

EXPRESS SCRIPTS INC  
Form PRE 14A  
April 06, 2006

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A  
(Rule 14a-101)  
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Act of 1934  
(Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- x Preliminary Proxy Statement  o Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-12

Express Scripts, Inc.

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(Name of Registrant As Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement. If other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing party:

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(4) Date  
filed: \_\_\_\_\_

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**EXPRESS SCRIPTS, INC.  
13900 Riverport Drive  
Maryland Heights, Missouri 63043**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
May 24, 2006**

The 2006 Annual Meeting of Stockholders of **EXPRESS SCRIPTS, INC.**, a Delaware corporation (the “Company”), will be held at the principal executive offices of the Company, 13900 Riverport Drive, Maryland Heights, Missouri 63043, on Wednesday, May 24, 2006, at 9:30 a.m. Central Time (the “meeting”), to consider and act upon the following matters:

1. to elect eleven (11) directors to serve until the next Annual Meeting of Stockholders or until their respective successors are elected and qualified;
2. to approve and ratify an amendment to the Company’s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company’s common stock from 275,000,000 shares to 650,000,000 shares;
3. to approve and ratify the Express Scripts, Inc. 2000 Long Term Incentive Plan, as amended;
4. to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accountants for the Company’s current fiscal year; and
5. to transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on March 31, 2006, are entitled to notice of and to vote at the meeting. At least ten days prior to the meeting, a complete list of stockholders entitled to vote will be available for inspection by any stockholder for any purpose germane to the meeting, during ordinary business hours, at the office of the Secretary of the Company at 13900 Riverport Drive, Maryland Heights, Missouri 63043. As a stockholder of record, you are cordially invited to attend the meeting in person. Regardless of whether you expect to be present at the meeting, please either complete, sign and date the enclosed proxy and mail it promptly in the enclosed envelope, or vote electronically via the Internet or telephone as described in greater detail in the proxy statement. Returning the enclosed proxy, or voting electronically or telephonically, will not affect your right to vote in person if you attend the meeting.

By Order of the Board of Directors

Thomas M. Boudreau  
Senior Vice President, General Counsel  
and Secretary

13900 Riverport Drive  
Maryland Heights, Missouri 63043  
April \_\_, 2006

**Even though you may plan to attend the meeting in person, please vote by telephone or the Internet, or execute the enclosed proxy card and mail it promptly. A return envelope (which requires no postage if mailed in the United States) is enclosed for your convenience. Telephone and Internet voting information is provided on your proxy card. Should you attend the meeting in person, you may revoke your proxy and vote in person.**

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Table of Contents  
Page  
Proxy  
Statement .....  
About the Meeting .....  
Voting Securities  
.....  
Security Ownership of Certain Beneficial Owners and Management .....  
Item I - Election of  
Directors .....  
The Board of Directors and its Committees .....  
Report of the Audit Committee .....  
Directors' Compensation .....  
Report of the Compensation and Development Committee on Executive Compensation .....  
Compensation Committee Interlocks and Insider Participation .....  
Performance Graph .....  
Executive Compensation .....  
Section 16(a) Beneficial Ownership Reporting Compliance .....  
Certain Relationships and Related Party Transactions .....  
Item II -Approval and Ratification of an Amendment to the Company's Amended and Restated Certificate of  
Incorporation to Increase the Number of Authorized Shares of the Company's Common Stock .....  
Item III -Approval and Ratification of the Express Scripts, Inc. 2000 Long Term Incentive Plan,  
as amended  
.....  
Item IV -Ratification of Appointment of Independent Registered Public Accountants .....  
Stockholder Proposals .....  
Code of  
Ethics .....  
Other  
Matters .....  
Online Delivery of Documents .....  
Householding of Proxy Materials .....  
Solicitation of Proxies .....  
Exhibit A - Third Amendment to the Express Scripts, Inc. 2000 Long-Term Incentive Plan .....

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**EXPRESS SCRIPTS, INC.  
13900 Riverport Drive  
Maryland Heights, Missouri 63043**

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**2006 ANNUAL MEETING OF STOCKHOLDERS  
PROXY STATEMENT**  
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This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Express Scripts, Inc., a Delaware corporation (the "Company"), to be voted at the 2006 Annual Meeting of Stockholders of the Company (the "annual meeting" or the "meeting") and any adjournment or postponement of the meeting. The meeting will be held at the principal executive offices of the Company, 13900 Riverport Drive, Maryland Heights, Missouri 63043, on Wednesday, May 24, 2006, at 9:30 a.m. Central Time, for the purposes contained in the accompanying Notice of Annual Meeting of Stockholders and in this proxy statement. This proxy statement and the accompanying proxy will be first sent or given to stockholders on or about April \_\_\_, 2006.

**ABOUT THE MEETING**

**Why did I receive this Proxy Statement?**

Because you were a stockholder of the Company as of March 31, 2006 (the "Record Date") and are entitled to vote at the annual meeting, the Board of Directors is soliciting your proxy to vote at the meeting.

This proxy statement summarizes the information you need to know to vote at the meeting. This proxy statement and form of proxy were first mailed to stockholders on or about April \_\_\_, 2006.

**What am I voting on?**

You are voting on four items:

1. Election of directors (see page \_\_\_);
2. Approval and ratification of an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company's common stock from 275,000,000 shares to 650,000,000 shares (see page \_\_\_);
3. Approval and ratification of the Express Scripts, Inc. 2000 Long Term Incentive Plan, as amended (the "2000 LTIP") (see page \_\_\_);
4. Ratification of PricewaterhouseCoopers LLP as independent registered public accountants for 2006 (see page \_\_\_).

**How do I vote?**

**Stockholders of Record:** If you are a stockholder of record, there are four ways to vote:

by toll-free telephone at 1-800-PROXIES (1-800-776-9437)

by Internet at [www.voteproxy.com](http://www.voteproxy.com)

by completing and returning your proxy card

by written ballot at the meeting

**Street Name Holders:** Shares which are held in a brokerage account in the name of the broker are said to be held in “street name.” If your shares are held in street name you should follow the voting instructions provided by your broker. You may complete and return a voting instruction card to your broker, or, in many cases, your broker may also allow you to vote via the telephone or internet. Check your proxy card for more information. If you hold your shares in street name and wish to vote at the meeting, you must obtain a legal proxy from your broker and bring that proxy to the meeting.

Regardless of how your shares are registered, if you complete and properly sign the accompanying proxy card and return it to the address indicated, it will be voted as you direct.

### **What are the voting recommendations of the Board Of Directors?**

The Board recommends the following votes:

1. FOR each of the nominees as directors;
2. FOR the approval and ratification of an amendment to the Company’s Amended and Restated Certificate of Incorporation which would increase the number of authorized shares of the Company’s common stock from 275,000,000 shares to 650,000,000 shares;
3. FOR the approval and ratification of the 2000 LTIP, as amended; and
4. FOR the ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accountants for 2006.

Unless you give instructions on your proxy card, the persons named as proxy holders will vote your shares in accordance with the recommendations of the Board of Directors.

### **Will any other matters be voted on?**

We do not know of any other matters that will be brought before the stockholders for a vote at the annual meeting. If any other matter is properly brought before the meeting, your signed proxy card gives authority to George Paz and David Lowenberg to vote on such matters in their discretion.

### **Who is entitled to vote at the meeting?**

Only stockholders of record at the close of business on the Record Date are entitled to receive notice of and to participate in the annual meeting. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

### **How many votes do I have?**

You will have one vote for every share of Express Scripts common stock you owned on the Record Date.

**How many votes can be cast by all stockholders?**

147,028,330, consisting of one vote for each share of Express Scripts common stock outstanding on the Record Date. There is no cumulative voting.

**How Many Votes Must Be Present To Hold The Meeting?**

The holders of a majority of the aggregate voting power of the Express Scripts' common stock outstanding on the Record Date, or 73,514,166 votes, must be present in person, or by proxy, at the meeting in order to constitute a quorum necessary to conduct the meeting.

If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will be counted in determining the quorum. A broker non-vote occurs when a bank or broker holding shares in street name submits a proxy that states that the broker does not vote for some or all of the proposals, because the broker has not received instructions from the beneficial owners on how to vote on the proposals and does not have discretionary authority to vote in the absence of instructions.

We urge you to vote by proxy even if you plan to attend the meeting so that we will know as soon as possible that a quorum has been achieved.

**What vote is required to approve each proposal?**

In the election of directors, the affirmative vote of a plurality of the votes present in person or by proxy and entitled to vote at the meeting is required. A proxy that has properly withheld authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for the purposes of determining whether there is a quorum.

For the proposal to approve and ratify the Amendment to the Company's Amended and Restated Certificate of Incorporation, the affirmative vote of a majority of the outstanding shares of common stock entitled to vote at the meeting will be required for approval. Accordingly, abstentions and broker non-votes will have the effect of votes against this proposal.

For the proposals to approve and ratify the 2000 LTIP, as amended, and to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accountants, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the proposal will be required for approval. An abstention with respect to this proposal will not be voted, although it will be counted for the purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

**Can I change my vote or revoke my proxy?**

Yes. Just send in a new proxy card with a later date, or cast a new vote by telephone or Internet, or send a written notice of revocation to the Company's Corporate Secretary at the address on the cover of this proxy statement. Also, if you attend the meeting and wish to vote in person, you may request that your previously submitted proxy not be used.

**How can I access Express Scripts' proxy materials and annual report electronically?**

This proxy statement and the 2005 annual report are available in the Investor Information section of our website at [www.express-scripts.com](http://www.express-scripts.com). Information on our website does not constitute part of this proxy statement. Most stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail by registering at our website. By electing to receive these materials electronically, you can save the Company the cost of producing and mailing these documents.



**Who can attend the annual meeting?**

Any Express Scripts stockholder as of March 31, 2006 may attend the meeting. If you own shares in street name, you should ask your broker or bank for a legal proxy to bring with you to the meeting. If you do not receive the legal proxy in time, bring your most recent brokerage statement so that we can verify your ownership of our stock and admit you to the meeting. However, you will not be able to vote your shares at the meeting without a legal proxy.

If you return a proxy card without indicating your vote, your shares will be voted as follows: (i) for the nominees for director named in this proxy statement; (ii) for the approval and ratification of the amendment to the Company’s Amended and Restated Certificate of Incorporation which would increase the number of authorized shares of the Company’s common stock from 275,000,000 shares to 650,000,000 shares; (iii) for the approval and ratification of the 2000 LTIP, as amended; (iv) for ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accountants for the Company for 2006; and (v) in accordance with the recommendation of management on any other matter that may properly be brought before the meeting and any adjournment or postponement of the meeting.

**VOTING SECURITIES**

On the Record Date there were 147,028,330 outstanding shares of the Company’s Common Stock, \$.01 par value per share (the “Common Stock”). Unless otherwise provided, all references to shares of Common Stock in this proxy statement have been adjusted to reflect all of the Company’s previous stock splits, including the two separate two-for-one stock splits effective June 24, 2005 and June 22, 2001, respectively, each of which was effected in the form of a stock dividend of one share for each outstanding share to holders of record.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table contains certain information regarding the beneficial ownership of the Company's Common Stock as of March 15, 2006 (unless otherwise noted) by (i) each person known by the Company to own beneficially more than five percent of the outstanding shares of Common Stock, (ii) each director of the Company, (iii) each current or former executive officer of the Company named in the Summary Compensation Table on page \_\_ (the “Named Officers”), and (iv) all current executive officers and directors of the Company as a group. The table includes shares that may be acquired on March 15, 2006, or within 60 days of March 15, 2006, upon the exercise of stock options by employees or outside directors. Unless otherwise indicated, each of the persons or entities listed below exercises sole voting and investment power over the shares that each of them beneficially owns.

