Marketing Act and many of the other federal and state laws and regulations discussed above.

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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Service Marks and Trademarks

We, and our subsidiaries, have registered the service marks “Express Scripts”, “Filled with Pride”, “Charting the Future of Pharmacy”, “PERx”, “National Prescription Administrators,” “PERxCare”, “RxWorkbench”, “DrugDigest”, “ValueRx”, “CuraScript”, “Priority Healthcare”, “CareLogic”, and “OncoScripts”, 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 including, but not limited to, “CuraScriptSP”, “CuraScriptIP”, CuraScriptSD”, “FreedomFP” and “Healthbridge”. If we are unable to obtain any additional registrations, we believe there would be no material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Insurance

Our PBM operations, including the dispensing of pharmaceutical products by our home delivery pharmacies, our Specialty operations, including the distribution of specialty drugs, and the services rendered in connection with our disease management and our PBS operations, may subject us to litigation and liability for damages. Commercial insurance coverage has become more difficult to obtain, and accordingly, our retained liability has increased. We have established certain self-insurance reserves to cover potential claims. 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, together with our self-insurance reserves, will be adequate to cover future claims. A claim, or claims, in excess of our insurance coverage could have a material adverse effect upon our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Employees

As of January 1, 2006, we employed approximately 13,800 employees in the U.S. and 220 employees in Canada. Approximately 1,800 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, members of the American Federation of State, County and Municipal Employees at our Harrisburg, Pennsylvania and East Hanover, New Jersey facilities and members of the United Food and Commercial Workers Union at our Albuquerque, New Mexico facility. We believe our relationships with our employees and the unions that represent them are good.

Executive Officers of the Registrant

Our executive officers and their ages as of February 1, 2006 are as follows:

Name	Age	Position
George Paz	50	Chief Executive Officer and President
Edward Stiften	51	Senior Vice President, Chief Financial Officer
David A. Lowenberg	56	Chief Operating Officer
Thomas M. Boudreau	54	Senior Vice President, General Counsel and Corporate Secretary
Domenic A. Meffe	41	Senior Vice President - Specialty Services
C. K. Casteel	55	Senior Vice President - Supply Chain Management
Michael Holmes	47	Senior Vice President, Chief Human Resources Officer
Edward Ignaczak	40	Senior Vice President - Sales and Account Management
Patrick McNamee	46	Senior Vice President, Chief Information Officer
Brenda Motheral	36	Senior Vice President - Product Management
Douglas Porter	47	Senior Vice President - Client and Patient Services
Agnes Rey-Giraud	41	Senior Vice President - Strategy and Business Development
Kelley Elliott	33	Vice President, Chief Accounting Officer and Controller

Mr. Paz was elected President in October 2003 and Chief Executive Officer in April 2005. Mr. Paz joined us and was elected Senior Vice President and Chief Financial Officer in January 1998.

Mr. Stiften was elected Senior Vice President and Chief Financial Officer in April 2004. Prior to joining us, Mr. Stiften worked for BJC HealthCare, a hospital and health care organization, serving as Vice President and Chief Financial Officer since 1998.

Mr. Lowenberg was elected our Chief Operating Officer in September 1999, and served as our Senior Vice President and Director of Site Operations from November 1993 until September 1999.

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

Mr. Meffe joined the Company as a result of our January 2004 acquisition of CuraScript, a Specialty business and PBM company. Mr. Meffe was elected Senior Vice President - Specialty Services in February 2004. Mr. Meffe served as President and Chief Executive Officer of CuraScript since August 2000.

Mr. Casteel was elected Senior Vice President - Supply Chain Management in September 2002. Prior to joining us, Mr. Casteel worked for WorldCom, Inc., a telecommunications company, serving as Vice President, Law and Public Policy, between January 2001 and September 2002, and as Regional Executive, Public Policy, between January 1996 and January 2001.

Mr. Holmes joined us and was elected Senior Vice President and Chief Human Resources Officer in December 2005. Prior to joining us, Mr. Holmes worked for Edward D. Jones & Co., L.P., a financial services company, as Principal from October 1996 through December 2004.

Mr. Ignaczak was elected Senior Vice President - Sales and Account Management in December 2002. Mr. Ignaczak joined us in April 1998 and served as the Vice President and General Manager of our National Employer Division between April 1998 and December 2002.

Mr. McNamee joined us and was elected Senior Vice President and Chief Information Officer in February 2005. Prior to joining us, Mr. McNamee worked for Misys Healthcare Systems, a healthcare technology company, as President and General Manager, Physician Systems, from September 2003 through February 2005. Mr. McNamee was employed by various subsidiaries of General Electric Corporation from July 1989 through September 2003, including as President, GE OEC Medical Systems, a surgery x-ray manufacturing business, from July 2002 through September 2003; Senior Vice President, Chief Information Officer and Chief Quality Officer, NBC broadcast network from March 2001 to July 2002; and Chief Information Officer and General Manager of e-Business, GE Transportation Systems, a transportation manufacturing business, from March 1999 through March 2001.

Ms. Motheral was elected Senior Vice President - Product Management in January 2006. Ms. Motheral previously served as Vice President - Product Development from January 2005 through January 2006, Vice President - Research and Trend Management from November 2003 through December 2004, Vice President - Research from June 2003 through November 2003, and Senior Director of Research from March 2000 through May 2002.

Mr. Porter joined us and was elected Senior Vice President - Client Services in July 2002 and assumed additional responsibilities as Senior Vice President - Client and Patient Services in September 2004. Prior to joining us, Mr. Porter worked for CIGNA HealthCare, a managed healthcare company, as Vice President - Employer Services between March 2001 and June 2002 and as Vice President - Transformation between October 1999 and February 2001.

Ms. Rey-Giraud was elected Senior Vice President - Strategy and Business Development in January 2006, served as Senior Vice President of Product Management between December 2003 and January 2006, and served as Senior Vice President - Program Development between July 2002 and December 2003. Ms. Rey-Giraud served as Vice President and General Manager - eBusiness between January 2000 and July 2002 and has served on the RxHub, LLC, Board of Directors since February 2000 (See “Rx-Hub”). Ms. Rey-Giraud joined us in May 1999 as a Senior Director of Administration and Operations.

Ms. Elliott was elected Vice President, Chief Accounting Officer and Controller in December 2005. Ms. Elliott previously served in our Internal Audit Department between February 2002 and December 2005, most recently as Vice President.

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 Securities and Exchange Commission (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 the integration of Priority Healthcare and CuraScript*
- *costs of and adverse results in litigation, including a number of pending class action cases that challenge certain of our business practices*
- *risks arising from investigations of certain PBM practices and pharmaceutical pricing, marketing and distribution practices currently being conducted by the U.S. Attorney offices in Philadelphia and Boston, and by other regulatory agencies including the Department of Labor, and various state attorneys general*
- *risks and uncertainties regarding the implementation of the Medicare Part D prescription drug benefit, including financial risks to us to the*

extent that we participate in the program on a risk-bearing basis, risks of client or member losses to other providers under Medicare Part D, and increased regulatory risk

- *risks and uncertainties associated with CMS' implementation of the Medicare Part B Competitive Acquisition Program ("CAP"), including the potential loss of clients/revenues to providers choosing to participate in the CAP*
- *risks associated with our acquisitions (including our acquisition of Priority Healthcare), which include integration risks and costs, risks of client retention and repricing of client contracts, and risks associated with the operations of acquired businesses*
- *risks associated with our ability to maintain growth rates, or to control operating or capital costs*
- *continued pressure on margins resulting from client demands for lower prices, enhanced service offerings and/or higher service levels, and the possible termination of, or unfavorable modification to, contracts with key clients or providers*
- *competition in the PBM and specialty pharmacy industries, 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), more aggressive enforcement of existing legislation or regulations, or a change in the interpretation of existing legislation or regulations*
- *increased compliance risks relating to our contracts with the DoD TRICARE Management Activity and various state governments and agencies*
- *the possible loss, or adverse modification of the terms, of relationships with pharmaceutical manufacturers, or changes in pricing, discount or other practices of pharmaceutical manufacturers or interruption of the supply of any pharmaceutical products*
- *risks associated with the possible loss, or adverse modification of the terms of, contracts with pharmacies in our retail pharmacy network*
- *risks associated with the use and protection of the intellectual property we use in our business*
- *risks associated with our leverage and debt service obligations, including the effect of certain covenants in our borrowing agreements*
- *risks associated with our ability to continue to develop new products, services and delivery channels*
- *general 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*
- *increase in credit risk relative to our clients due to adverse economic trends*
- *risks associated with changes in average wholesale prices, which could reduce prices and margins*
- *risks associated with our inability to attract and retain qualified personnel*
- *other risks described from time to time in our filings with the SEC*

These and other relevant factors, including those risk factors in "Item 1A—Risk Factors" in this Annual Report and 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

Item 1A—Risk Factors

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

We have experienced rapid growth over the past several years. Our ability to maintain our 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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations could be materially adversely affected.

Client Demands for Enhanced Service Levels or Possible Loss or Unfavorable Modification of Contracts with Clients or Providers, Could Pressure Margins

As our clients face the continued rapid growth in prescription drug costs, they may demand additional services and enhanced service levels to help mitigate the increase in spending. We operate in a very competitive environment, and we may not be able to increase our fees to compensate for these increased services, which could put pressure on our margins.

We currently provide services to thousands of clients. Our contracts with clients generally do not have terms longer than three years and, in some cases, are terminable by the client on relatively short notice. Our larger clients generally seek bids from other PBM or Specialty 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 contract with us could be reduced.

More than 58,000 retail pharmacies, which represent more than 98% of all United States retail pharmacies, participate in one or more of our networks. However, the top ten retail pharmacy chains represent approximately 51% of the total number of stores in our largest network, and these pharmacy chains represent even higher concentrations in certain areas of the United States. Our contracts with retail pharmacies, which are non-exclusive, are generally terminable 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, many 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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Competition in the PBM Industry, Including Specialty, Could Reduce Profit Margins

The PBM business is very competitive. Our competitors include large and well-established companies that may have greater financial, marketing and technological resources than we do. Competition may also come from other sources in the future. We cannot predict what effect, if any, these new competitors may have on the marketplace or on our business.

Over the last several years 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, have put pressure on operating margins. 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.

The Specialty industry is also highly competitive and is experiencing both horizontal and vertical consolidation. The products we sell are available from multiple sources. Competitors include other specialty distributors, regional and national full-line, full-service pharmaceutical and medical supply distributors, home infusion therapy companies, pharmaceutical manufacturers and others. Our failure to maintain and expand relationships with payors, who can effectively determine the pharmacy source for their members, could materially adversely affect our competitive position. Our competitive position could also be adversely affected by any inability to obtain access to new biotech pharmaceutical products.

State and Federal Regulations, and Their Interpretation or Application, 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 payments and referrals as well as false claims made in connection with health benefit programs
- ERISA and related regulations, which regulate many health care plans
- state legislation regulating PBMs or imposing fiduciary status on PBMs
- consumer protection and unfair trade practice laws and regulations
- network pharmacy access laws, including “any willing provider” and “due process” legislation, that affect aspects of our pharmacy network contracts
- wholesale distributor laws, including pedigree paper laws
- 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
- pharmacy laws and regulations
- privacy and confidentiality laws and regulations, including those under HIPAA
- the Medicare prescription drug coverage law
- 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 “Item 1— 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 a number of state and federal law enforcement agencies and regulatory agencies have initiated investigations or litigation that involve certain aspects of our business or our competitors' businesses. Accordingly, we cannot provide any assurance that one or more of these agencies will not interpret or apply these laws 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 consolidated 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 effect any such legislation or regulations might have on us.

The OIG of HHS issued the final Guidance on April 28, 2003. The Guidance, which represents OIG's general views and is not legally binding, contains guidelines for the design and operation of voluntary programs by pharmaceutical manufacturers to promote compliance with the laws relating to federal health care programs. In addition, the Guidance identifies certain risk areas for pharmaceutical manufacturers, including certain types of arrangements between manufacturers and PBMs, pharmacies, physicians and others that have the potential to implicate the anti-kickback statute. The Guidance contains a discussion of how manufacturers can structure their arrangements with PBMs, such as rebate programs and formulary support activities, to comply with the anti-kickback statute.

The U.S. Attorney General's Office in Philadelphia is conducting an investigation into certain PBM business practices. Medco and AdvancePCS (since acquired by Caremark) have received subpoenas in connection with this investigation. The U.S. Attorney's office has also intervened in a *qui tam* (“whistle blower”) proceeding, challenging certain of Medco's business practices. We have received a subpoena from the U.S. Attorney's Office in Boston, as have other PBMs including Caremark and Wellpoint Health Systems. We have also received a letter of inquiry from the Department of Labor. We cannot predict what effect, if any, these investigations may ultimately have on us or on the PBM industry generally (See Item 3 -Legal Proceedings).

The State of Maine and the District of Columbia each have enacted statutes that purport to declare that a PBM is a fiduciary with respect to its clients. Our trade association, PCMA filed suit in Federal District Courts in Maine and the District of Columbia alleging, among other things, that these statutes are preempted by ERISA with respect to welfare plans that are subject to ERISA. The Federal District Court in Maine ruled the statute valid, and the First Circuit Court of Appeals affirmed. The case challenging the D.C. statute is still pending. Other states are considering but have not yet enacted similar fiduciary statutes.

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 and in some cases provide access to such data to pharmaceutical manufacturers. Various federal and state laws, including the HIPAA (discussed below), currently regulate and restrict the use and disclosure of confidential medical information and new legislation is proposed from time to time in various states. To date, no such laws have been adopted that adversely impact 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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

In December 2000, HHS issued final privacy regulations, pursuant to HIPAA, which, among other things, imposes restrictions on the use and disclosure of individually identifiable health information by certain entities. The compliance date for the final privacy regulations was April 14, 2003. We believe we are in compliance, in all material respects, with the regulations to the extent they apply to us. We are required to comply with certain aspects of these regulations. For example, we are a “business associate” under HIPAA in some instances with respect to our health plan clients and a “covered entity” under HIPAA when service is provided through our home delivery pharmacies. Other HIPAA requirements relate to electronic transaction standards and code sets and the security of protected health information when it is maintained or transmitted electronically. HHS issued final regulations establishing certain electronic transaction standards and code sets in August 2000, with some modifications published in February 2003. The compliance deadline for these regulations was October 16, 2002 (or, for certain small health care plans and entities that submitted an appropriate plan for compliance to the Secretary of HHS, October 16, 2003). Final security regulations under HIPAA were published on February 20, 2003, and for most entities, the compliance date for these regulations was April 21, 2005.

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 may provide us, among other things, with:

- discounts at the time we purchase the drugs to be dispensed from our home delivery pharmacies
- rebates based upon sales of drugs from our home delivery pharmacies and through pharmacies in our retail networks
- administrative fees for managing rebate programs, including the development and maintenance of formularies which include the particular manufacturer’s products

If several of these contractual relationships are terminated or materially altered by the pharmaceutical manufacturers, our results of operations, consolidated financial position and/or consolidated cash flow from operations could be materially adversely affected. In addition, formulary fee programs 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 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 Subject Us to Significant Monetary Damages and/or Require Us to Change Our Business Practices

We are subject to risks relating to litigation and other proceedings in connection with our PBM operations, including the dispensing of pharmaceutical products by our home delivery pharmacies, and the services rendered in connection with our disease management and our PBS operations. A list of a number of the more significant proceedings pending against us is included under Item 3 - Legal Proceedings. These proceedings generally seek unspecified monetary damages and injunctive relief on behalf of a class of plaintiffs that are either our clients or individual members of health plans. While we believe that these suits are without merit and intend to contest them vigorously, we can give no assurance that an adverse outcome in one or more of these suits would not have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations, or would not require us to make material changes to our business practices. We are presently responding to several subpoenas and requests for information from governmental agencies, as described in "Item 3 - Legal Proceedings." We cannot predict with certainty what the result of any such inquiry might be. In addition to potential monetary liability arising from these suits and proceedings, we are incurring costs in the defense of the suits and in providing documents to government agencies. Certain of the costs are covered by our insurance, but certain other costs are not insured. Such costs have become material to our financial performances and we can give no assurance that such costs will not increase in the future.

Commercial Liability insurance coverage continues to be difficult to obtain for companies in our business sector which can cause unexpected volatility in premiums and/or retention requirements dictated by insurance carriers. We have established certain self-insurance reserves to cover anticipated losses within our retained liability for previously reported claims and the cost to defend these claims. There can be no assurance that general, professional, managed care errors and omissions, and/or other liability insurance coverage will be reasonably available in the future or that such insurance coverage, together with our self-insurance reserves, will be adequate to cover future claims. A claim, or claims, in excess of our insurance coverage could have a material adverse effect upon our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

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

As of December 31, 2005, we had consolidated debt of approximately $1.5 billion and our debt to equity ratio was 103.1%. In October 2005, we negotiated a $2.2 billion credit facility and refinanced our borrowings under our previous bank credit facility. Our bank credit facility is guaranteed by certain of our subsidiaries. We have substantial interest expense and future repayment obligations.

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 additional indebtedness under our revolving 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 could affect our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

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

We operate in a highly competitive environment. We develop new products and services from time to time to assist our clients in managing the pharmacy benefit. If we are unsuccessful in developing 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

Certain proposals have been made in the United States to control health care costs, including prescription drug costs, in response to increases in prescription drug utilization rates and drug prices. These proposals include "single-payer" government funded health care, and price controls on prescription drugs. If these or similar efforts are successful or if prescription drug utilization rates were to decrease significantly, whether due to a reversal in the growing role of prescription drugs in medical treatment or otherwise, our business and consolidated results of operations could be materially adversely affected.

We have designed our business model 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 periodically considers proposals to reform the U.S. health care system. These proposals may increase government involvement in health care and regulation of PBM services, or otherwise change the way our clients do business. Health plan sponsors 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 consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Future Implementation of Certain Government Initiatives Could Create Risks for our Business

In connection with the enactment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"), the Department of Health and Human Services Centers for Medicare and Medicaid Services ("CMS") promulgated a substantial volume of new regulations implementing the federal government's Voluntary Prescription Drug Benefit Program, known as Medicare "Part D." The OIG has also recently proposed new safe harbors and other regulation pursuant to the MMA. Both of these federal regulatory agencies continue to issue guidance with regard to the Part D program and compliance with related federal laws and regulations by Part D sponsors and their subcontractors. The receipt of federal funds made available through this program by Express Scripts, its affiliates, or clients may be subject to compliance with these new regulations as well as the established laws and regulations governing the federal government's payment for health care goods and services, as discussed above under *Government Regulation*, including the Anti-Kickback Laws, the Stark Law, and the False Claims Act. There are many uncertainties about the financial and regulatory risks of participating in the Medicare Part D program, and we can give no assurance that these risks will not be material to our business in future periods.

Failure to Integrate Recent Acquisitions Could Adversely Affect Our Business

In October 2005 we acquired Priority for approximately $1.3 billion and in January 2004, we acquired CuraScript for approximately $333 million. We are in the process of integrating these businesses with our other operations. There are risks associated with integrating and operating newly acquired businesses. We can give no assurance that we will successfully operate this new business.

Increased Credit Risk Relative to Our Clients

We recorded revenues of $16.3 billion during 2005 and we bill substantial amounts to many of our clients. A deterioration of credit risks of any of our larger clients could impact our ability to collect revenue or provide future services, which could negatively impact the results of our operations. While we are focused on managing working capital, we can give no assurances that the deterioration of the credit risks relative to our clients would not have an adverse impact on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

Item 1B—Unresolved Staff Comment Letters

There are no material unresolved written comments that were received from the SEC Staff 180 days or more before the end of our fiscal year relating to our periodic or current reports under the Securities Exchange Act of 1934.

Item 2 - Properties

We operate our United States and Canadian PBM, Specialty and PBS businesses out of leased and owned facilities throughout the United States and Canada. The Company's main facilities are as follows:

PBM Facilities	Specialty Facilities	PBS Facilities
Maryland Heights, Missouri (six facilities)	Orlando, Florida (two facilities)	Maryland Heights, Missouri (two facilities)
Tempe, Arizona (three facilities)	Lake Mary, Florida (three facilities)	Lincoln Park, New Jersey (two facilities)
Bloomington, Minnesota (two facilities)	Grove City, Ohio (two facilities)	Montville, New Jersey
Bensalem, Pennsylvania (two facilities)	Louisville, Kentucky (two facilities)	PineBrook, New Jersey
Troy, New York	Braintree, Massachusetts	
Albuquerque, New Mexico	Brewster, New York	
Horsham, Pennsylvania	Byfield, Massachusetts	
Montreal, Quebec	Dayton, Ohio	
Mississauga, Ontario	Lexington, Kentucky	
East Hanover, New Jersey	Marietta, Georgia	
Swatara, Pennsylvania	Rancho Cucamunga, California	
St. Mary's, Georgia	Sparks, Nevada	
Pueblo, Colorado		

Our Maryland Heights, Missouri facility houses our corporate offices. We believe our facilities generally have been well maintained and are in good operating condition. At January 1, 2006, our existing facilities comprise approximately 2.5 million square feet in the aggregate. This table does not reflect a lease agreement we signed during 2005 for a new corporate headquarters. The building is in the process of being built and we do not anticipate taking possession until the first quarter of 2007. The annual lease commitments will begin at approximately $4 million and the term of the lease is ten and a half years.

We own and lease certain of our computer systems at processing centers managed, maintained and operated by EDS in Plano, Texas and Auburn Hills, Michigan. Our software for claims processing and drug utilization review, pharmacy operations 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. Uninterruptible power supply and diesel generators allow our computers, telephone systems and pharmacies 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

We and/or our subsidiaries are defendants in a number lawsuits that purport to be class actions. Each case seeks damages in an unspecified amount. We cannot ascertain with any certainty at this time the monetary damages or injunctive relief that any of the plaintiffs may seek to recover. In addition, we are the subject of several governmental investigations described below. Such investigations could result in civil damages, criminal penalties, or other sanctions, the nature and amount of which we cannot currently estimate. We cannot, however, provide any assurance that the outcome of any of these matters, or some number of them in the aggregate, will not be materially adverse to our financial condition, consolidated results of operations, cash flows or business prospects. In addition, the expenses of defending these cases may have a material effect on our financial results.

These matters are:

- Multi-District Litigation - The Judicial Panel on Multi-District Litigation has transferred a number of previously disclosed cases to the Eastern District of Missouri for coordinated or consolidated pretrial proceedings including the following: Minshew v. Express Scripts (Cause No. Civ.4:02-CV-1503, United States District Court for the Eastern District of Missouri); Lynch v. National Prescription Administrators, et al. (Cause No. 03 CV 1303, United States District Court for the Southern District of New York); Mixon v. Express Scripts, Inc. (Civil Action No. 4:03CV1519, United States District Court for the Eastern District of Missouri); Wagner et al. v. Express Scripts (Cause No. 04cv01018 (WHP))United States District Court for the Southern District of New York); Scheuerman, et al v. Express Scripts (Cause No. 04-CV-0626 (FIS) (RFT)) United States District Court for the Southern District of New York); Correction Officers' Benevolent Association of the City of New York, et al. v. Express Scripts, Inc. (Cause No. 04-Civ-7098 (WHP)), United States District Court for the Southern District of New York); United Food and Commercial Workers Unions and Employers Midwest Health Benefits Fund, et al v. National Prescription Administrators, Inc., et al. (Cause No. 04-CV-7472, United

States District Court for the Southern District of New York); Central Laborers' Welfare Fund, et al v. Express Scripts, Inc., et al (Cause No. B04-1002240, United States District Court for the Southern District of Illinois); and Local 153 Health Fund, et al. v. Express Scripts Inc. and ESI Mail Pharmacy Service, Inc. (Cause No. B05-1004036, United States District Court for the Eastern District of Missouri). The plaintiffs assert that certain of our business practices, including those relating to our contracts with pharmaceutical manufacturers for retrospective discounts on pharmaceuticals and those related to our retail pharmacy network contracts, constitute violations including fiduciary duties under the Federal Employee Retirement Income Security Act (ERISA), common law fiduciary duties, state common law, state consumer protection statutes, breach of contract, and deceptive trade practices. The putative classes consist of both ERISA and non-ERISA health benefit plans as well as beneficiaries. The various complaints seek money damages and injunctive relief. Discovery is proceeding in these cases. Plaintiffs in Minshew have filed motions for class certification and partial summary judgment on the issue of our fiduciary status under ERISA.

- International Association of Firefighters, Local No. 22, et al. v. National Prescription Administrators and Express Scripts, Inc. (Cause No. L03216-02, Superior Court of New Jersey, Law Division, Camden County). On or about August 16, 2002, we were served with this lawsuit alleging that our subsidiary, National Prescription Administrators, Inc. ("NPA"), had breached agreements with two benefit plans to whom NPA had provided services under an umbrella agreement with a labor coalition client. We were also named as a defendant under a theory of de facto merger. The plaintiffs purport to bring the action on behalf of a class of similarly situated plans. The lawsuit alleges that NPA had not paid the plans the rebates to which they were entitled under the agreement. Claims for unspecified money damages are asserted under the New Jersey Consumer Fraud Act ('the CFA"), and for breach of contract and unjust enrichment. We have filed answers denying liability. On July 23, 2004, summary judgment was granted in favor of NPA and us on the customer fraud counts. Plaintiff filed a motion to certify a class of all members of the labor coalition, which was denied by the court. Plaintiff voluntarily dismissed all remaining class action claims. This case has been resolved and dismissed.

- Jerry Beeman, et al. v. Caremark, et al. (Cause No. 021327, United States District Court for the Central District of California). On December 12, 2002, we were served with a complaint against us and several other pharmacy benefit management companies. The complaint, filed by several California pharmacies as a putative class action, alleges rights to sue as a private attorney general under California law. The complaint alleges that we, and the other defendants, failed to comply with statutory obligations under California Civil Code Section 2527 to provide our California clients with the results of a bi-annual survey of retail drug prices. On July 12, 2004, the case was dismissed with prejudice on the grounds that the plaintiffs lacked standing to bring the action. Plaintiffs have filed an appeal to the U.S. Court of Appeals for the Ninth Circuit.

- Anthony Bradley, et al v. First Health Services Corporation, et al (Cause No. BC319292, Superior Court for the State of California, County of Los Angeles) On July 30, 2004, plaintiffs filed a complaint as a putative class action, alleging rights to sue as a private attorney general under California law. The complaint alleges that we, and the other defendants, failed to comply with statutory obligations under California Civil Code Section 2527 to provide our California clients with the results of a bi-annual survey of retail drug prices. Plaintiffs request injunctive relief, unspecified monetary damages and attorneys fees. Several of the plaintiffs are the same as in Beeman, et al v. Caremark, et al, and the relief sought is substantially the same as that sought in Beeman. Our motion to dismiss the complaint was granted and plaintiffs appealed.

- American Federation of State, County & Municipal Employees (AFSCME) v. AdvancePCS, et al. (Cause No. BC292227, Superior Court of the State of California for the County of Los Angeles). This action was filed on March 17, 2003. The case purports to be a class action on behalf of AFSCME, its California member unions having non-ERISA health plans, and all California public employees who participate in non-ERISA health plans. The complaint alleges that certain business practices engaged in by us and other PBM defendants violated California's Unfair Competition Law. The suit seeks unspecified monetary damages and injunctive relief. This case was coordinated with the Irwin case in this court, as described below. A stipulated dismissal has been signed by the parties and an order of dismissal with prejudice has been entered by the court. Plaintiff has appealed.

- Irwin v. AdvancePCS, et al. (Cause No. RG030886393, Superior Court of the State of California for Alameda County). This action was filed on March 26, 2003. This case is brought by plaintiff alleging his right to sue as a private attorney general under California law. This case purports to be a class action against us and other PBM defendants on behalf of self-funded, non-ERISA health plans; and individuals with no prescription drug benefits that have purchased drugs at retail rates. The complaint alleges that certain business practices engaged in by us and by other PBM defendants violated California's Unfair Competition Law. The suit seeks unspecified monetary damages and injunctive relief. This case has been coordinated with the AFSCME case in Los Angeles County Superior Court. Our motion for judgment on the pleadings in our favor was granted, with plaintiffs given leave to file an amended complaint which they did.

- North Jackson Pharmacy, Inc., et al. v. Express Scripts (Civil Action No. CV-03-B-2696-NE, United States District Court for the Northern District of Alabama). This action was filed on October 1, 2003. This case purports to be a class action against us on behalf of independent pharmacies within the United States. The complaint alleges that certain of our business practices violate the Sherman Antitrust Act, 15 U.S.C §1, et. seq. The suit seeks unspecified monetary damages (including treble damages) and injunctive relief. Plaintiffs' motion for class certification has been briefed and argued.

- People of the State of New York, et al v. Express Scripts, Inc. (Cause No. 4669-04, Supreme Court of the State of New York, County of Albany) On August 4, 2004, the State of New York filed a complaint against us and Cigna Life Insurance Co. The complaint alleges certain breaches of contract and violations of civil law in connection with our management of the prescription drug plan for the State of New York and its employees. The complaint also alleges certain violations of civil law in connection with the Company's therapeutic interchange programs. The State has requested injunctive relief, unspecified monetary damages and attorney's fees. We have filed a motion to dismiss the complaint. The court originally stayed this action pending the outcome of the Wagner and Scheuerman cases, referred to above, both of which assert claims relating to the New York State prescription drug plan. The court issued an order to lift the stay in February 2006.

- In re Express Scripts Securities Litigation (Cause No. 4:04-CV-1009, United States District Court for the Eastern District of Missouri) The shareholder lawsuits, Sylvia Childress, et al v. Express Scripts, Inc., et al (Cause No. 04-CV-01191, United States District Court for the Eastern District of Missouri) Lidia Garcia, et al v. Express Scripts, Inc., et al (Cause No. 04-CV-1009, United States District Court for the Eastern District of Missouri); Robert Espriel, et al v. Express Scripts, Inc., et al (Cause No. 04-CV-01084, United States District Court for the Eastern District of Missouri); Raymond Hoffman, et al v. Express Scripts, Inc., et al (Cause No. 04-CV-01054, United States District Court for the Eastern District of Missouri); John R. Nicholas, et al v. Express Scripts, Inc., et al (Cause No. 04-CV-1295, United States District Court for the Eastern District of Missouri); John Keith Tully, et al v. Express Scripts, Inc., et al (Cause No. 04-CV-01338, United States District Court for the Eastern District of Missouri), were consolidated. Plaintiffs have filed an amended complaint. The complaint alleges that Express Scripts and certain of our officers violated federal securities law. The complaint alleges that we failed to disclose certain alleged improper business practices and issued false and misleading financial statements and that certain officers violated insider trading laws. The complaint is brought on behalf of purchasers of our stock during the period October 29, 2003 to August 3, 2004. The complaint requests unspecified compensatory damages, equitable relief and attorney's fees. Defendants have filed a motion to dismiss.

- Derivative lawsuits: Scott Rehm, Derivatively on behalf of nominal Defendant, Express Scripts, Inc. v. Stuart Bascomb, et al (Cause No. 4:04-cv-01319-HEA, United States District Court for the Eastern District of Missouri) (filed 8/27/04); Charles Manzione, Derivatively on Behalf of Express Scripts, Inc. v. Barrett Toan et al United States District Court for the Eastern District of Missouri) (filed 10/22/04); Gary Miller Derivatively on behalf of nominal Defendant, Express Scripts, Inc. v. Stuart Bascomb, et al (Cause No 042-08632, Missouri Circuit Court, City of St. Louis) (filed 10/29/04). Judith Deserio, Derivatively on behalf of Nominal Defendant, Express Scripts, Inc. v. Stuart L. Bascomb, et al (Cause No. 042-09374, Missouri Circuit Court, City of St. Louis) (filed 12-22-04); Isidore Mendelovitz, Derivatively and on Behalf of Nominal Defendant, Express Scripts, Inc. v. Gary G. Benanav, et al (Cause No. 04-CV-8610, United States District Court for the Southern District of New York) (filed 11-1-04). Plaintiffs have filed shareholder derivative lawsuits against cerain of our current and former directors and officers. The cases make various allegations including that the defendants caused us to issue false and misleading statements, insider selling, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Plaintiffs demand unspecified compensatory damages, equitable relief and attorney's fees. Several cases have been removed to federal court.

- Harry Silverman v. Priority Healthcare Corporation, et al (Case No. 05-CA-1628-16-K, Circuit Court of the Eighteenth District, Seminole County, Florida). On or about August 15, 2005, a purported shareholder class action lawsuit related to the merger agreement between us and Priority Healthcare Corporation ("Priority") was filed naming Priority and each of its directors as defendants. Priority and its directors responded to the complaint by filing a Motion for Judgment on the Pleadings requesting that the lawsuit be dismissed. On September 19, 2005, the plaintiff filed a First Amended Class Action Complaint alleging, among other things, that Priority's directors breached their fiduciary duties of good faith, fair dealing, loyalty, due care and candor to Priority's shareholders and that Priority aided and abetted its directors' breaches of their fiduciary duties by entering into the merger agreement. On September 20, 2005, the parties reached an agreement in principle providing for the settlement of the lawsuit based upon additional disclosures in Priority's final proxy statement and the payment of plaintiff's fees and expenses.

- Pearson's Pharmacy, Inc. and Cam Enterprises, Inc. d/b/a Altadena Pharmacy v. Express Scripts, Inc. (Case No. 3:06-CV-00073-WKW, United States District Court for the Middle District of Alabama). On February 15, 2005, a class action on behalf of all pharmacies reimbursed based upon Average Wholesale Price was filed. The complaint alleges that Express Scripts fails to fully, timely and properly reimburse pharmacies for filling prescriptions. Plaintiffs seek unspecified monetary damages and injunctive relief.

The investigation by the U.S. Attorney's Office in Boston, Massachusetts of various possible health care offenses and other federal crimes continues. We believe the original subject matter of the investigation relating to TAP Pharmaceuticals is no longer at issue, but other issues remain the subject of the investigation. Specifically, the investigation now relates to our formulary development process and our business relationships with certain pharmaceutical manufacturers and others, among other matters, and we continue to receive subpoenas in connection with the investigation. We continue to comply with the subpoenas and are cooperating with the investigation.

The Company received several letters from the Kansas City, Missouri office of the DOL indicating that DOL is undertaking an investigation of the Company to determine whether any person has violated Title I of ERISA and directing the Company to produce documents relating to various aspects of the Company's business. The Company is cooperating with the investigation.

On July 21, 2004, we received a Civil Investigative Demand from the Attorney General of the State of Vermont. A total of 27 states and the District of Columbia have now issued substantially identical civil investigative demands. The civil investigative demands received to date seek documents regarding a wide range of our business practices. We are cooperating with this multi-state investigation.

In November 2004, Priority Healthcare received a subpoena from the U.S. Department of Justice (the "DOJ") requiring Priority to provide the DOJ with certain information regarding the promotion and marketing of Actimmune, a product manufactured by InterMune, Inc. Priority believes that the materials sought by the DOJ are part of an ongoing investigation being conducted by the United States Attorney's Office for the Northern District of California. Priority is fully cooperating with the DOJ, however should the DOJ find that Priority acted improperly, it could subject Priority to fines, sanctions, and/or other obligations which could have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

In addition, in the ordinary course of our business there have arisen various legal proceedings, investigations or claims now pending against our subsidiaries and us. The effect of these actions on future financial results is not subject to reasonable estimation because considerable uncertainty exists about the outcomes. Where insurance coverage is not available for such claims, or in our judgment, is not cost-effective, we maintain self-insurance reserves to reduce our exposure to future legal costs, settlements and judgments related to uninsured claims. Our self-insured reserves are based upon estimates of the aggregate liability for the costs of uninsured claims incurred and the retained portion of insured claims using certain actuarial assumptions followed in the insurance industry and our historical experience. It is not possible to predict with certainty the outcome of these claims, and we can give no assurance that any losses in excess of our insurance and any self-insurance reserves will not be material.

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 2005.

PART II

Item 5 — Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Market Information. Our common stock is traded on the Nasdaq National Market ("Nasdaq") under the symbol "ESRX". The high and low prices, as reported by the Nasdaq, are set forth below for the periods indicated. These prices have been adjusted to reflect the two-for-one stock split effective June 24, 2005, in the form of a stock dividend of one share for each outstanding share to holders of record on June 10, 2005.

	Fiscal Year 2005		Fiscal Year 2004	
Common Stock	High	Low	High	Low
First Quarter	$ 43.88	$ 36.54	$ 38.10	$ 31.56
Second Quarter	52.50	42.05	40.60	36.40
Third Quarter	62.47	45.04	38.95	29.92
Fourth Quarter	90.80	59.40	39.75	29.15

Holders. As of December 31, 2005, there were 510 stockholders of record of our common stock. We estimate there are approximately 108,288 beneficial owners of our 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.

Issuer Repurchase of Equity Securities

The following is a summary of our stock repurchasing activity during the three months ended December 31, 2005 (share data in millions):

Period	Shares purchased	Average price paid per share	Shares purchased as part of a publicly announced program	Maximum shares that may yet be purchased under the program
10/1/2005 - 10/31/2005	-	$ -	-	8
11/1/2005 - 11/30/2005	-	-	-	8
12/1/2005 - 12/31/2005	-	-	-	8
Fourth quarter 2005 total	-	$ -	-	

We have a stock repurchase program, originally announced on October 25, 1996, under which our Board of Directors has approved the repurchase of a total of 38 million shares. There is no limit on the duration of the program. Approximately 30 million of the 38 million total shares have been repurchased through December 31, 2005. Additional share purchases, 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 the amount of stock repurchases contained in our bank credit facility.

Item 6 - Selected Financial Data

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

(in millions, except per share data)	2005[(1)]	2004[(2)]	2003	2002[(3)]	2001[(4)]
Statement of Operations Data (for the Year Ended December 31):					
Revenues [(5)]	$ 16,266	$ 15,115	$ 13,295	$ 12,271	$ 8,588
Cost of revenues[(5)]	15,067	14,171	12,428	11,447	7,992
Gross Profit	1,199	944	867	824	596
Selling, general and administrative	556	451	417	452	359
Operating income	643	493	450	372	237
Other expense, net	(28)	(43)	(44)	(44)	(30)
Income before income taxes	615	450	406	328	207
Provision for income taxes	215	172	155	125	83
Income before cumulative effect of accounting change	400	278	251	203	124
Cumulative effect of accounting change, net of tax	-	-	(1)	-	-
Net income	$ 400	$ 278	$ 250	$ 203	$ 124
Basic earnings per share:[(6)]					
Before cumulative effect of accounting change	$ 2.72	$ 1.82	$ 1.61	$ 1.30	$ 0.80
Cumulative effect of accounting change	-	-	(0.01)	-	-
Net income	$ 2.72	$ 1.82	$ 1.60	$ 1.30	$ 0.80
Diluted earnings per share:[(6)]					
Before cumulative effect of accounting change	$ 2.68	$ 1.79	$ 1.59	$ 1.27	$ 0.78
Cumulative effect of accounting change	-	-	(0.01)	-	-
Net income	$ 2.68	$ 1.79	$ 1.58	$ 1.27	$ 0.78
Weighted average shares outstanding:[(6)]					
Basic	147	153	156	156	156
Diluted	149	155	158	159	160
Balance Sheet Data (as of December 31):					
Cash and cash equivalents	$ 478	$ 166	$ 396	$ 191	$ 178
Working capital	(137)	(371)	(66)	(150)	(32)
Total assets	5,493	3,600	3,409	3,207	2,500
Debt:					
Short-term debt	110	22	-	3	-
Long-term debt	1,401	412	455	563	346
Stockholders' equity	1,465	1,196	1,194	1,003	832
Selected Data (for the Year Ended December 31):					
Network pharmacy claims processed	437	399	379	355	294
Home delivery pharmacy prescriptions filled	40	38	32	27	21
PBS, Specialty and Other prescriptions filled	5	5	4	3	2
Cash flows provided by operating activities	$ 793	$ 496	$ 458	$ 426	$ 281
Cash flows used in investing activities	(1,369)	(397)	(43)	(549)	(77)
Cash flows provided by (used in) financing activities	887	(330)	(212)	136	(80)
EBITDA[(7)]	727	563	504	454	315

(1) Includes the acquisition of Priority Healthcare Corporation, Inc. effective October 14, 2005.

(2) Includes the acquisition of CuraScript, Inc. effective January 30, 2004.
(3) Includes the acquisition of Phoenix Marketing Group effective February 25, 2002, National Prescription Administrators and certain related entities effective April 12, 2002 and Managed Pharmacy Benefits, Inc. effective December 20, 2002.
(4) Includes the acquisition of Centre d'autorisation et de paiement des services de sante, Inc. by our Canadian subsidiary effective March 1, 2001.
(5) Excludes estimated retail pharmacy copayments of $5,821, $5,546, $5,276, $4,350, and $2,881 for the years ended December 31, 2005, 2004, 2003, 2002, and 2001, respectively. These are amounts we instructed retail pharmacies to collect from members. We have no information regarding actual copayments collected.
(6) Earnings per share and weighted average shares outstanding have been restated to reflect the two-for-one stock split effective June 24, 2005.
(7) 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 service indebtedness and is frequently used to evaluate a company's performance. EBITDA, however, should not be considered as an alternative to net income, as a measure of operating performance, as an alternative to cash flow, as a measure of liquidity or as a substitute for any other measure computed in accordance with accounting principles generally accepted in the United States. In addition, our definition and calculation of EBITDA may not be comparable to that used by other companies.