Shares Beneficially Owned

<u>Name and Address</u>	<u>Number</u>	<u>Percent of Class (1)</u>
Barrett A. Toan (2) .....	779,977	*
George Paz (3) .....	493,791	*
Gary G. Benanav (4) .....	17,206	*
Frank J. Borelli (5) .....	97,440	*

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Maura C. Breen (6)	3,000	*
.....		
Nicholas J. LaHowchic (7)	2,000	*
.....		
Thomas P. Mac Mahon (8)	24,000	*
.....		
John O. Parker, Jr. (9)	35,354	*
.....		
Samuel K. Skinner (10)	10,000	*
.....		
Seymour Sternberg (11)	40,781	*
.....		
Howard L. Waltman (12)	110,000	*
.....		
David A. Lowenberg (13)	181,517	*
.....		
Thomas M. Boudreau (14)	114,015	*
.....		
Edward Stiften (15)	56,667	*
.....		
Patrick McNamee (16)	12,930	*
.....		
Directors and Executive		
Officers as a Group (23 persons)(17) .....	2,390,350	1.63 %
New York Life Insurance Company;		
NYLIFE, LLC (18)	24,000,460	16.33%
.....		
Capital Research and Management Company (19)		
.....	11,610,490	7.90 %

\* Indicates less than 1%

- (1) Percentages based on 146,929,621 shares of Common Stock issued and outstanding on March 15, 2006.
- (2) Consists of options for 624,600 shares granted under the Company's Amended and Restated 1992 and 1994 Stock Option Plans, and the 2000 LTIP (collectively, the "Employee Stock Option Plans") (See "Executive Compensation — Employment Agreements" for a description of the terms of his employment agreement with the Company governing his options), 108,824 shares owned by Mr. Toan, and 46,553 phantom shares representing fully-vested investments in the Company Stock Fund under the Company's Executive Deferred Compensation Plan (the "EDCP").
- (3) Consists of options for 378,043 shares granted under the Employee Stock Option Plans, 51,262 shares owned by Mr. Paz, 52,357 restricted shares awarded under the 2000 LTIP, and 12,129 phantom shares representing fully-vested investments in the Company Stock Fund under the EDCP. Excluded are 2,889 phantom shares representing unvested investments in the Company Stock Fund under the EDCP.
- (4) Consists of options for 13,206 shares granted under the 2000 LTIP and 4,000 shares owned by a trust established by Mr. Benanav.
- (5) Consists of options for 96,000 shares granted under the 2000 LTIP and 1,440 shares held in trusts for family members.
- (6) Consists of 3,000 shares granted under the 2000 LTIP.
- (7) Consists of 2,000 shares owned by Mr. LaHowchic.
- (8) Consists of options for 24,000 shares granted under the 2000 LTIP.
- (9) Consists of options for 35,354 shares granted under the 2000 LTIP.

- (10) Consists of options for 10,000 shares, granted under the 2000 LTIP.
- (11) Consists of options for 33,206 shares granted under the 2000 LTIP, and 7,575 shares owned by Mr. Sternberg, but excludes 1,440 shares held by Mr. Sternberg's son as to which shares Mr. Sternberg disclaims beneficial ownership.
- (12) Consists of options for 106,000 shares granted under the Amended and Restated 1992 Stock Option Plan for Outside Directors (the "Outside Directors Plan"), and the 2000 LTIP, and 4,000 shares owned by Mr. Waltman.
- (13) Consists of options for 63,996 shares granted under the Employee Stock Option Plans, 67,910 shares owned by Mr. Lowenberg, 34,617 restricted shares awarded under the 2000 LTIP, and 14,994 phantom shares representing fully-vested investments in the Company Stock Fund under the EDCP. Excluded are 700 shares held by Mr. Lowenberg's minor children, as to which Mr. Lowenberg disclaims beneficial ownership.
- (14) Consists of options for 40,556 shares granted under the Employee Stock Option Plans, 44,710 shares owned by Mr. Boudreau, 17,933 restricted shares awarded under the 2000 LTIP, and 10,816 phantom shares representing fully-vested investments in the Company Stock Fund under the EDCP. Excluded are 400 shares held by Mr. Boudreau's spouse, as to which Mr. Boudreau disclaims beneficial ownership, and 568 phantom shares representing unvested investments in the Company Stock Fund under the EDCP.
- (15) Consists of options for 15,036 shares granted under the 2000 LTIP, 10,437 shares owned by Mr. Stiften, 31,194 restricted shares awarded under the 2000 LTIP. Excluded are 283 phantom shares representing unvested investments in the Company Stock Fund under the EDCP.
- (16) Consists of options for 7,668 shares granted under the 2000 LTIP, and 5,262 restricted shares awarded under the 2000 LTIP. Excluded are 51 phantom shares representing unvested investments in the Company Stock Fund under the EDCP.
- (17) Consists of options for 1,657,995 shares granted under the Outside Directors Plan and the Employee Stock Option Plans, 375,399 shares owned by directors and officers as a group, 260,431 restricted shares awarded under the 2000 LTIP, and 96,525 phantom shares representing fully-vested investments in the Company Stock Fund under the EDCP. Excluded are 20,507 phantom shares representing unvested investments in the Company Stock Fund under the EDCP.
- (18) The information with respect to the beneficial ownership of these shares as of December 31, 2005 has been obtained from a copy of an Amendment No. 6 to Schedule 13G filed February 10, 2006. Such filing reports that the beneficial owner, New York Life Insurance Company ("New York Life") shares voting power with respect to all of the shares reported, but has sole dispositive power as to all of the shares reported, and that NYLIFE, LLC ("NYLife"), a subsidiary of New York Life, owns 9,000,000 of such shares. As described further in "Certain Relationships and Related Party Transactions - Relationship with New York Life" beginning on page \_\_\_\_, in August 2001, NYLife entered into a ten-year forward sale contract with respect to 9,000,000 of the shares of Common Stock, and, in April 2003 New York Life entered into a five-year forward sale contract with respect to 11,000,000 of the shares of Common Stock. Absent the occurrence of certain accelerating events, New York Life or NYLife, as applicable, retains the right to vote the shares subject to such forward sale contracts, but is subject to restrictions on the transfer of such shares. The address for New York Life and NYLife is 51 Madison Avenue, New York, NY 10010. Mr. Sternberg, a director of the Company, is also a director and holds various executive positions with New York Life, as described herein, and Mr. Benanav, a director of the Company, was also a director and held various executive positions with New York Life, as described herein, prior to his retirement from New York Life in March, 2005. Mr. Sternberg and Mr. Benanav have both disclaimed beneficial ownership of the Company's Common Stock owned by New York Life or its subsidiaries.
- (19) This information is based on an Amendment No. 3 to Schedule 13G, filed on January 10, 2006 by Capital Research and Management Company ("CRMC") on behalf of itself and The Growth Fund of America ("GFA"), which indicated that (a) CRMC has sole dispositive power with respect to 11,610,490 shares, with respect to all of which CRMC disclaims beneficial ownership, and (b) GFA has sole voting power with respect to 6,391,591 shares. GFA is an investment company which is advised by CRMC. The address for CRMC is 333 South Hope Street, Los Angeles, CA 90071.

## Equity Compensation Plans

The following table summarizes information as of December 31, 2005 relating to the Company's equity compensation plans under which equity securities are authorized for issuance.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average of outstanding options, warrants, rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan Category	(a)	(b)	(c)
Equity Compensation Plans approved by security holders	6,403,779 (3)	\$28.21 (4)	9,468,296 (1)(2)
Equity Compensation Plans not approved by security holders	0	--	0
Total	6,403,779 (3)	\$28.21 (4)	9,468,296 (1)(2)

- (1) The number of shares available for distribution under the 2000 LTIP is increased by any shares made available as a result of forfeitures of awards made under the 2000 LTIP, or any of the Company's Amended and Restated 1992 Stock Option Plan, Amended and Restated 1994 Stock Option Plan or Amended and Restated 1992 Stock Option Plan for Outside Directors.
- (2) Includes 7,727,259 shares remaining available for future issuance under the 2000 LTIP. The 2000 LTIP provides for the issuance of restricted stock awards and a portion of these remaining shares will likely be issued as restricted stock awards.
- (3) Includes shares which were issued under the Employee Stock Purchase Plan for the month of January 2006. Does not include restricted stock awarded.
- (4) Shares allocated to the EDCP and shares which were issued for the month of January 2006 under the Employee Stock Purchase Plan are not included in the weighted average computation.

### I. ELECTION OF DIRECTORS

The current term of office of all of the Company's directors expires at the meeting or when their successors are duly elected and qualified. The Corporate Governance Committee of the Board has nominated eleven (11) of the Company's current directors to be re-elected to serve until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified. Unless otherwise specified, all proxies will be voted in favor of the eleven nominees listed below for election as directors of the Company.

The Board of Directors has no reason to expect that any of the nominees will be unable to stand for election on the date of the meeting or will not serve. If a vacancy occurs among the original nominees prior to the meeting, the proxies will be voted for a substitute nominee named by the Board of Directors and for the remaining nominees. Directors are elected by a plurality of the votes present in person or by proxy and entitled to vote at the meeting. The Board of Directors has determined that, in its judgment, with the exception of Mr. Paz, who is also an executive

officer of the Company, and Mr. Toan who retired as an executive officer of the Company in March 2005, all of the members of the Board of Directors are independent, as defined by the listing standards of The Nasdaq Stock Market, as of the date of this Proxy Statement.

The Company and New York Life are parties to a Stockholder and Registration Rights Agreement which, among other things, requires New York Life and its subsidiaries to vote their shares for election of the eleven nominees, and gives New York Life the right to nominate one candidate for election to the Board, each subject to certain conditions as described in "Certain Relationships and Related Party Transactions - Relationship with New York Life - Stockholder and Registration Rights Agreement" beginning on page \_\_\_\_\_. Mr. Sternberg has been nominated by New York Life. Mr. Benanav has been nominated by the Company; previously, when New York Life was entitled to nominate two directors it had nominated both Mr. Sternberg and Mr. Benanav.

The following information is furnished as of March 1, 2006, for each of the nominees for the Board of Directors:

**Name, Position and Principal Occupation**

Gary G. Benanav, 60, was elected a director of the Company in January 2000. Mr. Benanav served as Vice Chairman and a Director of New York Life Insurance Company, a life insurance and financial services company, from November 1999 until his retirement in March 2005. Mr. Benanav also served as Chairman and Chief Executive Officer of New York Life International from December 1997 until his retirement in March 2006. He was Executive Vice President of New York Life from December 1997 until November 1999. He is also a director of Barnes Group, Inc.

Frank J. Borelli, 70, was elected a director of the Company in January 2000. Mr. Borelli has been a Senior Advisor to Stone Point Capital, an investment management company and formerly a wholly owned subsidiary of Marsh & McLennan Companies, Inc ("M&MC"), since his retirement from M&MC in January 2001. Prior thereto, he was Senior Vice President of M&MC from April to December 2000. He is also a director and Audit Committee Chairman of Genworth Financial, Inc. and is Presiding Director of the Interpublic Group of Companies.

Maura C. Breen, 50, was elected a director of the Company in July 2004. Ms. Breen is Senior Vice President and General Manager for the New York Region for Verizon Communications, Inc., a provider of communications services ("Verizon"), a post she was appointed to on March 17, 2006. Prior, Ms. Breen was Senior Vice President/Support Services, Network Services Group for Verizon since December 2003. Ms. Breen also served as Senior Vice President & Chief Marketing Officer, Retail Market Groups for Verizon from July 2001 through December 2003, and as Group Vice President, Verizon Long Distance from April 1999 through July 2001.

Nicholas J. LaHowchic, 58, was elected a director of the Company in July 2001. Mr. LaHowchic has served as President and Chief Executive Officer of Limited Logistics Services, Inc. ("LLS"), since October 1997, and as Executive Vice President for Limited Brands, Inc., a retail apparel company and the parent of LLS, since April 2004. LLS provides supply chain, compliance and procurement services to retailers including Limited Brands, Inc.

Thomas P. Mac Mahon, 59, was elected a director of the Company in March 2001. Mr. Mac Mahon has served as President and Chief Executive Officer and a member of the Executive and Management Committees of Laboratory Corporation of America Holdings ("LabCorp"), the second largest independent clinical laboratory company in the U.S., since January 1997. Mr. Mac Mahon has been a director of LabCorp since April 1995, serving as Chairman of the Board since April 1996.

John O. Parker, Jr., 61, was elected a director of the Company in July 2001. Mr. Parker has served as a Venture Partner with Rho Ventures LLC, a venture capital firm, since January 2002. Mr. Parker was a General Partner of Care Capital, LLC, a venture capital firm, from October 2000 to December 2001.

George Paz, 50, was elected a director of the Company in January 2004. Mr. Paz was first elected President of the Company in October 2003 and also assumed the role Chief Executive Officer of the Company on April 1, 2005. Mr. Paz joined the Company and was elected Senior Vice President and Chief Financial Officer in January 1998 and continued to serve as the Company's Chief Financial Officer of the Company following his election to the office of President until his successor joined the Company in April 2004.

Samuel K. Skinner, 67, was elected a director of the Company in February 2004. Mr. Skinner has been of counsel with the law firm of Greenberg Traurig, LLP since 2004. Mr. Skinner previously served as President, Chief Executive Officer and a director of USF Corporation (formerly USFreightways Corporation) ("USF"), a transportation, freight forwarding and supply chain management company from 2000 until his retirement in 2003. Mr. Skinner was also Chairman of the Board of USF from 2001 until his retirement. Mr. Skinner is also a director of Navigant Consulting, Inc., Midwest Air Group, Inc., Click Commerce, Inc., DiamondCluster International, Inc., Dade Behring Holdings, Inc., and the Chicago Board Options Exchange.

Seymour Sternberg, 62, was elected a director of the Company in March 1992. Mr. Sternberg currently is the Chairman of the Board and Chief Executive Officer of New York Life, and has served in this capacity since April 1997. From October 1995 until October 2002, he was the President of New York Life, and from October 1995 until March 1997 he also held the position of Chief Operating Officer of New York Life. Mr. Sternberg is also a director of CIT Group, Inc., and is a director/manager of various New York Life subsidiaries.