We have provided below a reconciliation of EBITDA to net income and to net cash provided by operating activities as we believe they are the most directly comparable measures calculated under Generally Accepted Accounting Principles:

	Year Ended December 31,				
(in millions)	**2005**	**2004**	**2003**	**2002**	**2001**
Net income	$ 400	$ 278	$ 250	$ 203	$ 124
Income taxes	215	172	155	125	83
Depreciation and amortization	84	70	54	82	78
Interest expense, net	26	38	38	39	28
Undistributed loss from joint venture	2	5	6	5	2
Cumulative effect of accounting change, net of tax	-	-	1	-	-
EBITDA	727	563	504	454	315
Current income taxes	(197)	(154)	(120)	(95)	(64)
Change in operating assets and liabilities (excluding effects of acquisitions)	220	81	83	63	11
Interest expense less amortization	(21)	(30)	(35)	(35)	(25)
Bad debt expense	18	6	(3)	18	8
Tax benefit from employee stock compensation	36	11	27	16	21
Amortization of unearned comp. under employee plans	11	12	8	10	11
Undistributed loss from joint venture	(2)	(5)	(6)	(5)	(2)
Other, net	1	12	-	-	6
Net cash provided by operating activities	$ 793	$ 496	$ 458	$ 426	$ 281

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

OVERVIEW

As one of the largest full-service pharmacy benefit management ("PBM") companies we provide health care management and administration services on behalf of our clients, which include health maintenance organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans and government health programs. Our integrated PBM services include network claims processing, home delivery services, benefit design consultation, drug utilization review, formulary management, disease management, and drug data analysis services. We provide specialty services, including patient care and direct specialty home delivery to patients; distribution of infusion drugs to patient homes, physician offices, and infusion centers; distribution of pharmaceuticals and medical supplies to providers and clinics; third party logistics services for contracted pharma clients; fertility services to providers and patients; and bio-pharma services including marketing, reimbursement and customized logistics solutions ("Specialty"). Specialty services do not include the fulfillment of specialty prescriptions at retail pharmacies participating in our networks. These prescriptions are reflected in PBM retail pharmacies participating in our networks. We also provide services through our Pharma Business Solutions ("PBS") unit, which include distribution of specialty pharmaceuticals requiring special handling or packaging where we have been selected by the pharmaceutical manufacturer as part of a limited distribution network; distribution of pharmaceuticals to low-income patients through manufacturer-sponsored and company-sponsored generic patient assistance programs, and distribution of sample units to physicians and verification of practitioner licensure.

Effective October 2005, we report three segments: PBM, Specialty and PBS (see "—Results of Operations"). We derive revenues primarily from the sale of PBM and Specialty services in the United States and Canada. Revenue generated by our segments can be classified as either tangible product revenue or service revenue. We earn tangible product revenue from the sale of prescription drugs by retail pharmacies in our retail pharmacy networks and from dispensing prescription drugs from our home delivery and specialty pharmacies. Service revenue includes administrative fees associated with the administration of retail pharmacy networks contracted by certain clients, market research programs, medication counseling services, certain specialty distribution services, and sample fulfillment and sample accountability services. Tangible product revenue generated by through our PBM, Specialty and PBS segments represented 98.2% of revenues in 2005, and 98.6% of revenues in 2004 and 2003.

On October 14, 2005, we purchased the capital stock of Priority Healthcare, Inc. ("Priority") in a cash transaction for $28 per share, or approximately $1.3 billion. The acquisition was accomplished through the merger of one of our wholly-owned subsidiaries with and into Priority. The $1.3 billion purchase price was financed with approximately $167 million of cash on hand and the remainder by adding $1.6 billion in Term A loans through a new credit facility which replaced our prior credit facility. On January 30, 2004, we acquired the capital stock of CuraScript Pharmacy, Inc. and CuraScript PBM Services, Inc. (collectively, "CuraScript"), for $333 million in cash. Consequently, our operating results include those of Priority from October 14, 2005 and CuraScript from January 30, 2004. In addition to growth through acquisitions, we have been successful in adding significant new clients in recent years, including the contracts we were awarded by the Department of Defense ("DoD") TRICARE Management Activity in 2003 to provide retail pharmacy services under the TRICARE Retail Pharmacy program starting in June 2004.

Aetna Specialty Pharmacy, a joint venture existing between Priority and Aetna, Inc. ("Aetna"), was 60% owned by Priority and 40% by Aetna. Upon a change in control of Priority, the joint venture agreement provided Aetna with an option to purchase Priority's 60% ownership share of the joint venture. Aetna exercised its option and on December 30, 2005 purchased Priority's 60% ownership share of Aetna Specialty Pharmacy. The gain on the assets sold, which was not material, reduced the amount of goodwill we recorded through the Priority acquisition.

EXECUTIVE SUMMARY AND TREND FACTORS AFFECTING THE BUSINESS

Prescription drug costs have increased considerably over the past several years, primarily due to brand-name product inflation, the introduction of new products by pharmaceutical manufacturers and higher utilization of drugs. As a result, we face continuing pressures on margins resulting from client demands for better management of pharmacy trends, enhanced service offerings and/or higher service levels on contract renewals, and unfavorable modifications to contracts with key clients or providers.

Our business model is built around the alignment of interests with our clients and members in making the use of prescription drugs safer and more affordable. The improvement in our 2005 consolidated results of operations over 2004 was primarily driven by factors which also reduce pharmacy trends for our clients. In 2005 we benefited from higher generic utilization (54.4% in 2005 compared to 50.4% in 2004), increased home delivery volume, growth in Specialty services and better management of ingredient costs resulting from renegotiation of certain supplier contracts, increased competition among generic manufacturers and other actions which helped to reduce ingredient costs. In addition, our 2005 results of operations improved over 2004 as a result of increased labor efficiencies and the consolidation of certain of our facilities. We believe these factors will continue to generate improvement in our results of operations in 2006.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management 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. Our estimates and assumptions are based upon a combination of historical information and various other assumptions believed to be reasonable under the particular circumstances. Actual results may differ from our estimates. Certain of the accounting policies that most impact our consolidated financial statements and that require our management to make difficult, subjective or complex judgments are described below. This should be read in conjunction with Note 1, "Summary of Significant Accounting Policies" and with the other notes to the consolidated financial statements.

REBATE ACCOUNTING

ACCOUNTING POLICY

Historically, we have administered a rebate program based on actual market share performance in which rebates and the associated receivable from pharmaceutical manufacturers are estimated quarterly based on our estimate of the number of rebatable prescriptions and the rebate per prescription. The portion of rebates payable to clients is estimated quarterly based on historical allocation percentages and our estimate of rebates receivable from pharmaceutical manufacturers. With respect to our market share rebate program, estimates are adjusted to actual when amounts are received from manufacturers and the portion payable to clients is paid. With respect to rebates that are not based on market share performance, the portion of rebates payable to clients is estimated based on historical and/or anticipated sharing percentages. These estimates are adjusted to actual when amounts are paid to clients.

FACTORS AFFECTING ESTIMATE

The factors that could impact our estimates of rebates, rebates receivable and rebates payable are as follows:

- Differences between the actual and the estimated number of rebatable prescriptions;
- Differences between estimated aggregate allocation percentages and actual rebate allocation percentages calculated on a client-by-client basis;
- Differences between actual and estimated market share of a manufacturer's brand drug for our clients as compared to the national market share;
- Drug patent expirations; and
- Changes in drug utilization patterns.

Historically, adjustments to our original estimates have been relatively immaterial.

UNBILLED REVENUE AND RECEIVABLES

ACCOUNTING POLICY

We bill our clients based upon the billing schedules established in client contracts. At the end of a period, any unbilled revenues related to the sale of prescription drugs that have been adjudicated with retail pharmacies are estimated based on the amount we will pay to the pharmacies and historical gross margin.

FACTORS AFFECTING ESTIMATE

Unbilled amounts are estimated based on historical margin. Historically, adjustments to our original estimates have been immaterial. Significant differences between actual and estimated margin could impact subsequent adjustments.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

ACCOUNTING POLICY

We provide an allowance for doubtful accounts equal to estimated uncollectible receivables. This estimate is based on the current status of each customer's receivable balance.

FACTORS AFFECTING ESTIMATE

We record allowances for doubtful accounts based on a variety of factors including the length of time the receivables are past due, the financial health of the customer and historical experience. Our estimate could be impacted by changes in economic and market conditions as well as changes to our customers' financial condition.

SELF-INSURANCE RESERVES

ACCOUNTING POLICY

We accrue self-insurance reserves based upon estimates of the aggregate liability of claim costs in excess of our insurance coverage. Reserves are estimated using certain actuarial assumptions followed in the insurance industry and our historical experience. The majority of these claims are legal claims and our liability estimate is primarily related to the cost to defend these claims. We do not accrue for settlements, judgments, monetary fines or penalties until such amounts are probable and estimable, in compliance with Financial Accounting Standard ("FAS") No. 5, "Accounting for Contingencies." Under FAS 5, if the range of possible loss is broad, the liability accrual should be based on the lower end of the range.

FACTORS AFFECTING ESTIMATE

Self-insurance reserves are based on management's estimates of the costs to defend legal claims. We do not have significant experience with certain of these types of cases. As such, differences between actual costs and management's estimates could be significant. In addition, actuaries do not have a significant history with the PBM industry. Changes to assumptions used in the development of these reserves can affect net income in a given period. In addition, changes in the legal environment and number and nature of claims could impact our estimate.

OTHER ACCOUNTING POLICIES

We consider the following information about revenue recognition policies important for an understanding of our results of operations:

- Revenues from dispensing prescriptions from our home delivery pharmacies are recorded when prescriptions are shipped. These revenues include the co-payment received from members of the health plans we serve.
- Revenues from the sale of prescription drugs by retail pharmacies are recognized when the claim is processed. We do not include member co-payments to retail pharmacies in revenue or cost of revenue.
- When we independently have a contractual obligation to pay our network pharmacy providers for benefits provided to our clients' member, we act as a principal in the arrangement and we include the total payments we have contracted to receive from these clients as revenue and the total payments we make to the network pharmacy providers as cost of revenue.
- When we merely administer a client's network pharmacy contracts to which we are not a party and under which we do not assume credit risk, we earn an administrative fee for collecting payments from the client and remitting the corresponding amount to the pharmacies in the client's network. In these transactions, drug ingredient cost is not included in our revenues nor in our cost of revenues.
- Historically, we have administered two rebate programs through which we receive rebates and administrative fees from pharmaceutical manufacturers.
- Gross rebates and administrative fees earned for the administration of our rebate programs, performed in conjunction with claim processing services provided to clients, are recorded as a reduction of cost of revenue and the portion of the rebate payable to customers is treated as a reduction of revenue.
- When we earn rebates and administrative fees in conjunction with formulary management services, but do not process the underlying claims, we record rebates received from manufacturers, net of the portion payable to customers, in revenue.
- We distribute pharmaceuticals in connection with our management of patient assistance programs and earn a fee from the manufacturer for administrative and pharmacy services for the delivery of certain drugs free of charge to doctors for their indigent patients.
- We earn a fee for the distribution of consigned pharmaceuticals requiring special handling or packaging where we have been selected by the pharmaceutical manufacturer as part of a limited distribution network.
- Discounts and contractual allowances related to our Specialty revenues are estimated based on historical collections over a recent period for the sales that are recorded at gross charges. The percentage is applied to the applicable accounts receivable balance that contains gross charges for each period. Any differences between the estimates and actual collections are reflected in operations in the year payment is received. Differences may result in the amount and timing of revenues for any period if actual performance varies from estimates. Allowances for returns are estimated based on historical return trends. Financing charge revenue is recognized when received.

- Specialty product revenues include revenues earned through the distribution of specialty drugs to clients as well as supplies provided through the distribution business.
- Specialty service revenues include revenues earned through providing reimbursement solutions and product support to pharmaceutical manufacturers, biotechnology companies, and medical device companies, as well as revenues derived from our Group Purchasing Organization (“GPO”) development.
- PBS product revenues include revenues earned through administering sample card programs for certain manufacturers. We include ingredient cost of those drug samples dispensed from retail pharmacies in our PBS revenues and the associated costs for these sample card programs in cost of revenues.
- PBS service revenues include administrative fees for the verification of practitioner licensure and the distribution of consigned drug samples to doctors based on orders received from pharmaceutical sales representatives.

RESULTS OF OPERATIONS

Effective in October 2005, we began managing our Specialty business as a separate operating segment. Previously, our Specialty business was part of our domestic PBM operating segment. The change is primarily due to the acquisition of Priority (see "—Overview") on October 14, 2005. Our Specialty segment consists of our CuraScript (acquired in January 2004) and Priority businesses and 2004 data has been reclassified to reflect the change in our operating and reporting segments.

PBM OPERATING INCOME

	Year Ended December 31,				
(in millions)	**2005**	*Increase/ (Decrease)*	**2004**	*Increase/ (Decrease)*	**2003**
Product revenue					
Network revenues	$ 9,171	*(2.3%)*	$ 9,387	*3.9%*	$ 9,037
Home delivery revenues	5,016	*5.1%*	4,771	*19.6%*	3,988
Service revenues	152	*50.5%*	101	*38.4%*	73
Total PBM revenues	14,339	*0.6%*	14,259	*8.9%*	13,098
Cost of PBM revenues	13,300	*(0.8%)*	13,410	*9.2%*	12,282
PBM gross profit	1,039	*22.4%*	849	*4.0%*	816
PBM SG&A expenses	477	*16.3%*	410	*3.0%*	398
PBM operating income	$ 562	*28.0%*	$ 439	*5.0%*	$ 418
Total adjusted PBM Claims(1)	557	*8.6%*	513	*8.0%*	475

(1) PBM adjusted claims represent network claims plus mail claims, which are multiplied by 3, as mail claims are typically 90 day claims and network claims are generally 30 day claims. Excluded from the network claims are manual claims and drug formulary only claims where we only administer the clients formulary. We process approximately 2 million manual claims per year.

Network claims increased by 38.6 million, or 9.7%, in 2005 over 2004. The increase in network claims is primarily due to the implementation of our contract with the DoD TRICARE Retail Pharmacy ("TRICARE") program in June 2004. Revenues for the TRICARE program are included in service revenue (see discussion below).

Network pharmacy revenues decreased $216 million, or 2.3%, from 2004 to 2005, primarily due to the following factors:

- Network pharmacy revenues decreased $360 million from 2004 to 2005 as a result of a higher mix of lower-cost generic claims and a 2.5% increase in the average co-payment per retail pharmacy claim. Generic claims made up 55.4% of total network claims processed during 2005 as compared to 51.9% during 2004. As mentioned in our Critical Accounting Policies above, we do not include member co-payments to retail pharmacies in revenue or cost of revenue.
- These factors were partially offset by an increase in pharmacy claims, resulting in a $144 million increase in overall network pharmacy revenues as compared to 2004.

Network pharmacy revenues increased $350 million, or 3.9%, in 2004 over 2003, primarily due to the following factors:

- Average revenue per claim increased 4.9% in 2004 over 2003 resulting in a $438 million increase in overall network pharmacy revenues. Increases in average revenue per network pharmacy claim were due to drug price inflation and to the transition of one of our clients from use of their retail pharmacy network to an ESI retail pharmacy network in the first quarter of 2004. These increases were partially offset by a higher mix of generic claims and an increase in the average co-payment per retail pharmacy claims. Generic claims represented 51.9% of total network claims processed during 2004 as compared to 48.1% during 2003.
- Network pharmacy claims included in network pharmacy revenues decreased slightly compared to 2003, resulting in an $88 million decrease in network pharmacy revenues. The decrease in network pharmacy claims volume is mainly due to client losses from 2003. One client, emerging from bankruptcy, discontinued providing retiree benefits, one client was lost through a competitive bidding process, and a one-year contract with a state agency expired, as expected, as future claims will be processed by the state. These decreases were partially offset by new business which started during 2004.

The $245 million, or 5.1%, increase in home delivery pharmacy revenues in 2005 over 2004 is attributable to the following factors:

- We processed an additional 2.0 million claims in 2005 over 2004, resulting in a $250 million increase in home delivery pharmacy revenues. The increase in home delivery volume is primarily due to the increased usage of our home delivery pharmacies by members of existing clients.
- A decrease in the average home delivery revenue per claim reduced home delivery pharmacy revenues by $5 million in 2005 from 2004. The decrease in average home delivery revenue per claim is primarily due to a higher mix of generic claims. Our generic fill rate increased to 43.6% in 2005 from 40.5% in 2004. Under our contract with the DoD we earn a fee per prescription filled by our home delivery facility. Revenues and cost of revenues from the DoD contract do not include ingredient cost as inventory is replenished by the DoD through agreements with its suppliers. As a result, these claims have a dilutive effect on the average revenue per home delivery pharmacy claim.

The $783 million, or 19.6%, increase in home delivery pharmacy revenues in 2004 over 2003 is attributable to the following factors:

- We processed an additional 5.8 million claims in 2004 over 2003, resulting in a $717 million increase in home delivery pharmacy revenues. The increase in home delivery claim volume is primarily due to the implementation of new clients, including the contract with the DoD TRICARE Mail Order Pharmacy program in March 2003, as well as increased usage of our home delivery pharmacies by members of existing clients.
- Average revenue per home delivery claim increased by approximately 1.4% in 2004 over 2003, representing additional home delivery pharmacy revenue of $66 million. Increases in home delivery revenue per claim from inflation was almost completely offset by the impact of our contract with the DoD TRICARE Mail Order Pharmacy program as mentioned above and by increases in our generic fill rate to 40.5% for 2004 from 37.2% for the same period of 2003.

PBM service revenues include amounts received from clients for therapy management services such as prior authorization and step therapy protocols and administrative fees earned for processing claims for clients utilizing their own retail pharmacy networks. PBM service revenues increased $51 million, or 50.5%, in 2005 as compared to 2004, and increased $28 million, or 38.4%, revenues in 2004 as compared to 2003, primarily due to the implementation of the TRICARE program in June 2004. The increase from the implementation of the TRICARE contract was partially offset by the elimination of revenues from pharmaceutical manufacturers in support of certain clinical programs. This funding was completely phased out as of October 1, 2003.

PBM cost of revenues decreased $110 million, or 0.8%, from 2004 to 2005 as a result of the following:

- Net decreases in the average cost per claim and a higher mix of generic claims decreased cost of revenues by approximately $362 million from 2004 to 2005. The decrease in average cost per claim is due principally to reductions in our acquisition cost for retail pharmacy services and home delivery inventory. These cost reductions are expected to benefit future periods as well.
- These decreases were partially offset by the increases in network and home delivery claims volume resulting in higher PBM cost of revenues of $252 million as compared to the same periods of 2004.

PBM cost of revenues increased $1,128 million, or 9.2%, in 2004 over 2003 primarily as a result of the following:

- Net increases in the average ingredient cost per claim, mainly due to inflation and to the transition of one of our clients from their network to an ESI retail pharmacy network in the first quarter of 2004 (as discussed above), increased cost of revenues by $560 million in 2004 over 2003.
- Increases in network and mail order claims volume resulted in higher PBM cost of revenues of $530 million in 2004 over 2003.

Our PBM gross profit increased $190 million, or 22.4%, in 2005 over 2004 and $33 million, or 4.0%, in 2004 over 2003. Increases in revenues from network inflation and higher home delivery volumes were partially offset by lower drug purchasing costs, increased generic claims and lower drug purchasing costs were only partially offset by margin pressures arising from the current competitive environment. Gross profit for 2003 was negatively impacted by a non-recurring reduction of $15 million relating to previously collected pharmaceutical manufacturer funds which we decided to share with our clients.

Selling, general and administrative expense ("SG&A") for our PBM segment increased $67 million, or 16.3%, in 2005 as compared to 2004 primarily as a result of the following factors:

- Increased spending of $56 million from 2004 to 2005 on costs to improve the operation and the administrative functions supporting the management of the pharmacy benefit, primarily through increased management incentive compensation.
- Increased spending related to Medicare Part D, including costs to develop the capabilities necessary to support our PDP clients.
- Increased spending on infrastructure primarily due to the development of a new Patient Care Contact Center in Pueblo, Colorado in 2005.
- Bad debt expense increased $8 million from 2005 from 2004, related to an increase in the allowance for receivables from our clients' members.
- Partially offsetting the increases noted above, prior year SG&A included a $25.0 million charge recorded in the third quarter to increase legal reserves and a $12 million increase in the PCA loss reserve recorded in December 2004 against the unsecured borrowings by PCA under the line of credit extended by ESI (see "—Liquidity and Capital Resources").

Selling, general and administrative expense ("SG&A") for our PBM segment increased $12 million, or 3.0%, in 2004 as compared to 2003 primarily as a result of the following factors:

- An increase of $28 million in legal fees from $11 million in 2003 to $39 million in 2004. As previously reported, we are a defendant in litigation involving our contract to provide prescription drug benefits for the employees and retirees of the State of New York. In addition, we have received civil investigative demands from the Attorneys General of 25 states and the District of Columbia. In light of these developments, several shareholder class action lawsuits and additional class action lawsuits were filed against the Company (see "—Legal Proceedings"). Based on these developments, we recorded a $25 million increase in legal reserves during the third quarter in 2004 (see "—Critical Accounting Policies").
- A $12 million increase in the PCA loss reserve recorded in December 2004 against the unsecured borrowings by PCA under the line of credit extended by ESI (see "—Liquidity and Capital Resources").
- These increases in SG&A for 2004 were mostly offset by lower management incentive compensation due to the recording of the PCA loss reserve, and by cost saving measures implemented during 2004.

PBM operating income increased $123 million, or 28.0%, in 2005 over 2004 and $21 million, or 5.0%, in 2004 over 2003, based on the various factors described above.

SPECIALTY OPERATING INCOME

(in millions)	2005[1]	*Increase/ (Decrease)*	2004[2]	*Increase/ (Decrease)*	2003
		Year Ended December 31,			
Product revenues	$ 1,607	*159.2%*	$ 620	-	$ -
Service revenues	13	-	-	-	-
Total Specialty revenues	1,620	*161.3%*	620	-	-
Cost of Specialty revenues	1,521	*165.0%*	574	-	-
Specialty gross profit	99	*115.2%*	46	-	-
Specialty SG&A expenses	60	*130.8%*	26	-	-
Specialty operating income	$ 39	*95.0%*	$ 20	-	$ -

(1) Includes the acquisition of Priority effective October 14, 2005.
(2) Includes the acquisition of CuraScript effective January 30, 2004.

Specialty revenues and cost of revenues increased $1,000 million, or 161.3%, and $947 million, or 165.0%, in 2005 over 2004, respectively. These increases are primarily due to the acquisition of Priority in 2005, which increased Specialty revenue and cost of revenue by $562 million and $534, respectively. The remaining increase is primarily due to the increased specialty penetration into the PBM book of business.

Our Specialty gross profit increased $53 million, or 115.2%, in 2005 over 2004, based on the various factors described above.

SG&A for our Specialty segment increased $34 million, or 130.8%, in 2005 as compared to 2004. The acquisition of Priority represents $25 million of the increase. The remaining increase is due to the growth in the legacy CuraScript business.

Specialty operating income increased $19 million, or 95.0%, in 2005, based on the various factors described above.

PBS OPERATING INCOME

	Year Ended December 31,				
(in millions)	**2005**	***Increase/ (Decrease)***	**2004**	***Increase/ (Decrease)***	**2003**
Product revenues	$ 175	*36.7%*	$ 128	*47.1%*	$ 87
Service revenues	132	*22.2%*	108	*(1.8%)*	110
Total PBS revenues	307	*30.1%*	236	*19.8%*	197
Cost of PBS revenue	246	*31.6%*	187	*28.1%*	146
PBS gross profit	61	*24.5%*	49	*(3.9%)*	51
PBS SG&A expense	19	*26.7%*	15	*(21.1%)*	19
PBS operating income	$ 42	*23.5%*	$ 34	*6.3%*	$ 32

PBS product revenues increased $47 million, or 36.7%, in 2005 over 2004 and $41 million, or 47.1%, in 2004 over 2003. The increase in 2005 is mainly due to a higher mix of specialty distribution volumes in which we include ingredient cost of pharmaceuticals dispensed in our revenues, including two new specialty distribution contracts in 2005. The increase in 2004 is also due to a higher mix of specialty distribution volumes in which we include ingredient cost of pharmaceuticals dispensed in our revenues, as mentioned above. This increase in Specialty Distribution Services ("SDS") product revenues was partially offset by the discontinuance, during 2003, of two patient assistance programs ("PAP") where we received fees for the delivery of certain drugs to doctors for their indigent patients.

PBS service revenues increased $24 million, or 22.2%, in 2005 over 2004 and decreased $2 million, or 1.8%, in 2004 from 2003. The increase in 2005 reflects new eligibility and service programs initiated during 2005. The decrease in 2004 was primarily due to the discontinuance, during the third quarter of 2003, of two PAP's where we received fees for the delivery of certain drugs to doctors for their indigent patients. This decrease was partially offset by increases due to additional volume in SDS, including new PAP's, initiated during 2003, where eligibility and other services are being provided.

PBS cost of revenues increased $59 million, or 31.6%, in 2005 over 2004, and $41 million, or 28.1%, in 2004 over 2003. These increases are mainly due to the additional volume in sample card programs where we include the ingredient costs of pharmaceuticals dispensed from retail pharmacies in our PBS revenues and cost of revenues (as discussed above). The percentage increase in PBS cost of revenues grew faster than the percentage increase in revenues due to the additional volume in the sample card program (discussed above) where we include the ingredient costs of pharmaceuticals dispensed from retail pharmacies in our SDS revenues and cost of revenues. The percentage increase in the PBS cost of revenues was partially offset by Phoenix Marketing Group ("PMG"), which does not purchase samples from the manufacturers, but records an administrative fee for verification of practitioner licensure and distribution of samples to those practitioners based on orders received from pharmaceutical sales representatives.

Gross profit increased $12 million, or 24.5%, in 2005 over 2004. Gross profit decreased $2 million, or 3.9%, in 2004 from 2003.

PBS SG&A increased $4 million, or 26.7%, in 2005 over 2004, primarily due to an increase in marketing expenditures related to the RxOutreach program and increased sales expenses. PBS SG&A decreased $4 million, or 21.1%, from 2003 to 2004, due to efforts to control costs by integrating certain functions within our PMG and SDS operations.

PBS operating income increased $8 million, or 23.5%, in 2005 over 2004, and increased $2 million, or 6.3%, in 2004 over 2003.

OTHER (EXPENSE) INCOME, NET

In February 2001, we entered into an agreement with AdvancePCS (now owned by Caremark RX, Inc.) and Medco Health Solutions, Inc. (formerly, "Merck-Medco, L.L.C.") to form RxHub, an electronic exchange enabling physicians who use electronic prescribing technology to link to pharmacies, PBMs and health plans. We own one-third of the equity of RxHub (as do each of the other two founders) and have committed to invest up to $20 million over five years, with almost $20 million invested through December 31, 2005. We have recorded 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. Our percentage of RxHub's loss for 2005, 2004 and 2003 is $2 million, $5 million, and $6 million, respectively, and has been recorded in other income (expense), net, in our Consolidated Statement of Operations.

Net interest expense decreased $12 million, or 31.6%, in 2005 as compared to 2004. This was the net effect of several factors. In 2004, we redeemed our $250 million Senior Notes, and as a result, we recorded a $12 million charge to interest expense for the redemption premium and the write-off of deferred financing fees. In addition, we wrote-off $4 million in deferred financing fees as a result of refinancing our entire credit facility during the first quarter of 2004 (see "—Liquidity and Capital Resources"). These increases in 2004 interest expense were offset by the October 2005 refinancing of our entire credit facility with a new $2.2 billion credit facility which includes $1.6 billion of Term A loans and a $600 million revolving credit facility. As a result, we wrote-off $4 million in deferred financing fees in the fourth quarter of 2005.

Net interest expense remained relatively consistent from 2003 to 2004. This was the net effect of several factors, as described above.

PROVISION FOR INCOME TAXES

Our effective tax rate decreased to 34.9% for the year ended December 31, 2005, as compared to 38.3% and 38.2% for the years ended December 31, 2004 and 2003, respectively. The decrease in our effective tax rate reflects a net tax benefit $20 million resulting primarily from changes in the apportionment of our income for state income tax purposes as well as the recognition of expected state tax benefits associated with prior-year subsidiary losses and credits. Excluding the $20 million net tax benefit, our effective tax rate would have been 38.1%.

Our effective tax rate increased slightly to 38.3% in 2004, from 38.2% in 2003.

NET INCOME AND EARNINGS PER SHARE

Net income increased $122 million, or 43.9%, for the year ended December 31, 2005 over 2004 and increased $28 million, or 11.2% for the year ended December 31, 2004 over 2003. During 2003, we recorded a cumulative effect of change in accounting principle of $1 million, net of tax, related to our implementation of FAS 143, "Asset Retirement Obligations," (see "—Other Matters").

Basic and diluted earnings per share increased 49.5% and 49.7%, respectively for the twelve months ended December 31, 2005 over 2004 and 13.8% and 13.3%, respectively for the twelve months ended December 31, 2004 over 2003.

On May 24, 2005, we announced a two-for-one stock split for stockholders of record on June 10, 2005, effective June 24, 2005. The split was effected in the form of a dividend by issuance of one additional share of common stock for each share of common stock outstanding. The earnings per share and the weighted average number of shares outstanding for basic and diluted earnings per share for each period have been adjusted for the stock split.

We account for employee stock options in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees." We account for options using the intrinsic value method and have not recognized compensation expense for options granted. We will adopt FAS 123R using the modified prospective method beginning January 1, 2006 (see "—Other Matters"). The impact of adopting FAS 123R on our consolidated results of operations is not expected to differ materially from the pro forma disclosures currently required by FAS 123 (see note 11 to our consolidated financial statements). Had we used the fair value method and recognized compensation expense based on the fair value of options determined on the grant date, our net income and earnings per share for the twelve months ended December 31, 2005, 2004 and 2003 would have been $389 million, or $2.60 per diluted share, $270 million, or $1.73 per diluted share, and $238 million, or $1.50 per diluted share, respectively.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING CASH FLOW AND CAPITAL EXPENDITURES

During 2005, net cash provided by operations increased $297 million to $793 million from $496 million in 2004. This increase reflects a $139 million increase from net changes in our working capital components, increased earnings of $122 million, a $34 million increase in non-cash adjustments, and a $14 million increase in depreciation and amortization, partially due to the acquisition of Priority in October 2005. The increase from changes in our working capital components primarily consists of an $84 million increase resulting from the timing of payments to vendors, a $27 million increase due to improved inventory management, and a $15 million increase due to a lower accounts receivable balance. The increase in non-cash adjustments is mainly due to an increase of $25 million related to higher tax benefits from the exercise of employee stock options during 2005 and a $12 million increase in bad debt expense, offset by a decrease of $1 million in deferred taxes. These increases were offset by a $12 million increase in 2004 as a result of establishing our PCA loss reserve.

On January 1, 2006, we will adopt FAS 123R (see "—Other Matters"), which requires classification of the tax benefit from the exercise of stock options in cash flows from financing activities, rather than cash flows from operating activities. In 2005, cash flows from operating activities included a cash inflow of $36 million related to tax benefits from the exercise of stock options.

During 2004, net cash provided by operations increased $38 million to $496 million from $458 million in 2003. This increase reflects increased earnings of $29 million, a $16 million increase in depreciation and amortization, partially due to the acquisition of CuraScript in January 2004, and a $12 million increase as a result of establishing our PCA loss reserve. These increases were partially offset by a $15 million decrease in deferred taxes and a $2 million decrease from net changes in our working capital components. The decrease from changes in our working capital components was primarily due to a $76 million decrease from a higher inventory balance relating to increased home delivery volume. Inventory days on hand remained consistent at December 31, 2004 compared to December 31, 2003. This decrease was offset by a $74 million increase resulting from the timing of payments to vendors.

As a percent of accounts receivable, our allowance for doubtful accounts was 4.0% and 2.9% at December 31, 2005 and 2004, respectively. The allowance at December 31, 2005 was higher, as a percentage of accounts receivable, primarily due to additional reserves for receivables from our clients' members, as well as the acquisition of Priority in the fourth quarter of 2005.

Our capital expenditures in 2005 increased $9 million, or 17.6%, as compared to 2004, primarily due to the development of a new Patient Care Contact Center in Pueblo, Colorado in 2005. Our capital expenditures in 2004 decreased $2 million, or 3.8%, as compared to 2003, primarily due to the new construction of a Tempe mail order facility to manage growth in 2003. This decrease was partially offset by $9 million capitalized in 2004 due to the development of a new Patient Care Contact Center in St. Marys, Georgia. We intend to continue to invest in technology that we believe will provide efficiencies in operations and facilitate growth and enhance the service we provide to our clients. We expect future anticipated capital expenditures will be funded primarily from operating cash flow or, to the extent necessary, with borrowings under our revolving credit facility, discussed below.

As mentioned above, we developed a new Patient Care Contact Center in Pueblo, Colorado which was completed during the fourth quarter of 2005.

Total 2005 expenditures for the project were approximately $13 million, of which approximately $6 million was expensed and approximately $7 million was capitalized. Of the $7 million that was capitalized for the project, approximately $6 million was reimbursed by the city of Pueblo and state of Colorado.

STOCK REPURCHASE PROGRAM

We have a stock repurchase program, originally announced on October 25, 1996, under which our Board of Directors has approved the repurchase of a total of 38 million shares. There is no limit on the duration of the program. Approximately 30 million of the 38 million total shares have been repurchased through December 31, 2005. Additional share purchases, 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 the amount of stock repurchases contained in our bank credit facility.

ACQUISITIONS AND RELATED TRANSACTIONS

On October 14, 2005, we acquired the capital stock of Priority in a cash transaction for $28 per share, or approximately $1.3 billion (see "—Overview"). The acquisition was accomplished through the merger of one of our wholly-owned subsidiaries with and into Priority. The purchase price has been preliminarily allocated based upon the estimated fair value of net assets acquired at the date of the acquisition. A portion of the excess of purchase price over tangible net assets acquired has been preliminarily allocated to intangible assets, consisting of customer contracts in the amount of $82 million and non-competition agreements in the amount of $1 million, which are being amortized using the straight-line method over estimated useful lives of ten years and three years, respectively, and trade names in the amount of $2 million, which are not being amortized. These assets are included in other intangible assets. In addition, the excess of purchase price over tangible net assets and identified intangible assets acquired has been preliminarily allocated to goodwill in the amount of $991 million, which is not being amortized.

On January 30, 2004, we acquired the outstanding capital stock of CuraScript, for approximately $333 million, which includes a purchase price adjustment for working capital and transaction costs. CuraScript is one of the nation's largest Specialty services companies and has enhanced our ability to provide comprehensive pharmaceutical management services to our clients and their members. CuraScript operates seven specialty pharmacies throughout the United States and serves over 175 managed care organizations, 30 Medicaid programs and the Medicare program. The purchase price has been allocated based upon the estimated fair value of net assets acquired at the date of the acquisition. A portion of the excess of purchase price over tangible net assets acquired has been allocated to intangible assets, consisting of customer contracts in the amount of $29 million and non-competition agreements in the amount of $3 million, which are being amortized using the straight-line method over estimated useful lives of ten years and three years, respectively, and trade names in the amount of $1 million, which are not being amortized. These assets are included in other intangible assets. In addition, the excess of purchase price over tangible net assets and identified intangible assets acquired has been allocated to goodwill in the amount of $285 million, which is not being amortized.

Goodwill is evaluated for impairment annually or when events or circumstances occur indicating that goodwill might be impaired. In addition, we evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of other intangible assets 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. No such impairment existed at December 31, 2005 or 2004.

We regularly review potential acquisitions and affiliation opportunities. We believe available cash resources, bank financing or the issuance of additional common stock could be used to finance future acquisitions or affiliations. There can be no assurance we will make new acquisitions or establish new affiliations in 2006 or thereafter.

In January 2004, we entered into an agreement to provide PBM services for the Medicare discount program of Pharmacy Care Alliance, Inc. ("PCA"), a nonstock, not-for-profit entity jointly controlled by the National Association of Chain Drugstores ("NACDS") and us. Our PBM services include the negotiation of discounts from individual retailers and pharmaceutical manufacturers, the enrollment of cardholders and the processing of prescription claims. During 2004, we entered into a lending agreement with PCA, whereby we committed to lend up to $17 million to PCA in the form of a revolving line of credit available through December 31, 2005. Requests for borrowings on the revolving line of credit require the unanimous consent of PCA's board of directors, which consists of representatives from NACDS and from our management team, or its designated representatives. PCA will utilize the revolving line of credit to fund its operating expenditures. NACDS has agreed to guarantee $2 million on the revolving line of credit. As of December 31, 2005, we have loaned PCA $15 million, and have received $3 million in interest and principal payments.

The Medicare discount program is scheduled to end by June of 2006. In regard to the revolving line of credit extended to PCA, the collectibility of any unsecured borrowings will be a function of PCA's costs in closing out the program. Enrollment as of December 31, 2005 was approximately 266,000 members. Because enrollment and utilization to date was lower than expected, the outstanding balance of our receivable from PCA was fully reserved at the end of 2004 and 2005.

BANK CREDIT FACILITY

At December 31, 2004, our credit facility with a commercial bank syndicate consisted of $185 million of Term A loans, $198 million of Term B loans, and a $400 million revolving credit facility (of which $50 million was outstanding at December 31, 2004). In October 2005, we refinanced our entire credit facility with a new $2.2 billion credit facility which includes $1.6 billion of Term A loans and a $600 million revolving credit facility. The proceeds from the $2.2 billion credit facility were used to finance the Priority acquisition and to prepay borrowings on the Term A Loan and Term B Loans outstanding under our existing credit facility. The newly established $600 million revolving credit facility (none of which was outstanding as of December 31, 2005) is also available for general corporate purposes. In the three months ended December 31, 2005, we made scheduled payments of $40 million and prepayments of $50 million on our Term A Loans.

Our new credit facility requires us to pay interest periodically on the London Interbank Offered Rates ("LIBOR") or base rate options, plus a margin. The margin over LIBOR will range from 0.50% to 1.125%, depending on our consolidated leverage ratio or our credit rating. The margin over the base rate will range from 0% to 0.125% depending upon our consolidated leverage ratio. Initially, the margin over LIBOR will be 0.75% per annum. Under our new credit facility we are required to pay commitment fees on the unused portion of the $600 million revolving credit facility. The commitment fee will range from 0.10% to 0.25% depending on our consolidated leverage ratio or our credit rating. Initially, the commitment fee will be 0.15% per annum.

At December 31, 2005, the weighted average interest rate on the new facility was 5.1%. Our new credit facility contains covenants that limit the indebtedness we may incur, the common shares we may repurchase, and dividends we may pay. The repurchase and dividend covenant applies if certain leverage thresholds are exceeded. The covenants also include a minimum interest coverage ratio and a maximum leverage ratio. At December 31, 2005, we were in compliance with all covenants associated with our credit facility.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table sets forth our schedule of current maturities of our long-term debt as of December 31, 2005, and future minimum lease payments due under noncancellable operating leases (in millions):

	Payments Due by Period as of December 31, 2005				
Contractual obligations	**Total**	**2006**	**2007 - 2008**	**2009 - 2010**	**After 2010**
Long-term debt	$ 1,511	$ 110	$ 440	$ 960	$ 1
Future minimum lease Payments [(1)] [(2)]	120	28	43	16	33
Total contractual cash obligations	$ 1,631	$ 138	$ 483	$ 976	$ 34

(1) In July 2004, we entered into a capital lease with the Camden County Joint Development Authority in association with the development of our new Patient Care Contact Center in St. Marys, Georgia. At December 31, 2005, our lease obligation is $13 million. In accordance with Financial Accounting Standards Board ("FASB") Interpretation Number 39, "Offsetting of Amounts Related to Certain Contracts," our lease obligation has been offset against $13 million of industrial revenue bonds issued to us by the Camden County Joint Development Authority.

(2) This table does not reflect a lease agreement we signed during 2005 for a new corporate headquarters. The building is in the process of being built and we do not anticipate taking possession until the first quarter of 2007. The annual lease commitments will begin at approximately $4 million and the term of the lease is ten and a half years.

OTHER MATTERS

In June 2005, the FASB issued FAS 154, "Accounting Changes and Error Corrections", which superceded APB No. 20, "Accounting Changes". APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. In contrast, FAS 154 requires entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. In addition, FAS 154 makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the implementation of FAS 154 to have an impact on our consolidated results of operations.

In December 2004, the FASB revised FAS 123, "Share-Based Payment" ("FAS 123R"), which replaced FAS 123, "Accounting for Stock-Based Compensation", and superseded Accounting Principles Board No. ("APB") 25, "Accounting for Stock Issued to Employees." FAS 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. As permitted by FAS 123, we currently follow the guidance of APB 25, which allows the use of the intrinsic value method of accounting to value share-based payment transactions with employees. FAS 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. FAS 123R allows implementation using a modified version of prospective application, under which compensation expense for the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. FAS 123R also allows companies to implement by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under FAS 123. We will adopt FAS 123R using the modified prospective method beginning January 1, 2006. The impact of adopting FAS 123R on our consolidated results of operations is not expected to differ materially from the pro forma disclosures currently required by FAS 123 (see note 10 to our consolidated financial statements). In addition, FAS 123R requires classification of the tax benefit from the exercise of stock options in cash flows from financing activities, rather than cash flows from operating activities. In 2005, cash flows from operating activities include a cash inflow of $36 million related to tax benefits from the exercise of stock options.

In January 2003, the FASB issued Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation provisions of FIN 46 were originally effective for financial periods ending after July 15, 2003. In October 2003, the FASB issued Staff Position FIN 46-6, "Effective Date of FIN 46," which delayed the implementation date to financial periods ending after December 31, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of FIN 46, and to exempt certain entities from its requirements. We do not have any variable interest entities requiring consolidation under FIN 46 and FIN 46R. Therefore, adoption of these standards did not have a material impact on our consolidated financial position, consolidated results of operations or our consolidated cash flows.

In January 2003, we adopted FAS 143, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FAS 143 requires the capitalization of the fair value of any legal or contractual obligations associated with the retirement of tangible, long-lived assets in the period in which the liabilities are incurred and the capitalization of a corresponding amount as part of the book value of the related long-lived asset. In subsequent periods, we are required to adjust asset retirement obligations based on changes in estimated fair value, and the corresponding increases in asset book values are depreciated over the useful life of the related asset. As required by FAS 143, we recorded an asset retirement obligation ($3 million at January 1, 2003) primarily related to equipment and leasehold improvements installed in leased, home delivery facilities in which we have a contractual obligation to remove the improvements and equipment upon surrender of the property to the landlord. For certain of our leased facilities, we are required to remove equipment and convert the facilities back to office space upon surrender of the property. We also recorded a net increase in fixed assets (net of accumulated depreciation) of $1 million and a $2 million ($1 million, net of tax) loss from the cumulative effect of change in accounting principle. The $1 million asset is being depreciated, on a straight-line basis, over the remaining term of the leases, which range from seven months to ten years.

We make available through our website (www.express-scripts.com), access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports (when applicable), and other filings with the SEC. Such access is free of charge and is available as soon as reasonably practicable after such information is filed with the SEC. In addition, the SEC maintains an internet site (www.sec.gov) containing reports, proxy and information statements, and other information regarding issuers filing electronically with the SEC (which includes us). Information included on our website is not part of this annual report.

IMPACT OF INFLATION

Changes in prices charged by manufacturers and wholesalers for pharmaceuticals affect our revenues and cost of revenues. Most of our contracts provide that we bill clients based on a generally recognized price index for pharmaceuticals, and accordingly we have been able to recover price increases from our clients under the terms of our agreements.

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

We are exposed to market risk from changes in interest rates related to debt outstanding under our credit facility. Our earnings are subject to change as a result of movements in market interest rates. At December 31, 2005, we had $1.0 billion of obligations, net of cash, which were subject to variable rates of interest under our credit facility. A hypothetical increase in interest rates of 1% would result in an increase in annual interest expense of approximately $10 million (pre-tax), presuming that obligations subject to variable interest rates remained constant.

Item 8 — Consolidated Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Express Scripts, Inc.'s December 31, 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Express Scripts, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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 15(a)(2) presents 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Controls Over Financial Reporting, management has excluded Priority from its assessment of internal control over financial reporting as of December 31, 2005 because it was acquired by the Company in a purchase business combination during 2005. We have also excluded Priority from our audit of internal control over financial reporting. Priority is a wholly-owned subsidiary whose total assets and total revenues represent 28.9% and 3.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2005.

/s/PricewaterhouseCoopers LLP
St. Louis, MO
February 22, 2006

EXPRESS SCRIPTS, INC.
CONSOLIDATED BALANCE SHEET

	December 31,	
(in millions, except share data)	**2005**	**2005**
Assets		
Current assets:		
Cash and cash equivalents	$ 478	$ 166
Receivables, net	1,393	1,057
Inventories	273	159
Deferred taxes	53	33
Prepaid expenses and other current assets	60	28
Total current assets	2,257	1,443
Property and equipment, net	201	181
Goodwill, net	2,700	1,709
Other intangible assets, net	303	245
Other assets	32	22
Total assets	$ 5,493	$ 3,600
Liabilities and Stockholders' Equity		
Current liabilities:		
Claims and rebates payable	$ 1,380	$ 1,237
Accounts payable	596	323
Accrued expenses	308	232
Current maturities of long-term debt	110	22
Total current liabilities	2,394	1,814
Long-term debt	1,401	412
Other liabilities	233	178
Total liabilities	4,028	2,404
Commitments and Contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, and no shares issued and outstanding	-	-
Common Stock, 275,000,000 shares authorized, $0.01 par value; shares issued: 159,499,000 and 79,787,000, respectively; shares outstanding: 145,993,000 and 73,858,000, respectively	2	1
Additional paid-in capital	474	467
Unearned compensation under employee compensation plans	(6)	(18)
Accumulated other comprehensive income	9	8
Retained earnings	1,543	1,143
	2,022	1,601
Common Stock in treasury at cost, 13,506,000 and 5,929,000 shares, respectively	(557)	(405)
Total stockholders' equity	1,465	1,196
Total liabilities and stockholders' equity	$ 5,493	$ 3,600

See accompanying Notes to Consolidated Financial Statements.

EXPRESS SCRIPTS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)	Year Ended December 31, 2005	2004	2003
Revenues [1]	$ 16,266	$ 15,115	$ 13,295
Cost of revenues [1]	15,067	14,171	12,428
Gross profit	1,199	944	867
Selling, general and administrative	556	451	417
Operating income	643	493	450
Other income (expense):			
Undistributed loss from joint venture	(2)	(5)	(6)
Interest income	11	4	3
Interest expense	(37)	(42)	(41)
	(28)	(43)	(44)
Income before income taxes	615	450	406
Provision for income taxes	215	172	155
Income before cumulative effect of accounting change	400	278	251
Cumulative effect of accounting change, net of tax	-	-	(1)
Net income	$ 400	$ 278	$ 250
Basic earnings per share:			
Before cumulative effect of accounting change	$ 2.72	$ 1.82	$ 1.61
Cumulative effect of accounting change	-	-	(0.01)
Net income	$ 2.72	$ 1.82	$ 1.60
Weighted average number of common shares outstanding during the period - Basic EPS	147	153	156
Diluted earnings per share:			
Before cumulative effect of accounting change	$ 2.68	$ 1.79	$ 1.59
Cumulative effect of accounting change	-	-	(0.01)
Net income	$ 2.68	$ 1.79	$ 1.58
Weighted average number of common shares outstanding during the period - Diluted EPS	149	155	158

[1]Excludes estimated retail pharmacy co-payments of $5,821, $5,546 and $5,276 for the years ended December 31, 2005, 2004, and 2003, respectively. These are amounts we instructed retail pharmacies to collect from members. We have no information regarding actual co-payments collected.

See accompanying Notes to Consolidated Financial Statements

EXPRESS SCRIPTS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Number of Shares	Amount						
(in millions)	Common Stock	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, 2002	80	$ 1	$ 504	$ (8)	$ (4)	$ 615	$ (104)	$ 1,004
Comprehensive income:								
Net income	-	-	-	-	-	250	-	250
Other comprehensive income,								
Foreign currency translation adjustment	-	-	-	-	6	-	-	6
Realized and unrealized losses on derivative financial instruments; net of taxes	-	-	-	-	2	-	-	2
Comprehensive income	-	-	-	-	8	250	-	258
Treasury stock acquired	-	-	-	-	-	-	(143)	(143)
Common stock issued under employee plans, net of forfeitures and stock redeemed for taxes	(1)	-	2	(23)	-	-	21	-
Amortization of unearned compensation under employee plans	-	-	-	8	-	-	-	8
Exercise of stock options	-	-	(48)	-	-	-	89	41
Tax benefit relating to employee stock compensation	-	-	27	-	-	-	-	27
Balance at December 31, 2003	79	1	485	(23)	4	865	(137)	1,195
Comprehensive income:								
Net income	-	-	-	-	-	278	-	278
Other comprehensive income,								
Foreign currency translation adjustment	-	-	-	-	3	-	-	3
Realized and unrealized losses on derivative financial instruments; net of taxes	-	-	-	-	1	-	-	1
Comprehensive income	-	-	-	-	4	278	-	282
Treasury stock acquired	-	-	-	-	-	-	(336)	(336)
Common stock issued under employee plans, net of forfeitures and stock redeemed for taxes	-	-	-	(7)	-	-	9	2
Amortization of unearned compensation under employee plans	-	-	-	12	-	-	-	12
Exercise of stock options	-	-	(30)	-	-	-	59	29
Exercise of stock warrants	-	-	1	-	-	-	-	1
Tax benefit relating to employee stock compensation	-	-	11	-	-	-	-	11
Balance at December 31, 2005	79	1	467	(18)	8	1,143	(405)	1,196
Comprehensive income:								
Net income	-	-	-	-	-	400	-	400
Other comprehensive income,								
Foreign currency translation adjustment	-	-	-	-	1	-	-	1
Realized and unrealized losses on derivative financial instruments; net of taxes	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	-	1	400	-	401
Stock split in form of dividend	80	1	(1)					-
Treasury stock acquired	-	-	-	-	-	-	(220)	(220)
Common stock issued under employee plans, net of forfeitures and stock redeemed for taxes	-	-	(3)	1	-	-	1	(1)
Amortization of unearned compensation under employee plans	-	-	-	11	-	-	-	11
Exercise of stock options	-	-	(25)	-	-	-	67	42
Tax benefit relating to employee stock compensation	-	-	36	-	-	-	-	36
Balance at December 31, 2005	159	$ 2	$ 474	$ (6)	$ 9	$ 1,543	$ (557)	$ 1,465

See accompanying Notes to Consolidated Financial Statements

EXPRESS SCRIPTS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
(in millions)	**2005**	**2004**	**2003**
Cash flows from operating activities:			
Net income	$ 400	$ 278	$ 250
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	84	70	54
Deferred income taxes	18	19	34
Bad debt expense	18	6	(3)
Tax benefit relating to employee stock compensation	36	11	27
Amortization of unearned compensation under employee plans	11	12	8
Cumulative effect of accounting change	-	-	2
PCA loss reserve	-	12	-
Other, net	6	7	3
Changes in operating assets and liabilities, net of changes resulting from acquisitions:			
Receivables	6	(9)	(23)
Inventories	(5)	(32)	44
Other current and non-current assets	6	(7)	7
Claims and rebates payable	143	91	93
Other current and non-current liabilities	70	38	(38)
Net cash provided by operating activities	793	496	458
Cash flows from investing activities:			
Purchases of property and equipment	(60)	(51)	(53)
Proceeds from sale of property and equipment	-	-	6
Acquisitions, net of cash acquired, and investment in joint venture	(1,311)	(332)	4
Repayment from (loan to) Pharmacy Care Alliance	2	(14)	-
Other	-	-	-
Net cash used in investing activities	(1,369)	(397)	(43)
Cash flows from financing activities:			
Proceeds from long-term debt	1,600	676	50
Repayment of long-term debt	(474)	(746)	(160)
(Repayments of) Proceeds from revolving credit line, net	(50)	50	-
Treasury stock acquired	(220)	(336)	(143)
Deferred financing fees	(9)	(6)	-
Net proceeds from employee stock plans	40	31	41
Other	-	1	-
Net cash provided by (used in) financing activities	887	(330)	(212)
Effect of foreign currency translation adjustment	1	1	2
Net increase (decrease) in cash and cash equivalents	312	(230)	205
Cash and cash equivalents at beginning of year	166	396	191
Cash and cash equivalents at end of year	$ 478	$ 166	$ 396
Supplemental data:			
Cash paid during the year for:			
Income taxes	$ 206	$ 136	89
Interest	22	24	37

See accompanying Notes to Consolidated Financial Statements

1. Summary of significant accounting policies

Organization and operations. We are one of the largest full-service pharmacy benefit management ("PBM") companies in North America, providing health care management and administration services on behalf of clients that include health maintenance organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans and government health programs. Our integrated PBM services include network claims processing, home delivery pharmacy services, specialty prescription fulfillment, benefit design consultation, drug utilization review, formulary management, disease management and drug data analysis services. We provide specialty services, including patient care and direct specialty home delivery to patients; distribution of infusion drugs to patient homes, physician offices, and infusion centers; distribution of pharmaceuticals and medical supplies to providers and clinics; third party logistics services for contracted pharma clients; fertility services to providers and patients; and bio-pharma services including marketing, reimbursement and customized logistics solutions ("Specialty"). Specialty services do not include the fulfillment of specialty prescriptions at retail pharmacies participating in our networks. These prescriptions are reflected in PBM retail pharmacies participating in our networks. We also provide PBS services through our Pharma Business Solutions ("PBS") unit. PBS services include distribution services through our Express Scripts Specialty Distribution Services subsidiary ("SDS"), drug sample fulfillment and sample accountability services through our Phoenix Marketing Group, Inc. ("PMG") subsidiary.

Basis of presentation. The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in affiliated companies, 20% to 50% owned, are accounted for under the equity method. 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. We have 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 book balances of $171 million and $160 million (representing outstanding checks not yet presented for payment) have been reclassified to claims and rebates payable, accounts payable and accrued expenses at December 31, 2005 and 2004, respectively. This reclassification restores balances to cash and current liabilities for liabilities to our vendors which have not been defeased. No overdraft or unsecured short-term loan exists in relation to these negative balances.

Accounts receivable. Based on our revenue recognition policies discussed below, certain claims at the end of a period are unbilled. Revenue and unbilled receivables for those claims are estimated each period based on the amount to be paid to network pharmacies and historical gross margin. Estimates are adjusted to actual at the time of billing. In addition, revenue and unbilled receivables for rebates based on market share performance are calculated quarterly based on an estimate of rebatable prescriptions and the rebate per prescription. These estimates are adjusted to actual when the number of rebatable prescriptions and the rebate per prescription have been determined and the billing to the manufacturers has been completed. Historically, adjustments to our original estimates have been relatively immaterial. As of December 31, 2005 and 2004, unbilled receivables were $686 million and $665 million, respectively. Unbilled receivables are billed to clients typically within 30 days based on the contractual billing schedule agreed upon with the client.

We provide an allowance for doubtful accounts equal to estimated uncollectible receivables. This estimate is based on the current status of each customer's receivable balance as well as current economic and market conditions. As of December 31, 2005 and 2004, we have an allowance for doubtful accounts of $58 million and $31 million, respectively. This increase is primarily due to additional reserves for receivables from our clients' members, as well as the acquisition of Priority Healthcare, Inc. ("Priority") in the fourth quarter of 2005.

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 and three to five years for equipment and purchased computer software. Leasehold improvements are amortized on a straight-line basis over the remaining 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 that 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. Research and development expenditures relating to the development of software for internal purposes are charged to expense until technological feasibility is established in accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Thereafter, the remaining software production costs up to the date placed into production are capitalized and included as Property and Equipment. Amortization of the capitalized amounts commences on 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.

Marketable securities. All investments not included as cash and cash equivalents are accounted for under Financial Accounting Standards Board Statement No. ("FAS") 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of our marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. All marketable securities at December 31, 2005 and 2004 were recorded in other assets on our Consolidated Balance Sheet.

Securities bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are reported at fair value, which is based upon quoted market prices, with unrealized holding gains and losses included in earnings. We held trading securities, consisting primarily of mutual funds, of $24 million and $18 million at December 31, 2005 and 2004, respectively. We maintain our trading securities to offset changes in certain liabilities related to our deferred compensation plan discussed in Note 10. Net gains recognized on the trading portfolio were $1 million in 2005 and 2004, and $2 million in 2003, respectively. The acquisition of Priority resulted in a $4 million increase in trading securites.

Goodwill. Goodwill is evaluated for impairment annually or when events or circumstances occur indicating that goodwill might be impaired. In addition, we evaluate whether events or circumstances have occurred that may indicate an impairment in goodwill. 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. No such impairment existed at December 31, 2005 or 2004.

Other intangible assets. Other intangible assets include, but are not limited to, customer contracts, non-compete agreements, deferred financing fees, trade names and certain advance discounts paid to clients under contractual agreements. Other intangible assets, excluding customer contracts, are recorded at cost. Customer contracts are valued based on discounted cash flows over the expected life of the intangible asset. Excluding trade names which have an indefinite life, other intangible assets are amortized on a straight-line basis, which approximates the pattern of benefit, over periods from two to 20 years (see Note 6). The amount reported is net of accumulated amortization of $156 million and $127 million at December 31, 2005 and 2004, respectively. Amortization expense for customer contracts and non-compete agreements included in selling, general and administrative expenses was $21 million, $18 million and $14 million for the years ended December 31, 2005, 2004 and 2003, respectively. Amortization expense for deferred financing fees included in interest expense was $1 million in 2005 and 2004, and $2 million in 2003. Amortization expense for advance discounts paid to customers is recorded against revenue and was $11 million in 2005 and $8 million in 2004 and 2003.

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 intangible, 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. No such impairment existed as of December 31, 2005 and 2004.

Self-insurance reserves. We maintain insurance coverage for claims that arise in the normal course of business. Where insurance coverage is not available, or, in our judgment, is not cost-effective, we maintain self-insurance reserves to reduce our exposure to future legal costs, settlements and judgments. Self-insured losses are accrued based upon estimates of the aggregate liability for the costs of uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and our historical experience (see Note 8). It is not possible to predict with certainty the outcome of these claims, and we can give no assurances that any losses, in excess of our insurance and any self-insurance reserves, will not be material.

Fair value of financial instruments. The carrying value of cash and cash equivalents, accounts receivable, claims and rebates payable, and accounts payable approximated fair values due to the short-term maturities of these instruments. The fair value, which approximates the carrying value, of our bank credit facility was estimated using either quoted market prices or the current rates offered to us for debt with similar maturity.

Revenue recognition. Revenues from our PBM segment are earned by dispensing prescriptions from our home delivery pharmacies, processing claims for prescriptions filled by retail pharmacies in our networks, and by providing services to drug manufacturers, including administration of discount programs (see also “—Rebate Accounting”).

Revenues from dispensing prescriptions from our home delivery pharmacies, which include the co-payment received from members of the health plans we serve, are recorded when prescriptions are shipped. At the time of shipment, our earnings process is complete: the obligation of our customer to pay for the drugs is fixed, and, due to the nature of the product, the member may not return the drugs nor receive a refund.

Revenues related to the sale of prescription drugs by retail pharmacies in our networks consist of the amount the client has contracted to pay us (which excludes the co-payment) for the dispensing of such drugs together with any associated administrative fees. These revenues are recognized when the claim is processed. When we independently have a contractual obligation to pay our network pharmacy providers for benefits provided to our clients’ members, we act as a principal in the arrangement and we include the total payments we have contracted to receive from these clients as revenue, and payments we make to the network pharmacy providers as cost of revenue in compliance with Emerging Issues Task Force (“EITF”) Issue No. 99-19, “Reporting Gross Revenue as a Principal vs. Net as an Agent.” When a prescription is presented by a member to a retail pharmacy within our network, we are solely responsible for confirming member eligibility, performing drug utilization review, reviewing for drug-to-drug interactions, performing clinical intervention, which may involve a call to the member’s physician, communicating plan provisions to the pharmacy, directing payment to the pharmacy and billing the client for the amount they are contractually obligated to pay us for the prescription dispensed, as specified within our client contracts. We also provide benefit design and formulary consultation services to clients. We have separately negotiated contractual relationships with our clients and with network pharmacies, and under our contracts with pharmacies we assume the credit risk of our clients’ ability to pay for drugs dispensed by these pharmacies to clients’ members. Our clients are not obligated to pay the pharmacies as we are primarily obligated to pay retail pharmacies in our network the contractually agreed upon amount for the prescription dispensed, as specified within our provider contracts. In addition, under most of our client contracts, we realize a positive or negative margin represented by the difference between the negotiated ingredient costs we will receive from our clients and the separately negotiated ingredient costs we will pay to our network pharmacies. These factors indicate we are a principal as defined by EITF 99-19 and, as such, we record ingredient cost billed to clients in revenue and the corresponding ingredient cost paid to network pharmacies in cost of revenues.

If we merely administer a client’s network pharmacy contracts to which we are not a party and under which we do not assume credit risk, we record only our administrative fees as revenue. For these clients, we earn an administrative fee for collecting payments from the client and remitting the corresponding amount to the pharmacies in the client’s network. In these transactions we act as a conduit for the client. Because we are not the principal in these transactions, drug ingredient cost is not included in our revenues or in our cost of revenues.

In retail pharmacy transactions, amounts paid to pharmacies and amounts charged to clients are always exclusive of the applicable co-payment. Under our pharmacy agreements, the pharmacy is solely obligated to collect the co-payment from the member based on the amount we advise them to collect. We have no information regarding actual co-payments collected. As such, we do not include member co-payments to retail pharmacies in our revenue or in our cost of revenue. Retail pharmacy co-payments, which we instructed retail pharmacies to collect from members, of $5.8 billion, $5.5 billion and $5.3 billion for the years ended December 31, 2005, 2004, and 2003, respectively, are excluded from revenues and cost of revenues.

We bill our clients based upon the billing schedules established in client contracts. At the end of a period, any unbilled revenues related to the sale of prescription drugs that have been adjudicated with retail pharmacies are estimated based on the amount we will pay to the pharmacies and historical gross margin. Those amounts due from our clients are recorded as revenue as they are contractually due to us for past transactions. Adjustments are made to these estimated revenues to reflect actual billings at the time clients are billed; historically, these adjustments have not been material.

Certain implementation and other fees paid to clients upon the initiation of a contractual agreement are considered an integral part of overall contract pricing and are recorded as a reduction of revenue. Where they are refundable upon early termination of the contract, these payments are capitalized and amortized as a reduction of revenue on a straight-line basis over the life of the contract.

Revenues from our Specialty segment are recognized at the point of shipment for those sales when the risk of loss passes at the point of shipment and upon receipt for those sales when the risk of loss passes at the point of receipt as products are shipped to unaffiliated customers with appropriate provisions recorded for estimated discounts and contractual allowances. Discounts and contractual allowances are estimated based on historical collections over a recent period for the sales that are recorded at gross charges. The percentage is applied to the applicable accounts receivable balance that contains gross charges for each period. Any differences between our estimates and actual collections are reflected in operations in the year payment is received. Differences may result in the amount and timing of our revenues for any period if actual performance varies from our estimates. Allowances for returns are estimated based on historical return trends. Financing charge revenues are recognized when received.

Revenues from our PBS segment are derived from the distribution of pharmaceuticals requiring special handling or packaging where we have been selected by the pharmaceutical manufacturer as part of a limited distribution network, the distribution of pharmaceuticals through Patient Assistance Programs where we receive a fee from the pharmaceutical manufacturer for administrative and pharmacy services for the delivery of certain drugs free of charge to doctors for their indigent patients, sample fulfillment and sample accountability services. Revenues earned by PBS include administrative fees received from pharmaceutical manufacturers for dispensing or distributing consigned pharmaceuticals requiring special handling or packaging and administrative fees for verification of practitioner licensure and distribution of consigned drug samples to doctors based on orders received from pharmaceutical sales representatives. We also administer sample card programs for certain manufacturers and include the ingredient costs of those drug samples dispensed from retail pharmacies in PBS revenues, and the associated costs for these sample card programs in cost of revenues. Because manufacturers are independently obligated to pay us and we have an independent contractual obligation to pay our network pharmacy providers for free samples dispensed to patients under sample card programs, we include the total payments from these manufacturers (including ingredient costs) as revenue, and payments to the network pharmacy provider as cost of revenue. These transactions require us to assume credit risk.

Rebate accounting. Historically, we have administered two rebate programs through which we receive rebates and administrative fees from pharmaceutical manufacturers. Rebates earned for the administration of these programs, performed in conjunction with claim processing and home delivery services provided to clients, are recorded as a reduction of cost of revenue and the portion of the rebate payable to customers is treated as a reduction of revenue. When we earn rebates and administrative fees in conjunction with formulary management services, but do not process the underlying claims, we record rebates received from manufacturers, net of the portion payable to customers, in revenue. We record rebates and administrative fees receivable from the manufacturer and payable to clients when the prescriptions covered under contractual agreements with the manufacturers are dispensed; these amounts are not dependent upon future pharmaceutical sales.

With respect to rebates based on actual market share performance, we estimate rebates and the associated receivable from pharmaceutical manufacturers quarterly based on our estimate of the number of rebatable prescriptions and the rebate per prescription. The portion of rebates payable to clients is estimated quarterly based on historical and/or anticipated sharing percentages and our estimate of rebates receivable from pharmaceutical manufacturers. These estimates are adjusted to actual when amounts are received from manufacturers and the portion payable to clients is paid.

With respect to rebates that are not based on market share performance, no estimation is required for the manufacturer billing amounts which are determinable when the drug is dispensed. We pay all or a contractually agreed upon portion of such rebates to our clients. The portion of rebates payable to clients is estimated based on historical and/or anticipated sharing percentages. These estimates are adjusted to actual when amounts are paid to clients.

Cost of revenues. Cost of revenues includes product costs, network pharmacy claims payments and other direct costs associated with dispensing prescriptions, including shipping and handling (see also "—Revenue Recognition" and "—Rebate Accounting").

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 (reflecting the two-for-one stock split effective June 24, 2005). 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 following is the reconciliation between the number of weighted average shares used in the basic and diluted earnings per share calculation for all periods (amounts in millions):

	2005	**2004**	**2003**

Weighted average number of common shares outstanding during the period - Basic EPS	147	153	156
Dilutive common stock equivalents:			
Outstanding stock options, restricted stock units, and executive deferred compensation units	2	2	2
Weighted average number of common shares outstanding during the period - Diluted EPS	149	155	158

The above shares are all calculated under the "treasury stock" method in accordance with FAS 128, "Earnings Per Share."

Foreign currency translation. The financial statements of ESI Canada, our Canadian operations, 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 is the local currency and cumulative translation adjustments (credit balances of $10 million and $9 million at December 31, 2005 and 2004, respectively) are recorded within the accumulated other comprehensive income component of stockholders' equity.

Employee stock-based compensation. We account for employee stock options in accordance with Accounting Principles Board No. ("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 we grant options at a price equal to market value at the time of grant. During 1996, Financial Accounting Standard ("FAS") No. 123, "Accounting for Stock-Based Compensation", 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. In December 2004, the Financial Accounting Standards Board ("FASB") revised FAS 123 ("FAS 123R"), "Share-Based Payment", which replaces FAS 123, "Accounting for Stock-Based Compensation", and supersedes APB 25. FAS 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. We will adopt FAS 123R using the modified prospective method beginning January 1, 2006 (see "New Accounting Guidance").

The following table shows stock-based compensation expense included in net income and pro forma stock-based compensation expense, net income and earnings per share had we elected to record compensation expense based on the fair value of options at the grant date for the years ended December 31, 2005, 2004 and 2003 (see also Note 10):

(in millions, except per share data)	**2005**	**2004**	**2003**
Stock-based compensation, net of tax			
As reported	$ 7	$ 7	$ 4
Pro forma	18	15	16
Net income			
As reported	$ 400	$ 278	$ 250
Pro forma	389	270	238
Basic earnings per share			
As reported	$ 2.72	$ 1.82	$ 1.60
Pro forma	2.65	1.77	1.53
Diluted earnings per share			
As reported	$ 2.68	$ 1.79	$ 1.58
Pro forma	2.60	1.73	1.50

Comprehensive income. In addition to net income, our components of comprehensive income (net of taxes) are foreign currency translation adjustments and realized and unrealized losses on derivative financial instruments designated as cash flow hedges. We have displayed comprehensive income within the Statement of Changes in Stockholders' Equity.

Segment reporting. Effective in October 2005, we began managing our Specialty business as a separate operating segment. Previously, our Specialty business was part of our domestic PBM operating segment. The change is primarily due to the acquisition of Priority in October 2005. Our Specialty segment consists of our CuraScript (acquired in January 2004) and Priority businesses and 2004 data has been reclassified to reflect the change in our operating and reporting segments (See Note 11).

New accounting guidance. In June 2005, the FASB issued FAS 154, "Accounting Changes and Error Corrections", which superceded APB No. 20, "Accounting Changes". APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. In contrast, FAS 154 requires entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. In addition, FAS 154 makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the implementation of FAS 154 to have an impact on our consolidated results of operations.

In December 2004, the FASB revised FAS 123. FAS 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. As permitted by FAS 123, we currently follow the guidance of APB 25, which allows the use of the intrinsic value method of accounting to value share-based payment transactions with employees. FAS 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. FAS 123R allows implementation using a modified version of prospective application, under which compensation expense for the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. FAS 123R also allows companies to implement by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under FAS 123. We will adopt FAS 123R using the modified prospective method beginning January 1, 2006. The impact of adopting FAS 123R on our consolidated results of operations is not expected to differ materially from the pro forma disclosures currently required by FAS 123 (see "Employee stock-based compensation"). In addition, FAS 123R requires classification of the tax benefit from the exercise of stock options in cash flows from financing activities, rather than cash flows from operating activities. In 2005, cash flows from operating activities included a cash inflow of $36 million related to tax benefits from the exercise of stock options.

In January 2003, we adopted FAS 143, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FAS 143 requires the capitalization of the fair value of any legal or contractual obligations associated with the retirement of tangible, long-lived assets in the period in which the liabilities are incurred and the capitalization of a corresponding amount as part of the book value of the related long-lived asset. In subsequent periods, we are required to adjust asset retirement obligations based on changes in estimated fair value, and the corresponding increases in asset book values are depreciated over the useful life of the related asset. As required by FAS 143, we recorded an asset retirement obligation ($3.1 million at January 1, 2003) primarily related to equipment and leasehold improvements installed in leased, home delivery facilities in which we have a contractual obligation to remove the improvements and equipment upon surrender of the property to the landlord. For certain of our leased facilities, we are required to remove equipment and convert the facilities back to office space upon surrender of the property. We also recorded a net increase in fixed assets (net of accumulated depreciation) of $1 million and a $2 million ($1 million, net of tax) loss from the cumulative effect of change in accounting principle. The $1 million asset is being depreciated, on a straight-line basis, over the remaining term of the leases, which range from seven months to ten years.

2. Changes in business

Acquisitions.

On October 14, 2005, we acquired the capital stock of Priority in a cash transaction for $28 per share, or approximately $1.3 billion. The acquisition was accomplished through the merger of one of our wholly-owned subsidiaries with and into Priority. Priority, headquartered in Lake Mary, Florida, is among the nation's largest Specialty and distribution companies, with approximately $1.7 billion in annual revenue during 2004 and approximately $1.1 billion in revenue for the six months ended July 2, 2005. This acquisition is expected to enhance our Specialty business. The $1.3 billion purchase price was financed with approximately $167 million of cash on hand and the remainder by adding $1.6 billion in Term A loans through a new credit facility which replaced our prior credit facility. We are currently in the process of evaluating the net assets acquired from Priority. The allocation of the purchase price to the assets and liabilties acquired from Priority is preliminary and subject to revision based on the outcome of ongoing evaluations of these assets and liabilities.

The following table summarizes the estimated fair values of the Priority assets acquired and liabilities assumed at the date of acquisition (in millions):

	As of October 14, 2005
Current assets	$ 526
Property and equipment	24
Goodwill	991
Other identified intangibles	85
Other assets	3
Total assets acquired	1,629
Current liabilities	276
Deferred tax liabilities	37
Total liabilities assumed	313
Net Assets Acquired	$ 1,316

Aetna Specialty Pharmacy, a joint venture existing between Priority and Aetna, Inc. ("Aetna"), was 60% owned by Priority and 40% by Aetna. Upon a change in control of Priority, the joint venture agreement provided Aetna with an option to purchase Priority's 60% ownership share of the joint venture. Aetna exercised its option and on December 30, 2005 purchased Priority's 60% ownership share of Aetna Specialty Pharmacy. The gain on the assets sold, which was not material, reduced the amount of goodwill we recorded through the Priority acquisition. In the table above, the net assets of Aetna Specialty Pharmacy are excluded from the assets acquired and liabilities assumed.

The results of operations of Priority are included in our consolidated results of operations beginning October 14, 2005. The following unaudited pro forma information presents a summary of our combined results of operations and those of Priority as if the acquisition had occurred at the beginning of the periods presented, along with certain pro forma adjustments to give effect to amortization of other intangible assets, interest expense on acquisition debt and other adjustments. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date, nor is it necessarily an indication of trends in future results (in millions, except per share data):

	Year Ended December 31, 2005	Year Ended December 31, 2004
Total revenues	$ 17,838	$ 16,854
Net income	392	286
Basic earnings per share	2.67	1.87
Diluted earnings per share	2.63	1.85

On January 30, 2004, we acquired the outstanding capital stock of CuraScript, for approximately $333.4 million, which includes a purchase price adjustment for working capital and transaction costs. CuraScript is one of the nation's largest Specialty services companies and has enhanced our ability to provide comprehensive pharmaceutical management services to our clients and their members. CuraScript operates seven specialty pharmacies throughout the United States and serves over 175 managed care organizations, 30 Medicaid programs and the Medicare program. The purchase price has been allocated based upon the estimated fair value of net assets acquired at the date of the acquisition. A portion of the excess of purchase price over tangible net assets acquired has been allocated to intangible assets, consisting of customer contracts in the amount of $29 million and non-competition agreements in the amount of $3 million, which are being amortized using the straight-line method over estimated useful lives of ten years and three years, respectively, and trade names in the amount of $1 million, which are not being amortized. These assets are included in other intangible assets. In addition, the excess of purchase price over tangible net assets and identified intangible assets acquired has been allocated to goodwill in the amount of $285 million, which is not being amortized.

Medicare discount card program. In January 2004, we entered into an agreement to provide PBM services for the Medicare discount program of Pharmacy Care Alliance, Inc. ("PCA"), a nonstock, not-for-profit entity jointly controlled by the National Association of Chain Drugstores ("NACDS") and us. Our PBM services include the negotiation of discounts from individual retailers and pharmaceutical manufacturers, the enrollment of cardholders and the processing of prescription claims.

During 2004, we entered into a lending agreement with PCA, whereby we committed to lend up to $17 million to PCA in the form of a revolving line of credit available through March 31, 2005. Requests for borrowings on the revolving line of credit require the unanimous consent of PCA's board of directors, which consists of representatives from NACDS and from our management team, or its designated representatives. PCA will utilize the revolving line of credit to fund its operating expenditures. NACDS has agreed to guarantee $2 million on the revolving line of credit. As of December 31, 2005, we have loaned PCA $15 million and received $3 million in interest and principal payments.

The Medicare discount program is scheduled to end by June of 2006. In regard to the revolving line of credit extended to PCA, the collectibility of any unsecured borrowings will be a function of PCA's costs in closing out the program. Enrollment as of December 31, 2005 was approximately 266,000 members. Because 2005 enrollment and utilization was lower than expected, the outstanding balance of our receivable from PCA was fully reserved at the end of 2005.

3. Joint venture

We are one of the founders of RxHub, an electronic exchange enabling physicians who use electronic prescribing technology to link to pharmacies, PBM companies and health plans. The company operates as conduit of information among all parties engaging in electronic prescribing. We own one-third of the equity of RxHub (as do each of the other two founders) and have committed to invest up to $20 million over the first five years of the joint venture with almost $20 million invested through December 31, 2005. We have recorded 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. Our percentage of RxHub's loss for 2005, 2004 and 2003 is $2 million, $5 million, and $6 million, respectively, and has been recorded in other income (expense), net, in our Consolidated Statement of Operations. The cumulative, undistributed losses of RxHub through December 31, 2005 are $19 million. Our investment in RxHub (approximately $1 million at December 31, 2005 and 2004) is recorded in other assets on our Consolidated Balance Sheet.

4. Property and equipment

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

	December 31,	
(in millions)	2005	2004
Land and buildings	$ 6	$ 6
Furniture	27	19
Equipment	162	134

Computer software		163		128
Leasehold improvements		44		35
		402		322
Less accumulated depreciation		201		141
	$	201	$	181

Depreciation expense for 2005, 2004 and 2003 was $63 million, $52 million and $40 million, respectively. Internally developed software, net of accumulated depreciation, was $54 million and $47 million at December 31, 2005 and 2004, respectively.

In July 2004, we entered into a capital lease with the Camden County Joint Development Authority in association with the development of our new Patient Care Contact Center in St. Marys, Georgia. At December 31, 2005, our lease obligation was $13 million. In accordance with FASB Interpretation Number 39, "Offsetting of Amounts Related to Certain Contracts," our lease obligation has been offset against $13 million of industrial revenue bonds issued to us by the Camden County Joint Development Authority.

Under certain of our operating leases for facilities in which we operate home delivery and specialty pharmacies, we are required to remove improvements and equipment upon surrender of the property to the landlord and convert the facilities back to office space. Our asset retirement obligation was $6 million and $4 million at December 31, 2005 and 2004, respectively. The acquisition of Priority resulted in a $2 million increase in our asset retirement obligation.

5. Goodwill and Other Intangibles

The following is a summary of our goodwill and other intangible assets (amounts in millions).

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill				
PBM [1]	$ 1,509	$ 107	$ 1,508	$ 107
Specialty[2] [3]	1,276	-	286	-
PBS	22	-	22	-
	$ 2,807	$ 107	$ 1,816	$ 107
Other intangible assets				
PBM				
Customer contracts	$ 265	$ 94	$ 265	$ 82
Other [4]	72	52	68	39
	337	146	333	121
Specialty				
Customer contracts [2] [3]	111	9	29	3
Other [2] [3]	8	2	4	1
	119	11	33	4
PBS				
Customer contracts	4	2	4	2
Other	2	-	2	-
	6	2	6	2
Total other intangible assets	$ 462	$ 159	$ 372	$ 127

[1] Changes in goodwill and accumulated amortization from December 31, 2004 to December 31, 2005 are a result of changes in foreign currency exchange rates.

[2] In the first quarter of 2005 we finalized the allocation of the CuraScript purchase price to tangible and intangible net assets resulting in a $1 million decrease in goodwill (See Note 2).

[3] As a result of our acquisition of the capital stock of Priority in October 2005, we preliminarily recorded goodwill, customer contracts, trade names, and other intangible assets of $991 million, $82 million, $2 million, and $1 million, respectively (See Note 2).

[4] Write-offs of deferred financing fees due to the refinancing of our bank credit facility (see Note 6) also resulted in changes in other intangible assets from December 31, 2004 to December 31, 2005.

The aggregate amount of amortization expense of other intangible assets was $33 million, $34 million and $24 million for the twelve months ended December 31, 2005, 2004 and 2003, respectively. The future aggregate amount of amortization expense of other intangible assets is expected to be approximately $42 million for 2006, $38 million for 2007, $35 million for 2008, $34 million for 2009 and $29 million for 2010. The weighted average amortization period of intangible assets subject to amortization is 15 years in total, and by major intangible class is 16 years for customer contracts and four years for other intangible assets.

6. Financing

Long-term debt consists of:

(in millions)	December 31, 2005	2004
Term A loans due October 14, 2010 with an average interest rate of 5.05% at December 31, 2005	$ 1,510	$ -
Term A loans due February 13, 2009 with an average interest rate of 3.46% at December 31, 2004	-	185
Term B loans due February 13, 2010 with an average interest rate of 3.70% at December 31, 2004 and a deferred interest rate swap gain of $50 at December 31, 2004	$ -	198
Revolving credit facility due February 13, 2009 with an average interest rate of 3.67% at December 31, 2004	$ -	50
Other	1	1
Total debt	1,511	434
Less current maturities	110	22
Long-term debt	$ 1,401	$ 412

At December 31, 2004, our credit facility with a commercial bank syndicate consisted of $185 million of Term A loans, $198 million of Term B loans, and a $400 million revolving credit facility (of which $50 million was outstanding at December 31, 2004). In October 2005, we refinanced our entire credit facility with a new $2.2 billion credit facility which includes $1.6 billion of Term A loans and a $600 million revolving credit facility. The proceeds from the $2.2 billion credit facility were used to finance the Priority acquisition and to prepay borrowings on the Term A and Term B loans outstanding under our existing credit facility. As a result of this refinancing, we wrote-off approximately $4 million in deferred financing fees relating to our prior credit facility in the fourth quarter of 2005. The newly established $600 million revolving credit facility (none of which was outstanding as of December 31, 2005) is also available for general corporate purposes. In the three months ended December 31, 2005, we made scheduled payments of $40 million and prepayments of $50 million on our Term A Loans.

Our new credit facility requires us to pay interest periodically on the London Interbank Offered Rates ("LIBOR") or base rate options, plus a margin. The margin over LIBOR will range from 0.50% to 1.125%, depending on our consolidated leverage ratio or our credit rating. The margin over the base rate will range from 0% to 0.125% depending upon our consolidated leverage ratio. Initially, the margin over LIBOR will be 0.75% per annum. Under our new credit facility we are required to pay commitment fees on the unused portion of the $600 million revolving credit facility. The commitment fee will range from 0.10% to 0.25% depending on our consolidated leverage ratio or our credit rating. Initially, the commitment fee will be 0.15% per annum.

At December 31, 2005, the weighted average interest rate on the new facility was 5.1%. Our new credit facility contains covenants that limit the indebtedness we may incur, the common shares we may repurchase, and dividends we may pay. The repurchase and dividend covenant applies if certain leverage thresholds are exceeded. The covenants also include a minimum interest coverage ratio and a maximum leverage ratio. At December 31, 2005, we were in compliance with all covenants associated with our credit facility.

The following represents the schedule of current maturities for our long-term debt, reflecting the increase in debt related to the Priority acquisition in October 2005 and the refinancing of our bank credit facility in October 2005 (amounts in millions):

Year Ended December 31,	
2006	$ 110
2007	180
2008	260
2009	420
2010	540
Thereafter	1
	$ 1,511

7. Income taxes

The income tax provision consists of the following:

(in millions)	Year Ended December 31, 2005	2004	2003
Current provision:			
Federal	$ 195	$ 138	$ 105
State	-	14	14

Foreign	2	1	2
Total current provision	197	153	121
Deferred provision:			
Federal	19	14	31
State	(1)	6	3
Foreign	-	(1)	-
Total deferred provision	18	19	34
Total current and deferred provision	$ 215	$ 172	$ 155

Income taxes included in the Consolidated Statement of Operations are:

	Year Ended December 31,		
(in millions)	**2005**	**2004**	**2003**
Continuing operations	$ 215	$ 172	$ 155
Cumulative effect of accounting change	-	-	(1)
	$ 215	$ 172	$ 154

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 2005, 2004 and 2003 is immaterial):

	Year Ended December 31,		
	2005	**2004**	**2003**
Statutory federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	(0.2)	3.4	2.8
Non-deductible amortization of customer contracts	0.2	0.2	0.2
Other, net	(0.1)	(0.3)	0.2
Effective tax rate	34.9%	38.3%	38.2%

The deferred tax assets and deferred tax liabilities recorded in our Consolidated Balance Sheet are as follows:

	December 31,	
(in millions)	**2005**	**2004**
Deferred tax assets:		
Allowance for doubtful accounts	$ 26	$ 13
Non-compete agreements	2	2
Deferred compensation	8	8
Restricted stock	4	7
Accrued expenses	21	10
State income taxes	-	2
Other	4	2
Gross deferred tax assets	65	44
Deferred tax liabilities:		
Depreciation and property differences	(23)	(30)
Goodwill and customer contract amortization	(193)	(132)
State income taxes	(1)	-
Prepaids	(3)	(3)
Other	(1)	(2)
Gross deferred tax liabilities	(221)	(167)
Net deferred tax liabilities	$ (156)	$ (123)

At December 31, 2005 and 2004, the net current deferred tax asset is $53 million and $33 million, respectively, and the net long-term deferred tax liability, included in other liabilities is $209 million and $156 million, respectively.

Our effective tax rate decreased to 34.9% for the year ended December 31, 2005, as compared to 38.3% and 38.2% for the years ended December 31, 2004 and 2003, respectively. The decrease in our effective tax rate reflects a net tax benefit $20 million resulting primarily from changes in the apportionment of our income for state income tax purposes as well as the recognition of expected state tax benefits associated with prior-year subsidiary losses and credits. Excluding the $20 million net tax benefit, our effective tax rate would have been 38.1%.