Barrett A. Toan, 58, was first elected a director of the Company in October 1990 and has served as Chairman of the Board since November 2000. Mr. Toan was the Company's Chief Executive Officer from March 1992 until his retirement in March 2005. Mr. Toan was an executive employee of the Company from May 1989 until his retirement and served as President of the Company from October 1990 to April 2002. Mr. Toan is also a director of Sigma-Aldrich Corporation, a specialty chemical company.

Howard L. Waltman, 73, has been a director of the Company since its inception in September 1986, and served as Chairman of the Board of the Company from March 1992 until November 2000. Mr. Waltman is also a director of Infocrossing, Inc. and Emergent Group, Inc.

**The Board of Directors unanimously recommends a vote FOR the election of each of the nominees listed above.**

#### **THE BOARD OF DIRECTORS AND ITS COMMITTEES**

The Company's Board of Directors is responsible for establishing broad corporate policies and for overseeing the overall management of the Company. In addition to considering various matters which require Board approval, the Board provides advice and counsel to, and ultimately monitors the performance of, the Company's senior management.

The Company has adopted Corporate Governance Guidelines to outline the Company's corporate governance structure and address significant corporate governance issues. Copies of these Guidelines as well as the Charters for each of the Board's committees can be found in the Corporate Governance page in the Investor Information section of the Company's website at [www.express-scripts.com](http://www.express-scripts.com) (information on our website does not constitute part of this proxy statement).

Stockholders wishing to communicate with the Board of Directors or with an individual Board member with respect to the Company may do so by writing to the Board or the specific Board member, and mailing the correspondence to: Attention: Corporate Secretary, Express Scripts Inc., 13900 Riverport Drive, Maryland Heights, MO 63043. The outside of the envelope should clearly indicate that it contains a stockholder communication. The Board of Directors has approved a process pursuant to which the office of the Corporate Secretary will review and forward the correspondence to the appropriate person or persons for response, with the exception of correspondence which is inappropriate or unrelated to the duties and responsibilities of the Board.

There are four standing committees of the Board of Directors: the Audit Committee, the Compensation and Development Committee (the "Compensation Committee"), the Corporate Governance Committee, and the Compliance Committee. Each committee is composed entirely of directors deemed to be, in the judgment of the Board, independent in accordance with Nasdaq listing standards. The Board of Directors met seven times in 2005. Each director attended at least 75% of the total number of meetings of the Board and the Board committees of which he or she was a member in 2005. While the Company does not have a formal policy requiring members of the Board to attend the Annual Meeting of Stockholders, the Company encourages all directors to attend. All of the Board's eleven members attended the Annual Meeting in 2005. The following table lists the members, primary functions and number of meetings held for each of the Committees:

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Members	Principal Functions	Meetings in 2005
<b>Audit Committee</b> Frank J. Borelli (Chair)* Maura C. Breen Nicholas J. LaHowchic John O. Parker, Jr.  *Mr. Borelli has been determined by the Board, in its judgment, to be an audit committee financial expert, as defined under applicable SEC rules	<ul style="list-style-type: none"> <li>· Assist the Board in its oversight of (i) the integrity of the Company's financial statements; (ii) the Company's compliance with securities laws, including financial and disclosure requirements; (iii) the Company's system of internal controls and the performance of the Company's internal audit function; and (iv) the qualifications, independence and performance of the Company's independent accountants.</li> <li>· Select, retain and oversee the Company's independent accountants.</li> <li>· Review the Company's annual and interim financial statements.</li> <li>· Establish procedures for the receipt and handling of complaints regarding accounting, internal accounting controls or auditing matters.</li> </ul>	8
<b>Compensation &amp; Development Committee</b> Gary G. Benanav (Chair) Thomas P. Mac Mahon Howard L. Waltman	<ul style="list-style-type: none"> <li>· Review and approve the Company's stated compensation strategy.</li> <li>· Review annually the performance of the Company's Chief Executive Officer.</li> <li>· Review and approve compensation, and set performance criteria for compensation programs, for all senior executives of the Company.</li> <li>· Review and make recommendations to the Corporate Governance Committee regarding compensation of Directors.</li> <li>· Approve forms of employment agreements for senior executives of the Company.</li> <li>· Approve and oversee the administration of the Company's employee benefit plans and incentive compensation programs.</li> </ul>	8
<b>Compliance Committee</b> Nicholas J. LaHowchic (Chair) Samuel K. Skinner Seymour Sternberg	<ul style="list-style-type: none"> <li>· Review and make recommendations to the Board addressing the Company's legal and regulatory compliance practices generally (excluding SEC and financial reporting matters).</li> <li>· Review the Company's Corporate Code of Conduct at least annually and make recommendations to the Board with respect to changes to the Code of Conduct.</li> <li>· Meet regularly with management of the Company to assess the Company's compliance policies and procedures.</li> <li>· Review and approve a Code of Business Conduct and Ethics, and oversee implementation by management of procedures intended to ensure compliance with such Code.</li> </ul>	4
<b>Corporate Governance Committee</b> Howard L. Waltman (Chair)	<ul style="list-style-type: none"> <li>· Establish criteria for membership of the Company's Board of Directors and its committees.</li> <li>· Select and nominate candidates for election or reelection as directors at the Company's annual</li> </ul>	4



Frank J. Borelli  
John O. Parker, Jr.  
Seymour Sternberg

stockholders' meeting.

- Consider stockholder recommendations for and nominations of candidates for election as directors.
  - Recommend candidates to fill any vacancies on the Board of Directors.
  - Review and make recommendations to the Board regarding the Company's Corporate Governance Guidelines and the nature and duties of the committees of the Board.
  - Approve and make adjustments to the Company's policies regarding compensation of Directors.
-

### **Selection of Nominees for the Board of Directors**

The Corporate Governance Committee is responsible for evaluating potential candidates to serve on the Company's Board of Directors, and for selecting nominees to be presented for election to the Board at the Company's annual meeting of stockholders. In evaluating potential director candidates, the Corporate Governance Committee considers the skills and characteristics possessed by each candidate in the context of the perceived needs of the Board at that point in time. Among the factors considered by the Corporate Governance Committee in considering a potential nominee are the following:

- the nominee's independence;
- the nominee's relevant professional skills and depth of business experience;
- the nominee's character, judgment, and personal and professional integrity;
- the nominee's ability to read and understand corporate financial statements;
- the nominee's willingness to commit sufficient time to attend to his or her duties and responsibilities as a member of the Board;
- the nominee's qualifications for membership on certain committees of the Board;
- any potential conflicts of interest involving the nominee; and
- the make up and diversity of the Company's existing Board.

In identifying potential candidates for the Board, the Committee relies on recommendations from a number of possible sources, including current directors and officers. The Corporate Governance Committee may also retain outside consultants or search firms to help in identifying potential candidates for membership on the Board. In the past, the Corporate Governance Committee has engaged the firm of Spencer Stuart to assist with director searches. The Corporate Governance Committee will also consider candidates recommended by stockholders, and will consider them on the same basis as other candidates.

Any stockholder wishing to recommend a candidate for consideration by the Corporate Governance Committee to become a nominee for election to the Board may do so by submitting a written recommendation to the committee in accordance with the Company's procedures for the submission of "Stockholder Proposals," as set out in the Company's Bylaws (See "Stockholder Proposals" beginning on page \_\_\_\_). For a nominee to be considered, the following information must be submitted in accordance with the required procedures: (i) the name, age, business and residence addresses, principal occupation or employment of both the nominee and the recommending stockholder; (ii) the nominee's general biographical information, including the identification of any other boards on which the nominee serves; (iii) with respect to the Common Stock, the current ownership information and trading history over the preceding 24 months for both the nominee and the recommending stockholder; (iv) a description of any transactions or relationships between the nominee and/or the recommending stockholder on one hand, and the Company or its management on the other hand; (v) a description of any material proceedings to which the nominee or the recommending stockholder, or either of their associates or affiliates, is a party that are adverse to the Company; (vi) a description of all arrangements and understandings between the stockholder and the nominee or any other person (including their names) pursuant to which the nomination is made; and (vii) any other information relating to the nominee or the recommending stockholder that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder. The request for nomination must also be accompanied by a written consent of the proposed nominee to

being named as a nominee and to serve as a director if elected. The Company's Corporate Secretary will review all such stockholder recommendations, and will forward those that comply with the above-described requirements to the Corporate Governance Committee for evaluation and consideration.

The Company and New York Life are parties to a Stockholder and Registration Rights Agreement which, among other things, gives New York Life the right to nominate one candidate for election to the Board, subject to certain conditions as described in "Certain Relationships and Related Party Transactions - Relationship with New York Life - Stockholder and Registration Rights Agreement" beginning on page \_\_\_\_\_. Mr. Sternberg has been nominated by New York Life.

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## REPORT OF THE AUDIT COMMITTEE

The Audit Committee of Express Scripts, Inc. (the "Committee") is composed of four directors who, in the judgment of the Board of Directors, meet the independence requirements of the Nasdaq Stock Market. Since 1992 the Committee has operated under a Charter adopted by the Board of Directors. The Charter, as amended, is available through the "Investor Information" section of the Company's website at [www.express-scripts.com](http://www.express-scripts.com). The primary function of the Audit Committee is to assist the Board of Directors in its oversight of the integrity of the Company's financial reporting processes and the Company's system of internal controls with respect to finance and accounting. Management is responsible for the Company's financial statements and overall reporting process, including the system of internal controls. The independent registered public accountants are responsible for conducting annual audits and quarterly reviews of the Company's financial statements and expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles.

The Committee submits the following report pursuant to the Securities and Exchange Commission rules:

- The Committee has reviewed and discussed with management and with PricewaterhouseCoopers LLP ("PwC"), the Company's independent registered public accountants, the audited consolidated financial statements of the Company for the year ended December 31, 2005 (the "Financial Statements").
- PwC has advised the management of the Company and the Committee that it has discussed with them all the matters required to be discussed by Statement of Accounting Standards 61, as modified, which include among other items, matters related to the conduct of the audit of the Financial Statements.
- The Committee has received from PwC the written disclosures and the letter required by Independent Standards Board Standard No. 1 (which relates to the auditor's independence from the Company and its related entities) and has discussed PwC's independence with them.
- Based upon the aforementioned review, discussions and representations of PwC, and the unqualified audit opinion presented by PwC on the Financial Statements, the Committee recommended to the Board of Directors that the Financial Statements be included in the Company's Annual Report on Form 10-K.

Respectfully submitted,

Frank Borelli, Chairman  
Maura C. Breen  
Nicholas J. LaHowchic  
John O. Parker, Jr.

## DIRECTORS' COMPENSATION

Directors of the Company who are employed by the Company or its subsidiaries do not receive compensation for serving as directors. As of January 1, 2005, directors who were not employees of the Company, or its subsidiaries, were entitled to receive an annual retainer of \$40,000 for the Audit Committee Chairperson, \$35,000 for other Committee Chairpersons, and \$30,000 for the other non-employee directors, as well as a meeting fee of \$2,000 for each meeting attended in person, and \$1,000 for each meeting attended telephonically. The Company also reimburses non-employee directors for out-of-pocket expenses incurred in connection with attending Board and Committee meetings.

The Company's non-employee directors also receive equity awards under the Express Scripts, Inc. 2000 Long-Term Incentive Plan, as amended (the "2000 LTIP"), as follows: (i) an option to purchase 4,500 shares of the Company's Common Stock on the date of the first Board of Directors meeting each such director attended as a non-employee director, and (ii) annual options to acquire 6,000 shares of the Company's Common Stock granted on the date of each annual meeting of stockholders at which such director is elected to serve on the Board.

All of the options granted to the non-employee directors under the 2000 LTIP have a purchase price of 100% of the fair market value of the shares on the date they are granted, and a seven-year term. These options vest at the rate of one-third each year and terminate immediately at such time as the individual ceases to be a non-employee director for any reason other than death or disability or change in control (as defined in the 2000 LTIP) of the Company, provided that if the non-employee director is 65 or older at the time of such cessation, any unexercisable portion terminates immediately, and any exercisable portion terminates three months after such cessation. If the optionee ceases to be a non-employee director because of death or disability, all options are immediately exercisable and terminate three months after such cessation. In the event of a change in control (as defined in the 2000 LTIP) of the Company, the options fully vest.

### **Consulting Agreement with Mr. Toan**

On March 24, 2005, the Company entered into a consulting agreement with Mr. Toan. Under the consulting agreement, Mr. Toan will serve as non-executive Chairman of the Board, and shall have duties and responsibilities commensurate with such position. He will also render consulting services to the Company on such matters as the Company may request. Annual compensation for services performed as non-executive Chairman of the Board will be in accordance with annual compensation at such times and in such amount as the Company pays under the policy generally in effect for non-employee directors on the Board from time to time. Compensation for up to thirty-five hours per month of consulting services will be in the amount of \$30,000 per month; additional consulting services may be provided upon agreement by the parties, for additional compensation. Mr. Toan shall also be entitled to be reimbursed for all out-of-pocket expenses paid in connection with the services provided under the consulting agreement. The consulting agreement ends on the date of the Company's 2006 Annual Meeting, unless earlier terminated. The Company will not be renewing the consulting agreement.