8. Commitments and contingencies

We have entered into noncancellable agreements to lease certain office and distribution facilities with remaining terms from one to ten years. The majority of our lease agreements include renewal options which would extend the agreements from one to five years. We have entered into a noncancellable agreement to sublet one facility with a remaining term of one year. Rental expense under the office and distribution facilities leases in 2005, 2004 and 2003 was $25 million, $22 million and $18 million, respectively. The future minimum lease payments due under noncancellable operating leases (in millions):

Year Ended December 31,	Minimum lease payments
2006	$ 28
2007	24
2008	19
2009	8
2010	8
Thereafter	33
	$ 120

In July 2004, we entered into a capital lease with the Camden County Joint Development Authority in association with the development of our new Patient Care Contact Center in St. Marys, Georgia, as discussed in Note 4, "Property and equipment".

For the year ended December 31, 2005, approximately 70.1% of our pharmaceutical purchases were through one wholesaler. We believe other alternative sources are readily available. Our top five clients represented 23.6%, 22.8%, and 17.8% of revenues during 2005, 2004 and 2003 respectively. None of our clients accounted for 10% or more of our consolidated revenues in fiscal years 2005, 2004 or 2003. We believe no other concentration risks exist at December 31, 2005.

We accrue self-insurance reserves based upon estimates of the aggregate liability of claim costs in excess of our insurance coverage. Reserves are estimated using certain actuarial assumptions followed in the insurance industry and our historical experience (see Note 1, "Self-insurance reserves") . The majority of these claims are legal claims and our liability estimate is primarily related to the cost to defend these claims. We do not accrue for settlements, judgments, monetary fines or penalties until such amounts are probable and estimable, in compliance with FAS 5, "Accounting for Contingencies." Under FAS 5, if the range of possible loss is broad, the liability accrual should be based on the lower end of the range. Based on prior year developments (see—"Legal Proceedings"), we recorded a $25 million increase in legal reserves during the third quarter of 2004.

While we believe that our services and business practices are in compliance with all applicable laws, rules and regulations in all material respects, we cannot predict the outcome of these matters at this time. An unfavorable outcome in one or more of these matters could result in the imposition of judgments, monetary fines or penalties, or injunctive or administrative remedies. We can give no assurance that such judgments, fines and remedies, and future costs associated with these matters would not have a material adverse effect on our consolidated results of operations, consolidated financial position and/or consoldiated cash flow from operations.

9. Common Stock

In May 2005, we announced a two-for-one stock split for stockholders of record on June 10, 2005, effective June 24, 2005. The split was effected in the form of a dividend by issuance of one additional share of common stock for each share of common stock outstanding. The earnings per share and the weighted average number of shares outstanding for basic and diluted earnings per share for each period have been adjusted for the stock split.

Treasury shares are carried at first in, first out cost. We have a stock repurchase program, originally announced on October 25, 1996, under which our Board of Directors has approved the repurchase of a total of 38 million shares. There is no limit on the duration of the program. During 2005, we used internally generated cash to repurchase 4 million shares for $220 million. Through December 31, 2005, approximately 30 million of the 38 million total shares have been repurchased under the program and 9 million shares have been reissued in connection with employee compensation plans. Additional share purchases, 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 the amount of stock repurchases contained in our bank credit facility.

As of December 31, 2005, approximately 10 million shares of our common stock have been reserved for employee benefit plans (see Note 10).

Preferred Share Purchase Rights. In July 2001 our Board of Directors adopted a stockholder rights plan which declared a dividend of one right for each outstanding share of our common stock. The rights plan will expire on July 25, 2011. The rights are currently represented by our common stock certificates. When the rights become exercisable, they will entitle each holder to purchase 1/1,000th of a share of our Series A Junior Participating Preferred Stock for an exercise price of $300 (subject to adjustment). The rights will become exercisable and will trade separately from the common stock only upon the tenth day after a public announcement that a person, entity or group ("Person") has acquired 15% or more of our outstanding common stock ("Acquiring Person") or ten days after the commencement or public announcement of a tender or exchange offer which would result in any Person becoming an Acquiring Person; provided that any Person who beneficially owned 15% or more of our common stock as of the date of the rights plan will not become an Acquiring Person so long as such Person does not become the beneficial owner of additional shares representing 2% or more of our outstanding shares of common stock. In the event that any Person becomes an Acquiring Person, the rights will be exercisable for our common stock with a market value (as determined under the rights plan) equal to twice the exercise price. In the event that, after any Person becomes an Acquiring Person, we engage in certain mergers, consolidations, or sales of assets representing 50% or more of our assets or earning power with an Acquiring Person (or Persons acting on behalf of or in concert with an Acquiring Person), the rights will be exercisable for common stock of the acquiring or surviving company with a market value (as determined under the rights plan) equal to twice the exercise price. The rights will not be exercisable by any Acquiring Person. The rights are redeemable at a price of $0.01 per right prior to any Person becoming an Acquiring Person.

10. Employee benefit plans and stock-based compensation plans

Retirement savings plan. We sponsor retirement savings plans under Section 401(k) of the Internal Revenue Code for all of our full time employees. Employees may elect to enter a written salary deferral agreement under which a maximum of 15% to 25% of their salary, subject to aggregate limits required under the Internal Revenue Code, may be contributed to the plan. For substantially all employees, we match 100% of the first 4% of the employees' compensation contributed to the Plan. Beginning January 1, 2006, we will match 200% of the first 1% and 100% of the next 3% of the employees' compensation contributed to the Plan. We incurred contribution expense of approximately $9 million in 2005 and 2004, and $8 million in 2003.

Employee stock purchase plan. We offer an employee stock purchase plan that qualifies under Section 423 of the Internal Revenue Code and permits all employees, excluding certain management level employees, to purchase shares of our common stock. Through December 2005, participating employees could elect to contribute up to 10% of their salary to purchase common stock at the end of each monthly participation period at a purchase price equal to 85% of the lower of the fair market value of our common stock as of either the beginning or the end of the participation period. Beginning January 1, 2006, participating employees may contribute up to 10% of their salary to purchase common stock at the end of each monthly participation period at a purchase price equal to 95% of the fair market value of our common stock on the last business day of the participation period. During 2005, 2004 and 2003, approximately 124,000, 150,000 and 136,000 shares of our common stock were issued under the plan, respectively. Our common stock reserved for future employee purchases under the plan is approximately 228,000 at December 31, 2005.

Deferred compensation plan. We maintain a non-qualified deferred compensation plan (the "Executive Deferred Compensation Plan") 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 may elect to defer up to 50% of their base earnings and 100% of specific bonus awards. 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 2005, our contribution was equal to 6% of each qualified participant's total annual compensation, with 25% being allocated as a hypothetical investment in our common stock and the remaining being allocated to a variety of investment options. We have chosen to fund our liability for this plan through investments in trading securities, which primarily consists of mutual funds (see Note 1). We incurred approximately $4 million of compensation expense in 2005, 2004 and 2003. At December 31, 2005, approximately 1,485,000 shares of our common stock have been reserved for future issuance under the plan.

Profit sharing plan. Certain employees are eligible to participate in a profit sharing plan ("Profit Sharing Plan") as of the first January 1, April 1, July 1 or October 1 after having completed at least three months of service and having reached age 18 ("Participant"). Participants are generally eligible to receive a discretionary annual contribution after having completed at least one year of service and having reached age 18. The employer contribution for a year is allocated among the Participants employed on the last day of the year, and who completed at least 1,000 hours of service during the year, in proportion to their relative compensation for the portion of the year in which they were eligible to participate.

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 and again in December 2001 (as amended, the "2000 LTIP"), which provides for the grant of various equity awards with various terms to our officers, Board of Directors and key employees selected by the Compensation Committee of the Board of Directors. The 2000 LTIP, as then amended, was approved by our stockholders in May 2001. As of December 31, 2005, approximately 7,790,000 shares of our Common Stock are available for issuance under this plan. The maximum term of options granted under the 2000 LTIP is 10 years. During 2005, we granted approximately 3,400 restricted shares of common stock with a weighted average fair market value of $37.62, to certain of our officers and employees. These shares are subject to various cliff-vesting periods from five 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. As of December 31, 2005, a total of 2,523,000 restricted shares of common stock have been issued under the 2000 LTIP of which, 2,071,000 shares were issued from shares held in treasury and approximately 420,000 shares have been forfeited. Unearned compensation relating to the restricted shares is recorded as a separate component of stockholders' equity and is amortized to non-cash compensation expense over the estimated vesting periods. As of December 31, 2005, 2004 and 2003, unearned compensation was $5 million, $17 million and $22 million, respectively. We recorded compensation expense related to restricted stock grants of $11 million in 2005 and 2004, and $7 million in 2003.

The provisions of the 2000 LTIP allow employees to use shares to cover tax withholding on stock awards. Upon vesting of restricted stock, employees have taxable income subject to statutory withholding requirements. The number of shares issued to employees may be reduced by the number of shares having a market value equal to our minimum statutory withholding for federal, state and local tax purposes.

As a result of the Board's adoption and 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 vested 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 vested 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 stock options granted. Had compensation cost for stock option grants been determined based on the fair value at the grant dates consistent with the method prescribed by FAS 123, our net income (loss) would have been reduced by $11 million, $9 million and $12 million for the years ended December 31, 2005, 2004 and 2003, respectively (see also Note 1).

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:

	2005	**2004**	**2003**
Expected life of option	3-5 years	3-7 years	3-10 years
Risk-free interest rate	3.5%-4.4%	2.0%-4.2%	1.6%-3.7%
Expected volatility of stock	35%-40%	41%-47%	52%-53%
Expected dividend yield	None	None	None

A summary of the status of our fixed stock option plans as of December 31, 2005, 2004 and 2003, and changes during the years ending on those dates is presented below.

	2005		**2004**		**2003**	
(share data in tmillions)	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	7	$ 21.86	8	$ 17.98	11	$ 15.75
Granted	2	42.43	2	36.32	1	32.07
Exercised	(2)	18.27	(2)	15.60	(3)	11.43
Forfeited/Cancelled	(1)	32.94	(1)	25.74	(1)	22.03
Outstanding at end of year	6	28.21	7	21.86	8	17.98
Options exercisable at year end	4		5		5	
Weighted-average fair value of options granted during the year	$ 15.12		$ 14.25		$ 14.88	

The following table summarizes information about fixed stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable Options Exercisable	
Range of Exercise Prices *(share data in millions)*	Number Outstanding at 12/31/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/05	Weighted-Average Exercise Price
$ 3.72 - 16.42	1	3.23	$ 12.67	1	$ 12.67
16.85 - 23.98	2	4.74	21.21	2	21.21
24.07 - 37.58	1	5.50	34.23	1	32.66
37.62 - 42.80	1	6.06	38.89	-	-
47.14 - 89.03	1	6.63	50.31	-	-
3.72 - 89.03	6	5.00	$ 28.21	4	$ 19.93

11. Segment information

We report segments on the basis of services offered and have determined that we have three reportable segments: PBM, Specialty, and PBS. Our domestic and Canadian PBM operating segments have similar characteristics and as such have been aggregated into a single PBM reporting segment. Our PBS segment includes our SDS and PMG service lines. Effective in October 2005, we began managing our Specialty business as a separate operating segment. Previously, our Specialty business was part of our domestic PBM operating segment. The change is primarily due to the acquisition of Priority (see Note 2) on October 14, 2005. Our Specialty segment consists of our CuraScript (acquired in January 2004) and Priority businesses and 2004 data has been recast to reflect the change in our operating and reporting segments.

Operating income is the measure used by our chief operating decision maker to assess the performance of each of our operating segments. The following table presents information about our reportable segments, including a reconciliation of operating income to income before income taxes, as of and for the years ended December 31:

(in millions)	PBM	Specialty	PBS	Total
2005				
Product revenue:				
Network revenues	$ 9,171	$ -	$ -	$ 9,171
Home delivery revenues	5,016	1,607	-	6,623
Other revenues	-	-	175	175
Service revenues	152	13	132	297
Total revenues	14,339	1,620	307	16,266
Depreciation and amortization expense	67	11	6	84
Operating income	562	39	42	643
Undistributed loss from joint venture				(2)
Interest income				11
Interest expense				(37)
Income before income taxes				643
Total assets (as of December 31)	3,256	2,066	171	5,493
Investment in equity method investees	1	3	-	4
Capital expenditures	49	3	8	60
2004				
Product revenue:				
Network revenues	$ 9,387	$ -	$ -	$ 9,387
Home delivery revenues	4,771	620	-	5,391
Other revenues	-	-	128	128
Service revenues	101	-	108	209
Total revenues	14,259	620	236	15,115
Depreciation and amortization expense	60	5	5	70
Operating income	439	20	34	493
Undistributed loss from joint venture				(5)
Interest income				4
Interest expense				(42)
Income before income taxes				450
Total assets (as of December 31)	3,043	417	140	3,600
Investment in equity method investees	1	-	-	1
Capital expenditures	40	2	9	51
2003				
Product revenue:				
Network revenues	$ 9,037	$ -	$ -	$ 9,037
Home delivery revenues	3,988	-	-	3,988
Other revenues	-	-	87	87
Service revenues	73	-	110	183
Total revenues	13,098	-	197	13,295
Depreciation and amortization expense	51	-	3	54
Operating income	418	-	32	450
Undistributed loss from joint venture				(6)
Interest income				3
Interest expense				(41)
Income before income taxes				406
Total assets (as of December 31)	3,287	-	122	3,409
Investment in equity method investees	2	-	-	2
Capital expenditures	49	-	4	53

PBM product revenue consists of revenues from the dispensing of prescription drugs from our home delivery pharmacies and revenues from the sale of prescription drugs by retail pharmacies in our retail pharmacy networks. Specialty product revenues consist of distribution of certain specialty drugs. PBS product revenues consist of revenues from certain specialty distribution activities. PBM service revenue includes administrative fees associated with the administration of retail pharmacy networks contracted by certain clients, market research programs and informed decision counseling services. PBS service revenue includes revenues from certain specialty distribution services, and sample distribution and accountability services.

Revenues earned by our Canadian PBM totaled $31 million, $26 million and $22 million for the years ended December 31, 2005, 2004 and 2003, respectively. All other revenues are earned in the United States. Long-lived assets of our Canadian PBM (consisting primarily of fixed assets and goodwill) totaled $36 million, $36 million and $34 million as of December 31, 2005, 2004 and 2003, respectively. All other long-lived assets are domiciled in the United States.

12. Quarterly financial data (unaudited)

	Quarters			
(in millions, except per share data)	**First**	**Second**	**Third**	**Fourth[3]**
Fiscal 2005				
Total revenues [1]	$ 3,839	$ 3,944	$ 3,847	$ 4,635
Cost of revenues [1]	3,574	3,668	3,554	4,271
Gross profit	265	276	293	364
Selling, general and administrative	127	128	132	169
Operating income	138	148	161	195
Net income	$ 85	$ 102	$ 102	111
Basic earnings per share[2]	$ 0.58	$ 0.69	$ 0.70	$ 0.75
Diluted earnings per share[2]	$ 0.57	$ 0.68	$ 0.68	$ 0.75

	Quarters			
(in millions, except per share data)	**First**	**Second**	**Third**	**Fourth**
Fiscal 2004				
Total revenues [1]	$ 3,628	$ 3,780	$ 3,767	$ 3,940
Cost of revenues [1]	3,406	3,556	3,532	3,677
Gross profit	222	224	235	263
Selling, general and administrative	95	97	130	128
Operating income	127	127	105	135
Net income	$ 70	$ 65	$ 62	81
Basic earnings per share[2]	$ 0.45	$ 0.42	$ 0.41	$ 0.54
Diluted earnings per share[2]	$ 0.45	$ 0.42	$ 0.40	$ 0.53

(1) Excludes estimated retail pharmacy co-payments of $1,484 and $1,397 for the three months ended March 31, 2005 and 2004, respectively, $1,460 and $1,387 for the three months ended June 30, 2005 and 2004, respectively, $1,413 and $1,364 for the three months ended September 30, 2005 and 2004, respectively, and $1,464 and $1,398 for the three months ended December 31, 2005 and 2004, respectively. These are amounts we instructed retail pharmacies to collect from members. We have no information regarding actual co-payments collected

(2) Earnings per share have been restated to reflect the two-for-one stock split effective June 24, 2005.

(3) Includes the acquisition of Priority Healthcare Corporation, Inc. effective October 14, 2005.

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

None.

Item 9A — Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and under the Securities Exchange Act of 1934 Exchange Act) as of December 31, 2005. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2005, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Intergrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management has excluded Priority from its assessment of internal control over financial reporting as of December 31, 2005 because they were acquired by the Company in a purchase business combination effective during 2005. Priority is a wholly owned subsidiary whose total assets and total revenues represent 28.9% and 3.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2005.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2005 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

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 2006 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A (the "Proxy Statement") under the heading "I. Election of Directors"; provided that the Report of the Compensation Committee on Executive Compensation, the Report of the Audit Committee 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.

We have adopted a code of ethics that applies to our directors, officers and employees, including our principal executive officers, principal financial officer, principal accounting officer, controller, or persons performing similar functions (the "senior financial officers"). A copy of this code of business conduct and ethics is posted on the investor relations portion of our website at www.express-scripts.com/other/investor, and a print copy is available to any stockholder who requests a copy. In the event the code of ethics is revised, or any waiver is granted under the code of ethics with respect to any director, executive officer or senior financial officer, notice of such revision or waiver will be posted on our website. Information included on our website is not part of this annual 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 and Related Stockholder Matters

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 Party Transactions."

Item 14 - Principal Accountant Fees and Services

The information required by this item will be incorporated by reference from the Proxy Statement under the heading "Principal Accountant Fees"

PART IV

Item 15 — Exhibits and Financial Statement Schedules

Documents filed as part of this Report:

(1) Financial Statements

The following report of independent accountants and our consolidated financial statements are contained in Item 8—Consolidated Financial Statements and Supplemental Data of this Report

Report of Independent Accountant

Consolidated Balance Sheet as of December 31, 2005 and 2004

Consolidated Statement of Operations for the years ended December 31, 2005, 2004 and 2003

Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003

Consolidated Statement of Cash Flows for the years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

(2) The following financial statement schedule is contained in this Report.

II. Valuation and Qualifying Accounts and Reserves
for the years ended December 31, 2005, 2004 and 2003

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 the pages below. The Company agrees to furnish to the Securities and Exchange Commission, upon request, copies of any long-term debt instruments that authorize an amount of securities constituting 10% or less of the total assets of Express Scripts, Inc. and its subsidiaries on a consolidated basis.

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.

February 22, 2006

EXPRESS SCRIPTS, INC.
By: _/s/ George Paz
George Paz
Chief Executive Officer and
President

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/ George Paz George Paz	Chief Executive Officer and President	February 22, 2006
/s/ Edward Stiften Edward Stiften	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 22, 2006
/s/ Kelley Elliott Kelley Elliott	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	February 22, 2006
/s/ Barrett A. Toan Barrett A. Toan	Chairman of the Board of Directors	February 22, 2006
/s/ Gary G. Benanav Gary G. Benanav	Director	February 22, 2006
/s/ Frank J. Borelli Frank J. Borelli	Director	February 22, 2006
Maura C. Breen	Director	February 22, 2006
/s/ Nicholas J. LaHowchic Nicholas J. LaHowchic	Director	February 22, 2006
Thomas P. Mac Mahon	Director	February 22, 2006
/s/ John O. Parker		

John O. Parker	Director	February 22, 2006
/s/ Samuel Skinner		
Samuel Skinner	Director	February 22, 2006
/s/ Seymour Sternberg		
Seymour Sternberg	Director	February 22, 2006
/s/ Howard L. Waltman		February 22, 2006
Howard L. Waltman	Director	

EXPRESS SCRIPTS, INC.
Schedule II — Valuation and Qualifying Accounts and Reserves
Years Ended December 31, 2005, 2004, and 2003

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance At Beginning Of Period	Charges to Costs and Expenses	Charges to Other Accounts	Deductions[4]	Balance at End of Period
Allowance for Doubtful Accounts Receivable					
Year Ended 12/31/03	$35,821,916	$(2,572,786)[1]	$ -	$4,642,298[5]	$28,606,832
Year Ended 12/31/04	$28,606,832	$ 6,208,469	$4,450,603[2]	$7,912,062	$31,353,842
Year Ended 12/31/05	$31,353,842	$16,035,325	$23,565,967[3]	$13,069,637	$57,885,797

(1) Amount includes the reversal of a reserve recorded in 2002 for a client then in bankruptcy. In 2003, we received payment on this client's obligations to us and determined such reserve was no longer necessary.

(2) Represents the opening balance sheet for our January 30, 2004 acquisition of CuraScript.

(3) Represents the opening balance sheet for our October 31, 2005 acquisition of Priority.

(4) Except as otherwise described, these deductions are primarily write-offs of receivable amounts, net of any recoveries.

(5) Includes a reversal of $4 million of the reserve established during 2002 for a large client then in bankruptcy. We received payment on this client's obligations and determined that such reserve was no longer necessary.

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

Exhibit Number	Exhibit
2.1[1]	Stock Purchase Agreement, dated December 19, 2003, by and among the Company, CPS Holdings, LLC, CuraScript Pharmacy, Inc. and CuraScript PBM Services, Inc, incorporated by reference to Exhibit No. 2.1 to the Company's Current Report on Form 8-K filed December 24, 2003.
2.2[1]	Agreement and Plan of Merger, dated July 21, 2005, by and among the Company, Pony Acquisition Corporation, and Priority Healthcare Corporation, incorporated by reference to Exhibit No. 2.1 to the Company's Current Report on Form 8-K filed July 22, 2005.
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended, incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ending December 31, 2001.
3.2	Certificate of Amendment to the Certificate of Incorporation of the Company dated June 2, 2004, incorporated by reference to Exhibit No. 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2004.
3.3	Third Amended and Restated Bylaws, incorporated by reference to Exhibit No. 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2004.
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	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).
4.3	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).
4.4	Rights Agreement, dated as of July 25, 2001, between the Corporation and American Stock Transfer & Trust Company, as Rights Agent, which includes the Certificate of Designations for the Series A Junior Participating Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C, incorporated by reference to Exhibit No. 4.1 to the Company's Current Report on Form 8-K filed July 31, 2001.
4.5	Amendment dated April 25, 2003 to the 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. 4.8 to the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2003.
4.6	Amendment No. 1 to the Rights Agreement between the Corporation and American Stock Transfer & Trust Company, as Rights Agent, dated May 25, 2005, incorporated by reference to Exhibit No. 10.1 to the Company's Current Report on Form 8-K filed May 31, 2005.
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 (File No. 0-20199).
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 (File No. 0-20199).
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 (File No. 0-20199).
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 (File No. 0-20199).
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 (File No. 0-20199).

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 (File No. 0-20199).

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[2] Office Lease dated October 10, 2005 between NorthPark Partners ESI, LLC, and the Company.

10.12[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 (File No. 0-20199).

10.13[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 (File No. 0-20199).

10.14[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 (File No. 0-20199).

10.15[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 (File No. 0-20199).

10.16[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 (File No. 0-20199).

10.17[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 (File No. 0-20199).

10.18[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 (File No. 0-20199).

10.19[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 (File No. 0-20199).

10.20[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.

10.21[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.

10.22[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.

10.23[3] Amended and restated Express Scripts, Inc. 2000 Long-Term Incentive Plan, incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2001.

10.24[3] Second Amendment to the Express Scripts, Inc. 2000 Long-Term Incentive Plan, incorporated by reference to Exhibit No. 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

10.25[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).

10.26[3] Amended and restated Express Scripts, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit No. 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

10.27[3] Amended and restated Express Scripts, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit No. 10.1 to the Company's Current Report on Form 8-K filed December 15, 2005.

10.28[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.

10.29[3] Express Scripts, Inc. Executive Deferred Compensation Plan, as amended and restated, incorporated by reference to Exhibit B to the Company's Proxy Statement dated April 28, 2003.

10.30[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.

10.31[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.

10.32[3] Executive Employment Agreement, dated as of April 11, 2005, and effective as of April 1, 2005, between the Company and George Paz, incorporated by reference to Exhibit No. 10.1 to the Company's Current Report on Form 8-K filed April 14, 2005.

10.33[3] Executive Employment Agreement, dated as of April 1, 2004, between the Company and Edward J. Stiften, incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2004.

10.34[3] Executive Employment Agreement, dated as of August 31, 2004, between the Company and David Lowenberg, incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.35[3] Executive Employment Agreement, dated as of August 31, 2004, and effective as of April 1, 2004, between the Company and C.K. Casteel, incorporated by reference to Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.36[3] Executive Employment Agreement, dated as of August 31, 2004, and effective as of April 1, 2004, between the Company and Douglas Porter, incorporated by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.37[3] Executive Employment Agreement, dated as of August 31, 2004, and effective as of April 1, 2004, between the Company and Agnes Rey-Giraud, incorporated by reference to Exhibit No. 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.38[3] Executive Employment Agreement, dated as of October 29, 2004, between the Company and Thomas Boudreau, incorporated by reference to Exhibit No. 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.39[3] Executive Employment Agreement, dated as of October 29, 2004, and effective as of April 1, 2004 between the Company and Edward Ignaczak, incorporated by reference to Exhibit No. 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.40[3] Consulting Agreement, dated as of March 24, 2005, and effective as of March 31, 2005, 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 filed March 30, 2005.

10.41[3] Form of Restricted Stock Agreement used with respect to grants of restricted stock by the Company, incorporated by reference to Exhibit No. 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.

10.42[3] Description of Compensation Payable to Non-Employee Directors incorporated, by reference to Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2005.

10.43 Credit Agreement, dated as of October 14, 2005, among Express Scripts, Inc., Credit Suisse, as administrative agent, Citigroup Global Markets Inc., as syndication agent, Bank of Nova Scotia, Calyon New York Branch, Deutsche Bank Securities Inc., JPMorgan Chase Bank, N.A., The Royal Bank of Scotland plc, Sun Trust and Union Bank of California, as co−documentation agents and the lenders named therein, incorporated by reference to Exhibit No. 10.1 to the Company's Current Report on Form 8-K filed October 14, 2005.

21.1[2] List of Subsidiaries.

23.1[2] Consent of PricewaterhouseCoopers LLP.

31.1[2] Certification by George Paz, as President and Chief Executive Officer of Express Scripts, Inc., pursuant to Exchange Act Rule 13a-14(a).

31.2[2]	Certification by Edward Stiften, as Senior Vice President and Chief Financial Officer of Express Scripts, Inc., pursuant to Exchange Act Rule 13a-14(a).
32.1[2]	Certification by George Paz, as President and Chief Executive Officer of Express Scripts, Inc., pursuant to 18 U.S.C.ss.1350 and Exchange Act Rule 13a-14(b).
32.2[2]	Certification by Edward Stiften, as Senior Vice President and Chief Financial Officer of Express Scripts, Inc., pursuant to 18 U.S.C.ss. 1350 and Exchange Act Rule 13a-14(b).

1 The Company agrees to furnish supplementally a copy of any omitted schedule to this agreement to the Commission upon request.
2 Filed herein.
3 Management contract or compensatory plan or arrangement.

EXHIBIT 21.1

The following is a list of all of the Company's subsidiaries, regardless of the materiality of their operations. Each of these subsidiaries is included in the Company's Consolidated Financial Statements for the period ending December 31, 2005.

Subsidiary	State of Organization	D/B/A
Acuity Health Solutions, Inc.	Florida	None
Airport Holdings, LLC	New Jersey	None
Byfield Drug, Inc.	Massachusetts	None
Central Fill, Inc.	Pennsylvania	None
CFI New Jersey, Inc.	New Jersey	None
Chesapeake Infusion, Inc.	Florida	None
Comprehensive Renal Care, Inc.	Kentucky	None
Comprehensive Renal Care of Dunwoody, Inc.	Kentucky	None
CuraScript, Inc.	Delaware	CuraScript SP Specialty
CuraScript PBM Services, Inc.	Delaware	CuraScript
Custom Medical Products, Inc.	Florida	None
Diversified NY IPA, Inc.	New York	None
Diversified Pharmaceutical Services (Puerto Rico), Inc.	Puerto Rico	None
Diversified Pharmaceutical Services, Inc.	Minnesota	None
ESI Canada	Ontario, Canada	None
ESI Claims, Inc.	Delaware	None
ESI Enterprises, LLC	Delaware	None
ESI-GP Canada, ULC	Nova Scotia, Canada	None
ESI-GP Holdings, Inc.	Delaware	None
ESI Home delivery Service, Inc.	Delaware	None
ESI Partnership	Delaware	None
ESI Realty, LLC	New Jersey	None
ESI Resources, Inc.	Minnesota	None
Express Scripts Canada Co.	Nova Scotia, Canada	None
Express Scripts Canada Holding, Co.	Delaware	None
Express Scripts Insurance Company	Arizona	None
Express Scripts Sales Development Co.	Delaware	None
Express Scripts Senior Care, Inc.	Delaware	None
Express Scripts Senior Care Holdings, Inc.	Delaware	None
Express Scripts Specialty Distribution Services, Inc.	Delaware	None
Express Scripts Utilization Management Co.	Delaware	None
Freco, Inc.	Florida	None
Freedom Service Company, LLC	Florida	None
Healthbridge Reimbursement and Product Support, Inc.	Massachusetts	None
iBIOLogic, Inc.	Delaware	None
Intecare Pharmacies, Ltd.	Ontario, Canada	None
Integrity Healthcare Services, Inc.	Kentucky	CuraScript IP Infusion Pharmacy
IVTx, Inc.	Delaware	None
Lynnfield Compounding Center, Inc.	Florida	Freedom FP Fertility Pharmacy
Lynnfield Drug, Inc.	Florida	Freedom Fertility Pharmacy
Matrix Oncology, LLC	Indiana	None
National Prescription Administrators, Inc.	New Jersey	NPA
NPA of New York IPA, Inc.	New York	None
PHF, Inc.	Nevada	None
PHRC, Inc.	Nevada	None
Phoenix Marketing Group, LLC	Delaware	Phoenix
Priorityhealthcare.com, Inc.	Florida	None
Priority Healthcare Corporation	Indiana	None
Priority Healthcare Corporation West	Nevada	None
Priority Healthcare Distribution, Inc.	Florida	CuraScript SD Specialty Distribution
Priority Healthcare Pharmacy, Inc.	Florida	None
Sinuspharmacy, Inc.	Florida	None
Specialty Infusion Pharmacy, Inc.	Florida	None

Spectracare, Inc.	Kentucky	None
Spectracare Healthcare Ventures, Inc.	Kentucky	None
Spectracare of Indiana	Indiana	None
Spectracare Infusion Pharmacy, Inc.	Kentucky	None
Spectracare Management Services - Kentucky, Inc.	Kentucky	None
Spectracare of Atlanta, Inc.	Kentucky	None
Value Health, Inc.	Delaware	None
ValueRx of Michigan, Inc.	Michigan	None
YourPharmacy.com, Inc.	Delaware	None

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-110573, 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 22, 2006, relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K. We also consent to the incorporation by reference of our report dated February 22, 2006, relating to the financial statement schedule, which appears in this Form 10-K.

St. Louis, Missouri
February 22, 2006

Exhibit 10.11

OFFICE LEASE

The terms and conditions in the text of this Lease and the Exhibits thereto modify, supplement and qualify the information on the Basic Lease Data portion of this Lease.

BASIC LEASE DATA:

1. Lease Date: October 10, 2005.

2. Landlord: NorthPark Partners ESI, LLC, a Missouri limited liability company.

3. Tenant: Express Scripts, Inc., a Delaware corporation.

4. The term "Building" shall mean an office building containing approximately 315,000 rentable square feet (RSF) on three (3) floors plus a lower level that Landlord shall construct in the development to be known as “University Place/NorthPark, University of Missouri-St. Louis Business, Technology and Research Park” (the “Park”). The Park will be situated on the northern portion of the University of Missouri at St. Louis ("UMSL") campus as shown on the Site Plan attached hereto as Exhibit A. The exact square footage of the Building will be determined by BOMA measurement as provided in Section 1.E.

5. The term "Property" shall mean the land that is being ground leased by Landlord from the Ground Lessor (as defined below) and on which the Building will be constructed (the “Land”), together with (i) all improvements on the Land, including the Building, and (ii) any and all rights, appurtenances, easements and amenities appertaining to the Land to the extent the same are leased to Landlord under the Ground Lease. A legal description of the Land is attached hereto as Exhibit A-1. The Land is subject to adjustment as described in Section 55 hereof. The Land initially comprising the Property contains 14.883 acres.

6. The term "Premises" means the premises being leased by Tenant hereunder, which initially includes the entire Property, as the same may be expanded pursuant to Section 49, and which may later be reduced as a result of the exercise of Tenant’s “give back rights” in Section 40. The Premises is also subject to adjustment as described in Section 55 hereof.

7. Permitted Use: any lawful use, subject to the restrictions in Section 1B.

8. Address of Landlord for notices and for payment of Rent (and see Section 23 of the Lease):

   NorthPark Partners ESI, LLC
   1001 Boardwalk Springs Place, Suite 200
   O’Fallon, Missouri 63368
   Attn: Christopher P. McKee
   Telecopy No.: 636-561-9301

9. Address of Tenant for notices before Commencement Date (and see Section 23 of the Lease):

   Express Scripts, Inc.
   6625 West 78th Street
   Bloomington, MN 55439
   Attn: Tom Rocheford, Vice President, Facilities
   Telecopy No.: (952) 837-7101

   With a copy to:

   Express Scripts, Inc.
   13900 Riverport Drive
   Maryland Heights, Missouri 63043
   Attn: Thomas Boudreau
   Telecopy No.: (314) 702-7120

10. Address of Tenant for notices after Commencement Date (and see Section 23 of the Lease):

   Express Scripts, Inc.
   6625 West 78th Street
   Bloomington, MN 55439

Attn: Tom Rocheford, Vice President, Facilities
Telecopy No.: (952) 837-7101

With a copy to:

Express Scripts, Inc.
University Place Drive
St. Louis, Missouri 63121
Attn: Thomas Boudreau
Telecopy No.: (314) 702-7120

11. Initial Lease Term: approximately ten (10) years and six (6) months from the Commencement Date, ending as per Section 4 of this Lease.

12. Commencement Date: upon the later of (i) March 1, 2007 (the "Scheduled Date"); or (ii) upon Substantial Completion (as defined in Sections 4.B), and subject to adjustment as provided in Section 4.C.

13. Expiration Date: the date approximately ten (10) years and six (6) months after the Commencement Date - the exact date determined as per Section 4.A of this Lease.

14. Renewal Options: two (2) additional terms of five (5) years each. See Section 37.

15. Annual Base Rent During Initial Term: see Exhibit B.

16. Annual Base Rent During Each Renewal Term, if applicable: See Section 37.B of this Lease.

17. Monthly Installments of Base Rent: one-twelfth (1/12th) of applicable annual Base Rent.

18. Taxes: Details in Section 6. Tenant pays 50% of the amount that would be due as Taxes during years 2007 through 2016 if Taxes had not been abated, and 100% of Taxes commencing in 2017.

19. Tenant's Repair Obligations: Tenant shall maintain the Premises as per Section 9 of this Lease.

20. Landlord's Repair Obligations: See Section 7.A of this Lease.

21. Utilities: Tenant provides all utilities at Tenant's expense.

22. Services: Landlord provides services as per Sections 7 and 51 of this Lease. Tenant provides all other services. Services are subject to change if Tenant exercises its give back rights. See Section 40.B.

23. Security Deposit: none.

24. Tenant's Required Liability Insurance coverage: $2,500,000 See Section 8.B of this Lease. Worker's compensation insurance required also as per Section 8.C.

25. Tenant's Required Casualty Insurance coverage: all risk, full replacement cost on Tenant's property and on all leasehold improvements. See Section 8.B of this Lease.

26. Landlord's Required Insurance: See Sections 8.A and 8.C.

27. Landlord's Broker or Agent: none.

28. Tenant's Broker or Agent: Grubb & Ellis Company.

29. Guarantor(s): none.

30. Signage: See Section 31.

31. Parking: at no charge, on an unreserved basis, according to the ratio stated in Section 30. All parking is onsite on the Premises. Landlord's current building design includes 920 covered parking spaces in a parking structure of 1,440 spaces. The balance of the parking is on surface lots. The parking areas are subject to adjustment. See Sections 30 and 55.

32. Subletting and Assignments: See Section 14.

33. Landlord Improvements: As per Section 2, Landlord at Landlord's expense shall complete the work described on the Outline Plans and Specifications listed on Exhibit C.

34. Tenant Improvements: As per Section 3 of the Lease, Landlord will perform the Tenant Improvements. The Tenant Improvement Allowance shall be provided by Landlord to be applied toward the cost of the Tenant Improvements, and if the cost of the Tenant Improvements exceeds said Allowance, the excess shall be paid by Tenant.

35. Tenant Improvement Allowance: An allowance of forty-one dollars ($41.00) per rentable square foot, which may be used at Tenant's discretion for any expense related to the Premises. The Tenant Improvement Allowance is subject to adjustment for Tenant requested change orders. See Section 3 for additional details.

36. Critical Milestone Dates: See Section 4.E.

37. Obligation to Reimburse Capital Expenditures Upon Expiration: See Section 39.

38. Tenant Option to Reduce Space: See Section 40.

39. Tenant's Early Termination Option: See Section 41.

40. Landlord Obligation Relating to Tenant's Old Premises: See Section 42.

41. Alternative Dispute Resolution: See Section 46 and Exhibit G.

42. Ground Lease Contingency: See Section 48.

43. Tenant Condemnation Contingency: See Section 49.

44. Economic Incentives: See Section 50.

45. Pricing Re Property Management Services: See Section 51.

Attachments: This Lease is supplemented by the following Exhibits or Addenda, which are part of the Lease and which are incorporated by reference into the Lease:

Exhibit A	**SITE PLAN**
Exhibit A-1	**LEGAL DESCRIPTION OF LAND**
Exhibit B	**BASE RENT DURING INITIAL TERM**
Exhibit C	**OUTLINE PLANS AND SPECIFICATIONS**
Exhibit D	**BUILDING RULES AND REGULATIONS**
Exhibit E	**FORM OF SUBORDINATION, NONDISTURBANCE AND ATTORNMENT AGREEMENT**
Exhibit F	**ROOF LICENSE AGREEMENT**
Exhibit G	**ALTERNATIVE DISPUTE RESOLUTION PROCEDURES**

Initials:

L__________

T__________

OFFICE LEASE

THIS OFFICE LEASE is made as of the Lease Date set forth in the Basic Lease Data Section, by and between NorthPark Partners ESI, LLC, a Missouri limited liability company (hereinafter referred to as "Landlord"), and Express Scripts, Inc., a Delaware corporation (hereinafter referred to as "Tenant").

WITNESSETH:

A. The Curators of the University of Missouri, a public corporation ("Ground Lessor") owns the Property;

B. Ground Lessor and Landlord are parties to a 99 year Ground Lease for the Property (the "Ground Lease");

C. Landlord and Tenant desire for Landlord to construct a building and other improvements on the Property, and to sublease the Property, as so improved, to Tenant, on terms set forth in this Lease.

NOW, THEREFORE, Landlord and Tenant, in consideration of the premises and of the mutual duties and obligations undertaken by Landlord and Tenant as hereinafter set forth, hereby agree as follows:

1. Lease of Premises; Use.

A. Subject to the terms, covenants and conditions of this Lease, Landlord hereby leases the Premises to Tenant, and Tenant hereby leases the Premises from Landlord.

B. Any lawful use is acceptable; provided that Landlord’s consent shall be required for any utilization of the Premises that would substantially increase Landlord’s insurance or maintenance obligations above those relating to use of the Premises as an office building or pharmaceutical distribution center. If the Building becomes multi-tenant, any change of use by Tenant will also require Landlord’s approval to ensure that the changed use is compatible with general office use. Landlord’s foregoing consent or approval such not be unreasonably withheld, conditioned or delayed. Notwithstanding any provision in this Lease to the contrary, Tenant shall not use, and shall not permit any subtenants to use the Premises for: (i) any uses that are prohibited by the Ground Lease, (ii) any uses prohibited by any recorded restrictions applicable to the Property, and (iii) any uses prohibited by applicable law. All uses of the Premises by Tenant shall be in accordance with all applicable zoning laws and shall not require parking beyond the number of parking spaces allocated to Tenant under this Lease. Tenant may not use the Premises in any manner not permitted in this Section 1.B. Tenant at Tenant's expense shall obtain all permits, licenses and other consents required for Tenant's use and occupancy of the Premises (excluding building permits for the Landlord Improvements and Tenant Improvements, which shall be obtained by Landlord).

C. Tenant's rights under this Lease are subject to all restrictions, Protective Covenants, covenants, easements, rights-of-way of record, if any, and applicable zoning regulations. Without limiting the foregoing, Landlord and Tenant acknowledge that the Premises and Tenant’s rights under this Lease are subject to protective covenants covering the Park that Landlord and Tenant participated in drafting with the University (the “Protective Covenants”).

D. Promptly after the necessary information is available, Landlord and Tenant shall execute a written memorandum setting forth the Commencement Date, the expiration date, the number of rentable square feet in the Premises, the Base Rent, Tenant's acceptance of the Landlord Improvements, and such other factual matters as Landlord or Tenant shall reasonably request (the "Lease Memorandum").

E. Once sufficient information is available, the Project Architect shall determine the RSF for the Building and for the Premises in accordance with BOMA standards (including ANSI/BOMA Z65.1-1996 standard) and report the results of such calculations to Landlord and Tenant (the "BOMA Measurement"). Tenant's Base Rent as calculated pursuant to <u>Exhibit B</u> to this Lease, shall be based on the RSF numbers determined by the BOMA Measurement.

2. <u>Landlord Improvements</u>.

A. Attached hereto as <u>Exhibit C</u> is a schedule of the plans and specifications comprising the outline specifications (“Outline Plans and Specifications”) for the improvements to be constructed on the Property by Landlord (the “Landlord Improvements”). The Building will have three (3) wings, each with three (3) floors and one with a lower level, and will contain a total of approximately 315,000 rentable square feet (RSF), as shown on the drawings included within the Outline Specifications. The Landlord Improvements include the construction of a building shell, which will include all improvements to the ceiling and above, including sprinkler system, HVAC, lighting, ceiling grid and tile, all in conformance with Tenant's space plan and as outlined in the Outline Plans and Specifications. Landlord shall be solely responsible for the costs of the Landlord Improvements, including, but not limited to, design, architectural fees, permit fees, and the amounts due the “Contractor” (as hereinafter defined).

B. Landlord will retain Christner, Inc. as lead architect for the Landlord Improvements (the “Project Architect”) for a net (no engineering) fee of two and one-half percent (2.5%) of the cost of the Landlord Improvements and otherwise in accordance with the terms and conditions of a mutually acceptable service contract between Landlord and Christner, Inc.

C. Landlord intends to hire or has hired a joint venture consisting of Paric Corporation ("Paric") and Clayco Construction Company, Inc. ("Clayco") (said joint venture is referred to as "Contractor") as the general contractor to construct the Landlord Improvements.

D. Subject to the next paragraph, the Outline Plans and Specifications are hereby approved by Landlord and Tenant.

E. Landlord and Tenant shall work with the Project Architect, Contractor and Ground Lessor (for code compliance purposes only) to develop a final set of construction plans consistent with the Outline Plans and Specifications. Said construction plans once approved by Landlord, Tenant, the Project Architect, Contractor and Ground Lessor are referred to as the "Final LI Plans." The parties acknowledge that Tenant must provide its interior space plan by February 1, 2006 in order for the Tenant to be able to meet the Scheduled Date (as hereinafter defined).

F. Landlord and Tenant shall cooperate with the Project Architect and the Contractor to obtain the issuance of a building permit from the Ground Lessor as soon as possible. If the Ground Lessor requires any changes to the Final LI Plans, Landlord and Tenant, shall work together with the Contractor and the Project Architect to promptly resolve any issues that may arise concerning the changes requested by the Ground Lessor.

G. Landlord shall cause the Contractor to make its books and records pertaining to construction of the Landlord Improvements and the Tenant Improvements available for Tenant's review at any time during normal business hours upon reasonable advance notice at a location in St. Louis or St. Charles County, Missouri. The terms of any agreement between Landlord and the Contractor shall be consistent with the foregoing, and shall provide for the work to be completed on open book basis. Neither Landlord nor the Contractor shall approve any changes in the Final LI Plans or request any change directive without Tenant's prior written approval, and neither Landlord nor the Contractor shall execute any change orders or change directives without the prior written consent of Tenant, such consent not to be unreasonably withheld. Tenant shall respond in writing to any requests made by Landlord or Contractor for changes in the Final LI Plans within ten (10) days after Tenant's receipt of same. If Tenant does not consent to any requested change order, Tenant's written response shall specify Tenant's reasons for such non-consent. Notwithstanding the foregoing, Tenant shall have the right, in its discretion, to deny any request for a change order or change directive that (i) in Tenant's reasonable opinion materially and adversely affects the Premises; or (ii) results in any increased cost payable by Tenant.

H. Landlord shall cause the Contractor to (i) proceed diligently to complete the Landlord Improvements, (ii) provide to Landlord and Tenant, prior to the start of construction, a copy of the construction schedule, and (iii) keep Landlord and Tenant advised of any changes to the construction schedule.

I. During construction of the Landlord Improvements, Landlord or the Contractor shall carry builder's risk insurance on the Landlord Improvements.

J. Landlord shall cause the Contractor to construct the Landlord Improvements in a good and workmanlike manner, in accordance with all applicable laws and in substantial compliance with the Final LI Plans.

K. Once the Final LI Plans are developed, Landlord shall advise Tenant of the estimated cost of constructing the Landlord Improvements pursuant to such Final LI Plans (the "Estimated LI Cost"). From time to time during the course of construction of the Landlord Improvements, Tenant may request changes to the Final LI Plans (each a "Tenant LI Change Order Request", and collectively the "Tenant LI Change Order Requests"). Any Tenant LI Change Order Request shall be subject to the approval of Landlord, not to be unreasonably withheld. Within five (5) business days after receipt of a Tenant LI Change Order Request, Landlord shall notify Tenant in writing whether it is willing to approve the subject Tenant LI Change Order Request and if Landlord is not willing to approve such Request, such notice shall include Landlord's reasons therefor. If Landlord advises Tenant that it is willing to approve the subject Tenant LI Change Order Request, Landlord's notice shall include a memorandum setting forth the impact on cost and schedule resulting from such Tenant LI Change Order Request (each a "Tenant LI Change Order Memorandum"). Tenant shall, within five (5) business days following Tenant's receipt of a Tenant LI Change Order Memorandum, either (i) execute and return the Tenant LI Change Memorandum, in which case the project budget and construction schedule shall be deemed modified automatically without further action from either party to take account of such Tenant LI Change Order Request; or (ii) retract its Tenant LI Change Order Request. Landlord shall provide Tenant with a statement summarizing all agreed-upon TI Change Order Memoranda and their cumulative effect on the Estimated LI Cost and the project schedule. If, after taking all agreed-upon Tenant LI Change Memoranda into account, the cost to construct the Landlord Improvements will exceed the Estimated LI Cost, the amount of such increase shall be deducted from the amount of the "Allowance" (as defined below). If, after taking all agreed-upon Tenant LI Change Memoranda into account, the cost to construct the Landlord Improvements will be less than the Estimated LI Cost, the amount of such decrease shall be added to the amount of the "Allowance" (as defined below).A Tenant LI Change Order Request shall not become part of the Landlord Improvements unless a written Tenant LI Change Order Memorandum is signed by Landlord, Tenant, Architect and the Contractor approving the change. Once a Tenant LI Change Order Memorandum has been signed by Landlord, Tenant, the Contractor and Project Architect (and Ground Lessor approval of the change has been obtained if required), the Final LI Plans are deemed modified by the signed LI Tenant TI Change Order Memorandum.

L. Tenant shall have access to the Premises at reasonable times during construction for the purpose of monitoring the construction work, and Landlord and Tenant shall promptly inform each other in writing if either discovers any defects in or other problems with Contractor's construction work. Tenant shall comply with any rules and procedures adopted by the Contractor regulating Landlord Improvements site visits.

M. Not less than five (5) business days prior to the anticipated Substantial Completion of the Landlord Improvements (as defined in Section 4.B), Landlord, Tenant, Contractor and Project Architect shall participate in a joint inspection of the Landlord Improvements and identify those items, if any, that are incomplete or do not conform to the Final LI Plans. At such inspection, Landlord, Tenant, Contractor and Project Architect shall also develop a schedule of "Punchlist Items", which shall be those incomplete or nonconforming items the non-completion or non-correction of which will not cause the Landlord Improvements from being Substantially Complete (as defined in Section 4.B).

N. Possession of the Premises shall be delivered to Tenant on the Commencement Date (see Basic Lease Data Section of this Lease for the manner in which the Commencement Date is determined), notwithstanding that there may be Punchlist Items to be completed.

O. Landlord shall cause the Contractor to complete any Punchlist Items within 45 days after the Punchlist Items schedule is approved in writing by Landlord and Tenant, except that Punchlist Items that cannot be completed until the weather is appropriate (such as landscaping) shall be completed within a reasonable period of time after the weather becomes suitable for completion of such items. If requested by Landlord, Tenant shall participate in any inspections made by Landlord to verify that Punchlist Items have been completed and shall acknowledge in writing that such Punchlist Items have been completed.

P. Landlord hereby agrees to (i) warrant all work performed with respect to the Landlord Improvements for a period of twenty-four (24) months from the Substantial Completion of the Landlord Improvements (the “Warranty Period”) and to correct all defects in such work (at Landlord’s sole cost and expense) of which Landlord receives written notice from Tenant during the Warranty Period; and (ii) to correct all defects and perform all repairs to the portion of the Landlord Improvements during the Warranty Period, at Landlord’s sole cost and expense. Landlord shall assign to Tenant all warranties (extended or otherwise) that apply to any systems servicing the Landlord Improvements which Tenant is responsible for maintaining under the terms of the Lease, or if such warranties are non-assignable, Landlord shall enforce said warranties on Tenant’s behalf. Landlord’s warranty obligations shall not apply to defects or damages to any items subject to such warranties arising from or caused by Tenant’s neglect or misuse or arising from or caused by Tenant’s failure to comply with its obligations under this Lease.

Q. Landlord agrees to build and fund an entire arterial road from University Blvd. to Hanley Road (the "Road Improvements"), at no cost to Tenant in accordance with this Section 2.Q. Landlord guarantees that (i) Phase I of the Road Improvements from University Blvd. to the MetroLink tracks with a connection to Lauderdale Road will be completed by March 1, 2007; and (ii) Phase II of the Road Improvements from the MetroLink tracks to Hanley Road will be completed by December 31, 2007 subject to right-of-way acquisition delays; provided, however, Landlord agrees to use diligent and good faith efforts to avoid such delays. Said deadlines shall be subject to delays caused by Force Majeure Events. Landlord’s inability to obtain public funding or reimbursement for all or a portion of the cost of the Road Improvements shall not constitute a Force Majeure Event. Landlord agrees that if a retaining wall is required along the south boundary of the right-of-way for the Road Improvements east of the MetroLink tracks, then the plans and specifications for any such wall shall be subject to the prior written approval of Tenant. Tenant acknowledges that (i) the Road Improvements are being constructed by Landlord in cooperation with Ground Lessor and St. Louis County, and (ii) provided Tenant’s rights and obligations under this Lease are not materially and adversely affected, this Lease may need to be modified to accommodate the funding structure for the Road Improvements, as more particularly provided in Section 50 hereof.

R. Landlord shall seek to configure the right-of-way for the Road Improvements to allow for the placement of a monument sign at the intersection of University Blvd. and University Place. To the extent permitted under the Protective Covenants and applicable regulations, Tenant shall have the right, at Tenant’s expense, to erect a monument sign at such location. For so long as Tenant occupies more than fifty percent (50%) of the office space on the Property, Tenant shall have the sole right to use such sign. If, and when, Tenant occupies less than fifty percent (50%) of the office space on the Property, Landlord shall have the right to offer space on the monument sign to tenants at the Property occupying in excess of 50,000 square feet of space. In such event, available space on the monument sign shall be assigned to tenants on the Property on a proportionate basis allocated to the space occupied by such tenants (and the cost of maintaining and repairing such sign shall be allocated among Tenant and such other tenants on the same proportionate basis).

S. As part of the Landlord Improvements, the Building will be outfitted with a standard, computerized proximity card reader system at all exterior doors, which will be provided at Landlord’s expense. The Tenant will have full access to the system to control ingress and egress to various portions of the Building. Tenant shall be responsible for providing such security staffing as it may desire.

3. Tenant Improvements.

A. Landlord shall be responsible for installation of the Tenant Improvements and will use Contractor for such purposes, at a cost to Tenant equal to the cost of installing the Tenant Improvements plus an agreed upon overhead and profit percentage of four and one-half percent (4.5%). Landlord will not add on any supervisory fees. Tenant may apply the “Allowance” (as defined in Section 3.C) against the cost of installing the Tenant Improvements. Tenant shall reasonably cooperate with Landlord and Contractor in connection with all aspects of planning and construction of the Tenant Improvements. Without limiting the foregoing, the following provisions shall apply:

(i) Landlord and Tenant shall work with the Project Architect, Contractor and Ground Lessor (with respect to code compliance only) to develop a final set of construction plans for the Tenant Improvements consistent with Tenant’s space plan. Said construction plans once approved by Landlord, Tenant, the Project Architect, Contractor and Ground Lessor (with respect to code compliance only) shall be referred to as the "Final TI Plans”.

(ii) Landlord, Tenant, the Project Architect and the Contractor shall cooperate to obtain the issuance of a building permit from the Ground Lessor for the Tenant Improvements as soon as possible. If the Ground Lessor requires any changes to the Final TI Plans, Landlord, Tenant, the Contractor and the Project Architect shall work together to promptly resolve any issues that may arise concerning the changes requested by the Ground Lessor.

(iii) Landlord shall cause the Contractor to make its books and records pertaining to construction of the Tenant Improvements available for Tenant’s review in the same manner as applicable to the Landlord Improvements.

(iv) Landlord shall cause the Contractor to (aa) proceed diligently to complete the Tenant Improvements in an efficient manner as it constructs the Landlord Improvements, (bb) combine the construction schedule for the Tenant Improvements with the construction schedule for the Landlord Improvements, and to provide Landlord and Tenant with a copy of such combined schedule, and (cc) keep Landlord and Tenant advised of any changes to the construction schedule.

(v) During construction of the Tenant Improvements, Landlord or the Contractor shall carry builder's risk insurance on the Tenant Improvements.

(vi) Landlord shall cause the Contractor to construct the Tenant Improvements in a good and workmanlike manner, in accordance with all applicable laws and in substantial compliance with the Final TI Plans.

(vii) From time to time during the course of construction of the Tenant Improvements, Tenant may request changes to the Final TI Plans and Specifications (each a "Tenant TI Change Order Request", and collectively the "Tenant TI Change Order Requests"). Any Tenant TI Change Order Request shall be subject to the approval of Landlord, not to be unreasonably withheld. Within five (5) business days after receipt of a Tenant TI Change Order Request, Landlord shall notify Tenant in writing whether it is willing to approve the subject Tenant TI Change Order Request and if Landlord is not willing to approve such Request, such notice shall include Landlord's reasons therefor. If Landlord advises Tenant that it is willing to approve the subject Tenant TI Change Order Request, Landlord's notice shall include a memorandum setting forth the impact on cost and schedule resulting from such Tenant TI Change Order Request (each a "Tenant TI Change Order Memorandum"). Tenant shall, within five (5) business days following Tenant's receipt of a Tenant TI Change Order Memorandum, either (i) execute and return the Tenant TI Change Memorandum, in which case the cost of such TI Change Order Request shall be deemed approved and the construction schedule shall be deemed modified automatically, all as set forth in the Tenant TI Change Order Memorandum, without further action from either party to take account of such Tenant TI Change Order Request; or (ii) retract its Tenant TI Change Order Request. A Tenant LI Change Order Request shall not become part of the Tenant Improvements unless a written Tenant TI Change Order Memorandum is signed by Landlord, Tenant, Architect and the Contractor approving the change. Once a Tenant TI Change Order Memorandum has been signed by Landlord, Tenant, the Contractor and Project Architect (and Ground Lessor approval of the change has been obtained if required), the Final TI Plans are deemed modified by the signed TI Tenant TI Change Order Memorandum.

(viii) Tenant shall have access to the Premises at reasonable times during construction for the purpose of monitoring the construction of the Tenant Improvements, and Landlord and Tenant shall promptly inform each other in writing if either discovers any defects in or other problems with Contractor's construction work related to the Tenant Improvements. Tenant shall comply with any reasonable rules and procedures adopted by the Contractor regulating Tenant Improvements site visits.

(ix) The procedures applicable to the Landlord Improvements for determining Substantial Completion, the development of a punchlist and completion of Punchlist Items, shall also apply to the Tenant Improvements.

(x) Landlord agrees to (i) warrant all work performed with respect to the Tenant Improvements for a period of twenty-four (24) months from the Substantial Completion of the Tenant Improvements (the "Warranty Period") and to correct all defects in such work (at Landlord's sole cost and expense) of which Landlord receives written notice from Tenant during the Warranty Period; and (ii) to correct all defects and perform all repairs to the portion of the Landlord Improvements during the Warranty Period, at Landlord's sole cost and expense. Landlord shall assign to Tenant all warranties (extended or otherwise) that apply to any systems servicing the Tenant Improvements which Tenant is responsible for maintaining under the terms of the Lease, or if such warranties are non-assignable, Landlord shall enforce said warranties on Tenant's behalf. Landlord's warranty obligations related to the Tenant Improvements shall not apply to defects or damages to any items subject to such warranties arising from or caused by Tenant's neglect or misuse or arising from or caused by Tenant's failure to comply with its obligations under this Lease.

C. Landlord will provide a Tenant Improvement Allowance ("Allowance") of forty-one dollars ($41.00) per rentable square foot which amount is included in the Base Rent and may be used at Tenant's discretion for any expense incurred by Tenant related to the Premises, including, but not limited to, design, space planning, construction documents, construction, computer flooring, moving expenses, telephone and data cabling, systems furniture, kitchen equipment, high density filing systems, emergency generators, supplemental HVAC equipment or other soft costs. Notwithstanding the foregoing, Tenant acknowledges that the Allowance is subject to reduction pursuant to Section 2.K. The Allowance shall be first applied toward payment of all costs incurred by Landlord in connection with installation of the Tenant Improvements, and any remaining balance shall be applied to reimburse Tenant for any Tenant Improvement costs incurred by Tenant that have not been paid by Landlord. If the cost of Landlord's construction of the Tenant Improvements is less than the amount of the Allowance, Landlord shall pay Tenant the difference within the later of (i) thirty (30) days following the Substantial Completion Date, or (ii) five (5) business days following the date Tenant provides Landlord with a written breakdown of the expenses incurred by Tenant related to the Premises to which Tenant will apply such Allowance payment. If the cost of Landlord's construction of the Tenant Improvements is greater than the amount of the Allowance, Tenant shall pay Landlord the difference within the later of (i) thirty (30) days following the Substantial Completion Date, or (ii) five (5) business days following the date Landlord provides Tenant with a written breakdown of the costs of installing the Tenant Improvements.

D. Landlord shall permit Tenant and its representatives access to the Premises and the improvements prior to the Commencement Date to examine and inspect same. Tenant will be able to enter the Building ninety (90) days prior to the Commencement Date to prepare the

Building for occupancy. Any early access will be at no cost to the Tenant. Access to the Building shall only be granted to installation companies that are compatible with Landlord's union work force. The parties acknowledge that Tenant will have to work concurrently with Landlord to prepare the Premises for occupancy by the Commencement Date. Tenant and its representatives shall use diligent good faith efforts to avoid interfering with the work of Landlord and its contractors at the Premises. Tenant shall indemnify Landlord from all losses caused by the actions or negligence of Tenant and/or its representatives following such entry. Prior to entering upon the Premises, Tenant shall provide Landlord with evidence of the insurance coverages required to be maintained by Tenant under this Lease. The foregoing indemnity obligations shall not apply to the activities of the Contractor in its performance of the Tenant Improvements.

4. Term.

A. The initial term of this Lease shall be for the Initial Lease Term as described on the Basic Lease Data section, commencing on the Commencement Date described on the Basic Lease Data section. The term of this Lease shall expire at 11:59 p.m. on the day immediately prior to the ten year and six month anniversary of the Commencement Date; provided that in the event the ten year and six month anniversary of the Commencement Date falls on a date other than the last day of a calendar month, then the initial Lease Term shall extend from the Commencement Date through the last day of the calendar month during which said ten year and six month anniversary of the Commencement Date occurs. Notwithstanding the date set for the Commencement Date, the terms, provisions, covenants and conditions of this Lease (except Tenant's obligation to pay Rent which shall not commence until the Commencement Date) shall apply and be binding upon Landlord and Tenant from and after the date hereof. For purposes of this Lease, the term "Lease Term" shall mean the Initial Lease Term, plus any extensions of such Initial Lease Term pursuant to this Lease.

B. The term "Substantial Completion" or "Substantially Complete" means that (i) the Landlord Improvements and Tenant Improvements are complete in all material respects in accordance with the Final LI Plans and the Final TI Plans (with only such changes as were approved by Tenant in writing); (ii) approval of occupancy has been issued by Ground Lessor; (iii) the Project Architect and the Contractor have each executed and delivered to Tenant a Certificate of Substantial Completion with respect to the Landlord Improvements and the Tenant Improvements; (iv) the Landlord Improvements and Tenant Improvements are available for Tenant's uninterrupted use and operation for the permitted use with all plumbing systems, electrical systems, heating, ventilating and air conditioning systems and equipment in good working order such that there would be no material interference with Tenant's use and occupancy of the Landlord Improvements and Tenant Improvements caused by any incomplete work of Landlord required hereunder; and (v) the roadway from University Blvd. to Lauderdale Road has been completed substantially in accordance with all design and construction requirements of St. Louis County for public dedication of the said road, together with a temporary through connection to Hanley Road via Lauderdale Road and Geiger Road. Landlord covenants and agrees that the remaining portion of road from Lauderdale Road to Hanley Road shall be brought to County standards as soon as possible after acquisition of the right-of-way for same. The date on which the Landlord Improvements and Tenant Improvements are Substantially Complete pursuant to the foregoing is referred to as the "Substantial Completion Date". Notwithstanding the foregoing, as provided in Section 55 hereof, it is possible that Landlord may be delayed in completing a certain parking area and/or a certain parking facility serving the Building, and the non completion of such parking area and/or parking facility shall not be considered in determining whether the Landlord Improvements are Substantially Complete.

C. If Substantial Completion has not been achieved by the Scheduled Date , then the Commencement Date and expiration date of the Lease shall be adjusted by the length of any such delay and Tenant shall be entitled to the following remedies, provided, however, that any delays caused by a "Tenant Delay" (defined below) or a "Force Majeure Event" (defined below), shall be excused:

(i) Tenant will receive two (2) days free rent for every calendar day from the Scheduled Date until Substantial Completion is achieved ("Additional Free Rent");

(ii) If Substantial Completion has not occurred by the date that is ninety (90) days after the Scheduled Date, Tenant shall have the right to assume control over construction of the Landlord Improvements and the Tenant Improvements, upon thirty (30) days prior written notice to Landlord (the "Assumption Notice"); provided, that if the Project Architect certifies that Substantial Completion is possible within (90) days following the date the Assumption Notice is delivered to Landlord, and Landlord provides reasonable evidence of its ability to achieve Substantial Completion within such 90-day period, then Tenant's right of assumption shall not be exercisable unless Substantial Completion has not occurred by the end of such 90-day period. In the event that Tenant elects to assume control over construction of the Landlord Improvements and the Tenant Improvements pursuant to this Section 4.E(ii), Tenant shall diligently and in good faith pursue Substantial Completion. The assumption by Tenant of control over construction of the Landlord Improvements and the Tenant Improvements shall not stop liquidated damages (i.e., the Additional Free Rent) from continuing to accrue until Substantial Completion has been achieved nor shall it relieve Landlord of any liability for such liquidated damages; provided, however, that Tenant fulfills its obligation to proceed diligently and in good faith in pursuing Substantial Completion; and

(iii) If Substantial Completion has not been achieved by the date that is one hundred twenty (120) days after the Scheduled Date, and Tenant has not previously assumed control over construction, then Tenant shall have the right to terminate the Lease upon written notice to Landlord ("Termination Notice"). Notwithstanding the foregoing, if within three (3) business days after receipt of a Termination Notice, this Lease shall not terminate and the parties' rights and obligations hereunder shall remain in full force and effect if Landlord provides written notice to Tenant in which Landlord agrees to pay Tenant all holdover rent and other amounts payable by Tenant over and above the base rent and additional rent payable by Tenant as of the expiration date under the lease(s) for its current locations intended to be vacated upon completion of the Premises (which payment shall be in addition to the Additional Free Rent). If Landlord agrees to pay Tenant's holdover rent and other amounts pursuant to the immediately preceding sentence, then upon the request of Tenant, Landlord shall agree to amend this Lease or provide or written assurances reasonably satisfactory to Tenant confirming the foregoing obligations of Landlord.

D. As used herein, the term "Tenant Delay" shall mean any delay in the completion of the Landlord Improvements or Tenant

Improvements caused by Tenant, including, without limitation, (i) Tenant's failure to meet any time deadlines specified in this Lease or to timely respond to any submittal or request requiring Tenant's approval; (ii) change orders, but only to the extent any resulting delay is agreed upon by Landlord and Tenant and documented in writing pursuant to Sections 2.K or 3.A; and (iii) Tenant's requirements for special work or materials, finishes or installations that are not readily available to Landlord and which are delivered at a time that causes a delay (Landlord will endeavor to identify any such items described in the Outline Plans and Specifications).

E. Landlord and Tenant acknowledge that to ensure that the Scheduled Date is achievable, the following critical milestones need to be reached by the respective dates provided below:

(i) Plans and specifications for the Building and the other Landlord Improvements need to be sufficiently completed by October 24, 2005 to a point that allows Landlord to commence site work by November 1, 2005;

(ii) The Final LI Plans, consistent with the Outline Plans and Specifications described on Exhibit C, need to be substantially completed and approved by Landlord (such consent not to be unreasonably withheld, delayed or conditioned) and Ground Lessor (with respect to code compliance only) on or before December 31, 2005;

(iii) All required permits from governmental agencies and utilities having jurisdiction over the Premises (including, but not limited to, the Metropolitan Sewer District of St. Louis and the applicable fire protection district) required for construction of the Landlord Improvements shall be obtained prior to January 31, 2006 (it being acknowledged that Landlord shall have primary responsibility for obtaining such permits);

(iv) Tenant's interior finish plan needs to be completed by Tenant and the Project Architect by February 15, 2006, and approved by Landlord (such consent not to be unreasonably withheld, delayed or conditioned); and

(v) All required permits from governmental agencies and utilities having jurisdiction over the Premises (including, but not limited to, the Metropolitan Sewer District of St. Louis and the applicable fire protection district) required for construction of the Tenant Improvements shall be obtained prior to April 1, 2006 (it being acknowledged that Landlord shall have primary responsibility for obtaining such permits).

Landlord and Tenant shall proceed diligently and in good faith to attempt to complete the aforesaid matters by the above milestone dates, with each party responding promptly with comments, changes and feedback. In addition, Landlord and Tenant shall proceed diligently and in good faith in working with the Project Architect in developing and agreeing upon the Final LI Plans and the Final TI Plans. In the event that any of the aforesaid matters have not been completed by the applicable milestone date, despite the parties' diligent and good faith efforts, the Scheduled Date, Commencement Date and expiration date of the Lease shall be extended by the number of days the applicable milestone date has been delayed. The Scheduled Date shall also be extended by the number of days that construction of Landlord Improvements or Tenant Improvements is delayed by Force Majeure Events as defined in Section 29. Notwithstanding the foregoing, in the event of such delay, Landlord and Tenant shall cooperate with one another to accelerate the project schedule, to the extent practicable, to make up for lost time.

5. Rent Commencement and Base Rent.

A. Tenant's obligation to pay Rent (as hereinafter defined) under this Lease shall commence and accrue upon the Commencement Date, except that Landlord agrees that the first $2,123,000.00 in Base Rent due shall be abated. All Rent shall be paid to Landlord at the address set forth for payment of Rent in the Basic Lease Data Section of this Lease, subject to Landlord's right to change such address from time to time by notice to Tenant.

B. The annual base rent (hereinafter referred to as the "Base Rent") payable for each Lease Year (as hereinafter defined) shall be paid in monthly installments in the amount(s) determined per Exhibit B and set forth in the Lease Memorandum, in advance and without any set off or deduction (except as otherwise provided in Section 45), beginning on the Commencement Date, and continuing on the first day of each calendar month during this Lease Term. Base Rent shall be prorated for any partial calendar month that Tenant leases the Premises.

C. As used herein, the term "Rent" shall mean and refer both to the Base Rent provided hereunder and Additional Rent. The term "Additional Rent" shall mean any and all payments to be made by Tenant under this Lease, other than Base Rent, including but not limited to Tenant's share of Taxes (as described in Section 6), Tenant's share of the cost of the Tenant Improvements (if owed to Landlord), interest, late charges, attorney's fees and any amounts or costs expended or incurred by Landlord in curing or by reason of any default of Tenant. Additional Rent shall be deemed for the purpose of securing the collection thereof to be additional rent hereunder, whether or not the same be designated as such, and shall be due and payable at the time provided in this Lease, and if no such time is provided it shall nevertheless be collectible as additional rent on demand or together with the next succeeding installment of Base Rent, whichever shall first occur; and Landlord shall have the same rights and remedies upon Tenant's failure to pay the same as for the non-payment of the Base Rent.

D. As used herein, the term "Lease Year" shall mean and refer to the periods of twelve (12) consecutive calendar months commencing on the Commencement Date (provided that if the Commencement Date falls on a date other than the first day of a calendar month, then the first Lease Year shall consist of the partial calendar month in which the Commencement Date occurs plus the 12 full calendar months thereafter), and the remaining Lease Years shall be the successive periods of 12 full calendar months following the expiration of the first Lease Year, and continuing until the expiration or termination of this Lease Term. Notwithstanding the foregoing, the 11th Lease Year shall mean the 6-month period extending from the 1st day following the expiration of the 10th Lease Year through the date that is the last day of the 6th full calendar month thereafter.

E. If Tenant shall fail to pay to Landlord any Rent or other charge due Landlord hereunder on the due date thereof, and such failure continues for two (2) business days following Landlord's notice to Tenant of such failure, Tenant shall be assessed a late fee in an amount equal to five percent (5%) of the delinquent amount owed Landlord. Notwithstanding the foregoing, Landlord shall not be required to provide such written notice on more than two (2) occasions during any consecutive twelve (12) month period. The late charge is a one time charge that can be added by the Landlord to each applicable payment and is intended to compensate Landlord for the extra time and trouble it incurs in dealing with late payments. Pursuant to Section 15.E of the Lease, the Landlord may charge interest on late payments, in addition to charging a late fee on such late payments (such interest compensates Landlord for money that Landlord could have earned on Tenant's payment if Tenant's payment had been paid when it was due).

6. Taxes.

A. As provided in further detail in Section 50 hereof, in connection with Landlord's commitment under this Lease to construct the Road Improvements, Landlord intends to seek municipal financing benefits under the Missouri Transportation Development District Act ("TDD") and/or other economic development programs to assist Landlord and St. Louis County in the funding of the Road Improvements. Tenant agrees to cooperate with Landlord's efforts to obtain such benefits, subject to the provisions of Section 50. As part of Landlord's efforts to obtain such benefits, and as part of Tenant's cooperation obligations in this Section A and in Section 50, Landlord and Tenant agree to the provisions of Sections 6.B through 6.J below.

B. For the tax years 2007 through 2016, Tenant shall pay to Landlord, as additional rent, fifty percent (50%) of the real and personal property Taxes (defined below) that would otherwise be payable to each taxing jurisdiction had the Premises and Tenant's personal property in the Premises not otherwise been exempt from taxation using as the basis for such calculation either the assessed value of the Premises as determined by the St. Louis County Tax Assessor ("Assessor") (subject to Tenant's right to appeal such assessment) or the assessed value as determined by the appraisal procedure set forth in subparagraph F below. All such amounts attributable to personal property taxes shall be timely paid by Landlord to the St. Louis County Collector of Revenue as a payment in lieu of taxes ("PILOT") for distribution to the taxing jurisdictions in the same manner and in the same proportion as taxes on the Tenant's personal property in the Premises would have been distributed in each year had the Premises not been exempt from taxation.

C. For tax years 2017 and beyond, Tenant shall pay to Landlord, as additional rent, one hundred percent (100%) of the real and personal property Taxes that would otherwise be payable to each taxing jurisdiction had the Premises not otherwise been exempt from taxation using as the basis for such calculation either the assessed value of the Premises as determined by the Assessor (subject to Tenant's right to appeal such assessment) or the assessed value as determined by the appraisal procedure set forth in subparagraph F below. At least fifty percent (50%) of all such amounts attributable to personal property taxes shall be timely paid by Landlord to the St. Louis County Collector of Revenue as a PILOT for distribution to the taxing jurisdictions in the same manner and in the same proportion as taxes on Tenant's personal property in the Premises would have been distributed in each year had the Premises not been exempt from taxation.

D. Landlord shall apply the above additional rent payments attributable to real property taxes to TDD assessments or similar assessments against the Premises. If the Premises is subject to TDD assessments or similar assessments over and above such additional rent payments, Landlord shall pay such excess amounts without reimbursement from Tenant.

E. Commencing in tax year 2007 and continuing in all subsequent years until the Ground Lease is terminated, Landlord shall obtain from the St. Louis County Assessor, as soon as reasonably available, (i) a list of each taxing jurisdiction within whose boundaries the Property is situated and the current tax levy of each such taxing jurisdiction; and (ii) the Assessor's most recent assessed valuation of the real and personal property comprising the Premises in accordance with Article X, Section 4(b) of the Missouri Constitution and Section 137.115, RSMo, as amended. Landlord shall notify Tenant of such assessed valuation in writing promptly following Landlord's receipt thereof, and shall provide copies of any supporting documentation provided by the Assessor to Landlord relating to such valuation.

F. If Tenant does not agree with the assessed valuation for any particular year, as determined by the Assessor and provided to Tenant pursuant to subparagraph D above, and so notifies Landlord in writing by the deadline for appealing such valuation, Tenant, at Tenant's expense, may appeal such assessment to the County Board of Equalization and the State Tax Commission, as applicable, in the manner provided under Missouri law, and Landlord agrees to lend Tenant all reasonable cooperation in connection with said contest. Pending resolution of the contest, Tenant shall have the right to make payments in respect of Taxes or increases challenged by Tenant "under protest". If the term of this Lease terminates during any time such a contest is pending and, thereafter, such contest results in a refund, then Tenant shall be entitled to receive the amount of any such refund to the extent it relates to the periods preceding such termination of the term of this Lease.

G. If (i) the Board of Equalization or the State Tax Commission determines that, because the Premises is exempt from *ad valorem* taxation, they do not have jurisdiction to hear Tenant's appeal pursuant to Section 6.F above, or (ii) for any reason the Assessor has not made available an assessed valuation for the Premises not later than ten (10) business days prior to the deadline for appealing valuations in St. Louis County, the following procedures shall apply:

(1) In each reassessment year, Landlord and Tenant shall meet in an effort to negotiate in good faith the assessed valuation of the Premises for the current and following tax years it being the intent of the parties to reassess the Premises on the same timeframe as reassessments are performed in St. Louis County which at the present time occurs in each odd-numbered year.

(2) If Landlord and Tenant have not agreed upon the assessed valuation of the Premises by July 1 of any calendar year, then Landlord and Tenant shall attempt to agree on a single appraiser to determine the assessed value of the Premises. If Landlord and Tenant have not been able to agree on a single appraiser by July 1, then Landlord and Tenant shall each, by July 15, appoint an appraiser licensed by the State of

Missouri to perform real estate appraisals (each of whom shall also be a member of the Appraisal Institute carrying the designation of "M.A.I."), and, if the personal property assessment is challenged, a qualified equipment appraiser. Each party shall notify the other party in writing of the appraiser(s) appointed pursuant to this subparagraph. If either party fails to appoint an appraiser by the date specified, the remaining appraiser(s) shall carry out the duties imposed upon them pursuant to this subparagraph.

(3) The appraisers shall, by September 1, examine the Premises and each render an opinion in writing to each party regarding the assessed valuation of the Premises, using the same methodology and taking into account all factors considered by the Assessor of St. Louis County in his assessment of the same class of property during the applicable tax year.

(4) If the appraisals of the Premises prepared by the appointed appraisers are within ten percent (10%) of the lower appraisal, then the assessed value of the Premises shall be the average of the two appraisals. If the appraisals of the Premises prepared by the appraisers are not within ten percent (10%) of the lower appraisal, and if the appraisers cannot agree as to the assessed valuation of the Premises by September 1, then they collectively shall appoint a licensed real estate appraiser and an additional qualified equipment appraiser if the personal property assessment is challenged. The appraisers shall notify each party of their appointment(s) by October 1. The appraiser(s) appointed under this paragraph shall, by December 1, render an opinion in writing to each party regarding the assessed valuation of the respective real or personal property portion of the Premises. If such appraisers cannot agree on an assessed valuation, and if the reason for the appointment of the appraisers is that the Assessor has not made available an assessed valuation for the Premises for the year in question, then the third appraiser appointed shall unilaterally render such an opinion by December 10.

(5) Landlord and Tenant shall pay the fees and expenses of appraiser(s) appointed by them pursuant to Section 6.G(2) and shall each pay fifty percent (50%) of the fees of the appraiser appointed pursuant to Section 6.G(4) incurred by such appraisers in carrying out their duties under the Ground Lease.

H. Each party agrees to cooperate in all respects to enable the appraisers to undertake the duties specified herein within the dates specified. Nevertheless, if the appraisers appointed pursuant to Section 6.G above have not determined an assessed valuation by the dates specified therein, and if the reason for the appointment of the appraisers is the Board of Equalization or the State Tax Commission determined that they do not have jurisdiction to hear Tenant's appeal as provided above, then the valuation of the Premises determined by the Assessor pursuant to Section 6.E above shall be the assessed valuation for such year. However, if the reason for the appointment of the appraisers is that the Assessor has not made available an assessed valuation for the Premises for the year in question, then the opinion of the third appraiser rendered pursuant to Section 6.E(4) shall govern for purposes of the payment required pursuant to Section 6.A above.

I. "Taxes" (as such term is used herein) shall include, without limitation, any tax, assessment or similar governmental charge imposed against the Property (including any tax or special assessment assessed against Landlord's leasehold estate under the Ground Lease, and any tax or special assessment that Landlord is obligated to pay pursuant to the terms of the Ground Lease). Taxes, as herein contemplated, are predicated on the present system of taxation in the State of Missouri. Therefore, if due to a future change in the method of taxation, any rent, franchise, use, profit or other tax shall be levied against Landlord in lieu of any charge which would otherwise constitute a Tax, such rent, franchise, use, profit or other tax shall be deemed to be a Tax for the purposes herein. In the event Landlord is assessed with a Tax which Landlord, in its sole discretion, deems excessive, Landlord may (but is not obligated to) challenge said Tax or may defer compliance therewith to the extent legally permitted. "Taxes" (as used herein) shall also include any tax, assessment or similar charge assessed by the Assessor against Tenant's personal property situated in the Premises. Notwithstanding the foregoing, Taxes shall not include income or other taxes measured or determined based upon Landlord's income, or on income derived from mortgages or deeds of trust encumbering the Premises, or on any gain realized by Landlord in connection with the sale of the Premises (except to the extent the same may be assessed or levied in substitution for ad valorem real estate taxes).

J. Tenant's share of Taxes shall be payable to Landlord in monthly installments, in advance, due on the first of each month, in an amount reasonably estimated from time to time by Landlord. Not later than ninety (90) days following the end of each calendar year, Landlord shall deliver a statement to Tenant setting forth Tenant's actual obligation for Taxes for the preceding calendar year, and the total amount of monthly payments paid by Tenant to Landlord. In determining Tenant's obligation for Taxes for the preceding calendar year, the assessed value as determined by the Assessor, or the appraised value determined in accordance with Section 6.G, shall be determinative as to the amount of Taxes due and payable. In the event Tenant's actual obligation exceeds Tenant's payments, Tenant shall pay the difference to Landlord on the date which is the later of: (i) ten (10) days after receipt of Landlord's statement, or (ii) with the next installment(s) of Additional Rent due under this Lease after receipt of Landlord's statement. Conversely, in the event Tenant's total payments exceed Tenant's actual obligation, Landlord shall credit the overpayment against the next installment(s) of Rent due under this Lease. Tenant shall have sixty (60) days from receipt of Landlord's statement within which to accept or contest said Landlord's statement. Absent written notice from Tenant to Landlord within such 60-day period, Landlord's statement shall be deemed accepted by Tenant and the amount shown thereon shall be paid or credited by Landlord to Tenant or paid to Landlord by Tenant, as the case may be. If Tenant makes any objection(s) to Landlord's said statement as aforesaid, Landlord or Tenant, as the case may be, shall pay all non-disputed sums to the other in the manner set forth above, and Landlord and Tenant promptly commence good faith negotiations to resolve any remaining differences between them.

K. Notwithstanding the foregoing provisions of this Section 6, Tenant acknowledges that Landlord and Ground Lessor contemplate establishing an escrow administered by a third party escrowee to receive and apply the additional rent payments made by Tenant pursuant to this Section 6. Landlord and Ground Lessor may jointly notify Tenant in writing that such an escrow has been established, in which event such notice shall be accompanied by a copy of the escrow agreement governing such escrow. Such escrow agreement, and any amendments thereto, shall be subject to the review and approval of Tenant, not to be unreasonably withheld, conditioned or delayed. In no event shall the terms of any such escrow agreement materially expand Tenant's obligations or diminish Tenant's rights under this Section 6. Following Tenant's receipt of a notice of the establishment of such an escrow and

Tenant's approval of the escrow agreement governing such escrow (all pursuant to the foregoing provisions of this Section 6.K), Tenant agrees to make the payments required under this Section 6 to the third party escrowee designated by Landlord and Ground Lessor in such notice. If such escrow is established and the additional rent payments under this Section 6 are made to such escrow pursuant to this Section 6.K, Landlord and Tenant agree that neither of them may thereafter change the manner in which Tenant's additional rent payments under this Section 6 are made, except pursuant to a written agreement executed by Landlord and Ground Lessor and reasonably acceptable to Tenant.

7. Common Areas. So long as Tenant is leasing all of the space in the Building, Tenant shall have the exclusive right to use the entire Premises, subject to the provisions of this Lease and subject to the rights of access of Landlord under this Lease. If, however, Tenant exercises any of its "give back rights" under this Lease, then Landlord shall have the right to reasonably designate "Common Areas", which shall mean all areas, space, facilities, equipment and signs made available by Landlord in the Building or on the Property for the common and joint use and benefit of Tenant and other tenants and permittees of Landlord, and their respective employees, agents, subtenants, concessionaires, licensees, customers, and other invitees, and may include the sidewalks, parking areas, driveways, yard area, landscaped areas, lobbies, restrooms, stairs, ramps, elevators, exits and/or service corridors, to the extent not contained within any area exclusively appropriated for the use of any occupant. If Common Areas are designated by Landlord, then Landlord also reserves the right to impose reasonable rules and regulations relating to use of the Common Areas; to construct, maintain and operate lighting and other facilities, equipment and signs on all of the Common Areas; and to close temporarily all or any portion of the Common Areas for the purpose of making repairs or changes thereto. If Common Areas are designated by Landlord, Tenant is hereby given a license (in common with all others to whom Landlord has or may hereafter grant rights) to use, during the Lease Term, the Common Areas as they may now or at any time during the Lease Term exist; provided, however, that if the size, location or arrangement of such Common Areas or the type of facilities at any time forming a part thereof are changed or diminished, Landlord shall not be subject to any liability therefor, nor shall Tenant be entitled to any compensa-tion or diminution or abatement of Rent therefor, nor shall such change or diminution of such areas be deemed a constructive or actual eviction.

8. Landlord's Repairs and Services. Throughout the Term, Landlord shall be responsible for providing the following services at Landlord's sole cost and expense which expenses shall not be included in the calculation of Additional Rent hereunder: all exterior building repairs (including sub-surface water penetration), maintenance and replacement of roof, roofing systems, exterior walls, windows, structural members, footings and foundations, floors, gutters and downspouts, trunk utility lines (until accepted for dedication by applicable utility companies), sidewalks and curbs and parking facilities (excepting any damage caused by the negligence or willful misconduct of Tenant or Tenant's employees, agents or invitees). If Tenant observes a need for any repairs or maintenance required to be performed by Landlord under this Lease, it shall promptly notify Landlord. In the event that Tenant gives back space to Landlord pursuant to Section 40, Landlord may have additional responsibilities to provide services as described in Sections 40 and 51.