## **REPORT OF THE COMPENSATION AND DEVELOPMENT COMMITTEE ON EXECUTIVE COMPENSATION**

The Compensation and Development Committee of the Board of Directors (the "Compensation Committee") administers the Company's compensation plans, including the Company's 2000 Long-Term Incentive Plan and its Executive Deferred Compensation Plan.

### **Compensation Plan**

The Company's general compensation policy for its executive officers, including the Chief Executive Officer ("CEO"), is to provide short-term compensation consisting of two components, a fixed base salary and a cash bonus that is awarded based upon achievement of specific short-term financial and non-financial objectives for the executive and the Company, and long-term compensation consisting of a mix of equity-based programs. In past years, the equity-based compensation has consisted primarily of options to purchase the Company's stock and grants of restricted stock. However, for 2006 the Company has eliminated option grants and replaced them with stock-settled stock appreciation rights ("SS-SARs") and performance shares, along with grants of restricted stock. The equity awards are determined based upon the Compensation Committee's judgment as to the relative contribution of each executive to the long-term success of the Company as well as the then current marketplace for executive compensation. The Company has adopted a non-qualified deferred compensation plan for executives and has entered into employment agreements with certain key executives.

The CEO consults with the Compensation Committee regarding the compensation of the Company's senior executives. The Compensation Committee reviews executive compensation at least on an annual basis. The Company's policy is to combine short-term compensation, long-term incentive compensation and other components of the compensation package for executives to create a total compensation package that is, in general, approximately at the median compensation level for executive officers of similarly sized companies in comparable businesses if the Company achieves its base financial and non-financial objectives, and that can be at or above the 75<sup>th</sup> percentile of such compensation level if the Company achieves its "stretch" financial and non-financial goals.

During 2005, the Company engaged a nationally recognized consulting firm to review compensation levels for the Company's executive officers. The study was based on a group of companies, most of which are in health care, judged to be comparable to the Company (the "Comparable Companies"). These companies included companies different from those in the peer group index in the Company's performance graph. The consultant compared total compensation for the Company's executive officers, including its CEO, against the total compensation received by executives in comparable positions at the Comparable Companies. After reviewing the consultant's report, the Compensation Committee determined that, in its judgment, the competitiveness of the compensation for the Company's senior executives varied, and the committee approved certain adjustments in compensation for such executives.

The Compensation Committee continues to evaluate the impact of Section 162(m) of the Internal Revenue Code on the deductibility of executive officer compensation. The committee endeavors to maximize the deductibility of compensation to the extent practicable while maintaining competitive compensation.

### **Components of Executive Compensation**

**Base Salary:** The Compensation Committee determines the salary ranges for each executive officer position in the Company based upon the level and scope of responsibilities of the position and the pay levels of similarly positioned executive officers in companies deemed comparable by the committee. The CEO's evaluation of the level of responsibility of each position (other than his own) and the performance of each other executive officer is of paramount importance when base salary is determined.

**Annual Bonus Compensation:** Each executive officer has a base bonus target that is stated as a percentage of the executive officer's base salary. These base bonus target percentages range from 50% to 100%. For any bonus amount to be paid, the Company must first achieve its earnings per share (EPS) target. If the EPS target is not met, then the corporate bonus pool is reduced to the extent necessary to enable the Company to meet its EPS target. The bonus pool remaining after any required adjustment is then further adjusted by operating group (pharmacy benefit management, specialty pharmacy, pharma business solutions, and Canadian operations) to reflect the attainment of each such group's individual EBITDA (earnings before interest, taxes, depreciation and amortization) goals.

To the extent the Company has met its annual financial goals, then actual bonus awards for executive officers are determined based on the executive officers' respective bonus targets and an evaluation by the Compensation Committee (and, in the case of senior executives, also by the CEO) of the extent to which non-financial goals were achieved. In addition, if the Company meets certain "stretch" EBITDA and non-financial targets, bonus targets may be increased by as much as 100%. The Compensation Committee reviews and approves the annual financial targets and the non-financial goals.

In determining the extent of the achievement of non-financial goals, the Compensation Committee and the CEO evaluate the executive's individual contribution to the corporate work plan. In 2005, the Company's pharmacy benefit management group exceeded its "stretch" financial and non-financial goals, and, accordingly, bonuses awarded to its executive officers were enhanced by up to 100%.

For 2005, actual aggregate bonuses paid to current executive officers, including the CEO, represented approximately 56% of the salaries and bonuses paid to these officers, compared to 28% for 2004. Actual aggregate bonuses paid to

all current executive officers who received bonuses for 2005 represented approximately 195% of the total bonuses targets for these executive officers and approximately 9% of the total bonus amounts paid to all employees for 2005, compared to 60% and 13%, respectively, in 2004.

For 2006, the Company will continue its “stretch” bonus program.

**Long Term Incentive Compensation:** Long-term incentive compensation has historically been provided in the form of grants of either stock options or restricted stock. These equity awards are designed to align the executive’s compensation more directly with stockholder value by linking a substantial portion of the executive’s compensation to the performance of the Company’s stock. Long-term compensation also is designed to encourage executives to make career commitments to the Company.

Long-term compensation is granted under the Company’s 2000 Long-Term Incentive Plan (the “2000 LTIP”), which was originally approved by stockholders in May 2001.

Each executive officer receives an option grant upon employment with the Company (or upon promotion to senior executive status) and, in the past, typically has received an annual grant of additional stock options thereafter. In 2003 each executive officer also received a grant of restricted stock. The restrictions prohibit sale or transfer of the restricted stock for a period of five years for one-half of the shares and ten years for the remainder. These restrictions would lapse sooner, however, based on the Company meeting certain financial targets for the years 2003, 2004 and 2005. The restricted stock grants made in 2003 were in amounts intended to approximate the number of shares of restricted stock that would be awarded over a period of three years under a hypothetical annual restricted stock grant program that would be supplemental to the Company’s annual option grant program. Financial targets for accelerated vesting of the restricted stock were achieved for all three years, and, accordingly, all of the 2003 restricted stock grant has now vested. Several of the Company’s senior executives have also received special grants of stock options and/or restricted stock in connection with their entering into employment agreements with the Company. See “Executive Compensation - Employment Agreements” beginning on page \_\_\_ for additional information.

In connection with the 2005 executive compensation study, the Compensation Committee has revised its approach to long term incentive compensation. For 2006 and subsequent years, it is the Company’s current intention to award senior executives annual grants of long term compensation, the value of which is allocated as follows:

- 50% to time-vested SS-SARs, which are economically similar to non-qualified stock options;
- 25% to time-vested restricted stock; and
- 25% to performance share awards, which are settled in shares of the Stock on a share-for-share basis, with the number of shares of Stock to be delivered upon settlement of the performance shares is determined based upon the Company’s performance over a set period versus a peer group of companies selected by the Compensation Committee. (The performance share awards are subject to certain amendments to the 2000 LTIP to reflect the performance measures by stockholders at the Company’s Annual Meeting. If not so approved, the awards will be void and of no force and effect, and substitute awards will likely be considered by the Compensation Committee (see “Item III. Approval and Ratification of the Express Scripts, Inc. 2000 Long Term Incentive Plan, as amended” starting on page \_\_\_ for additional information)).

The size of an executive’s equity compensation awards are based upon the CEO’s and the Compensation Committee’s evaluation of the contribution that the executive officer is expected to make to overall growth and profitability of the Company during the vesting period. The Compensation Committee also considers long-term incentive compensation levels at the Comparable Companies. The actual number of SS-SARs granted is determined utilizing the modified Black-Scholes methodology for valuing stock options.

SS-SARs are granted with a specified exercise price equal to not less than the market value of the Stock on the date of grant and constitute compensation only if the Company’s stock price increases thereafter. The Compensation

Committee has discretion to determine the vesting schedule for each SS-SAR grant and generally makes grants that become exercisable in equal amounts over three years. Except in the cases of retirement, disability or death, in general, executives must be employed by the Company at the time of vesting in order to exercise their SS-SARs.

Certain executives have also received stock option and/or restricted stock grants with performance-based vesting provisions as part of their compensation packages under employment agreements with the Company. These grants generally have long-term vesting schedules of between five and ten years, with the opportunity of accelerated vesting if certain financial targets are achieved. See “Executive Compensation - Employment Agreements” beginning on page \_\_\_\_ for additional information.

Commencing on January 1, 2006, in conjunction with the effectiveness of statement FAS 123R issued by the Financial Accounting Standards Board, the Company will now expense the compensation element associated with its employee stock options. For recent periods ending prior to January 1, 2006, the Company has disclosed in the footnotes to its financial statements, the effect that fully expensing stock options would have on such financial statements. The Company also expenses the compensation represented by restricted stock awards, performance shares and SS-SARs.

**Deferred Compensation Plan:** The Company has adopted the Express Scripts, Inc. Executive Deferred Compensation Plan (the “EDCP”), which also serves as a supplemental retirement plan for senior executives. The EDCP provides eligible senior and vice-president-level executive employees of the Company and its subsidiaries the opportunity to (i) defer the receipt and taxation of up to 50% of the employee’s annual base salary and 100% of his or her annual bonus, and (ii) receive certain contributions from the Company. Amounts deferred by participants and Company contributions are assumed to have been invested in one or more of a number of publicly available mutual funds and a Company Common Stock fund, and the returns that the Company will pay on the participants’ accounts are equal to the gain or loss on such hypothetical market investments. The Compensation Committee believes, therefore, that the Company has not promised to pay an above-market return on any participant’s account. Other than the EDCP and the Company’s 401(k) Plan, the Company does not make available a pension or other retirement plan to its executive officers.

The Company’s annual contribution to the EDCP for senior executives for 2005 was equal to six percent (6%) of each participating executive’s cash compensation during the year. The purpose of the EDCP is to provide key executives with competitive retirement and capital accumulation benefits, to retain and provide incentive to the Company’s key executives, and to increase the Company’s ability to attract mid-career executives to senior executive positions with the Company. Any compensation deferred under the EDCP would not be included in the \$1,000,000 limit provided for under Section 162(m) of the Internal Revenue Code until the year in which distributions from the EDCP are actually made to the participants.

#### **Executive Officer Employment Agreements**

The Company has entered into long-term employment agreements with certain key executives of the Company. See “Executive Compensation - Employment Agreements - Employment Agreements with Other Executive Officers” beginning on page \_\_\_\_ for additional information.

#### **The Chief Executive Officer’s Compensation**

The Compensation Committee evaluates the performance of the CEO for purposes of recommending to the Board his annual base pay adjustment and annual bonus award. The Compensation Committee also determines his annual long-term incentive award. The factors considered in evaluating the CEO’s salary in 2005 related to the overall performance of the Company, particularly the increase in revenues, net income and earnings per share, which were evaluated by the Compensation Committee.



Prior to his assuming the office of CEO on April 1, 2005, Mr. Paz's employment agreement with the Company provided that he could earn an annual bonus of up to 82% of his base salary of \$550,000. Effective April 1, 2005, Mr. Paz entered into a new employment agreement with the Company which provided for a bonus of up to 100% of his new base salary of \$650,000. As a result of the adjustments to Mr. Paz's bonus target and base salary, Mr. Paz's actual bonus target was \$600,250, which could be increased by up to 200% based upon the achievement of "stretch" goals. Mr. Paz's bonus award for 2005 performance, which was equal to 200% of the pro-rated target, was recommended by the Compensation Committee based upon the Company's attainment of its financial goals and for the overall attainment of the 2005 non-financial corporate objectives.

See "Executive Compensation - Employment Agreements - Employment Agreement with Mr. Paz" beginning on page \_\_\_\_ for additional information regarding the CEO's employment agreement.

March 31, 2006

COMPENSATION AND DEVELOPMENT  
COMMITTEE

Gary Benanav, Chairman  
Thomas P. Mac Mahon  
Howard Waltman

The Report of the Audit Committee, the Report of the Compensation and Development Committee on Executive Compensation and the performance graph below will not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement or portions thereof into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and will not otherwise be deemed filed under such Acts.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee is comprised of Gary Benanav (Chair), Thomas Mac Mahon and Howard Waltman, none of whom are employees or current or former officers of the Company, nor had any relationship with the Company required to be disclosed under "Certain Relationships and Related Transactions."

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**PERFORMANCE GRAPH**

The following performance graph compares the cumulative total stockholder return of the Company's Common Stock, commencing December 31, 2000, with the cumulative total return on the Standard & Poor's Health Care 500 Index and the Standard & Poor's 500 Index, to the end of 2005. These indices are included only for comparative purposes as required by Securities and Exchange Commission rules and do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of the Common Stock. They are not intended to forecast possible future performance of the Common Stock.