9. Services and Utilities. Subject to Section 9.E below, throughout the Term, Tenant shall be responsible for providing the following items at its sole cost and expense:

A. Landscaping, snow removal, trash pick up and collection, and any other outside maintenance not included by the Landlord.

B. Janitorial.

C. Utilities, including HVAC and utility services used by Tenant at the Premises, such as electricity, gas, water and sewer. Tenant shall contract directly with the utility companies for all utility services it requires, and Landlord shall install separate meters for the Premises to measure Tenant's usage of such services. Except to the extent utility interruptions occur as a result of the negligence or willful misconduct of Landlord, Landlord shall not be liable for the quality, quantity, failure or interruption of utility services to the Premises, nor shall any interruption in utility services affect Tenant's obligations to pay Rent hereunder. In the event a utility interruption occurs due to Landlord's negligence or willful misconduct, and as a result thereof, the Premises becomes untenantable (meaning that Tenant is unable to use the Premises in the normal course of its business) for more than three (3) consecutive business days after receipt of notice (which may be verbal if communicated to Landlord's property manager for the Building) from Tenant, Base Rent shall abate on a per diem basis for each day after such three (3) business day period during which the Premises remains untenantable.

D. Interior maintenance including inside surfaces, ceilings, doors, and lighting, mechanical, electrical and plumbing systems.

E. In the event that Tenant gives back space to Landlord pursuant to Section 40, there may be modifications to this Section made pursuant to a written amendment to this Lease signed by Landlord and Tenant as required by Section 40.

F. Tenant shall have access to the Premises on a twenty-four (24) hours per day, seven (7) days per week basis.

10. Insurance.

A. Throughout the Term, Landlord will maintain (a) a so called "all-risk" property insurance policy covering the Property (at its full replacement cost) including such other charges deemed necessary by the Landlord, but excluding Tenant's personal property, with a deductible which will not exceed $250,000 and (b) commercial general public liability insurance covering Landlord for claims arising out of liability for bodily injury, death, personal injury, advertising injury and property damage occurring in and about the Property and otherwise resulting from any acts and operations of Landlord, its agents and employees, with minimum limits of $2,500,000 per occurrence and $2,500,000 general aggregate and (c) rent loss insurance, with limits that are required by any lender(s) of Landlord, or as are otherwise reasonably determined by Landlord (collectively, "Landlord's Policies"). All Landlord's Policies will (a) be issued by an insurance company with a Best rating of A-:VIII or better and otherwise reasonably acceptable to Tenant and will be licensed to do business in the state where the Premises is located; (b) provide that said insurance will not be canceled or materially modified unless 30 days' prior written notice will have been given to Tenant and (c) otherwise be in such form, and include such coverage's, as Tenant may reasonably require. Landlord will provide Certificates of Insurance, in a form reasonably acceptable to Tenant, evidencing said Landlord's Policies, to Tenant upon commencement of the Lease and renewals thereof will be delivered at least 10 days prior to the expiration of each Policy.

B. Tenant will purchase, at its own expense, and keep in force at all times during this Lease (a) "all-risk" property insurance policy covering Tenant's personal property and all tenant improvements, at its full replacement cost, with a deductible that will not exceed $250,000 and (b) commercial general liability insurance, including personal injury and property damage, in the amount of not less than $2,500,000 per occurrence and $2,500,000 general aggregate, and (c) comprehensive automobile liability insurance covering Tenant against any losses arising out of liability for personal injuries or deaths of persons and property damage occurring in or about the Premises or Property in the amount of not less than $1,000,000, combined single limit (collectively, "Tenant's Policies"). The Tenant's Policies will name Landlord, Landlord's property manager, Landlord's lender and any party holding an interest to which this Lease may be subordinated as additional insureds. All Tenant's Policies will (a) be issued by an insurance company with a Best rating of A-:VIII or better and otherwise reasonably acceptable to Landlord and will be licensed to do business in the state where the Premises is located; (b) provide that said insurance will not be canceled or materially modified unless 30 days' prior written notice will have been given to Landlord and (c) otherwise be in such form, and include such coverage's, as Landlord may reasonably require. Tenant will provide Certificates of Insurance, in a form reasonably acceptable to Landlord, evidencing said Tenant's Policies, to Landlord upon commencement of the Lease and renewals thereof will be delivered prior to the expiration of each Policy.

C. Both Landlord and Tenant will purchase and maintain, throughout the Term, workers' compensation insurance per the applicable state statutes covering all its employees.

D. To the extent permitted by law, and without affecting the coverage provided by insurance required to be maintained hereunder, Landlord and Tenant each waive any right to recover against the other, and any right to recover against the property manager for the Property, or against the officers, directors, shareholders, partners, joint venturers, employees, agents, managers, clients or business visitors of either party for (a) damages to property, (b) damages to all or any portion of either or both of the Premises and the Property, (c) claims arising by reason of the foregoing, to the extent such damages and claims are insured against, or required to be insured against, by Landlord or Tenant under this Lease or (d) claims paid by Landlord or Tenant's workers' compensation carrier. This provision is intended to waive, fully and for the benefit of each party, any rights and/or claims which might give rise to a right of subrogation by any insurance carrier. The coverage obtained by each party pursuant to this Lease will include, without limitation, a waiver of subrogation by the carrier which conforms to the provisions of this section.

E. In the event Tenant's use of the Premises shall result in an increase in Landlord's insurance premiums, Tenant shall pay to Landlord within fifteen (15) days after demand, as Additional Rent, an amount equal to such increase in insurance, provided this Section 10.E shall not be applicable so long as Tenant is only using the Premises for general office use.

11. Damage or Destruction.

A. If at any time prior to the Commencement Date, the Premises are damaged or destroyed by casualty Landlord shall give Tenant written notice ("Landlord's Pre-Commencement Repair Notice") within thirty (30) days after the damage occurs advising Tenant whether or not, in Landlord's reasonable opinion, the damages from such casualty will delay the Substantial Completion Date by more than one hundred eighty (180) days beyond the then-current scheduled Substantial Completion Date. If Landlord's Pre-Commencement Repair Notice states that in Landlord's reasonable opinion, the damages from such casualty will so delay the then-current scheduled Substantial Completion Date, then (i) Landlord may terminate this Lease, provided Landlord notifies Tenant of such termination within the same 30-day period that Landlord's Pre-Commencement Repair Notice is to be given, and (ii) if Landlord has not elected to so terminate this Lease, Tenant may terminate this Lease by giving Landlord written notice thereof within thirty (30) days following the its receipt of Landlord's Pre-Commencement Repair Notice. If at any time after the Commencement Date, the Premises are damaged or destroyed by casualty Landlord shall give Tenant written notice ("Landlord's Post-Commencement Repair Notice") within thirty (30) days after the damage occurs advising Tenant whether or not, in Landlord's reasonable opinion, the damages from such casualty can be repaired within one hundred eighty (180) days from the date of said casualty. If Landlord's Post-Commencement Repair Notice states that in Landlord's reasonable opinion, the damages from such casualty cannot be repaired within such 180-day period, then (i) Landlord may terminate this Lease, provided Landlord notifies Tenant of such termination within the same 30-day period that Landlord's Post-Commencement Repair Notice is to be given, and (ii) if Landlord has not elected to so terminate this Lease, Tenant may terminate this Lease by giving Landlord written notice thereof within thirty (30) days following the its receipt of Landlord's Post-Commencement Repair Notice.

B. In the event that a casualty occurring after the Commencement Date renders the Premises untenantable or prevents access to the Premises for any period, the Rent due for such period shall be abated; and in the event only a portion of the Premises is rendered untenantable and access to the Premises is not prevented, Tenant's Rent shall be equitably abated in proportion to that portion of the Premises which is rendered untenantable, provided that no abatement shall be allowed pursuant to this sentence unless the conditions making the Premises fully or partially untenantable exist for at least three (3) consecutive business days. Abatement shall continue until Landlord has substantially completed its repair and restoration obligations pursuant to Section 11.D or Section 11.E below, whichever is applicable.

C. If this Lease is not terminated by either party due to a pre-Commencement Date casualty pursuant to the terms of Subsection A above, this Lease shall remain in full force and effect, and Landlord shall proceed with all due diligence to repair, restore and/or rebuild and complete the Landlord Improvements and the Tenant Improvements. Notwithstanding the foregoing, if Landlord does not substantially complete such obligations under this Section 11.C ("Landlord's Section 11.C Restoration Obligations") within one hundred eighty (180) days beyond the date that was the scheduled Substantial Completion Date on the date of the casualty, plus any additional days that such construction is delayed due to force majeure (as defined in Section 29), Tenant shall have the right to assume control over Landlord's Section 11.C Restoration Obligations, upon thirty (30) days prior written notice to Landlord. In the event that Tenant elects to assume control over Landlord's Section 11.C Restoration Obligations, (i) Tenant shall diligently and in good faith pursue substantial completion of Landlord's Section 11.C Restoration Obligations, (ii) all insurance proceeds for such restoration shall be made available to Tenant for such purpose, and (iii) Landlord shall be liable for all costs reasonably incurred by Tenant (over and above available insurance proceeds) in undertaking such restoration.

D. If this Lease is not terminated by either party due to a post-Commencement Date casualty pursuant to the terms of Subsection A above, this Lease shall remain in full force and effect, and Landlord shall proceed with all due diligence to repair and restore the Premises (except as otherwise provided in this Lease) substantially to the condition thereof immediately prior to such damage or destruction (exclusive of the Tenant Improvements and other tenant improvements made by Tenant, Tenant's trade fixtures, equipment, decorations, signs, inventory and contents), subject to the terms, conditions, requirements and provisions hereinafter set forth in this Section 11. Tenant shall be solely responsible for restoring the Tenant Improvements and other leasehold improvements made by Tenant. Notwithstanding the foregoing, if Landlord does not substantially complete its restoration obligations under this Section 11.D ("Landlord's Section 11.D Restoration Obligations") within two hundred forty (240) days from the date of the subject casualty, plus any additional days that such restoration is delayed due to force majeure (as defined in Section 29), Tenant shall have the right to assume control over Landlord's Section 11.D Restoration Obligations, upon thirty (30) days prior written notice to Landlord. In the event that Tenant elects to assume control over Landlord's Section 11.D Restoration Obligations, (i) Tenant shall diligently and in good faith pursue substantial completion of Landlord's Section 11.D Restoration Obligations, (ii) all insurance proceeds for such restoration shall be made available to Tenant for such purpose, and (iii) Landlord shall be liable for all costs reasonably incurred by Tenant (over and above available insurance proceeds) in undertaking such restoration.

E. Notwithstanding the provisions of Sections 11.A and 11.D above, if during the final year of the Lease Term, (i) the Premises are damaged or destroyed by casualty, and (ii) at least one third ($1/3^{rd}$) of the Premises are made untenantable as a result of such casualty, Landlord shall give Tenant written notice ("Landlord's Final Year Repair Notice") within five (5) business days after the damage occurs, advising Tenant whether or not, in Landlord's reasonable opinion, the damages from such casualty can be repaired within an amount of time from the date of said casualty equal to or less than ten percent (10%) of the number of days remaining in the Lease Term from the date of said casualty. If Landlord's Final Year Repair Notice states that in Landlord's reasonable opinion, the damages from such casualty cannot be repaired within such 10% time frame, then (i) Landlord may terminate this Lease, provided Landlord notifies Tenant of such termination within the same 5-business day period that Landlord's Final Year Repair Notice is to be given, and (ii) if Landlord has not elected to so terminate this Lease, Tenant may terminate this Lease by giving Landlord written notice thereof within five (5) business days following the its receipt of Landlord's Repair Notice. However, if Landlord elects to so terminate this Lease during the final year of the Lease Term, Tenant may nullify such termination if Tenant has one or more renewal options remaining and elects to exercise said option within fifteen (15) days after Landlord's termination notice. If this Lease is not terminated by either party pursuant to the terms of this Section 11.E, this Lease shall remain in full force and effect, and Landlord shall proceed with all due diligence to repair and restore the Premises substantially to the condition thereof immediately prior to such damage or destruction (exclusive of the Tenant Improvements and other tenant improvements made by Tenant, Tenant's trade fixtures, equipment, decorations, signs, inventory and contents) subject to the terms, conditions, requirements and provisions hereinafter set forth in this Section 11. Tenant shall be solely responsible for restoring the Tenant Improvements and other leasehold improvements made by Tenant. However, if Landlord does not substantially complete its restoration obligations under this Section 11.E ("Landlord's Section 11.E Restoration Obligations") within such 10% time frame, plus any additional days that such restoration is delayed due to force majeure (as defined in Section 29), Tenant shall have the right to terminate this Lease upon written notice to Landlord. Notwithstanding the foregoing provisions of this Section 11.E, if pursuant to the foregoing provisions of this Section 11.E, Tenant has nullified Landlord's termination of this Lease by exercising one of Tenant's renewal options, the provisions of Section 11.D shall apply to Landlord's and Tenant's respective restoration obligations.

F. If any damage or destruction of the Premises is covered by insurance, then Tenant and Landlord shall fully cooperate in filing all necessary proofs of claim with insurance companies. If pursuant to Section 11.C, 11.D or 11.F, Landlord is obligated to perform Landlord's Section 11.C Restoration Obligations, Landlord's Section 11.D Restoration Obligations or Landlord's Section 11.E Restoration Obligations, as applicable, and if pursuant to Section 11.D or 11.F, Tenant is required to restore the Tenant Improvements and its other leasehold improvements, then all proceeds of insurance shall be deposited into escrow with a title insurance company or other construction escrow disbursing agent reasonably satisfactory to Landlord and Tenant and such insurance proceeds may only be used to pay for the costs of restoration, with any unused proceeds for Landlord's Section 11C Restoration Obligations, Landlord's Section 11.D Restoration Obligations or Landlord's Section 11.E Restoration Obligations, as applicable, being payable to Landlord and any unused proceeds for restoration of the Tenant Improvements being payable to Tenant. Insurance proceeds payable with respect to property that is to be repaired or replaced shall be made available to the party that is responsible for repairing or replacing said property, provided that the disbursement of such insurance proceeds shall be subject to a disbursement agreement reasonably acceptable to Landlord, Tenant and the title company holding the insurance proceeds. Notwithstanding the foregoing, if the documents governing Landlord's financing of the Premises require that the lender control the disbursement of the insurance proceeds for Landlord's Section 11.C Restoration Obligations, Landlord's Restoration Section 11.D Obligations or Landlord's Section 11.E Restoration Obligations, as applicable, then such documents shall govern such disbursement of such proceeds, provided they are reasonable and require the insurance proceeds for Landlord's Section 11.C Restoration Obligations, Landlord's Section 11.D Restoration Obligations or Landlord's Section 11.E Restoration Obligations, as applicable, be applied toward completing the applicable restoration obligations of Landlord.

G. In the event either party should elect to terminate this Lease pursuant to Section 11.A above or Section 11.E above, as applicable, the effective date of such termination shall be the later of: (i) the date of said casualty, or (ii) the date Tenant vacates the Premises in the event that Tenant continues to use part of the Premises after the date of the casualty. In the event this Lease is terminated, the parties shall have no further obligations to the other, except for those obligations accrued through the effective date of such termination and except for obligations which survive termination of this Lease as per Section 33.O; and, upon such termination, Tenant shall immediately surrender possession of the Premises to Landlord.

H. Notwithstanding any provision of this Section 11 to the contrary, if Landlord reasonably determines that the proceeds from Landlord's insurance available for performing Landlord's Section 11.C Restoration Obligations, or Landlord's Section 11.D Restoration Obligations or

Landlord's Section 11.E Restoration Obligations, as applicable, are insufficient by more than Two Hundred Fifty Thousand Dollars ($250,000.00) to pay the costs of such Obligations (excluding any applicable deductible), whichever applicable, and such shortfall is not attributable to Landlord's failure to discharge its obligations under Section 10 of this Lease, Landlord shall have the right to terminate this Lease upon written notice to Tenant given within thirty (30) days after the damage occurs, which notice shall state the amount that such insurance proceeds are insufficient; provided, however, that Tenant shall have the right to nullify such termination if Tenant agrees to pay the amount of such insufficient proceeds in excess of $250,000.00. If Tenant so nullifies Landlord's termination, Landlord shall be required to supplement its insurance proceeds referenced in Section 11.F by $250,000.00, and Tenant shall be required to supplement Landlord's insurance proceeds referenced in Section 11.F by the amount of the insufficiency in excess of $250,000.00 (as provided in Landlord's termination notice).

12. Landlord's Rights.

A. Landlord may close the Property, or portions thereof, in emergency situations as reasonably determined by Landlord, and during periods of general construction, during which times admittance may be gained only under such reasonable regulations as may be prescribed by Landlord.

B. Landlord may enter the Premises at reasonable times following reasonable advance notice to Tenant, to examine or show the same to existing or prospective fee owners or third party tenants, ground lessors, mortgagees, or Landlord's insurance carriers and by request of any governmental agency.

C. Upon reasonable advance written notice to Tenant (except in an "Emergency" when no notice shall be required), Landlord may enter the Premises for inspection purposes, or perform any maintenance, repairs, replacements or alterations for the benefit of the Property or any other tenant. To this end, Landlord retains such license or easement in and through the Premises as shall be reasonably required by Landlord. Landlord retains an easement above the drop ceiling, below the floor and inside the walls of the Premises to install, repair, operate and replace such pipes, duct work, conduits, utility lines, wires and other items as Landlord may install from time to time to serve the Building and other tenants in the Building (if applicable). For purposes of this Lease, an "Emergency" shall mean a condition that creates an immediate threat of material damage to person or property. Except in the event of an Emergency, all entries onto the Premises by Landlord shall be made in accordance with a schedule that Landlord and Tenant have approved prior to such entry. Landlord shall use good faith, reasonable efforts to cause all inspection and maintenance work to be performed in such a manner as to minimize any interference with Tenant's business at the Premises.

D. Landlord may temporarily close portions of the Property or may temporarily suspend certain building services to facilitate the proper maintenance and repair of the Property; provided however, that except in the case of an Emergency, any temporary closure of any portion of the Premises or temporary suspension of building services to facilitate the proper maintenance and repair of the Property shall be coordinated in advance with Tenant to minimize any disruption to Tenant's operations at the Premises..

E. Landlord has established certain Rules and Regulations with respect to the Property, as more fully set forth on Exhibit D, attached hereto and made a part hereof. Landlord reserves the right to establish additional Rules and Regulations, or make amendments thereto, from time to time if, in Landlord's reasonable opinion, Landlord determines the same to be necessary for the orderly operation of the Property. Tenant shall comply with such Rules and Regulations; provided they are applied in a manner that does not unfairly discriminate against Tenant.

F. Notwithstanding any provision of this Section 12 to the contrary, Tenant shall have the right to have its representative accompany Landlord during any entry by Landlord or its designees on the Premises (except in an Emergency, as to which entry may occur if a representative of Tenant is not then present), and access to any special security areas created by Tenant shall comply with all applicable laws and regulations of any governmental authority having jurisdiction over such areas, including without limitation, the regulations of the United States Food and Drug Administration and Drug Enforcement Agency, and shall occur only with a representative of Tenant present at all times and shall be subject to such regulations.

13. Tenant's Alterations and Repairs.

A. Except for Landlord's obligations under Section 8, Tenant shall keep the Property in good repair, without expense to Landlord; and, subject to the provisions of Sections 11 (regarding casualty) and 19 (regarding condemnation), upon the termination of this Lease, Tenant shall return the Property to Landlord, together with all of Tenant's keys, in the same condition as when received, reasonable wear and tear excepted. In the event Tenant should fail to make any repairs that Tenant is required to make pursuant to the terms of this Lease promptly and adequately within thirty (30) days after Landlord's written demand, Landlord may make such repairs, whereupon Tenant shall reimburse to Landlord the cost of such repairs, as Additional Rent, payable within ten (10) business days after Tenant's receipt of Landlord's invoice therefor; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required to cure, then such default shall be deemed to have been cured if Tenant commences such performance within said 30-day period and thereafter diligently completes the required action within a reasonable time. Notwithstanding the foregoing, in the event Tenant should fail to make any repairs that Tenant is required to make pursuant to the terms of this Lease and such repairs are necessary to abate an Emergency, Landlord shall have the right to make such repairs without the obligation to give Tenant the above notice and cure rights, and Tenant shall be responsible for the cost thereof. Tenant shall not allow any waste or misuse of the Premises or the Building or of the utilities therein; and, in the event thereof, Tenant shall pay for all loss, expense and damage suffered by Landlord caused by any such waste or misuse by Tenant.

B. Tenant may make alterations to the Premises, subject to Landlord's approval, not to be unreasonably withheld, delayed or conditioned. Tenant may make alterations costing not more than one hundred thousand dollars ($100,000) in the aggregate per year, without Landlord's consent, provided such alterations do not affect systems, structure or exterior appearance of the Building, and provided Tenant advises Landlord in writing what changes are being made. If Landlord reasonably determines that a proposed alteration may not be usable upon the expiration of the Lease, Landlord may also condition its approval upon Tenant agreeing to remove the subject alteration and restore the Premises upon expiration of the Lease Term. Landlord shall notify Tenant of such condition within 10 business days following Landlord's receipt of Tenant's request for the subject alteration. However, Landlord may waive such condition at a later time if Landlord then determines that the subject alteration may be useful following the termination of the Lease. If Tenant makes an alteration without having obtained Landlord's required consent, Landlord shall have the right in addition to all other rights and remedies of Landlord arising from such failure, to require Tenant to remove the subject alteration and restore the Premises to its condition prior to the installation of the subject alteration. In the event that such alteration, addition, change or improvement is of such a nature as to require the preparation of plans and specifications, Tenant shall provide complete and final copies of such plans and specifications to Landlord. In the event Landlord consent is required, Landlord may condition such consent upon such matters as Landlord reasonably deems appropriate, including, without limitation, Landlord's approval of the contractor, and Tenant's delivery to Landlord of such things as insurance certificates, building permits and lien waivers for all work performed and materials supplied. In addition, all such work performed in regard to any such alterations, additions, change or improvements to the Premises by Tenant shall be performed in compliance with all Applicable Laws (defined below), and Tenant shall be solely liable for any fines, charges or other costs arising from any failure to comply with said requirements, and Tenant is solely responsible for paying for and installing any additional improvements that may be required by governmental authorities in order for them to issue a building permit to Tenant for the work it wants to do. Tenant shall promptly pay all contractors and materialmen for any work done or caused to be done by Tenant in respect to the Premises and in the event any lien is filed, Tenant shall discharge or bond over the same within ten (10) business days thereafter, subject to Tenant's rights to contest the lien pursuant to Section 19 of this Lease.

C. Upon the expiration or earlier termination of this Lease, Tenant shall remove from the Premises all of its personal property and its trade fixtures, and Tenant shall have the right to remove said personal property and its trade fixtures from the Premises. Notwithstanding anything to the contrary in the foregoing, Tenant shall not be required to remove the Tenant Improvements or any other alterations made in accordance with the terms of this Lease, expect to the extent Landlord has previously required the removal thereof in accordance with Subsection 13.B. With respect to all removals from the Building, including but not limited to Tenant's required removal of personal property and trade fixtures, Tenant's removal rights are conditioned on Tenant, at Tenant's cost, and Tenant agrees to: (i) promptly repair any damage caused to the Building and/or the Premises as a result of such removal, (ii) restore such areas to the condition they were in prior to installation of Tenant's property (subject to the provisions of Sections 11 (regarding casualty) and 19 (regarding condemnation)), and (iii) such repairs and restoration shall be performed in a good and workmanlike manner, in compliance with all Applicable Laws, and in a manner and with such materials so as to maintain the quality of the Building.

14. Subletting and Assigning.

A. Tenant may assign all or a portion of the Premises at any time with Landlord's consent, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, Landlord's consent shall not be required in connection with an assignment (i) to an affiliate of Tenant where Tenant remains primarily liable under the lease; (ii) to an assignee with a credit rating as judged by Standard and Poor's, Moody's, or some similar agency, equal to Tenant's rating upon execution of this Lease, in which event Tenant shall be released from all liability hereunder from and after the date of such assignment or (iii) to the surviving or acquiring entity in connection with a merger or sale of substantially all of Tenant's assets. Notwithstanding the foregoing, Landlord's consent shall be required in the event that the proposed use of the Premises following such assignment will substantially increase Landlord's insurance or maintenance obligations under the Lease; provided, however, such consent shall not be required if Tenant agrees to reimburse Landlord for any such increase in Landlord's maintenance costs and/or insurance premiums, as applicable.

B. Tenant shall have an unlimited right to sublease all or any part of the Premises at any time, without Landlord's consent, provided that Tenant shall remain fully liable for each of Tenant's obligations under the Lease, and further provided that the uses under such sublease do not substantially increase Landlord's insurance or maintenance obligations under the Lease.

C. Except as otherwise expressly provided in Section 14.A, in no event shall Landlord's consent to any sublease or assignment constitute a release of Tenant from the full performance of Tenant's obligations under this Lease, Tenant shall remain liable for all obligations under this Lease notwithstanding any such assignment or sublease, and Tenant, and such assignee shall all be primarily liable for all obligations under this Lease, and Landlord at its option may enforce its claims against either of them or both of them. Tenant shall reimburse Landlord for Landlord's reasonable attorney's fees to review and/or draft all documents Landlord reasonably requires in connection with the transfer of Tenant's interests. As a condition precedent to any assignment being effective (regardless of whether such assignment requires the approval of Landlord), the assignor and assignee shall execute and deliver to Landlord written confirmation, in a form reasonably satisfactory to Landlord, that the assignee has accepted an assignment of all of Tenants rights and obligations under this Lease, and has agreed to assume such obligations. In addition, as a condition precedent to any assignment contemplated by parts (i), (ii) or (iii) of Section 14.A, being effective, the assignor and assignee shall also provide Landlord with documentation reasonably satisfactory to Landlord that evidences that such assignment is the result of a transaction that permits the assignment of this Lease without the consent of Landlord.

D. In no event shall Tenant be required to share with Landlord any profit received by Tenant from a sublease or an assignment. In the event Landlord procures a subtenant or assignee for Tenant, Tenant shall pay the commission of Landlord's leasing agent.

15. Tenant Default.

A. The occurrence of any of the following events shall be deemed to be an event of default on Tenant's part under this Lease (a "Default"):

(i) Tenant fails to pay when due any Rent or other amount due to Landlord under this Lease, and such failure continues for two (2) or more business days after written notice thereof to Tenant; or

(ii) Tenant fails to carry or renew any insurance required to be maintained by Tenant under this Lease or fails to remedy or correct any hazardous condition, and such failure is not corrected within two (2) business days after written notice thereof to Tenant, provided that if it reasonably takes longer than 2 business days to remedy or correct such hazardous condition, then Tenant shall have the amount of time that it reasonably takes to cure such default, on condition that Tenant has commenced curing the default within 2 business days after the default notice was given and is continuing diligent efforts to cure the default; or

(iii) Tenant fails to comply with any other term, provision or covenant of this Lease (meaning one not described in clauses (i) or (ii) above), and such failure continues for thirty (30) days or more after written notice thereof to Tenant, provided that if it reasonably takes longer than 30 days to cure such default, then Tenant shall have the amount of time that it reasonably takes to cure such default, on condition that Tenant has commenced curing the default within 30 days after the default notice was given and is continuing diligent efforts to cure the default; or

(iv) Tenant fails to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only; or

(vi) The leasehold interest of Tenant is levied upon under execution or is attached by process of law and Tenant fails to contest diligently the validity of any lien or claimed lien and give sufficient security reasonably satisfactory to Landlord to insure payment thereof, or fails to satisfy any judgment rendered thereon and have the same released within sixty (60) days thereafter; or

(vii) Tenant becomes insolvent, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency statute, makes an assignment for the benefit of creditors, makes a transfer in fraud of creditors, applies for or consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof; or

(viii) A court of competent jurisdiction enters an order, judgment or decree adjudicating Tenant, a bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approves a petition filed against Tenant, seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree is not vacated, set aside or stayed within sixty (60) days from the date of entry thereof, or Tenant consents to or otherwise ceases to contest such order, judgment or decree.

B. (1) Subject to the limitations in Section 15.B(2) below, upon the occurrence of a Default on Tenant's part, Landlord may either (a) terminate this Lease, or (b) terminate Tenant's right of possession to the Premises without terminating this Lease. In either event, Landlord shall have the right to dispossess Tenant, or any other person in occupancy of the Premises, together with their property, and re-enter the Premises. Upon such re-entry, Tenant shall be liable for all expenses incurred by Landlord in recovering the Premises, including, without limitation, Tenant's obligations under Sections 13.C and 15, clean-up costs, legal fees, removal, storage or disposal of Tenant's property, and restoration costs.

(2) Notwithstanding any provision in this Lease to the contrary, in no event shall Landlord’s remedies include a right of termination of this Lease or of Tenant’s right of possession of the Premises if Tenant’s failure to perform is the result of a good faith dispute as to Tenant’s rights and/or obligation(s) under the terms of the Lease; provided further that if a default by Tenant would have otherwise entitled Landlord to a termination right, such termination right shall be available if such default remains uncured for more than ten (10) days following written notice from Landlord following a final decision made in an adversary proceeding.

C. Subject to Section 15.B(2) above, in the event Landlord elects not to terminate this Lease, but only to terminate Tenant's right of possession to the Premises, Landlord may re-enter the Premises without process of law if Tenant has vacated the Premises or, if Tenant has not vacated the Premises, by an action for ejection, unlawful detainer, or other process of law. No such dispossession of Tenant or re-entry by Landlord shall constitute or be construed as an election by Landlord to terminate this Lease, unless Landlord delivers written notice to Tenant specifically terminating this Lease. Tenant shall remain liable for all past due Rent and late fees, plus all other obligations of Tenant under this Lease, including but not limited to the aforesaid expenses incurred by Landlord to recover possession of the Premises. In addition, Tenant shall be liable for all Rent thereafter accruing under this Lease, payable monthly as such Rent accrues, in an amount equal to the Rent payable under this Lease less the rent (if any) collected from any reletting. In the event the Premises are relet, Tenant shall also be liable for all reasonable costs of reletting, including, without limitation, any brokers' fees, legal fees, and/or tenant finish costs required to be paid in connection with any reletting, plus an amount equal to the Tenant Allowance.

D. No action by Tenant after final judgment for possession of the Premises shall reinstate this Lease or Tenant's right of possession of the Premises, and Tenant waives any and all rights of redemption in the event Tenant is judicially dispossessed. Should Landlord elect not to exercise any of its rights in the event of a Default, it shall not be deemed a waiver of such rights as to subsequent Defaults. All of the aforesaid rights of Landlord shall be in addition to any remedies which Landlord may have at law or in equity.

E. If Tenant defaults on paying any monetary obligation to Landlord, Tenant agrees to pay interest to Landlord on the amount owed at a rate equal to the lower of: (i) the maximum rate allowed by law, or (ii) a floating rate equal to two percent (2%) per annum above the interest designated from time to time in The Wall Street Journal's Money Rate Table as the "prime rate" (“Default Rate”), from the date due until paid.

F. Landlord shall use commercially reasonable efforts to mitigate Landlord's damages as a result of Tenant's Default which shall not exceed such efforts as Landlord or its affiliates generally use to lease similar space in premises similar to the Building. Landlord will not be deemed to have failed to mitigate if Landlord leases any other premises owned by Landlord or its affiliates before reletting all or any portion of the Premises.

16. Expiration or Termination of Lease; Holdover.

A. Subject to holdover rights under Section 16.B, and subject to the provisions of Sections 11 (regarding casualty) and 19 (regarding condemnation), upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises to Landlord, without demand, in as good condition as when delivered to Tenant, reasonable wear and tear excepted, and shall remove all of Tenant's trade fixtures, movable equipment, furniture, other personal property and all leasehold improvements (to the extent required by Section 13.C), and shall comply with Section 13.C of this Lease. Tenant shall repair any damage caused by such removal in a good and workmanlike manner and in compliance with all applicable Laws.

B. Tenant will have the right to holdover for a period of up to four (4) months following the expiration of the Lease Term, or any extension thereof, at the same Rent as in effect during the last month of the previous Lease Term, provided Tenant gives Landlord twelve (12) months notice of Tenant’s intent to hold over. Thereafter, the holdover Rent will be at one hundred fifty percent (150%) of the Rent in effect during the last month of the previous Lease Term, and the Lease will be deemed a month-to-month lease. During the first four (4) month holdover period, Tenant will not be liable for any holdover damages or penalties beyond said Rent. Payment of such holdover rent does not entitle Tenant to remain in possession after the first four (4) month holdover period, and Landlord at its option may exercise its rights to evict Tenant. Payment of such holdover rent does not preclude Landlord from recovering from Tenant any other damages incurred by Landlord that Landlord may be legally entitled to recover as a result of such holdover, provided that this sentence shall not apply to the first four (4) month holdover period.

C. Subject to holdover rights under Section 16.B, should any of Tenant's property remain within the Premises after Tenant vacates the Premises, it shall be deemed abandoned, and Landlord shall have the right to place such property in storage on or off of the Premises, to remove such property and to dispose of it at Tenant's sole risk, cost and expense. Tenant agrees to pay all storage charges if such property is placed in storage, and Tenant agrees to indemnify and hold Landlord harmless with respect to all liability and expense, including Landlord's attorney's fees that Landlord may incur in connection with removing, storing and disposing of Tenant's property. Any person storing Tenant's property shall have a lien against Tenant's property for such storage charges, and shall have the right to enforce such lien to satisfy said storage charge obligations.

17. Right to Cure Tenant's Default. If Tenant is in Default (the term "Default", as defined in Section 15 above, means that Landlord has already given any required default notice to Tenant with respect to such default, and it also means that Tenant has not cured such default within the cure period, if any, allowed by this Lease) under any provision of this Lease, other than for the payment of Rent, Landlord may (but shall not be obligated to) cure such Default on behalf of Tenant, at Tenant's expense. Landlord may also perform any obligation of Tenant, without notice to Tenant (or with fewer days notice than otherwise required by this Lease), should Landlord deem such performance to be an emergency. If Landlord incurs any reasonable expense, including reasonable attorney's fees, in instituting, prosecuting and/or defending any action or proceeding by reason of any emergency or Default, Tenant shall reimburse Landlord for same, as Additional Rent, within fifteen (15) days after receipt of Landlord's invoice therefor, together with the interest, if any, Landlord may be entitled to charge thereon pursuant to the terms of Section 15.E.

18. Hold Harmless.

A. Subject to the provisions of Sections 10.D and 54 hereof, Tenant hereby agrees to indemnify, defend and hold Landlord and the Property Manager for the Building (including, without limitation, their respective members, managers, officers, directors, agents and employees) (all of the foregoing are referred to as the "Landlord Indemnified Parties") harmless from and against all actions, claims, causes of action, demands, damages, penalties and expenses of any kind (including, without limitation, attorneys' fees and litigation costs) which may be brought against the Landlord Indemnified Parties by any person or entity whatsoever, or which the Landlord Indemnified Parties may pay or incur with respect to any person or entity (including, without limitation, Tenant, its agents, employees, contractors, customers and invitees) as a result of and caused by: (i) any negligent act or omission of Tenant or its agents, employees, contractors, customers or invitees in or about the Property, or (ii) any breach or default on the part of Tenant in the performance of any of its obligations under this Lease, or (iii) the use or occupancy of the Premises by Tenant, or (iv) Tenant's use of any equipment, facilities or property in, on, or about the Property, or (v) any personal injury or property damage occurring on the Premises, but excluding from this indemnity, claims arising from the Landlord Indemnified Parties' negligence or willful misconduct.

B. Subject to the provisions of Sections 10.D and 54 hereof, Landlord hereby agrees to indemnify, defend and hold Tenant (including, without limitation, Tenant’s, officers, directors, agents and employees) (all of the foregoing are referred to as the "Tenant Indemnified Parties") harmless from and against all actions, claims, causes of action, demands, damages, penalties and expenses of any kind (including, without limitation, attorneys' fees and litigation costs) which may be brought against the Tenant Indemnified Parties by any person or entity whatsoever, or which the Tenant Indemnified Parties may pay or incur with respect to any person or entity (including, without limitation, Landlord, its agents, employees, or contractors) as a result of and caused by: (i) any negligent act or omission of Landlord or its agents, employees, or contractors, in or about the Property, or (ii) any breach or default on the part of Landlord in the performance of any of its obligations under this Lease, but excluding from this indemnity, claims arising from the Tenant Indemnified Parties' negligence or willful misconduct.

C. The provisions of this Section 18 shall survive the expiration or earlier termination of this Lease.

19. Condemnation. If all or any substantial part of the Premises shall be acquired by the exercise of eminent domain, and as a result thereof, the remaining Premises will not, in the reasonable opinion of Tenant, be usable by Tenant, or if it is not economically feasible to restore the

Premises, as determined by Landlord in its reasonable discretion, then either party may terminate the Lease by giving written notice to the other on or before the date that actual possession thereof is so taken. If the Lease is not terminated as aforesaid by Landlord or Tenant as a result of such taking, then rent payable under the Lease shall be equitably abated taking into account the size of the Premises originally leased compared to the space not taken, and Landlord, at Landlord's expense, shall proceed to restore the Premises as nearly as possible to the condition that existed prior to the taking; provided that Landlord shall not be required to restore any leasehold improvements made by Tenant at Tenant's expense. All damages awarded in connection with any taking shall belong to Landlord; provided, however, that (i) any awards shall be applied to restoration of the Premises notwithstanding anything to the contrary in any mortgage or deed of trust affecting the Premises and (ii) so long as the award to Landlord is not reduced thereby, Tenant may seek a separate award for the value of any improvements made by Tenant at Tenant's cost and any other damages suffered by Tenant arising from such taking.

20. Subordination. Tenant shall, at the written request of Landlord, execute a Subordination, Non-Disturbance and Attornment Agreement, substantially in the form attached hereto as Exhibit K, from any lender holding a Mortgage on the Property from time to time, with such changes to such form as may reasonably be requested by such lender and reasonably acceptable to Tenant. In the event any existing or future lender, holding a mortgage, deed of trust or other commercial paper, requires a modification of this Lease which does not materially change any right or obligation of Tenant hereunder, Tenant agrees to execute appropriate instruments to reflect such modification, upon request by Landlord.

21. Liens. Tenant shall not mortgage or otherwise encumber or allow to be encumbered its leasehold interest in the Premises without obtaining the prior written consent of Landlord which consent may be withheld in Landlord's sole discretion. Should Tenant cause or permit any mortgage, lien or other encumbrance (hereinafter singularly or collectively referred to as "Encumbrance") to be filed, against the Premises or the Property without Landlord's consent, Tenant shall dismiss or bond (pursuant to a bond reasonably satisfactory to Landlord, which bond shall be payable to and shall be delivered to Landlord) against same within twenty (20) days after the filing thereof. If Tenant fails to remove or bond over said Encumbrance within said twenty (20) days, Landlord shall have the right, but no obligation, to remove said Encumbrance by whatever measures Landlord shall deem convenient including, without limitation, payment of such Encumbrance, in which event Tenant shall reimburse Landlord immediately upon receipt of Landlord's invoice therefor, as Additional Rent, for all costs expended by Landlord, including reasonable attorneys' fees, in removing said Encumbrance. All of the aforesaid rights of Landlord shall be in addition to any remedies which either Landlord or Tenant may have available to them at law or in equity. Tenant may only bond over an Encumbrance in lieu of removing it if it is diligently contesting the Encumbrance in good faith and only if Tenant complies with the requirements of the next sentence. In order for Tenant to have the right to contest an Encumbrance, Tenant shall: (i) notify Landlord in writing of the existence of the Encumbrance, and provide Landlord with a copy of the Encumbrance, and a statement that Tenant intends to diligently contest the Encumbrance, along with a brief description of the dispute, (ii) provide the bond required by the preceding sentence, (iii) keep Landlord informed of the status of the contest and provide Landlord with such information related thereto as Landlord may request from time to time, (iv) diligently pursue the contest at Tenant's sole cost and expense, and (v) cause the Encumbrance to be released and discharged by the earlier of: (a) 30 days after there is a final resolution of such contest by final judgment or settlement, or (b) at least two business days prior to the date on which a foreclosure or other sale is scheduled to enforce the Encumbrance. Notwithstanding any provision of the foregoing to the contrary, Tenant shall be permitted to mortgage or otherwise encumber any personal property of Tenant located on the Premises.

22. Compliance with Laws.

A. Landlord will ensure that the Premises, and the Building, are in compliance with all federal, state and local laws and regulations, including but not limited to the Americans with Disabilities Act (ADA) in effect at the time of Substantial Completion. The Landlord shall not be responsible for lack of compliance due to the acts of Tenant or any improvements made by Tenant.

B. Subject to Landlord's obligations under Section 22.A, Tenant shall comply with all applicable federal, state and local statutes, ordinances, rules, regulations, orders and decisions (collectively "Applicable Laws") in connection with its activities at the Premises and in connection with Tenant's use, maintenance, repair and alteration of the Premises. In addition, Tenant shall comply with any reasonable requirements of Landlord's insurance carrier with respect to Tenant's use of the Premises which does not materially change any right or obligation of Tenant hereunder.

C. Landlord will at the time of delivery of the Premises ensure the Premises complies with all applicable health and safety standards, as well as ensure that no known hazardous or toxic substances are present in the Building or Premises. Landlord shall not be responsible for hazardous materials or toxic substances generated as a result of Tenant's activities with respect to the Premises. Tenant shall not have any liability to Landlord resulting from any conditions existing, or events occurring, or any hazardous substances existing or generated, at, in, on, under or in connection with the Premises prior to the Commencement Date.

D. Tenant shall not use, store, manufacture, dispose of or discharge any "Hazardous Materials" (as hereinafter defined) from or on the Premises or any other portion of the Building or Property, except as permitted by subsection 22.E.

E. Tenant is permitted to handle Hazardous Materials that are incidental to the Permitted Uses authorized in the Basic Lease Data Section of this Lease, if any (referred to as "Permitted Hazardous Materials"), provided that: (i) such Permitted Hazardous Materials are stored, handled and disposed of in compliance with all Applicable Laws, and (ii) such Permitted Hazardous Materials are stored, handled and disposed of at all times in a manner which does not endanger the health of Building occupants or other persons.

F. Landlord reserves the right, from time to time, but not more than once per year, to require Tenant to provide reasonable proof, reasonably satisfactory to Landlord, that Tenant is complying with the covenants and obligations set forth in this Section 22. Landlord acknowledges and agrees that a certified statement from Tenant (i) listing Permitted Hazardous Materials then-currently in use at the Premises, and (ii) confirming that all such Permitted Hazardous Materials are being used in conformity with applicable laws and regulations shall constitute "reasonable proof" under this subsection F.

G. Tenant agrees to defend, indemnify and hold harmless Landlord, any mortgagee of Landlord, and their respective agents and employees, from and against any and all claims, demands, costs and expenses of every kind and nature (including, without limitation, expert fees, penalties, fines, removal, clean-up, transportation, disposal and restoration expenses; consultants' fees and attorneys' fees), arising out of any injury or damage to any person, property or business, including that of Landlord, resulting from any use, storage, disposal, discharge or existence of Hazardous Materials (including Permitted Hazardous Materials) upon the Premises, but only to the extent the placement thereof upon the Premises was caused by Tenant, or Tenant's employees, agents, contractors or invitees. Further, upon the expiration or earlier termination of this Lease, Tenant shall return the Premises to Landlord free from all Hazardous Materials introduced to the Premises by Tenant, and in conformance with all Applicable Laws related to Hazardous Materials. All of the obligations, duties and indemnifications set forth in this Section 22 shall survive the expiration or earlier termination of this Lease. Notwithstanding anything in this Section 22 to the contrary, Tenant shall not have any liability to Landlord resulting from any conditions existing, or events occurring, or any Hazardous Materials existing or generated, at, in, on, under or in connection with the Premises prior to the Commencement Date.

H. For purposes of this Lease, the term "Hazardous Materials" shall be defined as all substances presently designated or hereafter designated as being hazardous substances under any Applicable Laws, and all other wastes and substances, now or hereafter defined as hazardous, toxic, dangerous or otherwise regulated under federal, state or local environmental law or regulation, including (but not limited to) explosives, radioactive materials, polychlorinated biphenyls (PCBs), petroleum products, asbestos containing materials, biohazards, hazardous chemicals and radon gas.

23. Notices. All notices that are required or permitted to be given hereunder shall be in writing, addressed to the parties hereto at their respective addresses set forth in the Basic Lease Data Section of this Lease, and delivered by (a) United States registered or certified mail, with postage prepaid, (b) a commercial package courier/delivery service, (c) hand delivery, or (d) sent by facsimile to the facsimile numbers set forth in the Basic Lease Data Section of this Lease. A copy of notices sent to Landlord shall also be sent to Landlord's attorneys at the following address:

Stone, Leyton & Gershman,
A Professional Corporation
7733 Forsyth, Suite 500
Clayton, Missouri 63105
Attn: Steven M. Stone and Steven H. Leyton
Telecopy No.: 314/721-8660

A notice sent by certified or registered mail shall be effective as of the third business day following the day it is deposited in the mail, whether or not it is received. A notice sent by courier or hand delivery is effective on delivery. A notice sent by facsimile is effective on the first business day following transmission of the facsimile, if the sender's facsimile machine prints a confirmation that the recipient received the facsimile transmission and if a copy of the notice is also mailed by first class mail to the party that was to receive the notice accompanied by a note that it confirms a facsimile notice previously given. Either party may designate a different address or addresses by giving the other party written notice of its new address(es).

24. Liability of Landlord.

A. Notwithstanding anything to the contrary in this Lease, the term "Landlord", as used herein, is defined as the current owners, from time to time, of the Building. In the event the Building is transferred, the party conveying same is automatically released on the date the Building transfer becomes effective, from all liability with respect to any obligations thereafter occurring or covenants thereafter to be performed by the Landlord or its agents; provided, (i) such transfer shall be subject to the rights of Tenant hereunder; and (ii) all transferees expressly assume and agree to perform all of Landlord's obligations under this Lease. Without limiting the generality of the foregoing, any transfer by Landlord of title to the Building shall be subject to the Option to Extend described in Section 37, without the necessity of any further written instrument to that effect.

B. Except to the extent of their contributory negligence, Landlord and its property manager shall not be liable or responsible for the act of any third party (including but not limited to tortious and criminal acts), including other tenants of the Building, or the employees, agents, servants, invitees or contractors of such tenants, or other third parties.

C. It is expressly under-stood and agreed that none of Landlord's covenants under this Lease are personal in nature, and that Tenant agrees to look solely to the estate and property interest of Landlord in the Property for the satisfaction of Tenant's remedies or the collection of any judgment or other judicial process requiring the payment of money by Landlord, and no other property or assets of Landlord (or any of Landlord' members) shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies.

25. Estoppel Certificates and Other Information.

A. Within ten (10) days after a party's request, the nonrequesting party shall execute and return to the requesting party or its designee a statement in a form reasonably requested by the requesting party certifying, to the extent true, that this Lease is unmodified and in full force and effect, the status of any defaults hereunder, the dates to which the Rent and other charges have been paid, and any other information reasonably requested by the requesting party. Any such statement delivered pursuant to this Section may be relied upon by any person that has an interest in the Property or which is acquiring an interest in the Property.

B. Upon Landlord's written request from time to time, Tenant shall provide Landlord with a copy of Tenant's most current audited financial statements, subject to reasonable confidentiality conditions imposed by Tenant with respect thereto; provided, however, that Tenant shall not have any such obligation to provide such information as long as such information is publicly available.

26. Brokerage. Landlord will compensate Grubb & Ellis Company as Tenant's agent in this transaction in the amount of three percent (3%) of the aggregate value of the Base Rents during months 7-66 of the initial Lease Term, and one and one-half percent (1.5%) of the aggregate value of the Base Rents during months 67-126 of the initial Lease Term. Said commission will be payable, fifty percent (50%) within thirty (30) days of Lease execution, and the remaining fifty percent (50%) upon Tenant's occupancy of the Premises. Except as otherwise provided in this Section, Landlord agrees to indemnify, defend and hold harmless Tenant from and against any and all liability and expense arising from all claims for commission arising out of the execution and delivery of this Lease, if the person claiming the commission claims to have been hired by Landlord. Except with respect to the above commission to be paid to Grubb & Ellis Company by Landlord, Tenant agrees to indemnify, defend and hold harmless Landlord from and against any and all liability and expense arising from all claims for commission arising out of the execution and delivery of this Lease, if the person claiming the commission claims to have been hired by Tenant.

27. Severability. In the event any provision of this Lease is found to be invalid or unenforceable, the same shall not affect or impair the validity or enforceability of any other provision.

28. Personal Property Taxes. In the event any of Tenant's personal property is assessed with the personal property of Landlord, Tenant shall pay to Landlord an amount equal to Tenant's share of such taxes in accordance with the provisions of Section 6 hereof. Landlord and Tenant agree to cooperate in good faith to have their separate personal property separately assessed.

29. Force Majeure. Landlord and Tenant each shall be excused from performing any obligation or undertaking in this Lease (specifically excepting, however, Tenant's obligation to pay Rent and any other monetary obligation required under this Lease) in the event and/or so long as the performance of any such obligation is prevented or delayed, by fire, earthquake, flood, explosion, war, invasion, insurrection, riot, mob violence, sabotage, inability to procure equipment, facilities, materials, or supplies in open market, failure of power, failure of transportation, strikes, lockouts, action of labor unions, condemnation, or any other cause, not within the reasonable control of the party asserting such delay (collectively, "Force Majeure Events"), and any deadlines for performance shall be extended by the number of days that performance has been delayed by Force Majeure Events. If Landlord has notice of any event of force majeure or any other material delay in the construction of the Landlord Improvements and the Tenant Improvements, then Landlord shall promptly provide written notice to Tenant describing the reason for the delay and the anticipated delay, if any, in the Substantial Completion of said improvements.

30. Parking. Parking shall be available on an unreserved basis to all Building tenants. It is currently contemplated that parking for the entire Tenant complex will be at a ratio of five and a half (5.5) spaces per 1,000 rentable square feet; however, Landlord and Tenant will consider whether less parking spaces may be appropriate. Parking will be provided without any separate parking fee or charge. Notwithstanding the foregoing, if Tenant exercises its "give back rights" pursuant to Section 40, but continues to occupy more than 50% percent of the space in the Premises, Tenant shall have the exclusive right to utilize a proportionate number of spaces reserved for guest parking near the entrance to Tenant's then-current Premises; provided that the specific location of such spaces shall be designated by Landlord and reasonably acceptable to Tenant. Landlord and Tenant acknowledge that certain areas currently designated for parking may change as contemplated by Section 55 hereof.

31. Signage. Tenant may install exterior signage on the Premises at its sole cost. Such signage will be provided and installed by Tenant, and will be considered to be part of the Tenant Improvements. Landlord reserves the right to review and approve all signage and installation techniques, such approval not to be unreasonably withheld, conditioned or delayed. All signage must be in compliance with relevant laws, ordinances, and the Protective Covenants. Landlord will provide building standard interior signage at Landlord's sole cost. Notwithstanding the foregoing, if Tenant exercises any of its give back rights pursuant to Section 40, (i) Landlord shall have the right to provide exterior signage on the Building to accommodate other tenants occupying at least ninety thousand (90,000) square feet of space in the Building, provided that the exterior Building signage granted to such other tenants shall correspond with the amount of space leased to such other tenant and the amount of space then leased by Tenant, and (ii) Landlord shall have the right to provide exterior signage on the entrance monument for the Premises to accommodate no more than six (6) other tenants each occupying at least fifteen thousand (15,000) square feet of space in the Building, provided that as long as Tenant is occupying the most amount of space of all tenants in the Building, Tenant's name shall be on the top of such monument. The parties acknowledge that Landlord has certain rights under the Ground Lease to install a sign in the median island of University Place Drive at its intersection with University Boulevard that identifies the Park and Tenant. At any time Tenant is occupying space in the Building, then upon request of Tenant, Landlord shall exercise such right, provided that the installation and cost of such median signage shall be borne by Tenant.

32. Assignment or Transfer by Landlord. Landlord may at all times assign all or part of its interest in this Lease, or may sell or transfer all or part of its interest in the Property. Upon receipt of written confirmation that Landlord's purchaser or assignee expressly assumes and agrees to perform all of Landlord's obligations under this Lease, Tenant agrees to attorn to such purchaser or assignee. Without limiting the generality of the foregoing, any transfer by Landlord shall be subject to the option to extend described in Section 37 without the necessity of any further written instrument to that effect.

33. Miscellaneous.

A. All of the covenants of Landlord and Tenant hereunder shall be deemed and construed to be "conditions" as well as "covenants", as though both words were used in each separate instance within this Lease.

B. The Section headings appearing in this Lease are inserted only as a matter of convenience, and in no way define or limit the scope of any Section.

C. All of the terms of this Lease shall extend to and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

D. This Lease and the parties' respective rights hereunder shall be governed by the laws of the State of Missouri. In the event of litigation, suit shall be brought in St. Louis County, Missouri.

E. Each party hereto has participated in the drafting of this Lease, and expressly acknowledges such joint participation, to avoid application of any rule construing contrac-tual language against the party which drafted such language.

F. This Lease is modified and affected by the Exhibits which are attached hereto and made a part hereof.

G. Submission of this Lease by Landlord shall not be deemed to be a reservation of the Premises. Landlord shall not be bound hereby until a copy of this Lease has been fully signed by Landlord and Tenant and delivered to each party.

H. Time is of the essence in this Lease and all of its provisions. If the date provided for the performance of any act hereunder occurs on a Saturday, Sunday or a holiday observed by national banks in the State of Missouri, then the time for the performance of such act shall be deemed extended to the next following business day.

I. Each party represents and warrants that: (i) such party is duly organized and validly existing as the type of entity described in the first paragraph of this Lease, (ii) such party is in good standing under the laws of the state in which it is organized, (iii) such party has the power to enter into this Lease, (iv) the person or persons executing this Lease on behalf of such party is/are duly authorized to execute this Lease on behalf of such party, and (v) this Lease is binding on such party.

J. In the event of any litigation or other proceedings (including, but not limited to arbitration and bankruptcy proceedings) between Landlord and Tenant concerning the Lease or the Premises, the non-prevailing party shall pay to the prevailing party all court costs and reasonable attorneys' fees and costs of such litigation or other proceeding, if any, incurred by the prevailing party in connection with such litigation or other proceeding.

K. INTENTIONALLY DELETED

L. This Lease and the exhibits hereto constitute the entire agreement between Landlord and Tenant concerning Tenant's lease of the Premises, and said Lease and exhibits supersede in their entirety all prior agreements, including all letters of intent.

M. No amendment to this Lease shall be binding on a party hereto unless the amendment is in writing and signed by the party to be bound.

N. No waiver shall be binding on a party unless the waiver is in writing and signed by the party to be bound. Delay in enforcing rights shall not constitute a waiver of the right to enforce such rights. Failure to strictly enforce the terms of this Lease shall not constitute a waiver of Landlord's rights to at any time thereafter strictly enforce the terms of this Lease. Acceptance by Landlord of part of a payment due under this Lease shall not constitute a waiver of Landlord's rights to enforce a default resulting from failure to make the full payment due, and shall not constitute an accord and satisfaction, unless both Landlord and Tenant sign a separate written agreement (meaning separate from any writing on any check tendered to Landlord) expressly setting forth the terms of the waiver or accord and satisfaction. The parties agree that Landlord shall not be bound by any agreements or language on any checks tendered to Landlord by or on behalf of Tenant.

O. The following obligations of the parties under this Lease shall survive any expiration or earlier termination of this Lease for any reason: (i) all Landlord and Tenant indemnification obligations, (ii) Tenant's obligation to keep the Premises free of liens, (iii) all obligations Tenant has to maintain the Premises in the condition required by this Lease, (iv) all obligations Tenant has at the termination of this Lease to remove Tenant improvements, to restore the Premises as required by this Lease and to repair damage caused by the removal of property from the Premises, (v) all unpaid monetary obligations of Landlord and Tenant which pertain to periods prior to the date this Lease terminated, (vi) Tenant’s obligation to confirm that its rights under this Lease have terminated, (vii) all damages due Landlord and Tenant as a result of any default under this Lease, and (viii) all obligations of Tenant pursuant to Sections 15, 33.J and 45 of this Lease.

P. For purposes of this Lease, the term "normal business hours", shall mean Monday through Friday from 7:00 a.m. to 6:00 p.m., Saturdays from 8:00 a.m. to 1:00 p.m., excluding Sundays and holidays.

Q. Tenant's officers, employees, invitees and customers shall have access to the Premises at all times (including hours other than normal business hours); provided, however, that after normal business hours Landlord may elect to impose reasonable security precautions to restrict access to the Premises by other persons, and further provided that Landlord may reasonably restrict access to the Building pursuant to Section 12 above. Notwithstanding any provision in this paragraph to the contrary, this Section shall only apply after Tenant has given back space in the Building to Landlord pursuant to Section 40.

34. INTENTIONALLY DELETED.

35. Recording. If requested by Tenant, Landlord will execute a memorandum of lease in recordable form, in a form mutually agreeable to Landlord and Tenant, which may be recorded by Tenant in the St. Louis County real estate records. Upon the termination of this Lease or upon any information in such memorandum becoming inaccurate, Tenant shall, upon request of Landlord, promptly execute an instrument in recordable form that states that the Lease has terminated, or that corrects any inaccurate information, as the case may be.

36. INTENTIONALLY DELETED.

37. Renewal Option.

A. Tenant shall have the right and option to extend the term of this Lease for the number of renewal periods set forth in the Basic Lease Data section, each such renewal period to be for the term of years set forth in the Basic Lease Data section, upon the following additional terms and conditions:

(1) No Default by Tenant has occurred hereunder and is continuing beyond any applicable cure period at the time the applicable renewal option is exercised; provided, however, that this condition shall not apply if, at the time the applicable renewal option is exercised, Tenant is disputing in good faith that a Default by Tenant has occurred, and cures such Default within ten days following an adjudication finding that such Tenant Default has in fact occurred.

(2) Tenant shall give to Landlord written notice of the exercise of the applicable option not less than twelve (12) months prior to the expiration of the initial term that immediately precedes such renewal term. If Landlord does not receive Tenant's notice on or before the beginning of the applicable 12 month period, Tenant shall be deemed to have waived all remaining renewal options to renew this Lease. Time is of the essence with respect to exercise of each renewal option, and Landlord may treat the renewal option as lapsed and rent all or any part of the Premises to other persons for all or any part of that period (and later periods) if the Landlord has not received Tenant's written renewal notice at least twelve (12) months prior to commencement of the renewal term.

B. All provisions of this Lease shall apply to Tenant's leasing of the Premises during each renewal term, except the Base Rent payable by Tenant to Landlord during each renewal period shall be the greater of: (i) ninety-five percent (95%) of the then "Fair Market Rental Rate" as determined in the manner set forth in Subsection C below, or (ii) the average or the “effective” lease rate over the preceding lease term.

C. As used in this Lease, the term "Fair Market Rental Rate" shall mean the Base Rent determined pursuant to the procedure set forth in this Subsection C. The determination of the Fair Market Rental Rate for the Premises under this Lease shall be based upon the base rentals being received, at the time in question, by landlords of Class A suburban office buildings located in St. Louis County. Other considerations to be taken into account in determining the Fair Market Rental Rate for the Premises shall include (i) the term of this Lease, (ii) the size of the applicable space, (iii) the pass through obligations under this Lease, (iv) the amenities offered by the Park, and (v) the location of the Building. If the Fair Market Rental Rate is to be determined by Qualified Appraisers (defined below) pursuant to the provisions of this Subsection C, then the Qualified Appraisers shall be entitled to also take into account any and all other factors they deem relevant in determining the base rental for the space in question. For a period of thirty (30) days following (i) Tenant's exercise of Tenant's renewal option under Section A above, Landlord and Tenant shall diligently and in good faith negotiate the Base Rent for the space in question, apply-ing the foregoing standards. If Landlord and Tenant are able to agree in writing upon such Base Rent, then such agreed upon Base Rent shall represent the Base Rent for the space in question. If, however, Landlord and Tenant are unable to agree in writing upon such Base Rent within the foregoing 30-day period, then (i) Tenant may rescind any exercise of its option to renew by written notice to Landlord within 2 business days after expiration of said 30 day period; or (ii) if no such rescission notice is given within said 2 business days, then within 10 business days after the 30 day period expires, each party shall select a Qualified Appraiser familiar with similar properties located in the St. Louis market area, the Fair Market Rental Rate for the Premises shall be determined according to the following procedure:

(1) Tenant and Landlord shall each appoint a real estate appraiser that satisfies the following criteria ("Qualified Appraiser"): (i) the appraiser must be an MAI appraiser, (ii) the appraiser must have at least ten (10) years experience in appraising commercial property comparable to the Premises in the St. Louis, Missouri metropolitan area, and (iii) the appraiser must be currently licensed as an appraiser. In case either Tenant or Landlord shall fail to appoint a Qualified Appraiser within 10 business days after the 30 day period expires following Landlord's receipt of notice that Tenant elects to renew the Lease, then the Qualified Appraiser appointed by the party not failing to make such appointment shall appoint a Qualified Appraiser for and on behalf of the party so failing to appoint a Qualified Appraiser. Each appraiser shall make its determination of Fair Market Rate and together shall present such determination to Landlord and Tenant. If such Appraisers are unable to agree, the Appraisers shall jointly select a third Appraiser to establish a Fair Market Rental Rate. In case said Qualified Appraisers shall refuse or are unable to agree upon a third Qualified Appraiser, then such third Qualified Appraiser shall be appointed by the then acting president of the St. Louis Chapter of the Appraisal Institute, or its successors or assigns, or if such President shall be unwilling to make such appointment, then such third Qualified Appraiser shall be selected by drawing from a pool of two (2) or more Qualified Appraisers which such President deems qualified, and provided such President shall appoint (or designate for the pool of eligible candidates) only persons who are deemed to be neutral to the parties (i.e. who have no potential conflict of interest that might favor Landlord or Tenant). The Fair Market Rental Rate selected by the two initial Qualified Appraisers shall be the Fair Market Rental Rate for the Premises if they are able to agree on an amount, and if the two initial appraisers are not able to agree on an amount, then the Fair Market Rental Rate determined by the third appraiser shall be the Fair Market Rental Rate for the Premises (to be used in the formula in Section 37.B).

(2) Each party shall bear the fee charged by the Qualified Appraiser appointed by it in connection with performing the services required by this Section, and if the third Qualified Appraiser is appointed, the fee charged by such third Qualified Appraiser for its services under this Section shall be divided equally between the parties. The parties acknowledge and agree that the Base Rent for the space in question may be expressed as an amount which is subject to periodic increases based on fixed amounts, or a fixed percentage, or any one of the indexes published by the United States Department of Labor, Bureau of Statistics, and referred to as the "Consumer Price Index", or some other generally recognized index.

D. The parties agree to be bound by the Base Rent for the Premises determined in accordance with the foregoing procedure.

38. INTENTIONALLY DELETED.

39. Reimbursement for Certain Capital Expenditures Upon Expiration of Lease. If during the Lease Term, Tenant makes a capital expenditure (as determined by GAAP) to the Premises and the useful life of the capital expenditure exceeds the term of the Lease, then, upon expiration of the Lease, Landlord shall pay to Tenant an amount equal to the depreciated value of the capital expenditure at the time of the expiration of the Lease on a straight-line basis, amortized over the useful life of the subject capital improvement. Except as provided in the following sentence, no such capital improvement shall be made without Landlord's prior approval, granted or withheld in Landlord's discretion. If such a capital expenditure is required to permit Tenant to continue to occupy the Improvements as a single tenant-occupant for general office use, then Landlord shall not withhold its consent to the making of such a capital expenditure, provided that Landlord is given reasonable approval rights as to the cost, quality and functionality of the subject capital improvement.

40. Option to Reduce Space.

A. Pursuant to the terms of this Section 40, effective on each of the following three (3) dates (any of such dates to be sometimes referred to as a "Give Back Date"): (i) the first day of the seventy-ninth (79th) full calendar month following the Commencement Date (the "First Give Back Date"); (ii) the first day of the ninety-first (91st) full calendar month following the Commencement Date (the "Second Give Back Date"); and (iii) the first day of the one hundred third (103rd) full calendar month following the Commencement Date (the "Third Give Back Date"), Tenant shall have the right to "give back" one full floor of space in the west wing of the Building, provided that the one full floor space given back shall be in the following sequence (the one full floor, west wing space given back to be hereinafter called the "Give Back Space"):

(i) 3rd Floor of West Wing;

(ii) 2nd Floor of West Wing; and

(iii) 1st Floor of West Wing;

The parties acknowledge and agree that Tenant's rights to give back space under this Section 40 are limited to one full floor of west wing space per Give Back Date, even if Tenant chooses not to exercise such rights during any previous Give Back Date.

B. In order to exercise Tenant's give back rights effective as of any particular Give Back Date, Tenant must give Landlord written notice at least one hundred eighty (180) days in advance of the applicable Give Back Date (a "Give Back Notice"). Upon the timely delivery of a Give Back Notice, Tenant shall be obligated to surrender the applicable one full floor of Give Back Space to Landlord (in the sequence stated in Section 40.A) no later than the applicable Give Back Date, without demand, in as good condition as when delivered to Tenant, reasonable wear and tear excepted, and shall remove all of Tenant's trade fixtures, movable equipment, furniture, other personal property and all leasehold improvements (to the extent required by Section 13.C), and shall comply with Section 13.C of this Lease with respect to the applicable full floor Give Back Space.

C. In addition to Tenant's obligations in Section 40.C, upon surrender of the applicable full floor Give Back Space, Tenant shall pay to the Landlord the sum of (i) the actual cost incurred by Landlord in converting the Building to a multi-tenant building (provided such amount shall not exceed Four Dollars ($4.00) per RSF of the final full floor Give Back Space); and (ii) a termination fee calculated as follows:

First Give Back Date: $18.00 per RSF;

Second Give Back Date: $12.00 per RSF; and

Third Give Back Date: $6.00 per RSF.

D. The termination fee described in Section 40.C for any Give Back Space shall be due and payable no later than the Give Back Date for such Give Back Space. The conversion costs described in Section 40.C for any Give Back Space shall be due and payable within thirty (30) days following Tenant's receipt of Landlord's invoice for such costs, which invoice shall provide documentation, in reasonable detail, that the conversion costs for which Landlord is being invoiced (subject to the $4.00 per square foot limit) were in fact incurred by Landlord.

E. Certain provisions set forth in Section 51 shall also apply following the exercise by Tenant of its give back rights. Following the exercise by Tenant of any of its give back rights: (1) subject to rights reserved by Tenant in Section 30, any tenants for the give back space shall have nonexclusive rights to use all parking facilities that serve the Building, (2) Landlord may create such common areas in the Building and on the Property as are reasonably necessary to provide such tenants with reasonable access to the give back space, and (3) Landlord and Tenant shall execute an amendment to this Lease reflecting such changes as need to be made to this Lease as a result of such give back, which changes might include, but are not limited to, provisions for Landlord to provide additional Building services, and pass through obligations whereby Tenant would pay its pro rata share of the expenses incurred by Landlord in providing additional Building services. In addition, Landlord reserves the right to install such HVAC systems, wiring, utilities and other equipment in the Building and on the Property as may be needed to serve the needs of the tenants in the give back space.

41. Early Termination. Upon eighteen (18) months prior written notice to Landlord, Tenant shall have the right to terminate the Lease and the entire remaining Lease Term, effective as of the first day of the one hundred third (103rd) full calendar month following the Commencement Date. On the termination date, Tenant shall pay to Landlord a termination fee equal to the sum of $4.66 per RSF of the space then comprising the Premises, plus (i) the unamortized portion of the leasing commission paid by Landlord pursuant to Section 26, plus (ii) the unamortized portion of the Allowance (said commission and Allowance to be amortized on a straight-line basis over the original Lease Term).

42. Existing Lease Extension. Landlord shall cause the landlord at 13500 Riverport Drive to extend the term of Tenant's occupancy to March 15, 2007. If further extensions are needed, provided the landlord of 13500 Riverport Drive is given at least nine (9) months written notice prior to the above stated extended expiration date, Landlord will obtain a commitment from the landlord at 13500 Riverport Drive to extend Tenant's occupancy in one month increments not to exceed six (6) additional months. During any of the above extension periods, the fixed monthly rent (without other charges or pass thorough charges) will be sixty-six thousand five hundred dollars ($66,500.00) per month. All other terms and conditions of the present lease now existing shall continue to apply during any extension period. Notwithstanding the foregoing, if the Commencement Date is delayed for reasons other than Tenant's Delay or Force Majeure Events, Landlord shall be responsible for any and all holdover rent penalties and other penalties payable by Tenant to the landlord of 13500 Riverport Drive as a result of such delay in the Commencement Date.

43. Roof Access and Usage. Tenant, subject to Landlord's approval, may, at anytime during its lease term, locate and install one or more satellite dishes, microwave antennae and other equipment on the roof of the building. The Tenant must do so under a separate license agreement substantially in the form attached hereto as Exhibit F, with such changes as may be approved by the parties hereto, that contains customary terms, including requirements for code compliance and ensuring that the Landlord's roof warranty is not invalidated. Tenant will have access at any time to the roof, equipment rooms, telephone rooms, and other areas in which Tenant's equipment may be placed, subject to the terms of such license agreement.

44. Waiver of Landlord Lien. Landlord shall waive any and all rights available to Landlord under Missouri law to lien or attach the property of Tenant or any other party located in the Premises. In order to facilitate any leasehold or inventory financing required by Tenant, Landlord agrees to execute and deliver to Tenant and Tenant's lender, from time to time, a form of "Landlord Waiver and Consent" confirming the foregoing and permitting such lender to enter upon the Premises in the event of a default by Tenant and recover any goods financed by such lender, and containing other customary and reasonable provisions as may be requested by such lender, as well as customary and reasonable provisions to protect the interests of Landlord.

45. Landlord Default.

A. It shall be a "Landlord Default" if Landlord fails to comply with any term, provision or covenant of this Lease, and such failure continues for thirty (30) days or more after written notice thereof to Landlord, provided that if it reasonably takes longer than 30 days to cure such default, then Landlord shall have the amount of time that it reasonably takes to cure such default, on condition that Landlord has commenced curing the default within 30 days after the default notice was given and is continuing diligent efforts to cure the default.

B. If a Landlord Default occurs, Tenant may (but shall not be obligated to) cure such Landlord Default on behalf of Landlord, at Landlord's expense. If Tenant incurs any expense (including reasonable attorney's fees), or suffers any damages, as a result of a Landlord Default, Landlord shall reimburse or pay Tenant for such expenses or damages within fifteen (15) days after receipt of Landlord's invoice therefor, together with the interest at the Default Rate (as defined in Section 15.E). Without limiting the foregoing, if a Landlord Default arises from the failure by Landlord to make a payment of money required to be paid by Landlord to Tenant under this Lease, the amount of such required payment shall accrue interest at the Default Rate from the date such amount was required to be paid through the date such amount is paid.

C. If Tenant claims a Landlord Default has occurred and has demanded payment from Landlord as a result thereof, and if Landlord notifies Tenant that it disputes such claim, and/or and fails or refuses to pay the amount demanded by Tenant to satisfy such claim within the15-day period provided in Section 45.B, Tenant may serve Landlord with written notice advising that Tenant intends to set-off the amount Tenant claims is due from the Base Rent next payable (a "Set-Off Notice"). Within ten (10) days of Landlord's receipt of a Set-Off Notice, Landlord may notify Tenant in writing that Landlord will initiate the expedited dispute resolution procedure described on Exhibit G hereto to determine whether a Landlord Default has occurred and if so, the extent of Tenant's damages resulting therefrom. If Landlord does not timely notify Tenant of its intent to initiate an expedited dispute resolution procedure, Tenant may deduct (set off) from the next payment of Base Rent the lesser of (i) the amount of damages Tenant claims it has suffered, or (ii) 25% of the next payment of Base Rent due. If Landlord timely notifies Tenant of its intent to initiate an expedited dispute resolution procedure, then the parties shall submit the resolution of Tenant's claim to expedited resolution procedure described on Exhibit G and shall not be entitled to exercise its set off rights during the pendency of the dispute resolution procedure; provided however, if the expedited dispute resolution procedure is not resolved within 120 days (subject to extension for any Tenant caused delays), Tenant shall be entitled to deduct (off-set) the lesser of (i) the amount of damages Tenant claims it has suffered, or (ii) 25% of the next payment of Base Rent due until final resolution of the expedited dispute resolution procedure. If an expedited dispute resolution procedure is triggered and results in a decision in favor of Tenant, Tenant shall be entitled to set off from Base Rent without limitation, to the extent consistent with the outcome of the expedited dispute resolution procedure.

D. Tenant's set-off rights herein shall be non-exclusive and in addition to any other remedies available to Tenant in the Lease, at law or in equity; provided, however, in no event shall Tenant's remedies include a right of termination if Landlord's failure to perform is the result of a good faith dispute as to Landlord's rights and/or obligation(s) under the terms of the Lease; provided further, that if a default by Landlord would have otherwise entitled

Tenant to a termination right, such termination right shall be available if such default remains uncured for 30 days following a final decision made in an adversary proceeding. Landlord's decision to not trigger an expedited dispute resolution procedure in response to a claim by Tenant of a Landlord Default, shall not constitute a waiver by Landlord of any rights Landlord may have at law or equity to dispute Tenant's claim (including disputing any set off actions taken pursuant to Section 45.C hereof).

46. Dispute Resolution. Any decision made pursuant to the expedited dispute resolution procedure described in Exhibit G shall be final, binding and conclusive on all of the parties. Judgment upon the award may be entered in any court having jurisdiction thereof. The parties may by mutual agreement submit any other disputes to resolution pursuant to the dispute resolution procedure set forth on Exhibit G hereto, however, neither party is required to submit any other disputes to such resolution procedure.

47. Landlord Representations. Landlord makes the following representations: (i) the zoning for the Premises will permit Tenant to utilize the Premises as an office building or pharmaceutical distribution center without the necessity of obtaining a zoning variance or a conditional or special use permit; (ii) an occupancy permit authorizing the use of the entire Premises by Tenant will be issuable to Tenant upon Substantial Completion of the Tenant Improvements; (iii) except for those improvements to be constructed by Tenant, all improvements located on the Premises will comply in all respects material to the agreed-upon Final Plans and Specifications, all applicable zoning and building codes, subdivision or Protective Covenants restrictions, ordinances and regulations, and all applicable fire, environmental, occupational safety and health standards and similar standards established by law; (iv) there is no pending or, to the knowledge of Landlord, threatened litigation, mechanic's liens or claims of liens, condemnation proceedings (except as described in Section 49) , administrative actions or judicial proceedings of any material nature relating to the Leased Premises, including, without limitation, disputes with subcontractors or material suppliers, owners of adjacent properties, governmental authorities or prior owners of the Premises that will affect the Tenant's ability to occupy the premises undisturbed (provided, however, that Landlord shall have the right to bond over or provide other reasonable security with respect to such disputes); (v) there are no leases, subleases, licenses, concessions or other agreements, written or oral, granting to any person or entity other than Tenant the right to use or occupy any portion of the Premises; (vi) to the best of Landlord's knowledge, all improvements constructed by Landlord will be completed in a good and workmanlike manner and in accordance with the Final LI Plans and Final TI Plans and will be in proper working order and will not require any repairs or replacements which have not been made as of the Commencement Date; (vii) to the best of Landlord's knowledge, the roof, walls, floor and other structural components of the building will be structurally sound and free of any material defects and do not require any repairs or replacements which have not been made; and (viii) to the best of Landlord's knowledge, no hazardous substances will be incorporated by Landlord into the Building, or located on or under, or affect the Premises. If requested by Tenant, Landlord shall issue a Certificate to Tenant upon Substantial Completion confirming that the representations in this Section are true and correct as of said date.

48. INTENTIONANLLY DELETED.

49. Condemnation Contingency. Landlord acknowledges that two (2) existing homeowners within the Property are subject to eminent domain proceedings initiated by Ground Lessor. The Ground Lessor's need to acquire these properties (the "Condemned Parcels") shall not delay the Commencement Date so long as Ground Lessor diligently pursues such condemnation, and acquires title and control of the Condemned Parcels by April, 2006. Notwithstanding any other provision of this Lease to the contrary, Tenant shall have the right to terminate the Lease by written notice (the "Termination Notice") to Landlord given no earlier than November 14, 2005 and no later than November 15, 2005, if all of the following terms and conditions are satisfied:

A. The University has not (i) acquired title to the Condemned Parcels; or (ii) entered into binding and non-contingent (but subject to Board of Curator approval) contracts to purchase the Condemned Parcels.

B. Tenant shall pay to Landlord within thirty (30) days after receipt of Landlord's Expense Documentation (as defined below), fifty percent 50% of Landlord's actual out-of-pocket expenses ("Landlord's Expenses") incurred with respect to the Premises and the transaction under this Lease for the period commencing on August 12, 2005 and continuing until the date of the Termination Notice, Tenant's liability under this paragraph not to exceed five hundred thousand dollars ($500,000.00).

C. Promptly after receipt of the Termination Notice, Landlord shall provide to Tenant an itemization of Landlord's actual out-of-pocket expenses and such other documentation reasonably requested by Tenant (collectively, "Landlord's Expense Documentation").

Upon compliance with the foregoing provisions, including payment of Landlord's Expenses, the Lease shall terminate and neither Landlord nor Tenant shall have any further rights or obligations thereunder.

Notwithstanding the foregoing right of termination, if Landlord provides written confirmation to Tenant within ten (10) business days after the date of the Termination Notice that (i) Landlord has agreed to accept full responsibility for acquiring title to the Condemned Parcels; (ii) acquisition of the Condemned Parcels will be completed in a manner so as to not delay the Commencement Date; (iii) all penalties applicable under Section 4.C of this Lease shall be applicable for any delay in the Commencement Date resulting from a failure to obtain the Condemned Parcels in a timely manner; (iv) any delay in acquisition of the Condemned Parcels shall not constitute an event of Force Majeure and (v) Landlord and Tenant have agreed upon a written plan setting forth Landlord's plan to acquire the Condemned Parcels and/or modify the Outline Plans and Specifications to address a scenario where the Condemned Parcels are not acquired by a date certain, then Tenant's termination of the Lease shall be rescinded and the Lease shall continue in full force and effect subject to the conditions set forth above.

Provided this Lease is not terminated by Tenant pursuant to this Section 49, the Premises shall be expanded to include the Condemned Parcels as and when they are acquired by Ground Lessor and the residents thereof have been relocated.

50. Economic Incentives.

A. Landlord acknowledges and agrees that Tenant has negotiated agreements to receive the following economic incentives: (i) exemption from withholding tax and tax credits for new and retained jobs under the Missouri Quality Jobs Program as described in more detail in the Proposal from the Missouri Department of Economic Development, dated August 29, 2005 (the "State Incentives"); and (ii) a commitment from St. Louis County to provide fifty percent (50%) abatement of real and personal property taxes for a period of ten (10) years and sales tax abatement on all or a substantial portion of construction materials for the construction of the Premises under Chapter 100 or an alternative program with equivalent impact (collectively, the "Local Incentives"). Landlord covenants and agrees to cooperate with Tenant in obtaining the full benefit of the foregoing incentives and shall enter into such agreements that may be required to effectuate said incentives (so long as Tenant reimburses Landlord for any reasonable out-of-pocket incurred by Landlord with respect to the State Incentives). Without limiting the foregoing, Tenant agrees that if necessary to effectuate tax abatement with respect to Tenant's personal property, Tenant, upon receipt of written request from Landlord, shall convey Tenant's personal property to a tax-exempt entity designated by Landlord pursuant to the terms of a sale-leaseback transaction upon such terms and conditions reasonably acceptable to Tenant. The parties acknowledge and agree that (i) the Rent provided hereunder assumes that Landlord will not pay any sales tax on construction materials for the Landlord Improvements; provided, however, that if any sales tax is payable on construction materials for the Landlord Improvements, the payment thereof shall be the sole responsibility of Landlord without any adjustment in the Rent; and (ii) the Allowance provided hereunder assumes that the Contractor will not pay any sales tax on construction materials for the Tenant Improvements; provided, however, that if any sales tax is payable on construction materials for the Tenant Improvements, the payment thereof shall be the sole responsibility of Landlord without any adjustment in the Allowance.

B. In light of Landlord's commitment and obligation to construct the Road Improvements, Landlord intends to seek benefits under a TDD and/or other economic development program to assist Landlord and St. Louis County in funding the Road Improvements. As Landlord requires flexibility in structuring economic incentive programs to meet Landlord's financial obligations with respect to the Road Improvements, Landlord and Tenant agree to cooperate with Landlord's efforts related to obtaining such benefits, subject to the following:

(1) Landlord covenants and agrees that except as contemplated by that certain Road Agreement among Landlord, Ground Lessor and St. Louis County, Missouri, of even date herewith related to the Road Improvements (the "Road Agreement"), it will not seek any additional economic incentives or consent to the creation of any tax increment financing, community improvement district, transportation improvement district or the imposition of other special assessment affecting Tenant, the Premises or any adjacent land under option by Tenant (the "Option Premises") without the prior written consent of Tenant, such consent not to be unreasonably withheld, delayed or conditioned.

(2) With the exception of real property and personal property ad valorem taxes, the Premises and the Option Premises shall not be subject to any special assessments or other tax levies the proceeds of which directly or indirectly fund the cost of the Road Improvements. Notwithstanding the foregoing or any other provision of this Lease to the contrary, Tenant shall reimburse Landlord for Taxes in the amount and the manner described in Section 6. All other taxes, special assessments and levies against the Premises, the Option Premises and this Lease shall be the sole responsibility of Landlord.

(3) Landlord shall pay all transactional expenses incurred to facilitate the Local Incentives; provided, however, Tenant shall pay the fees and expenses of its attorneys and other consultants.

(4) Landlord shall have flexibility in implementing the structure of Local Incentives, including the incentive programs under which such Local Incentives are realized by Tenant; provided, however, any such programs shall not reduce the amounts previously awarded to Tenant under the Local Incentives or adversely affect Tenant's eligibility under any of the economic incentives previously awarded to Tenant.

(5) Tenant shall receive the full benefit of the economic incentives previously negotiated by Tenant. If the incentive structure implemented by Landlord results in a reduction of the benefits that Tenant would have received Landlord shall, at Tenant's election, reimburse Tenant for all such amounts in cash or in the form of reduced rent payable in the manner and time in which the foregoing benefits would have been paid to Tenant.

51. Property Management Services. As long as Tenant has not exercised any of its "give back" rights (described in Section 40), Tenant shall pay Landlord a management fee of twenty thousand dollars ($20,000) per year, which will increase at the same times and at the same percentages as base rent. For example, in year 4 both the management fee and base rent will increase 5.65%. If Tenant exercises its "give-back" rights, then management of the Premises shall be turned over to Landlord (provided that Tenant will retain the right to continue to contract for its own janitorial service), and Landlord may charge Tenant a market rate management fee of up to 5% of the base rent. In the latter situation, Landlord will provide evidence to Tenant that the management fee Landlord proposes to charge is consistent with the market for managing similar Class A buildings in the metropolitan St. Louis area (the "Market Rate Management Fee"). If Landlord and Tenant are unable to agree on the Market Rate Management Fee to be charged by Landlord within 30 days, either party may by written notice to the other party require that the Market Rate Management Fee be determined pursuant to the procedure described in this Section. Each party shall appoint a neutral, senior executive of a property management company experienced in managing Class A office buildings in the St. Louis, Missouri metropolitan area (a "Property Manager"), to determine the Market Rate Management Fee. If said two Property Managers are able to agree on the Market Rate Management Fee, then the rate they agree on shall be the Market Rate Management Fee for the Premises. If said two Property Managers are unable to agree on a Market Rate Management Fee, then they shall each provide the parties in writing their opinion of the management fee that they each believe represents a Market Rate Management Fee for the Premises. Said Property Managers shall also, by mutual agreement, appoint a third Property Manager who shall also provide his/her determination of the Market Rate Management Fee for the Premises, and the Market Rate Management Fee recommended by the Property Managers that is neither the highest nor lowest shall be the Market Rate Management Fee for the Premises. Each party shall pay any fees charged by the Property Manager appointed by it, and the parties shall share equally in any fees charged by a third Property Manager.