**Total Return to Shareholders  
(Dividends reinvested monthly)**

**INDEXED RETURNS  
Years Ending**

Company /Index	Base Period Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05
EXPRESS SCRIPTS, INC.	100	91.47	93.97	129.95	149.53	327.86
S & P 500 INDEX	100	86.96	66.64	84.22	91.79	94.55
S & P 500 - HEALTH CARE	100	87.06	69.67	78.94	79.13	82.97

**EXECUTIVE COMPENSATION**

The following table sets forth information concerning the annual and long-term compensation for all services rendered in all capacities to the Company for the fiscal years ended December 31, 2005, 2004 and 2003, by the Named Officers:

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	<u>Annual Compensation</u>		<u>Long-Term Compensation</u>		
		Salary (\$) <sup>(2)</sup>	Bonus (\$) <sup>(2)</sup>	Restricted Stock Awards (\$) <sup>(3)</sup>	Securities Underlying Options (#)	All Other Compensation (\$)
<b>George Paz</b> <i>President, Chief Executive Officer and Director (1)</i>	2005	625,000	1,200,500	--	131,760	262,100 (4)
	2004	571,154	270,000	1,341,495	38,791	218,200 (5)
	2003	372,307	230,225	450,520	--	203,019 (6)
<b>Barrett A. Toan</b>	2005	183,173	--	--	21,000	1,786,608 (7)
	2004	778,846	375,000	--	29,500	96,902 (8)

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<i>Chairman, Director and Former Chief Executive Officer</i> (1)	2003	750,000	637,500	1,287,200	--	131,210	(9)
<b>David A. Lowenberg</b>	2005	456,750	649,600	--	22,698	347,145	
<i>Chief Operating Officer</i>	2004	464,810	189,000	913,303	26,671	(10)	
	2003	400,000	205,000	514,880	--	354,100	(11)
						60,278	(12)
<b>Thomas M. Boudreau</b>	2005	355,250	526,080	--	19,216	285,277	
<i>Senior Vice President and General Counsel</i>	2004	361,462	135,000	462,536	16,285	(13)	
	2003	310,000	153,450	450,520	--	292,700	(14)
						44,400	(15)
<b>Edward Stiften</b>	2005	333,125	456,940	--	18,148	25,838	
<i>Senior Vice President and Chief Financial Officer</i>	2004	236,875	97,500	1,492,665	86,252	(16)	
	2003	--	--	--	--	32,565	(17)
						--	
<b>Patrick McNamee</b>	2005	273,515	403,000	127,908	23,000	84,682	(18)
<i>Senior Vice President and Chief Information Officer</i>	2004	--	--	--	--	--	
	2003	--	--	--	--	--	

(1) Mr. Toan retired as Chief Executive Officer of the Company on March 31, 2005, and Mr. Paz assumed the office of Chief Executive Officer on April 1, 2005.

(2) The amounts in this column represent compensation awarded pursuant to an employment agreement between Named Officer and the Company (see “Executive Compensation — Employment Agreements” beginning on page \_\_\_\_ ) and the Company’s annual bonus plan, with the exception of Mr. McNamee, who does not currently have a written employment agreement with the Company.

(3) The amounts in this column represent the dollar value of the grant of restricted stock based on the value of the Company’s common stock on the grant date. All grants of restricted stock were made under the 2000 LTIP. Dividends are paid on restricted stock awards at the same rate as paid to all shareholders.

With the exception of Mr. Stiften and Mr. McNamee, each of the Named Officers received a grant of shares of restricted stock on May 21, 2003 (the “May 2003 Grant”), one-half of which were scheduled to vest on May 21, 2008, with the other one-half scheduled to vest on May 21, 2013; provided, that the lapse of restrictions could be accelerated based on the achievement by the Company of certain financial performance targets for 2003, 2004 and 2005, with one-third of the total grant tied to the targets for each year. Based on the achievement of such targets for 2003 and 2004, vesting on two-thirds of the restricted stock granted in the May 2003 Grant was accelerated in March 2005, and,

based on the achievement of targets for 2005, vesting on the final one-third was accelerated in February 2006. All shares granted under the May 2003 grant have been valued at \$32.18 per share, the closing price on May 21, 2003.

Mr. Toan was awarded 40,000 shares of restricted stock as part of the May 2003 Grant. As mentioned above, vesting on two-thirds of these shares was accelerated in March 2005. In addition, vesting on the remaining one-third of these shares was accelerated upon Mr. Toan's retirement on March 31, 2005, pursuant to the terms of his employment agreement with the Company. All restricted stock granted to Mr. Toan had vested prior to December 31, 2005.

Mr. Paz was awarded 38,710 shares of restricted stock February 10, 2004, valued at \$34.655 per share, the closing price on February 10, 2004. These shares are scheduled to vest on December 31, 2006, or as otherwise provided in Mr. Paz's employment agreement. Mr. Paz was also awarded 14,000 shares as part of the May 2003 Grant, and, as mentioned above, vesting on two-thirds of these shares was accelerated in March 2005, and vesting of the final one-third was accelerated in February 2006. As of December 31, 2005, Mr. Paz held an aggregate amount of 43,386 shares of restricted stock with a value of \$3,635,747, based on a per share value of \$83.80, the closing price on December 30, 2005.

Mr. Lowenberg was awarded 28,902 shares of restricted stock on August 31, 2004, valued at \$31.60 per share, the closing price on August 31, 2004. The shares were originally scheduled to vest on August 31, 2011, provided, that the lapse of restrictions could be accelerated based on the achievement by the Company of certain financial performance targets for 2004 and 2005, or as otherwise provided in Mr. Lowenberg's employment agreement. Based on the achievement of targets for 2004 and 2005, vesting was accelerated and restrictions lapsed as to 27,295 of such shares on March 31, 2006. Mr. Lowenberg was also awarded 16,000 shares as part of the May 2003 Grant, and, as mentioned above, vesting on two-thirds of these shares was accelerated in March 2005, and vesting of the final one-third was accelerated in February 2006. As of December 31, 2005, Mr. Lowenberg held an aggregate amount of 34,246 shares of restricted stock with a value of \$2,869,815, based on a per share value of \$83.80, the closing price on December 30, 2005.

Mr. Boudreau was awarded 14,452 shares of restricted stock awarded on October 29, 2004, valued at \$32.005 per share, the closing price on October 29, 2004. The shares were originally scheduled to vest on October 29, 2011, provided, that the lapse of restrictions could be accelerated based on the achievement by the Company of certain financial performance targets for 2004 and 2005, or as otherwise provided in Mr. Boudreau's employment agreement. Based on the achievement of targets for 2004 and 2005, vesting was accelerated and restrictions lapsed as to 13,648 of such shares on March 31, 2006. Mr. Boudreau was also awarded 14,000 shares as part of the May 2003 Grant, and, as mentioned above, vesting on two-thirds of these shares was accelerated in March 2005, and vesting of the final one-third was accelerated in February 2006. As of December 31, 2005, Mr. Boudreau held an aggregate amount of 19,128 shares of restricted stock with a value of \$1,602,926, based on a per share value of \$83.80, the closing price on December 30, 2005.

Mr. Stiften was awarded 12,486 shares of restricted stock on April 20, 2004 valued at \$39.075 per share, the closing price on April 20, 2004. These shares were originally scheduled to vest one-half on April 20, 2009, and one-half on April 20, 2014, provided that the lapse of restrictions could be accelerated based upon the achievement by the Company of certain financial performance targets for 2004 and 2005. Based on the achievement of such targets, vesting on one-half of these shares was accelerated in March 2005, and vesting of the final portion was accelerated in February 2006. Mr. Stiften was also awarded 25,714 shares upon hiring on April 20, 2004. The shares were originally scheduled to vest on April 20, 2014, provided, that the lapse of restrictions could be accelerated based on the achievement by the Company of certain financial performance targets for 2004 and 2005, or as otherwise provided in Mr. Stiften's employment agreement. Based on the achievement of targets for 2005, the vesting date as to 8,572 of such shares was accelerated to March 31, 2007, subject to Mr. Stiften's continued employment with the Company. As of December 31, 2005, Mr. Stiften held an aggregate amount of 31,956 shares of restricted stock with a value of \$2,677,913, based on a per share value of \$83.80, the closing price on December 30, 2005.

Mr. McNamee was awarded 3,400 shares of restricted stock on February 8, 2005, valued at \$37.62 per share, the closing price on February 8, 2005. The shares vest on February 8, 2008. As of December 31, 2005, Mr. McNamee held an aggregate amount of 3,400 shares of restricted stock with a value of \$284,920, based on a per share value of \$83.80, the closing price on December 30, 2005.

- (4) Consists of (i) a special deferred bonus in the amount of \$200,000 credited to Mr. Paz's account in the EDCP which generally vests on March 31, 2008, subject to earlier vesting under the provisions of Mr. Paz's employment agreement with the Company, (ii) a basic company credit contribution of \$53,700 by the Company under the EDCP and (iii) \$8,400 matching contribution in connection with the Company's 401(k) Plan.
- (5) Consists of (i) a special deferred bonus in the amount of \$150,000 credited to Mr. Paz's account in the EDCP which generally vests on December 31, 2006, subject to earlier vesting under the provisions of Mr. Paz's employment agreement with the Company, (ii) a basic company credit contribution of \$60,000 by the Company under the EDCP and (iii) \$8,200 matching contribution in connection with the Company's 401(k) Plan.
- (6) Consists of (i) a special deferred bonus in the amount of \$150,000 credited to Mr. Paz's account in the EDCP which vested on December 31, 2005, (ii) a basic company credit contribution of \$45,019 by the Company under the EDCP and (iii) \$8,000 matching contribution in connection with the Company's 401(k) Plan.
- (7) Consists of (i) a distribution of previously deferred salary and bonus under the EDCP in the amount of \$1,356,389, paid to Mr. Toan following his retirement, (ii) payment for accrued but unused vacation and paid-time-off in the amount of \$118,569 paid to Mr. Toan upon termination of his employment, (iii) fees in the amount of \$270,000 paid to Mr. Toan under his consulting agreement with the Company, (iv) 32,500 paid to Mr. Toan as director's fees, and (v) \$9,150 matching contribution on connection with the Company's 401(k) Plan.
- (8) Consists of basic company credit contribution of \$90,000 by the Company under the EDCP and \$6,902 matching contribution in connection with the Company's 401(k) Plan.
- (9) Consists of basic company credit contribution of \$123,210 by the Company under the EDCP and \$8,000 matching contribution in connection with the Company's 401(k) Plan.
- (10) Consists of (i) a special deferred bonus in the amount of \$300,000 credited to Mr. Lowenberg's account in the EDCP which generally vested on March 31, 2006, (ii) basic company credit contribution of \$38,745 by the Company under the EDCP and (iii) \$8,400 matching contribution in connection with the Company's 401(k) Plan.
- (11) Consists of (i) a special deferred bonus in the amount of \$300,000 credited to Mr. Lowenberg's account in the EDCP which generally vested on March 31, 2006, (ii) basic company credit contribution of \$45,900 by the Company under the EDCP and (iii) \$8,200 matching contribution in connection with the Company's 401(k) Plan.
- (12) Consists of basic company credit contribution of \$52,278 by the Company under the EDCP and \$8,000 matching contribution in connection with the Company's 401(k) Plan.
- (13) Consists of (i) a special deferred bonus in the amount of \$200,000 credited to Mr. Boudreau's account in the EDCP which vested on March 31, 2006, (ii) a signing bonus in the amount of \$50,000 paid pursuant to the employment agreement, (iii) basic company credit contribution of \$29,415 by the Company under the EDCP and (iv) \$5,862 matching contribution in connection with the Company's 401(k) Plan.
- (14) Consists of (i) a special deferred bonus in the amount of \$200,000 credited to Mr. Boudreau's account in the EDCP which vested on March 31, 2006, (ii) a signing bonus in the amount of \$50,000 paid pursuant to the employment agreement, (iii) basic company credit contribution of \$34,500 by the Company under the EDCP and (iv) \$8,200 matching contribution in connection with the Company's 401(k) Plan.

- (15) Consists of basic company credit contribution of \$36,400 by the Company under the EDCP and \$8,000 matching contribution in connection with the Company's 401(k) Plan.
- (16) Consists of basic company credit contribution of \$25,838 by the Company under the EDCP.
- (17) Consists of basic company credit contribution of \$32,565 by the Company under the EDCP.
- (18) Consists of (i) signing bonuses in the amount of \$48,542, (ii) relocation expenses in the amount of \$18,265 paid to Mr. McNamee, and (iii) basic company credit contribution of \$17,875 by the Company under the EDCP.

See "Report of the Compensation and Development Committee on Executive Compensation - Components of Executive Compensation - Deferred Compensation Plan" on page \_\_\_\_ for a description of the vesting provisions of that plan.

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**Stock Options**

The table below sets forth certain information on the grants of stock options to the Named Officers pursuant to the 2000 LTIP during 2005.

**OPTION GRANTS IN FISCAL YEAR 2005**

<u>Name</u>	<u>Individual Grants</u>			<u>Expiration Date</u>	<u>Potential Realizable Value at Assumed Annual Rates Of Stock Price Appreciation For Options Term (2)</u>	
	<u>Number of Securities Underlying Options Granted (#)</u>	<u>Percent of Total Options Granted to Employees in Fiscal Year (1)</u>	<u>Exercise Price (\$/Sh) (5)</u>		<u>5% (\$)</u>	<u>10% (\$)</u>
George Paz	80,000 (4)(6)	4.66%	\$42.80	4/11/2012	\$1,393,912	\$3,248,407
	51,760 (3)(4)	3.02%	\$38.64	3/1/2012	\$814,203	\$1,897,440
Barrett A. Toan	21,000 (4)(7)	1.22%	\$47.37	5/25/2012	\$404,971	\$943,755
David A. Lowenberg	22,698 (3)(4)	1.32%	\$38.64	3/1/2012	\$357,048	\$832,073
Thomas M. Boudreau	19,216 (3)(4)	1.12%	\$38.64	3/1/2012	\$302,306	\$704,502
Edward Stiften	18,148 (3)(4)	1.06%	\$38.64	3/1/2012	\$285,475	\$665,277
Patrick McNamee	23,000 (4)(8)	1.34%	\$37.62	2/8/2012	\$352,248	\$820,887

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- (1) Total options granted to employees in fiscal year 2005 includes all options granted to employees in 2005.
- (2) The values in these columns are based upon calculations assuming the 5% and 10% annual stock price appreciation rate specified by the Securities and Exchange Commission. These assumed rates are not intended to forecast future price appreciation of the common stock. Actual gains, if any, on stock option exercises are dependent upon the future market performance of the common stock and the date on which the options are exercised.
- (3) Consists of options awarded on March 1, 2005 and vesting at 33 1/3% per year on each of the first three anniversaries of the date of grant.
- (4) In the event of a "change in control" of the Company (as defined in the 2000 LTIP), the options will become fully vested and exercisable. Afterwards, if there is no public market for the Company's stock, or the common stock for which the Company's common stock is exchanged, then any unexercised options will be repurchased by the Company based on the "change in control price" (as defined) for the underlying shares. The options become fully exercisable for one year upon termination of employment if the employee dies, becomes disabled, or retires. The options expire if the employee is terminated for cause, and if the employee is terminated for any other reason, the options are exercisable, to the extent that they were exercisable before termination, for one month. The foregoing terms are subject to the terms of the employment agreements of the Named Officers. See "Employment Agreements" below.
- (5)

Represents the closing price per share as reported on Nasdaq on the date of grant, which represent the fair market value on the date of the grant as defined in the applicable stock option plan.

- (6) Consists of options awarded on April 11, 2005, pursuant to Mr. Paz's employment agreement with the Company, and vesting at 33 1/3% per year on December 31, 2006, 2007 and 2008.
- (7) Consists of options granted to Mr. Toan on May 25, 2005, as his initial grant and annual grant as a non-employee director.
- (8) Consists of options granted to Mr. McNamee on February 8, 2005 and vesting at 33 1/3% per year on each of the first three anniversaries of the date of grant.

The Company did not grant any stock appreciation rights in 2005.

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The table set forth below provides certain information with respect to the 2005 fiscal year-end value of options to purchase the Company's Common Stock granted to the Named Officers and options exercised during such period.

**AGGREGATED OPTION EXERCISES IN FISCAL 2005  
AND FISCAL YEAR-END OPTION VALUES**

<u>Name</u>	<u>Shares Acquired on Exercise (#)</u>	<u>Value Realized (\$)(1)</u>	<u>Number of Securities Underlying Unexercised Options at Fiscal Year End (#) Exercisable/ Unexercisable</u>	<u>Value of Unexercised In- the-Money Options at Fiscal Year End (\$) Exercisable/ Unexercisable (2)</u>
George Paz	0	N/A	320,263 / 171,479	\$20,697,756 / \$7,488,397
Barrett A. Toan	400,000	\$18,016,470	980,600 / 21,000	\$63,465,120 / \$765,030
David A. Lowenberg	181,174	\$5,889,039	829,281 / 69,962	\$829,281 / \$3,419,530
Thomas M. Boudreau	173,600	\$6,838,264	10,420 / 47,366	\$563,242 / \$2,276,541
Edward Stiften	0	N/A	4,493 / 99,907	\$200,949 / \$4,476,235
Patrick McNamee	0	N/A	0 / 23,000	\$0 / \$1,062,140

(1) Based on the difference between the sale price and the exercise price.

(2) Based on \$83.80, the closing price of the Common Stock as reported on Nasdaq on December 30, 2005. On March 31, 2006, the closing price of the Common Stock was \$87.90.

## Employment Agreements

### *Employment Agreements with Mr. Paz*

On April 15, 2004, the Company entered into an employment agreement with Mr. Paz. The 2004 agreement was effective as of January 1, 2004 with an initial term through December 31, 2006. Effective April 1, 2005, the Company entered into a new agreement with Mr. Paz, as described below. The 2004 agreement provided for (i) an initial base salary of \$550,000; (ii) a guaranteed minimum annual bonus target under the Company's bonus plan of 82% of Mr. Paz's annual base salary, with a bonus opportunity for each calendar year during the employment period of up to 200% of the executive's guaranteed minimum annual bonus in the event the Company achieves certain "stretch" financial and work plan goals; (iii) a grant under the 2000 LTIP of an option to purchase 36,004 shares of the Common Stock, vesting in three equal increments on December 31, 2004, 2005 and 2006; and (vi) an award of 38,710 shares of restricted stock under the 2000 LTIP, vesting no later than December 31, 2006.

On April 1, 2005 the Company and Mr. Paz entered into a new employment agreement in connection with his promotion to the office of Chief Executive Officer (the "Paz Employment Agreement"). Pursuant to the Paz

Employment Agreement, the 2004 agreement with Mr. Paz was terminated other than those terms addressing the stock option and restricted stock grants under the 2004 agreement, which terms were incorporated by reference into the Paz Employment Agreement.

The Paz Employment Agreement was effective as of April 1, 2005 with an initial term through March 31, 2008. The agreement provides for (i) an initial base salary of \$650,000 (which may not be reduced after any increase); (ii) a guaranteed minimum annual bonus target under the Company's bonus plan of 100% of Mr. Paz's annual base salary, with a bonus opportunity for each calendar year during the employment period of up to 200% of the executive's guaranteed minimum annual bonus in the event the Company achieves certain "stretch" financial and work plan goals; (iii) participation in the Company's benefit and incentive plans and other arrangements in accordance with their terms; (iv) the crediting of a deferred bonus in the amount of \$200,000 to the executive's retirement account in the EDCP, subject to the terms and conditions of the EDCP, which bonus generally vests at the end of the initial employment period except as described below; (v) a grant under the 2000 LTIP of an option to purchase 80,000 shares of the Common Stock, vesting in three equal increments on March 31, 2006, 2007 and 2008; and (vi) such perquisites and fringe benefits to which similarly situated Company executives are entitled and which are suitable for Mr. Paz's position.

If Mr. Paz's employment is terminated prior to expiration of the employment period, he is not entitled to receive any further payments or benefits that have not already been paid or provided (including any unvested portion of the option grant or restricted stock award) except as follows:

- Mr. Paz will be entitled to all previously earned and accrued, but unpaid, annual base salary.

- If Mr. Paz's employment is terminated by the Company other than for Cause or Disability, or by Mr. Paz for Good Reason (as those terms are defined in the agreement), Mr. Paz is entitled to receive: (i) a pro rata portion of the restricted stock award under the 2004 agreement based on the number of days worked during the employment period under the 2004 agreement; (ii) a severance benefit equal to 18 months of his base salary plus a specified portion of his bonus potential for the year based on the average percentage of the potential earned for the three prior years; (iii) reimbursement for the cost of continuing medical insurance for Mr. Paz, his spouse and any eligible dependents for 36 months after termination of employment; and (iv) a pro rata portion of the deferred bonus based on the number of days worked during the initial employment period.

- If Mr. Paz's employment terminates on account of Disability or retirement (i.e., voluntary retirement on or after age 59 ½ but not within 90 days after a change in control (as defined in the employment agreement) of the Company) prior to the end of his employment period under the agreement, Mr. Paz generally is entitled to receive (i) a certain percentage of the restricted stock award calculated pursuant to the terms of the agreement, (ii) a pro rata portion of the deferred bonus, and (iii) reimbursement for the cost of continuing medical insurance for Mr. Paz, his spouse and any eligible dependents for 36 months after termination of employment.

- If Mr. Paz's employment terminates on account of death prior to the end of his employment period under the agreement, Mr. Paz's estate generally is entitled to receive (i) 100% of the restricted stock award calculated pursuant to the terms of the agreement, (ii) 100% of the deferred bonus, and (iii) reimbursement for the cost of continuing medical insurance for Mr. Paz' spouse and any eligible dependents for 36 months after termination of employment.

If Mr. Paz's employment is terminated prior to expiration of the employment period (including any renewal period in effect) for any reason, then he is prohibited from competing against the Company for 18 months after such termination. If termination of employment occurs solely as a result of expiration of the employment agreement, Mr. Paz is prohibited from competing for one year after such termination. Mr. Paz is also subject to certain non-solicitation and non-disclosure limitations. Entitlement to the severance benefit described above (including any prorated portion) is contingent upon compliance with these restrictive covenants. The parties also agreed that in the event any severance or similar payments to be made to Mr. Paz following termination (other than payments under the

EDCP) should be subject to the restrictions of Section 409A of the Internal Revenue Code of 1986, as amended, then the parties would negotiate in good faith to amend the Paz Employment Agreement to the extent necessary to create payment terms with respect to such post-termination payments which are as close as possible to those originally set forth in the Paz Employment Agreement while not violating the terms of Section 409A.

In the event that any amount or benefit paid or distributed to Mr. Paz pursuant to the Paz Employment Agreement, taken together with any amounts or benefits otherwise paid or distributed to the executive by the Company pursuant to any other arrangement or plan (collectively, the "Covered Payments"), would result in the executive's liability for the payment of an excise tax under Section 4999 of the Internal Revenue Code (or any similar state or local tax) (collectively, the "Excise Tax"), the Company will make a "gross-up" payment to the executive to fully offset the Excise Tax provided the aggregate present value of the Covered Payments is equal to or exceeds 125% of the maximum total payment which could be made to the executive without triggering the Excise Tax. If the aggregate present value of the Covered Payments, however, exceeds such maximum amount, but is less than 125% of such maximum amount, then the Company may, in its discretion, reduce the Covered Payments so that no portion of the Covered Payments is subject to the Excise Tax, and no gross-up payment will be made.

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*Employment Agreements with Other Executive Officers*

In an effort to facilitate the retention of key management, the Company has also entered into long-term employment agreements with several key executives, including each of the Named Officers other than Mr. Paz and Mr. McNamee. The terms of the agreements are as follows:

· Agreement with Mr. Lowenberg. On August 31, 2004, the Company entered into a long-term employment agreement with Mr. Lowenberg, replacing a previous agreement which was entered into in March 2001. The initial employment period under the agreement ran from the effective date through March 31, 2006, and the employment period is automatically extended for successive one-year renewal periods unless either party gives timely notice of non-renewal. Neither party has delivered a non-renewal notice during the initial period, so the agreement has automatically renewed through March 31, 2007.

Mr. Lowenberg's employment agreement generally provides for: (i) the payment of an annual base salary of \$450,000 (which may not be reduced after any increase); (ii) a guaranteed minimum annual bonus target of 70% of Mr. Lowenberg's base salary pursuant to the terms of the Company's bonus plan, with a bonus opportunity for each calendar year during the initial employment period of up to 200% of the Mr. Lowenberg's guaranteed minimum annual bonus in the event the Company achieves certain "stretch" financial and work plan goals; (iii) a grant under the 2000 LTIP of an option to purchase 35,108 shares of the Common Stock, which were originally scheduled to vest in full on December 31, 2010, but on which accelerated vesting occurred on March 31, 2006 based upon the achievement of certain financial goals; (iv) an award of 28,902 shares of restricted stock awarded under the 2000 LTIP, all of which were originally scheduled to vest in full on August 31, 2011, but, with respect to 27,295 of such shares, accelerated vesting occurred on March 31, 2006 based upon the achievement of certain financial goals; (v) participation in Company employee benefit plans (other than bonus and incentive plans) on the same basis as such plans are generally made available to similarly situated senior executives of the Company; (vi) such perquisites and fringe benefits to which similarly situated executives of the Company are entitled and which are suitable for Mr. Lowenberg's position; (vii) the crediting of a deferred bonus of \$600,000 (to be credited in two annual installments of \$300,000 each) to Mr. Lowenberg's retirement account in the EDCP, subject to the terms and conditions of the EDCP, which bonus vested at the end of the Mr. Lowenberg's initial employment period under the employment agreement on March 31, 2006; and (viii) a one-time bonus in the amount necessary to make his annual salary effective as of January 1, 2004.

If Mr. Lowenberg's employment is terminated prior to the expiration of the employment period (including any renewal period in effect) he is not entitled to receive any further payments or benefits that have not already been paid or provided (including any unvested portion of the option grant or restricted stock award) except as follows:

- Mr. Lowenberg will be entitled to all previously earned and accrued, but unpaid, annual base salary.