52. Ground Lease. If either Landlord or Tenant receive a default notice under the Ground Lease, the party receiving such default notice shall promptly forward a copy of the same to the other party. With respect to any default under the Ground Lease, Tenant may exercise any cure rights that are granted to the lessee under the Ground Lease within any cure period allowed under the Ground Lease for such default.

53. Consequential or Punitive Damages. Neither party hereunder be liable to the other party for consequential or punitive damages as a result of breach of a party's obligations under this Lease.

54. Property Due Diligence. Landlord shall complete the following studies related to the Property: (i) geo-tech/soil borings; (ii) wetlands study; (iii) archeological study; (iv) environmental audit; (v) land survey; and (vi) title search (collectively, the "Property Due Diligence"). All Property Due Diligence shall be performed at Landlord's sole cost and expense, with copies of the final reports related to the Property Due Diligence (collectively, the "Property Due Diligence Reports") made available to Tenant no later than November 9, 2005. Landlord acknowledges and agrees that completion and delivery of the foregoing items shall not delay the Commencement Date. The parties' obligations under this Lease shall be contingent on their review and approval of the Property Due Diligence on or before the date that is three (3) business days following the date the Property Due Diligence Reports are delivered to Tenant (the "Property Due Diligence Contingency Date"). If Landlord or Tenant are not satisfied with the Property Due Diligence, then either party shall have the right to terminate this Lease upon the delivery or written notice thereof to the other party on or before the Property Due Diligence Contingency Date. If such notice of termination is not delivered by either party as provided above, then the Lease shall continue in full force and effect. Notwithstanding the foregoing, neither party shall have the right to terminate this Lease pursuant to this Section 54 due to any defect, condition or matter that is to be corrected or otherwise addressed by Landlord pursuant to the Road Agreement or as may be necessary to Substantially Complete the Landlord Improvements and Tenant Improvements as required under the terms and conditions of this Lease.

55. Adjustment to Premises.

A. Landlord and Tenant acknowledge and agree that the Premises shall be subject to adjustment as follows:

(1) The Premises shall be expanded to include the Condemned Parcels as provided in Section 49 hereof,

(2) The detention basin for the Premises is currently expected to comprise the area referred to on Exhibit A-1 as the "Detention Basin Area". Such detention basin may require reconfiguration. If reconfigured, the Premises shall be adjusted for the reconfigured detention basin area.

(3) The northern edge of the right of way for the Road Improvements may require reconfiguration. If reconfigured, the boundary of the Premises abutting such reconfigured right of way shall be adjusted accordingly.

(4) Bi-State Development Agency of the Missouri-Illinois Metropolitan District, d/b/a Metro ("Metro") owns property that abuts part of the western boundary of the Property (the "Metro Property") and it is desirable that Landlord acquire a fee interest in the Metro Property or a perpetual easement right to use the Metro Property for purposes of adding it to the Premises so that it can be used as parking area. The Ground Lease provides for the possibility of the Metro Property becoming part of the Demised Premises thereunder. If and when the Metro Property becomes part of the Demised Premises under the Ground Lease, it shall also become part of the Premises under this Lease. The parties acknowledge that one of the ways contemplated by the Ground Lease for the Metro Property to become part of the Demised Premises under the Ground Lease is by exchanging certain portions of the Property for the Metro Property. If such exchange occurs, then the portion of the Property exchanged for the Metro Property shall be eliminated from the Premises.

(5) The Ground Lease contemplates that if Landlord is unable to cause the Metro Property to become part of the Demised Premises thereunder, Landlord may require Ground Lessor to make a portion of the Option Premises part of the Demised Premises under the Ground Lease to accommodate the parking requirements under this Lease. If and when such a portion of the Option Premises becomes part of the Demised Premises under the Ground Lease, it shall also become part of the Premises under this Lease.

(6) If pursuant to part (5) above, a parking area and/or a parking facility for the Premises need(s) to be constructed on a portion of the property currently included within the Option Area, then any delay in completing such parking area and/or parking facility shall not be considered in determining whether the Landlord Improvements are Substantially Complete. Nevertheless, Landlord shall be required to complete the construction of any such parking area and/or parking facility with diligence.

(7) If the Premises and/or the Outline Specifications require(s) adjustment pursuant to any provision of this Section 55, the parties shall execute an amendment to this Lease reflecting such adjustment.

(8) Notwithstanding any other provision of this Section 55 to the contrary, any adjustment to the Premises (i) shall not increase or decrease the Base Rent; (ii) with the exception of relocating a parking area and/or parking facility, shall not materially affect the Final LI Plans; (iii) shall not reduce the parking ratio below 5.5 spaces per 1,000 rentable square feet unless Landlord and Tenant both agree to a lower parking ratio; and (iv) shall be subject to the prior approval of Tenant, which approval shall not be unreasonably withheld, conditioned or delayed; provided, however, no such approval shall be required for a reconfiguration made pursuant to subsection (1) of this Section 55.

[next page is signature page]

SECTIONS 37 AND 45.C AND 51 OF THIS LEASE CONTAIN A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

WHEREFORE, Landlord and Tenant have respectively executed this Lease as of the day and year first above written.

TENANT:	LANDLORD:
EXPRESS SCRIPTS, INC.	NORTHPARK PARTNERS ESI, LLC, a Missouri limited liability company
By /s/ David A. Lowenberg David A. Lowenberg, Chief Operating Officer	By McEagle NorthPark Partners ESI, LLC, a Missouri limited liability company, its Manager
	By /s/ Paul J. McKee, Jr. Name: Paul J. McKee, Jr. Title: Manager

EXHIBIT A - SITE PLAN SHOWING AREA COMPRISING THE PARK

EXHIBIT A-1

LEGAL DESCRIPTION OF THE LAND

A tract of land being Part of Lots 18, 19, 28, 29, 30, 31, 33 and 34, and Part of the Right-of-Way of North Avenue and Geiger Road of Carson Heights, according to the plat recorded in Plat Book 7, Page 47 of St. Louis County records, Part of U.S. Surveys 2502, 2503, and 3082, Township 46 North, Range 6 East of the Fifth Principal Meridian, St. Louis County, Missouri, more particularly described as follows:

Beginning at the Northeast corner of a tract of land conveyed to the Bi-State Development Agency by deed recorded in Book 8818, page 147 of said records, said corner also being the Northeast corner of dedicated right-of-way conveyed to St. Louis County, according to the plat recorded in Plat Book 326, Pages 24 through 26 of said records; thence along the prolongation North of the East line of said tract and along the East line of dedicated right-of-way conveyed to St. Louis County according to the aforementioned plat and along the East line of a tract of land conveyed to the Bi-State Development Agency by deed recorded in Book 9815, Page 2406 of said records, North 14 degrees 02 minutes 50 seconds Wets, 241.92 feet; thence continuing along said East line of the Bi-State Development tract, North 83 degrees 16 minutes 35 seconds East, 15.23 feet; thence North 16 degrees 40 minutes 16 seconds East, 81.24 feet to the centerline of North Avenue (40 feet wide), also known as Weldon Avenue; thence along said centerline, North 66 degrees 08 minutes 44 seconds West, 368.77 feet; thence leaving said centerline, North 23 degrees 51 minutes 16 seconds East, 20.00 feet to the intersection of the South right-of-way line of Interstate Highway 70 (variable width); thence along said line, North 83 degrees 08 minutes 26 seconds East, 289.59 feet; thence South 89 degrees 59 minutes 32 seconds East, 102.87 feet; thence South 83 degrees 44 minutes 46 seconds East, 261.76 feet; thence North 83 degrees 20 minutes 29 seconds East 295.54 feet; thence North 87 degrees 55 minutes 10 seconds East, 246,24 feet; thence South 74 degrees 55 minutes 21 seconds East, 141.38 feet to the intersection of said right-of-way line with the centerline of a creek; thence along said centerline, South 46 degrees 57 minutes 37 seconds West, 28.36 feet; thence South 12 degrees 37 minutes 12 seconds West, 49.15 feet; thence South 34 degrees 24 minute 24 seconds Wets, 204.09 feet; thence South 32 degrees 34 minutes 00 seconds West 81.86 feet; thence South 20 degrees 32 minutes 25 seconds West 140.20 feet; thence South 42 degrees 45 minutes 57 seconds West, 68.25 feet; thence South 21 degrees 18 minutes 56 seconds West, 162.06 feet to the North right-of-way line of the Proposed Relocation of Geiger Road (70 feet wide); thence along said line, South 70 degrees 28 minutes 18 seconds West, 631.20 feet to the East line of a tract of land conveyed to the Bi-State Development Agency by deed recorded in Book 8909, Page 470 of said records; thence along said line, North 14 degrees 02 minutes 44 seconds West, 172.26 feet to the Southwest corner of the aforementioned Bi-State Development tract conveyed by deed recorded in Book 8818, Page 147 of said records; thence along the South line of said tract, North 75 degrees 57 minutes 16 seconds East, 55.00 feet; thence along the East line of said tract, North 14 degrees 02 minutes 44 seconds West, 77.17 feet; thence North 44 degrees 02 minutes 44 seconds West 10.20 feet; thence North 14 degrees 02 minutes 50 seconds West, 100.00 feet to the **POINT OF BEGINNING**, containing 14.612 acres in gross area, however, LESS AND EXCEPTING a tract of land conveyed to Gerald A. Breite by deed recorded in Book 9863, Page 1560 of said records, containing 0.299 acre, AND LESS AND EXCEPTING a tract of land conveyed to Rodolfo O. Rendon, etal by deed recorded in Book 9863, page 1560 of said records, containing 0.430 acres, leaving a net area of 13.883 acres per calculations by Stock & Associates Consulting Engineers, Inc. during September, 2005.

Together with the following “Detention Basin Area”

[INSERT LEGAL DESCRIPTION OF DETENTION BASIN.]

EXHIBIT B

BASE RENT DURING INITIAL TERM

LEASE YEARS	ANNUAL BASE RENT PER RSF
1*	$14.15*
2	$14.15
3	$14.15
4	$14.95
5	$14.95
6	$14.95
7	$16.00
8	$16.00
9	$16.00
10	$16.00
11**	$16.00

* As provided in Section 5.A of the Lease, Landlord agrees that the first $2,123,000.00 in Base Rent due pursuant to the foregoing Table is abated.

** The Initial Term of the Lease is Ten and one half years, so Tenant will pay Base Rent at the Year No. 11 rate for only the first half of Lease Year No. 11 (and thereafter the rate applicable during the renewal period shall apply if Tenant has exercised its renewal option).

EXHIBIT C

OUTLINE PLANS AND SPECIFICATIONS

The Outline Plans and Specifications shall consist of:

1) The plans and renderings presented to Express Scripts by NorthPark Partners on July 26, 2005, comprising of site plan, typical floor plans, and two exterior renderings. The project includes 315,000 rentable square feet of office space and parking for 1732 cars. However, pursuant to Section 30 of this Lease, Landlord and Tenant will consider whether less parking may be appropriate.

2) Building outline specifications describing the quality of materials and construction were submitted on July 31, 2005, and amended on August 17, 2005 to reflect the architects' request for clarification.

Landlord and Tenant acknowledge that, while the building design will evolve through the normal design sequence, the above referenced presentation and documents, referred to as the Concept Building Plans and Specifications, represent the benchmark for building scale and quality.

EXHIBIT D

BUILDING RULES AND REGULATIONS

(1) Each tenant's interior signage shall be provided by Landlord at the tenant's sole cost; and all such signage so placed shall be the tenant's risk. Each tenant shall cause the removal of all such signage from the Property at the end of its lease term, or Landlord may cause such removal at the tenant's expense.

(2) A tenant shall not alter any lock or install a new or additional or replacement lock or bolt on any door of its premises and shall not permit any duplicate keys to be made without the prior consent of Landlord. Each tenant shall be fully responsible for the security of all keys to its premises except for those keys retained by Landlord. All keys furnished to a tenant by Landlord shall be surrendered to Landlord at the end of the term of the tenant's lease.

(3) Landlord retains the power to prescribe the weight and proper position and installation of safes, mechanical equipment, and any other bulky or excessively weighty objects installed by a tenant in its premises. All such equipment and objects shall be moved into or out of a tenant's premises under the prior written consent and supervision of Landlord and at such times and according to such regulations as may be designated from time to time by Landlord. Landlord shall not be responsible for loss of, or damage to, any such equipment or objects. Notwithstanding such supervision, each tenant shall be responsible for all damage to the Building caused by such tenant maintaining or moving any such equipment or objects.

(4) No tenant shall use any method of heating or air-conditioning other than that supplied by Landlord. If a tenant requires telegraphic, telephonic, burglar alarm or similar services, the tenant shall first obtain, and comply with, Landlord's requirements regarding installation.

(5) All sidewalks, corridors and common areas shall not be obstructed by any tenant or used for any purpose other than for ingress and egress. No tenant shall place objects outside its premises except as approved by Landlord. The common areas of the Building may not be used for any commercial purpose by any tenant.

(6) No tenant shall install any window treatments other than existing treatments or otherwise obstruct the windows of its premises without Landlord's prior written consent. The bathrooms shall not be used for any purpose other than those for which they were constructed, and no rubbish shall be thrown or disposed of therein.

(7) Each tenant assumes full responsibility for protecting its premises from theft, robbery and pilferage. Landlord reserves the right to exclude from the Building all disorderly persons, persons under the influence of alcohol or a controlled substance, idlers and peddlers, solicitors, and persons entering in crowds or in such unusual numbers as to cause inconvenience to the tenants of the Building. After business hours, each tenant shall lock the doors and windows to its premises.

(8) No tenant shall place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal, except Tenant at its expense will make its own arrangements for the handling, storage and disposal of medical waste (if applicable), and Tenant agrees to comply with all Applicable Laws in connection with handling, storage and disposal of such medical waste (if applicable). All garbage and refuse disposal shall be performed in accordance with directions issued from time to time by Landlord. No tenant shall store in its premises any waste paper, sweepings, rags, rubbish or other combustible matter, nor shall any tenant bring into its premises any hazardous wastes, kerosene, oil or other highly combustible material.

(9) Landlord reserves the right to place into effect a "no smoking" policy within all or selected portions of the Building and the Property. A tenant and its employees and agents shall not be allowed to smoke in any location where smoking is prohibited, and they shall not dispose of any smoking material including, without limitation, matches, ashes and cigarette butts on the floors of the Building, about the grounds of the Property, or in any receptacle other than a specifically designated receptacle for smoking.

EXHIBIT E

FORM OF SNDA

[Space above this line for Recorder's use]

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

This Subordination, Non-Disturbance and Attornment Agreement (the "**Agreement**") is entered into by and between _________________________________, a ____________________________ ("**Lender**") and Express Scripts, Inc., a Delaware corporation ("**Tenant**"), as of the ______ day of __________, 20__ (the "Effective Date"), with reference to the following facts:

A. NorthPark Partners ESI, LLC, a Missouri limited liability company ("**Landlord**") and Tenant have entered into that certain Office Lease dated as of _____________ __, 2005 (the "**Lease**") pursuant to which Tenant has leased from Landlord certain property owned by Landlord located at ____ (the "**Property**"), which Property is described on <u>Exhibit A</u> attached hereto.

B. Lender has made or will make a loan to Landlord secured by a mortgage or deed of trust on the Property (the "**Deed of Trust**").

C. Tenant has requested that any transferee (including, without limitation, Lender) of the interest of Landlord as a result of a Transfer, and such transferee's successors and assigns ("**Purchaser**") not disturb Tenant's tenancy under the Lease upon any transfer of Landlord's interest in the Property by foreclosure, trustee's sale, or other action or proceeding for the enforcement of the Deed of Trust or by deed in lieu thereof (a "**Transfer**").

D. Tenant and Lender desire to enter into this Agreement to provide for a non-disturbance arrangement between Tenant and Lender and to provide for the attornment of Tenant to Lender, or its successor or assign, as applicable, in the event of foreclosure under the Deed of Trust or any other acquisition of the Property.

E. All capitalized terms not defined herein shall have the meaning they are given in the Lease.

NOW THEREFORE, for valuable consideration, Lender, Tenant and Landlord agree as follows:

1. **<u>Subordination</u>**. Subject to the terms and conditions set forth in Paragraph 2 below, the Lease is and shall be subject and subordinate to the Deed of Trust, and to all renewals, modifications, consolidations, replacements and extensions thereof and to all future advances made thereunder.

2. **<u>Non-Disturbance</u>**. In the event Lender or Purchaser acquires title or right of possession of the Property under the Deed of Trust through foreclosure, or otherwise, then:

(a) Tenant shall not be named or joined in any foreclosure, trustee's sale or other proceeding to enforce the Deed of Trust unless the joinder is required by Law in order to perfect such foreclosure, trustee's sale or other proceeding; and

(b) The enforcement of the Deed of Trust shall not terminate the Lease or disturb Tenant in the possession and use of the Property.

3. **<u>Leasehold Not Affected</u>**. The leasehold estate granted by the Lease shall not be affected in any manner by any Transfer or any other proceeding instituted or action taken under or in connection with the Deed of Trust or by Lender's taking possession of the Property or the Property in accordance with any provision of the Deed of Trust.

4. **<u>Attornment by Tenant</u>**. If any Transfer should occur, then Purchaser shall be bound to Tenant and Tenant shall be bound to Purchaser under all of the terms, covenants, and conditions of the Lease for the balance of the term of the Lease and any extensions or renewals of the Lease that may then or later be in effect under any validly exercised extension or renewal option in the Lease, all with the same force and effect as if Purchaser had been the original landlord under the Lease. Tenant does hereby attorn to Purchaser (including Lender if it should become the Purchaser) as the landlord under the Lease. Without limiting the foregoing, if at the time a Transfer occurs, Tenant is in default of any of its obligations under the Lease, Purchaser shall have the right to avail itself of all remedies of the Landlord under the Lease arising from such default, provided Tenant is given, or has been given, any notices of such default and opportunities to cure such default required under the Lease before such remedies are exercised.

5. **<u>Lease Amendments</u>**. Nothing contained in Paragraph 7 below shall be deemed to prevent Landlord and Tenant from entering into any amendment or modification to the Lease that shall be binding and enforceable solely as between Landlord and Tenant.

6. **Landlord's Default**. Provided Tenant is provided with a written request from Lender or Landlord, Tenant shall give Lender a copy of any notice of default which Tenant is required to give to Landlord pursuant to the terms of the Lease. Tenant shall accept a cure of any default by Landlord performed by Lender, or at Lender's direction, provided that such cure is completed within the period provided for such cure to be carried out by Landlord pursuant to the terms of the Lease.

7. **Limitation on Lender's Performance**. Nothing in this Agreement shall be deemed or construed to be an agreement by Lender to perform any covenant of Landlord as landlord under the Lease unless and until Lender obtains title to the Property as Purchaser or obtains possession of the Property under the terms of the Deed of Trust, and then only during the time when Lender holds title to the Property.

8. **Tenant's Covenants**. Tenant agrees that during the term of the Lease, without Lender's prior written consent, Tenant shall not:

(a) pay any rent or additional rent more than one month in advance of the due date to any landlord (including Landlord); or

(b) enter into any material amendment, modification, or other agreement relating to the Lease, or

(c) to extent required under the Lease, assign or sublet any portion of the Lease or the Property.

Lender agrees that with respect to parts (b) and (c) of this Section 8, Lender's consent shall not be unreasonably conditioned, delayed or withheld. Lender further agrees that if any request for Lender's approval of an amendment, modification or other agreement relating to this Lease, or for Lender's approval of any assignment or subletting of the Lease or the Property, is not objected to in a written statement of Lender delivered to Tenant within thirty (30) days after Lender receives such request in writing, such request shall be deemed approved by Lender. Any written statement objecting to any proposed amendment, modification, or other agreement of this Lease or any assignment or subletting of the Lease or the Property shall set forth in reasonable detail Lender's objections to such request.

9. **Successors**. This Agreement shall be binding upon and inure to the benefit of Tenant and Lender and their respective successors and assigns.

10. **Notices**. All notices given under any of the provisions of this Agreement shall be in writing and served on the parties at the following addresses:

To Lender: ______________________________
____
____
Attn: ___________________________

To Tenant: Express Scripts, Inc.
____
____
Attention: _____________________

Any such notices shall, unless otherwise provided herein, be given or served (i) by depositing the same in the United States mail, postage paid, certified and addressed to the party to be notified, with return receipt requested, and such notice shall be effective on the third business day after such deposit; (ii) by overnight delivery using a nationally recognized overnight courier, and such notice shall be effective on the next business day after such deposit; or (iii) by personal delivery, and such notice shall be immediately effective. Notice given in any other manner shall be effective only if and when received by the party to be notified between the hours of 8:00 a.m. and 5:00 p.m. of any business day, with delivery made after such hours to be deemed received the following business day. A party's address may be changed by written notice to the other party; provided, however, that no notice of a change of address shall be effective until actual receipt of such notice. Copies of notices are for informational purposes only, and a failure to give or receive copies of any notice shall not be deemed a failure to give notice.

11. **Lien Waiver**. Lender hereby expressly waives and releases any and all contractual liens and security interests or constitutional and statutory liens and security interests (arising by operation of law or under the Lease, the Deed of Trust or any other agreement Lender has which affects the Property or Tenant or Landlord) to which Lender might now or hereafter be entitled on any of the personal property of Tenant. Lender agrees to execute and deliver to Tenant and Tenant's lender, from time to time, a form of "Waiver and Consent" confirming the foregoing and permitting such lender to enter upon the Property in the event of a default by Tenant and recover any personal property financed by such lender, and containing other customary and reasonable provisions as may be requested by such lender, as well as customary and reasonable provisions to protect the interests of Lender.

12. **Insurance Proceeds and Condemnation Proceeds**. If the terms of the Deed of Trust pertaining to the disbursement or use of insurance proceeds and/or the disbursement or use of condemnation proceeds conflict with the terms of the Lease, the provisions in the Lease shall control.

13. **Access**. If the terms of the Deed of Trust permit Lender to enter the Property, Lender's access rights shall not be greater than Landlord's access rights under the Lease, and the restrictions in the Lease regarding Landlord's access to the Property shall apply to Lender as well,

notwithstanding anything to the contrary in the Deed of Trust.

14. **Choice of Law; Headings; Attorneys' Fees**. This Agreement shall be governed by and interpreted under the laws of the state or commonwealth in which the Property is located. The headings to paragraphs of this Agreement are for convenient reference only, do not in any way limit or amplify the terms of this Agreement, and shall not be used in interpreting this Agreement. If any party institutes an action or proceeding to enforce its rights under this Agreement, the prevailing party in such action or proceeding shall be entitled to recover from the other party or parties reasonable attorneys' fees and costs in addition to any other relief awarded by the court.

15. **Integration**. This Agreement integrates all of the terms and conditions of the parties' agreement regarding the subjection and subordination of the Lease and the leasehold estate created by it, together with all rights and privileges of Tenant under it, to the lien or charge of the Deed of Trust. This Agreement supersedes and cancels all oral negotiations and prior and other writings with respect to such subjection and subordination, including, without limitation, any provisions of the Lease which provide for the subjection or subordination of the Lease and the leasehold estate thereby created to a deed or deeds of trust or to a mortgage or mortgages. This Agreement is intended by the parties as the final expression of the agreement, and as the complete and exclusive statement of the terms agreed to by the parties, with respect to such subordination and subjection, to the extent specified in the foregoing sentence. This Agreement may not be modified or amended except by a written agreement signed by the parties or their respective successors in interest.

16. **Modifications to Loan**. Tenant agrees that the Deed of Trust and the indebtedness secured thereby may be increased, rearranged, renewed, extended, consolidated and modified from time to time by agreement between Landlord and Lender, and Lender may exercise any one or more of its rights under the Deed of Trust from time to time at Lender's discretion, all without notice to or consent of Tenant, and this Agreement shall continue in full force and effect as to all such renewals, extensions, increases, rearrangements, consolidations and modifications and all such exercises of rights.

17. **Counterparts**. This Agreement may be executed in several counterparts, all of which are identical, and all of which counterparts together shall constitute one and the same instrument.

Executed as of the Effective Date.

TENANT:	LENDER:
EXPRESS SCRIPTS, INC.	______________________________________
By: _______________________	By:
Title: ______________________	Title:

STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

On this _____ day of ________________, 2005, before me personally appeared ______________________________, to me personally known, who, being by me duly sworn, did say that __________________ is the _________________________ of Express Scripts, Inc., a Delaware corporation, and that said instrument was signed on behalf of said corporation by the authority of its Board of Directors, and said ________________________ acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my seal in the County and State aforesaid, the day and year last above written.

____
Notary Public

____
(Printed Name)

(SEAL)
My Commission Expires:

STATE OF _____________)
) ss.
COUNTY OF ______________)

On this _____ day of ________________, 2005, before me personally appeared ______________________________, to me personally known, who, being by me duly sworn, did say that __________________ is the _________________________ of ______________________________, a

_________________________, and that said instrument was signed on behalf of said ________________ by the authority of its ___________________, and said __________________ acknowledged said instrument to be the free act and deed of said __________________.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my seal in the County and State aforesaid, the day and year last above written.

____
Notary Public

____
(Printed Name)

(SEAL)
My Commission Expires:

EXHIBIT F

LICENSE AGREEMENT

This License Agreement ("Agreement") made this ____ day of ____________, 2005, by and between NorthPark Partners ESI, LLC, a Missouri limited liability company (hereinafter called "Licensor") and Express Scripts, Inc., a Missouri corporation (hereinafter called "Licensee").

W I T N E S S E T H

I. Certain Definitions. The following terms shall have the following meanings when used in this Agreement.

(a) "Building" shall mean that building located at ________________.

(b) "Lease" means that Lease between Licensor and Licensee dated as of ___________, 2005 whereby Licensee has leased the Premises from Licensor.

(c) "Premises" means the space within the Building leased by Licensee pursuant to the Lease.

(d) "Roof" means the Roof on the Building.

(e) "Roof Equipment" means any equipment that is placed on the Roof by or on behalf of Licensee for Licensee's use, including but not limited to such things as satellite dishes, antenna, and HVAC units.

Licensee shall not place any equipment of any kind on the Roof without the prior written consent of Licensor in each instance, and compliance by Licensee with all requirements of this Agreement. Roof Equipment which Licensor has authorized Licensee to place on the Roof shall only be placed at those locations on the Roof which have been approved in writing by Licensor.

Pursuant to this Agreement, Licensor consents to Licensee placing on the Roof the Roof Equipment described on **Exhibit A** hereto at the location on the Roof described on **Exhibit A**. Licensee shall comply with all requirements of this Agreement in connection with the installation, operation, maintenance and removal of said Roof Equipment.

In the event that Licensee desires to add additional Roof Equipment to the Roof at a future date, Licensor and Licensee shall execute an additional agreement for such additional Roof Equipment or an addendum to this Agreement.

This Agreement is for a term that commences and expires at the same time as the aforesaid Lease, unless sooner terminated as provided herein. In the event that the Lease contains renewal options, and such renewal options are exercised, the term of this Agreement shall automatically be extended to coincide with such renewal term. Licensee's rights to occupy any portion of the Roof pursuant to this Agreement shall automatically terminate on the date the Lease terminates for any reason.

Licensee shall use the Roof only for its own use and shall not have the right to allow other companies to use the Roof,

Licensor reserves the right to use those portions of the Roof that are not being used by Licensee.

II. The size, location and placement of the Roof Equipment shall be as specifically described in **Exhibit "A"**, attached hereto and by reference, made a part hereof, or at such other location as approved by Licensor in writing.

III. Licensee shall not be required to pay rent or a fee to Licensor as consideration for this Agreement. Licensee shall pay for all gas, electricity and other utilities required in order to operate said Roof Equipment

IV. With respect to the installation of the Roof Equipment on the Roof portion of the Building, Licensee agrees to contract with Licensor's roofing contractor in order to determine if any additional support to the Roof is required in order to install the Roof Equipment. If any such support is required, Licensee shall retain the services of Licensor's roofing contractor at Licensee's sole cost and expense to install such support, and Licensee agrees to comply with any suggestions or recommendations of Licensor's roofing contractor so that the installation, maintenance and repair of the Roof Equipment will not affect any warranties which Licensor has on said Roof. Licensee shall further have the right to access such conduits or other access ways within the Building from the Premises to the Roof to allow Licensee to install such cabling as is necessary in connection with the installation of the Roof Equipment, provided that Licensee shall install cabling or other equipment only is such locations as are approved by Licensor in writing, such approval not to be unreasonably withheld, conditioned or delayed. The location of all such cabling shall be included in the plans and specifications provided in Section VI as hereinafter set forth.

No Roof penetrations shall be made without the prior written consent of Licensor. Licensor may require that Licensee hire Licensor's roofing contractor to make all such Roof penetrations. All such Roof penetrations shall only be made in compliance with all requirements of Licensor's roofing contractor.

Licensee shall notify Licensor when installation is completed and within thirty (30) days after such notification, Licensor shall cause the Roof or other affected portions of the Building and Premises to be inspected and shall, within such time period, notify Licensee if there is any damage resulting from the installation. If Licensor so notifies Licensee, Licensee shall cause such damage to be repaired at its expense provided such damage was not caused by Licensor, its employees or agents. In the event of such damage, and Licensee shall incur such expense, Licensee may seek reimbursement from any third party responsible for such damage, and Licensor shall cooperate with Licensee in such endeavor.

Licensee shall have the right to terminate this Agreement forthwith and without further obligation in the event modifications to the structure required by Licensor's Roofing contractor are determined in the sole discretion of Licensee to make the use of Licensor's facilities uneconomical.

V. Licensee shall bear the sole cost and responsibility for the installation, maintenance, repair and removal of the Roof Equipment, including all necessary gas and electrical service and any and all other costs associated therewith. All such items shall be done in a good and workmanlike manner. Licensee shall maintain all of said items in a good and safe condition through-out the remainder of the term of this Agreement at Licensee's sole cost and expense. It is understood and agreed that Licensor shall have no responsibility nor obligation for the maintenance and repair of the Roof Equipment, and any equipment or other items installed by Licensee in connection therewith and shall have no liability for any damage done to same or caused by same except to the extent same was caused by Licensor, its employees or agents.

Without limiting the preceding paragraph, Licensor is not bringing any utility services to the Roof or making any other improvements of any kind on the Roof. Licensee at Licensee's sole cost and expense is responsible for bringing to the Roof any electrical, gas, water, drainage or other service lines needed to operate the Roof Equipment, and for providing and installing anything needed on the Roof in connection with such Roof Equipment, all of which must be approved in writing by Licensor.

VI. Licensee shall submit plans and specifications for the construction and installation of all the items to be in-stalled by Licensee hereunder for Licensor's prior approval. The manner and method of installation and removal of all such equip-ment shall be subject to the written approval of Licensor, which approval shall not be unreasonably withheld or delayed.

VII. Licensee, at its own expense, shall, prior to the installation of its equipment, secure and at all times thereafter maintain all required approvals and permits of the Federal Communications Commission and all other governmental bodies having jurisdiction over its business, including its communica-tions, operations and facilities. Licensee shall at all times comply with all applicable laws in connection with installation, operation and removal of the Roof Equipment.

VIII. Licensee, at its expense, shall be solely responsible for and shall maintain its equipment in a safe, structural, sound, clean and sightly condition and shall indemnify and hold harmless Licensor against all liens and claims of mechanics and materialmen furnishing labor and materials in the construction and maintenance of its equipment.

IX. Licensor hereby grants unto Licensee the right to enter upon the Roof of the Building or other such areas of the Building where Licensee’s improvements in connection herewith may be installed for the sole purpose of gaining access to Licensee's installation. Licensor further grants right of access at all times to the areas where such connecting equipment is located for the purposes of maintaining, repairing, testing and replacing the connecting equipment; provided, however, if Licensee is not the sole tenant in the Building, then Licensee shall notify Licensor each time Licensee requires such access other than in the event of an emergency and provided further that such access and installations do not cause damage to or interfere with the operations or maintenance of any part of the Building or with any other tenants located in the Building. All such entries on the Roof and work performed thereon shall be done in accordance with Licensor’s guidelines established to prevent any Roof warrantees from being voided. Any damages done to the Roof shall be repaired at Licensee’s sole cost and expense and Licensee shall remain responsible to maintain any portion of the Roof for which the warranty therefore has been voided due to the activities of Licensee, its employees, agents and contractors on the Roof. Licensee shall be given all necessary keys for the purpose of gaining such access.

During any period in which Licensee is not the sole tenant in the Building, Licensee shall attempt to notify Licensor each time Licensee desires to enter upon the Roof of the Building other than in the event of an emergency, and Licensee shall enter upon the Roof only at such times and under such circumstances which shall not cause endangerment of life or limb. Licensee shall promptly reimburse Licensor for the costs or repairs of any damage to the Building directly or indirectly caused by Licensee's installations or the maintenance thereof.

X. The license hereby granted to Licensee shall give to Licensee the exclusive right to use the Roof or tower of the Building and Licensor shall not grant a license or licenses to any party to use space on the Roof. Notwithstanding the foregoing, during any period in which there are other tenants in the Building, Licensor may grant a license or licenses to other tenants to use space of the Roof; provided, however, the rights of other licensees shall be exercised without causing objectionable interference with the activities being carried on at the same time by Licensee in accordance with its license. Similarly, the license of Licensee shall be exercised without causing objectionable interference with the activities being carried on at the same time by other licensees in accordance with their respective licenses. Notwithstanding the provisions of the preceding sentence to the contrary, in the event that action cannot be taken to eliminate any objectionable interference between installations after reasonable efforts to eliminate such interference have been taken by Licensee and any other licensee(s), then in such event Licensee’s right to install and operate its Roof Equipment shall be superior to the rights of any other licensee(s) or tenant(s), and Licensor shall take such actions as are necessary to remove or modify any other installation which causes objectionable interference with Licensee’s installation. Licensee shall not change or materially alter the installation agreed to herein without the prior written approval of Licensor, which approval shall not be unreasonably conditioned, delayed or withheld.

XI. Licensee agrees to indemnify and hold harmless Licensor and to assume all liability for death of or injury to any persons and all liability for loss, damage or injury to any property incurred or sustained by Licensor or Licensee arising from, growing out of or resulting from Licensee's use of the Roof of the Building, or any other areas in the Building where Licensee's connecting equipment is located, including costs, attorneys' fees and other expenses incurred by Licensor in defending any such claim, unless and to the extent such loss, damage or injury is due to the negligence or willful misconduct of Licensor, its employees, agents or invitees.

XII. Licensee hereby waives and releases all claims against Licensor, its officers, directors, agents, employees and servants and agrees that they shall not be liable for any injury to or death of persons, or damage to property sustained by Licensee or by any occupant of the Building, or any other person occurring in or about the Building resulting directly or indi-rectly from any existing or future condition, defect, matter or thing in the Building, or any part of it, or from equipment or appurtenance becoming out of repair, or from any occurrence, act or from the negligence or omission of any tenant or occupant of the Building, or of any other person, except for the gross negligence or omission by Licensor, its officers, directors, agents, employ-ees and servants.

XIII. Licensor shall have the right to terminate this Agreement upon written notice to Licensee in the event that: (a) the Lease is terminated or Licensee's right to possession under the Lease is terminated; (b) Licensee shall default in the performance of any obligations imposed upon it hereunder and shall not, within thirty (30) days after being notified by Licensor of the existence of such default, immediately take all reasonable steps to cure same and diligently prosecute such work to completion; (c) it shall be determined that such installation does not comply with all building codes, ordinances and the Protective Covenants for the jurisdiction in which the Building is located; (d) it is found by a public authority having jurisdiction in the Building that such installation and use constitute a nuisance or hazard to the public or the occupants of the Building; or (e) the use of such Roof Equipment is changed from that originally approved in a manner which interferes with the use of any other tenant's equipment or data processing machines in the Building. Notwithstanding the foregoing, Licensor shall not have the right to terminate this Agreement pursuant to subclauses (c) or (d) above if Licensee is contesting any such determination or finding.

Licensee shall have the right to terminate this Agreement upon written notice to Licensor in the event that: (a) the use of such installation by Licensee is deemed in violation of any ordinance, state statute, federal statute or governmental regulation and such violation cannot be reasonably cured; (b) the use of such installation by Licensee does not serve Licensee's intended purpose due to changes in environmental conditions outside the control of Licensee; or (c) Licensee desires to do so for any cause or for no cause.

In the event of termination by either party, Licensee shall remove its equipment, provided said removal complies with the provisions of Section XV below. Any such termination shall have no impact on the rights and obligations of Licensee and Licensor under the Lease nor shall it cause a termination of the Lease.

XIV. No notice or demand related to or required by this Agreement shall be effective unless same is in writing and delivered pursuant to the Lease terms.

XV. At the termination of this Agreement by lapse of time or otherwise, the Roof Equipment and the connecting equipment installed under the terms of this Agreement shall be removed by Licensee upon the request of Licensor, and, subject to the provisions of Sections 11 of the Lease (regarding casualty) and 19 (regarding condemnation), the area of the Building where they were installed shall be restored by Licensee in as good condition as existed immediately prior to installation of such installations and connecting equipment, ordinary wear and tear excepted.

XVI. This Agreement shall be binding upon the successors and assigns of the parties hereto provided that Licensee shall not assign or transfer this Agreement to anyone other than an assignee of Licensee's interest under the Lease that has been approved or permitted under the Lease.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LICENSEE:

EXPRESS SCRIPTS, INC.

By______________________________
Name: ___________________________
Title: ____________________________

LICENSOR:

NORTHPARK PARTNERS ESI, LLC, a Missouri limited liability company

By McEagle NorthPark Partners ESI, LLC, a Missouri limited liability company, its Manager

By______________________________
Name: ___________________________
Title: ____________________________

EXHIBIT G

ALTERNATIVE DISPUTE RESOLUTION PROCEDURES

The parties recognize that from time to time a dispute may arise relating to either party's rights or obligations under this Agreement. The parties agree that any such dispute shall be resolved by the Alternative Dispute Resolution ("ADR") provisions set forth in this Exhibit, the result of which shall be binding upon the parties.

To begin the ADR process, a party first must send written notice to the other party advising that the notifying party desires to initiate an ADR proceeding to resolve the subject dispute in the manner provided herein. The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party of the issues to be resolved by ADR. Within fourteen (14) days after its receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following the initiation of the ADR proceeding, the parties shall select a mutually acceptable neutral to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, either party may request the Director of ADR, United States Arbitration & Mediation, 720 Olive Street, Suite 2300, St. Louis, MO 63101 ("ADR Entity"), to select a neutral pursuant to the following procedures:

(a) The ADR Entity shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request, along with a *Curriculum Vitae* for each candidate. No candidate shall be an employee, director, or shareholder of either party or any of their subsidiaries or affiliates.

(b) Such list shall include a statement of disclosure by each candidate of any circumstances likely to affect his or her impartiality.

(c) Each party shall number the candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the ADR Entity within seven (7) days following receipt of the list of candidates. If a party believes a conflict of interest exists regarding any of the candidates, that party shall provide a written explanation of the conflict to the ADR Entity along with its list showing its order of preference for the candidates. Any party failing to return a list of preferences on time shall be deemed to have no order of preference.

(d) If the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the APR Entity immediately shall designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie should result between two candidates, the APR Entity may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the APR Entity shall review the explanations regarding conflicts and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set forth in subparagraphs 2(a) - 2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-five (55) days after selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location in the metropolitan St. Louis area.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue. The parties agree that neither side shall seek as part of its remedy any punitive damages.

(d) a brief in support of such party's proposed rulings and remedies, provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in subparagraphs 4(a) - 4(d), no discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular and rebuttal testimony, documents or other evidence, to cross-examine witnesses, and to make a closing argument. Cross-examination of witnesses shall occur immediately after their direct testimony, and cross-examination time shall be charged against the party conducting the cross-examination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence, and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations, including any statements made therein, shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post-hearing brief in support of its proposed rulings and remedies, provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy of one of the parties on each disputed issue but may adopt one party's proposed rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall not issue any written opinion or otherwise explain the basis of the ruling.

8. The neutral shall be paid a reasonable fee plus expenses. These fees and expenses, along with the reasonable legal fees and expenses of the prevailing party (including all expert witness fees and expenses), the fees and expenses of a court reporter, and any expenses for a hearing room, shall be paid as follows:

(a) If the neutral rules in favor of one party on all disputed issues in the ADR, the losing party shall pay 100% of such fees and expenses.

(b) If the neutral rules in favor of one party on some issues and the other party on other issues, the neutral shall issue with the rulings a written determination as to how such fees and expenses shall be allocated between the parties. The neutral shall allocate fees and expenses in a way that bears a reasonable relationship to the outcome of the ADR, with the party prevailing on more issues, or on issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in paragraph 9 or as required by law, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.

11. All ADR hearings shall be conducted in the English language.

Exhibit 31.1

I, George Paz, certify that:

1. I have reviewed this annual report on Form 10-K of Express Scripts, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ George Paz
George Paz, President and
Chief Executive Officer

Exhibit 31.2

I, Edward Stiften, certify that:

1. I have reviewed this annual report on Form 10-K of Express Scripts, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ Edward Stiften
Edward Stiften, Senior Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AND EXCHANGE ACT RULE 13a-14(b)

In connection with the accompanying Form 10-K (the “Report”) of Express Scripts, Inc. (the “Company”) for the period ended December 31, 2005, I, George Paz, President and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and Exchange Act Rule 13a-14(b) that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

BY: /s/ George Paz
George Paz
President and
Chief Executive Officer
Express Scripts, Inc.

Date: February 22, 2006

A signed original of this written statement required by Section 906 has been provided to Express Scripts, Inc. and will be retained by Express Scripts, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AND EXCHANGE ACT RULE 13a-14(b)

In connection with the accompanying Form 10-K (the “Report”) of Express Scripts, Inc. (the “Company”) for the period ended December 31, 2005, I, Edward Stiften, Senior Vice President and Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and Exchange Act Rule 13a-14(b) that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

BY: /s/ Edward Stiften
Edward Stiften
Senior Vice President and Chief Financial Officer
Express Scripts, Inc.

Date: February 22, 2006

A signed original of this written statement required by Section 906 has been provided to Express Scripts, Inc. and will be retained by Express Scripts, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.