-If Mr. Lowenberg's employment is terminated by the Company other than for Cause or Disability, or by Mr. Lowenberg for Good Reason (as those terms are defined in the agreement), Mr. Lowenberg is entitled to receive: (i) a severance benefit equal to 18 months of his base salary plus a specified portion of Mr. Lowenberg's bonus potential for the year based on the average percentage of the potential earned for the three prior years; (ii) reimbursement for the cost of continuing medical insurance under COBRA for 18 months after termination of employment; and (iii) if termination of employment occurs prior to the end of Mr. Lowenberg's initial employment period under the agreement, a pro rata portion of 83% of the unvested restricted stock award based on the number of days worked during the initial employment period).

-If Mr. Lowenberg's employment terminates on account of death prior to the end of his initial employment period under the agreement, he generally is entitled to receive of the unvested restricted stock award.

If Mr. Lowenberg's employment is terminated prior to expiration of the employment period (including any renewal period in effect) for any reason, Mr. Lowenberg is prohibited from competing against the Company for 18 months

after such termination. If termination of employment occurs solely as a result of expiration of the employment agreement, Mr. Lowenberg is prohibited from competing for one year after such termination. Mr. Lowenberg is also subject to certain non-solicitation and non-disclosure limitations. Entitlement to the severance benefit and the deferred bonus described above (including any prorated portion) is contingent upon compliance with these restrictive covenants.

In the event that any amount or benefit paid or distributed to Mr. Lowenberg pursuant to the employment agreement, taken together with any amounts or benefits otherwise paid or distributed to Mr. Lowenberg by the Company pursuant to any other arrangement or plan (collectively, the "Covered Payments"), would result in Mr. Lowenberg's liability for the payment of an Excise Tax, the Company will make a "gross-up" payment to Mr. Lowenberg to fully offset the Excise Tax provided the aggregate present value of the Covered Payments is equal to or exceeds 125% of the maximum total payment which could be made to Mr. Lowenberg without triggering the Excise Tax. If the aggregate present value of the Covered Payments, however, exceeds such maximum amount, but is less than 125% of such maximum amount, then the Company may, in its discretion, reduce the Covered Payments so that no portion of the Covered Payments is subject to the Excise Tax, and no gross-up payment would be made.

· Agreement with Mr. Boudreau. On October 29, 2004, the Company entered into a long-term employment agreement with Mr. Boudreau, replacing a previous agreement which was entered into in March 2001. The initial employment period under the agreement ran from the effective date through March 31, 2006, and the employment period is automatically extended for successive one-year renewal periods unless either party gives timely notice of non-renewal. Neither party has delivered a non-renewal notice during the initial period, so the agreement has automatically renewed through March 31, 2007.

Mr. Boudreau's employment agreement generally provides for: (i) the payment of an annual base salary of \$350,000 (which may not be reduced after any increase); (ii) a guaranteed minimum annual bonus target of 64% of Mr. Boudreau's base salary pursuant to the terms of the Company's bonus plan, with a bonus opportunity for each calendar year during the initial employment period of up to 200% of the Mr. Boudreau's guaranteed minimum annual bonus in the event the Company achieves certain "stretch" financial and work plan goals; (iii) a grant under the 2000 LTIP of an option to purchase 19,310 shares of the Common Stock, which were originally scheduled to vest in full on December 31, 2010, but on which accelerated vesting occurred on March 31, 2006 based upon the achievement of certain financial goals; (iv) an award of 14,452 shares of restricted stock awarded under the 2000 LTIP, all of which were originally scheduled to vest in full on August 31, 2011, but, with respect to 13,648 of such shares, accelerated vesting occurred on March 31, 2006 based upon the achievement of certain financial goals; (v) participation in Company employee benefit plans (other than bonus and incentive plans) on the same basis as such plans are generally made available to similarly situated senior executives of the Company; (vi) such perquisites and fringe benefits to which similarly situated executives of the Company are entitled and which are suitable for Mr. Boudreau's position; (vii) the crediting of a deferred bonus of \$400,000 (to be credited in two annual installments of \$200,000 each) to Mr. Boudreau's retirement account in the EDCP, subject to the terms and conditions of the EDCP, which bonus vested at the end of the Mr. Boudreau's initial employment period under the employment agreement on March 31, 2006; (viii) a one time bonus in the amount necessary to make his annual salary effective as of January 1, 2004; and (ix) a one-time signing bonus in the amount of \$100,000 (to be paid in two equal installments of \$50,000 each).

If Mr. Boudreau's employment is terminated prior to the expiration of the employment period (including any renewal period in effect) he is not entitled to receive any further payments or benefits that have not already been paid or provided (including any unvested portion of the option grant or restricted stock award) except as follows:

- Mr. Boudreau will be entitled to all previously earned and accrued, but unpaid, annual base salary.

- If Mr. Boudreau's employment is terminated by the Company other than for Cause or Disability, or by Mr. Boudreau for Good Reason (as those terms are defined in the agreement), Mr. Boudreau is entitled to receive: (i) a severance benefit equal to 18 months of his base salary plus a specified portion of Mr. Boudreau's bonus potential for the year

based on the average percentage of the potential earned for the three prior years; (ii) reimbursement for the cost of continuing medical insurance under COBRA for 18 months after termination of employment; and (iii) if termination of employment occurs prior to the end of Mr. Boudreau's initial employment period under the agreement, a pro rata portion of 83% of the unvested restricted stock award based on the number of days worked during the initial employment period).

- If Mr. Boudreau's employment terminates on account of death prior to the end of his initial employment period under the agreement, he generally is entitled to receive 83% of the unvested restricted stock award.

If Mr. Boudreau's employment is terminated prior to expiration of the employment period (including any renewal period in effect) for any reason, Mr. Boudreau is prohibited from competing against the Company for 18 months after such termination. If termination of employment occurs solely as a result of expiration of the employment agreement, Mr. Boudreau is prohibited from competing for one year after such termination. Mr. Boudreau is also subject to certain non-solicitation and non-disclosure limitations. Entitlement to the severance benefit and the deferred bonus described above (including any prorated portion) is contingent upon compliance with these restrictive covenants.

In the event that any amount or benefit paid or distributed to Mr. Boudreau pursuant to the employment agreement, taken together with any amounts or benefits otherwise paid or distributed to Mr. Boudreau by the Company pursuant to any other arrangement or plan (collectively, the "Covered Payments"), would result in Mr. Boudreau's liability for the payment of an Excise Tax, the Company will make a "gross-up" payment to Mr. Boudreau to fully offset the Excise Tax provided the aggregate present value of the Covered Payments is equal to or exceeds 125% of the maximum total payment which could be made to Mr. Boudreau without triggering the Excise Tax. If the aggregate present value of the Covered Payments, however, exceeds such maximum amount, but is less than 125% of such maximum amount, then the Company may, in its discretion, reduce the Covered Payments so that no portion of the Covered Payments is subject to the Excise Tax, and no gross-up payment would be made.

· Agreement with Mr. Stiften. On April 1, 2004, the Company entered into a long-term employment agreement with Mr. Stiften. The initial employment period under the agreement runs from the effective date through March 31, 2007, and the employment period is automatically extended for successive one-year renewal periods unless either party gives timely notice of non-renewal.

Mr. Stiften's employment agreement generally provides for: (i) the payment of an annual base salary of \$325,000 (which may not be reduced after any increase); (ii) a guaranteed minimum annual bonus target of 67% of Mr. Stiften's base salary pursuant to the terms of the Company's bonus plan, with a bonus opportunity for each calendar year during the initial employment period of up to 200% of the Mr. Stiften's guaranteed minimum annual bonus in the event the Company achieves certain "stretch" financial and work plan goals; (iii) a grant under the 2000 LTIP of an option to purchase 40,430 shares of the Common Stock scheduled to vest in full on March 31, 2007; (iv) a grant under the 2000 LTIP of an option to purchase 32,344 shares of the Common Stock, which were originally scheduled to vest in full on September 31, 2010, but, with respect to 10,781 of such options, the vesting date was accelerated to March 31, 2007 based upon the achievement of certain financial goals; (v) an award of 25,714 shares of restricted stock awarded under the 2000 LTIP, all of which were originally scheduled to vest in April 2014, but, with respect to 8,571 of such shares, the vesting date was accelerated to March 31, 2007 based upon the achievement of certain financial goals; (vi) participation in Company employee benefit plans (other than bonus and incentive plans) on the same basis as such plans are generally made available to similarly situated senior executives of the Company; and (vii) such perquisites and fringe benefits to which similarly situated executives of the Company are entitled and which are suitable for Mr. Stiften's position;

If Mr. Stiften's employment is terminated prior to the expiration of the employment period (including any renewal period in effect) he is not entitled to receive any further payments or benefits that have not already been paid or provided (including any unvested portion of the option grant or restricted stock award) except as follows:

- Mr. Stiften will be entitled to all previously earned and accrued, but unpaid, annual base salary.

-If Mr. Stiften's employment is terminated by the Company other than for Cause or Disability, or by Mr. Stiften for Good Reason (as those terms are defined in the agreement), Mr. Stiften is entitled to receive: (i) a severance benefit equal to \$1,085,000 if such termination occurs during the initial employment period, or, for a termination during a renewal period, an amount equal to 18 months of his base salary plus a specified portion of Mr. Stiften's bonus potential for the year based on the average percentage of the potential earned for the three prior years; (ii) reimbursement for the cost of continuing medical insurance under COBRA for 24 months after termination of employment if termination occurs during the initial employment period, and 18 months if termination occurs during a renewal period; and (iii) a pro rata portion of the unvested shares of restricted stock based on the number of days worked during the initial employment period.

-If Mr. Stiften's employment terminates on account of death, Disability or retirement (i.e., voluntary retirement on or after age 59 ½ but not within 90 days after a change in control (as defined in the employment agreement) of the Company) prior to the end of Mr. Stiften's initial employment period under the agreement, Mr. Stiften generally is entitled to receive a pro rata portion of the unvested shares of restricted stock.

If Mr. Stiften's employment is terminated prior to expiration of the employment period (including any renewal period in effect) for any reason, Mr. Stiften is prohibited from competing against the Company for 24 months after such termination. If termination of employment occurs solely as a result of expiration of the employment agreement, Mr. Stiften is prohibited from competing for 18 months after such termination. Mr. Stiften is also subject to certain non-solicitation and non-disclosure limitations. Entitlement to the severance benefit and the deferred bonus described above (including any prorated portion) is contingent upon compliance with these restrictive covenants.

In the event that any amount or benefit paid or distributed to Mr. Stiften pursuant to the employment agreement, taken together with any amounts or benefits otherwise paid or distributed to Mr. Stiften by the Company pursuant to any other arrangement or plan (collectively, the "Covered Payments"), would result in Mr. Stiften's liability for the payment of an Excise Tax, the Company will make a "gross-up" payment to Mr. Stiften to fully offset the Excise Tax provided the aggregate present value of the Covered Payments is equal to or exceeds 125% of the maximum total payment which could be made to Mr. Stiften without triggering the Excise Tax. If the aggregate present value of the Covered Payments, however, exceeds such maximum amount, but is less than 125% of such maximum amount, then the Company may, in its discretion, reduce the Covered Payments so that no portion of the Covered Payments is subject to the Excise Tax, and no gross-up payment would be made.

#### *Employment Agreement with Mr. Toan*

Effective as of April 1, 1999, the Company entered into an employment agreement (the "Toan Employment Agreement") with Mr. Toan for an initial term extending through March 31, 2002, with optional one-year renewal periods thereafter, pursuant to which Mr. Toan served as the Company's Chief Executive Officer and a member of the Board of Directors. In November 2000, the Company entered into an amendment (the "2000 Amendment") to the Toan Employment Agreement, which extended the term of the Agreement from March 31, 2002 until March 31, 2005, at which time the agreement expired.

The Toan Employment Agreement provided for an initial annual base salary of \$650,000, subject to increase in the discretion of the Board of Directors and which could not be reduced after any increase. Mr. Toan was also eligible to participate in the Company's Annual Bonus Plan for senior executives with target bonuses thereunder of a minimum of 100% of his annual base salary, payment of which depended upon the Company meeting certain targeted financial objectives determined each year by the Board of Directors in its discretion.

Pursuant to the 2000 Amendment, Mr. Toan received a special \$3,500,000 Company contribution to his account in the EDCP which vested on March 31, 2005.

As part of the Toan Employment Agreement, on May 26, 1999, Mr. Toan received a one-time grant of nonqualified options to purchase 280,000 shares of Common Stock at an exercise price equal to the fair market value of Common Stock on the date of grant. Pursuant to the 2000 Amendment, on November 7, 2000, Mr. Toan received an additional grant of nonqualified stock options to purchase 360,000 shares of Common Stock at an exercise price equal to the fair market value of Common Stock on the date of grant. In addition, pursuant to the 2000 Amendment, Mr. Toan received a grant of 200,000 shares of restricted stock which vested on March 31, 2005.

Under the terms of the 2000 Amendment all of Mr. Toan's stock options and restricted stock (including grants made pursuant to the express terms of the Toan Employment Agreement and all grants prior to or after the 2000 Amendment) became fully vested on March 31, 2005, to the extent they had not already vested pursuant to their terms. Further, pursuant to the 2000 Amendment, all of Mr. Toan's vested options will remain exercisable until their respective expiration date. Mr. Toan is also subject to certain post-employment non-solicitation, non-competition and non-disclosure restrictions.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, persons who beneficially own more than ten percent of a registered class of the Company's equity securities, and certain other persons to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission ("SEC") and Nasdaq, and to furnish the Company with copies of the forms. Based solely on its review of the forms it received, or written representations from reporting persons, the Company believes that all of its directors, executive officers and greater than ten percent beneficial owners complied with all such filing requirements during 2005.

### **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

#### **Relationship with New York Life**

##### *Stock Ownership*

New York Life is currently the beneficial owner of 24,000,460 shares (or approximately 16.21%) of the outstanding Common Stock.

In August 2001, New York Life and its subsidiary NYLIFE, LLC ("NYLife") entered into a ten-year forward sale contract with an affiliate of Credit Suisse First Boston Corporation ("CSFB") with respect to 9,000,000 of its shares of the Common Stock, and, in April 2003, New York Life entered into a five-year forward sale contract with CSFB and one of CSFB's affiliates with respect to 11,000,000 of its shares of the Common Stock (together, the "Forward Sale Contracts"). New York Life has reported that, absent the occurrence of certain accelerating events, it retains the right to vote the shares under the Forward Sale Contracts (the "Forward Sale Shares") during the term of each Forward Sale Contract.

##### *Stockholder and Registration Rights Agreement*

New York Life and the Company are parties to a Stockholder and Registration Rights Agreement dated as of October 6, 2000, amended August 17, 2001 and further amended April 25, 2003 (the "Rights Agreement"). The Rights Agreement was originally entered into in connection with the November 2000 secondary offering of a portion of the shares of Common Stock then held by New York Life (the "November 2000 Offering"). The principal terms of this agreement are described below.



*Rights Regarding the Board of Directors.* New York Life has the right to designate for nomination one director to the Company's Board of Directors as long as the aggregate number of shares of the Common Stock held by New York Life and its non-investment subsidiaries is either (i) equal to or greater than 6,000,000 shares (excluding the Forward Sale Shares), or (ii) equal to or greater than both (a) 4,000,000 shares (excluding the Forward Sale Shares), and (b) a number of shares (including the Forward Sale Shares) representing at least 14.9% of the Company's outstanding Common Stock as of either April 25, 2003 or the date of determination (whichever is less). New York Life originally had the right to designate two directors for nomination to the Company's Board of Directors. However, as a result of a series of transactions involving Common Stock held by New York Life and its affiliates completed during 2003, which transactions temporarily reduced New York Life's holdings to below the minimum threshold for two director nominations, New York Life's nomination right was reduced to one. Under the terms of the Rights Agreement, New York Life's nomination right cannot be increased.

The Company is required to use the same efforts to cause the election of New York Life's designee to the Board of Directors as it uses with its other nominees for director. If a vacancy occurs with respect to the director which New York Life had the right to designate, and New York Life has the right at such time to designate a director for nomination, New York Life is entitled to designate a nominee to fill the vacancy. If the Company nominates for election the person designated by New York Life, New York Life and its non-investment subsidiaries that hold shares are required to vote their shares of voting stock in favor of all directors nominated for such election.

*Registration Rights.* So long as New York Life and its non-investment subsidiaries, in the aggregate, beneficially hold more than 6,000,000 shares of the Common Stock, New York Life may request that the Company effect up to three registrations of all or part of such shares under the Securities Act of 1933. One of these registrations may be requested to be effected as a shelf registration pursuant to Rule 415 under the Securities Act, and two of these registrations may be requested to be effected as firm commitment underwritten offerings under the Securities Act of 1933. The Company is not obligated to file a registration statement at the request of New York Life: (1) within a period of 90 days after the effective date of any other registration statement of the Company (other than a registration statement on Form S-8 or its equivalent); or (2) while a registration statement relating to a shelf registration filed at the request of New York Life is effective under the Securities Act. In addition, so long as New York Life and its non-investment subsidiaries, in the aggregate, beneficially hold in excess of 6,000,000 shares of Common Stock, if the Company proposes to register shares of Common Stock for the Company's account under the Securities Act (other than a registration on Form S-8 or its equivalent), New York Life shall have piggy-back rights with respect to such registration. The underwriters of any such offering have the right to limit the number of shares included by New York Life in any such registration if the managing underwriter indicates that, in its opinion, the number of shares to be included by New York Life would adversely affect the offering. The Company will bear the expenses of any registration described in this paragraph.

*Voting of Common Stock.* New York Life and its subsidiaries have agreed to vote any shares of Common Stock held by them in favor of the slate of nominees for the Company's Board of Directors recommended by the Company. However, this voting requirement does not apply to any of the Forward Sale Shares held by third parties pursuant to the Forward Sale Contract and which New York Life would have to recall in order to vote, provided that (i) New York Life gives proper notice to the Company indicating that such shares are being held by third parties, and (ii) the Company does not require New York Life to nonetheless recall such shares. The Company does not presently intend to call for the recall of such shares to be voted at the meeting.

*Term.* The Stockholder and Registration Rights Agreement will terminate on the earlier of: (1) November 7, 2008 or (2) at such time as New York Life and its non-investment subsidiaries, in the aggregate, beneficially hold less than 6,000,000 shares of Common Stock.

*Other Relationships and Transactions*

Pursuant to agreements with New York Life, the Company provides pharmacy benefit management services to employees and retirees of New York Life and certain New York Life health insurance policyholders. During 2005, the total revenues that the Company derived from all services provided to New York Life were approximately \$28,800,000, or 0.2% of the Company's total revenues for 2005.

New York Life Benefit Services, Inc., a subsidiary of New York Life, administers the Company's 401(k) and deferred compensation plans. The Company paid New York Life Benefit Services approximately \$77,000 for such services during 2005.

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## Other Business Relationships

Samuel Skinner, a director of our company, is of counsel with the law firm of Greenberg Traurig, which was retained by the Company and one of its subsidiaries to provide certain legal services during 2005. The total fees paid by the Company for services provided by the firm during 2005 were less than \$26,000.

## **II. PROPOSAL TO APPROVE AND RATIFY AN AMENDMENT TO THE EXPRESS SCRIPTS, INC. AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF THE COMPANY'S COMMON STOCK FROM 275,000,000 TO 650,000,000**

The Board of Directors has unanimously adopted, and proposes that the stockholders approve and ratify, an amendment to Article 4 of the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") which, if adopted, would increase the number of authorized shares of Common Stock from 275,000,000 to 650,000,000 shares.

At March 31, 2006 there were 147,028,330 authorized shares of the Company's Common Stock outstanding. Of the 127,971,670 unissued shares, approximately 9,500,000 were reserved for issuance under the Company's stock option, employee stock purchase and deferred compensation plans, leaving a balance of approximately 118,500,000 authorized, unissued and unreserved shares of Common Stock. Without the approval of additional shares, the Board would be unable to authorize a 2-for-1 stock split.

The Board believes it is in the best interest of the Company to increase the number of authorized shares of Common Stock in order to give the Company greater flexibility in considering and planning for future business needs. The shares of Common Stock will be available for issuance by the Directors for various corporate purposes, including but not limited to, stock splits, stock dividends, grants under employee stock plans, financings, corporate mergers and acquisitions and other general corporate transactions. The Company has no current plan, commitment, arrangement, understanding or agreement regarding the issuance of the additional shares of Common Stock resulting from the proposed increase in authorized shares. However, the Board may consider the issuance of additional shares in a stock split or a stock dividend in the near future, dependent upon then-existing market conditions and other factors. Having this additional authorized Common Stock available for future use will allow the Company to issue additional shares of Common Stock without the expense and delay of arranging a special meeting of stockholders. The additional authorized shares would be available for issuance at the discretion of the Board and without further stockholder approval, except as may be required by law or the rules of The Nasdaq Stock Market.

The issuance of additional shares of Common Stock could have the effect of making it more difficult for a third party to acquire control of the Company, or of discouraging a third party from attempting to acquire control of the Company. Management of the Company is not currently aware of any plans on the part of a third party to attempt to effect a change of control of the Company, and the amendment has been proposed for the reasons discussed above and not for any possible anti-takeover effects it could have.

The proposed additional shares of Common Stock would be part of the existing class of Common Stock and would have the same rights and privileges as the shares of Common Stock presently outstanding.

Article 4 of the Certificate of Incorporation also authorizes the issuance of 5,000,000 shares of preferred stock, none of which are currently outstanding. The proposed amendment will not increase or otherwise affect the Company's authorized preferred stock.

If the amendment to increase the number of authorized shares of Common Stock is approved, the first sentence of the first paragraph of Article 4 of the Certificate of Incorporation will be amended to read in its entirety as follows:

4. The total number of shares of stock which the Corporation has authority to issue is 655,000,000 shares, of which (i) 5,000,000 shares are preferred stock, par value \$0.01 per share (the “Preferred Stock”), and (ii) 650,000,000 shares are common stock, par value \$0.01 per share.

If the proposed amendment is approved, the Company will file an amendment to the Certificate of Incorporation as soon as practicable after the meeting.

Approval of this proposal requires the affirmative vote of a majority of the outstanding shares of Common Stock entitled to vote at the Meeting. Accordingly, abstentions and non-votes will have the effect of votes against this proposal.

**The Board of Directors recommends a vote for the approval and ratification of the proposed amendment to the Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company’s Common Stock from 275,000,000 shares to 650,000,000 shares.**

### **III. APPROVAL AND RATIFICATION OF THE EXPRESS SCRIPTS, INC. 2000 LONG TERM INCENTIVE PLAN, AS AMENDED**

The Board of Directors of the Company and the stockholders previously adopted and approved the 2000 LTIP for employees and non-employee directors of the Company and its affiliates. Upon the recommendation of the Compensation Committee, the Board has adopted the Third Amendment to the 2000 LTIP (the “Amendment”), subject to stockholder approval, a copy of which is attached as part of Exhibit A to this Proxy Statement. The 2000 LTIP was amended to:

- change the defined term “Other Stock-Based Award” to “Other Award” and revise the definition to include cash awards; provide for performance based awards other than performance shares;
- add compound annual growth in earnings per share, compound stockholder return, and average return on invested capital, as potential performance criteria for performance based awards;
- create a maximum annual performance award to an individual of \$6 million for awards not related to shares of the Common Stock; and
- cancel any award that would be considered deferred compensation and would not comply with section 409A of the Internal Revenue Code of 1986, as amended (the “Code”).

The Amendment will not increase the number of shares available for issuance under the 2000 LTIP.

The primary reason the 2000 LTIP, as amended, is being submitted to the stockholders at this time is to allow for performance-based cash and equity compensation that is paid thereunder to be deductible by the Company for federal income tax purposes under Section 162(m) of the Code. Section 162(m) places a \$1 million annual limit on the amount of compensation paid to each of the Company’s named executive officers that may be deducted by the Company for federal income tax purposes, generally, unless such compensation constitutes “qualified performance-based compensation,” which is based on the achievement of pre-established performance goals set by a committee of the Board pursuant to an incentive plan that has been approved by the Company’s stockholders. Stockholder approval of the 2000 LTIP, as amended, including the material terms of the performance measures, will constitute stockholder reapproval of the performance criteria in the 2000 LTIP which are not being amended, and approval of the new performance criteria added pursuant to the Amendment, and will satisfy the stockholder approval requirements of Section 162(m) for five additional years.

The Amendment will become effective when the 2000 LTIP, as amended, is approved by the Company’s stockholders at the meeting. If the 2000 LTIP, as amended, is not approved by our stockholders, the 2000 LTIP will continue in full force in accordance with its terms as they were in effect immediately prior to the adoption of the Amendment; except

that, any payment under performance shares and other performance awards that would have been made pursuant to the 2000 LTIP, as amended, will not be made.

The 2000 LTIP provides for the grant of stock options, both incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, and other awards to eligible individuals. A summary of the principal provisions of the 2000 LTIP, as amended both by the Amendment and by the Second Amendment to the 2000 LTIP (which was approved by the Board on December 19, 2001) is set forth below. The summary is qualified by reference to the full text of the 2000 LTIP, which was attached as Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2001, the Second Amendment to the 2000 LTIP which was attached as Exhibit No. 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and the Amendment which is attached as Exhibit A to this Proxy Statement. All references to numbers of shares in this description of the 2000 LTIP have been adjusted to reflect the two two-for-one stock splits completed since the original adoption of the plan.

The Board believes that the amended 2000 LTIP will continue to promote the success and enhance the value of the Company by continuing to link the personal interest of participants to those of Company's stockholders and by providing participants with an incentive for outstanding performance. The Board believes it is in the best interest of the Company and its stockholders to approve the 2002 LTIP, as amended.

### **Summary of the Express Scripts, Inc. 2000 Long Term Incentive Plan**

The purpose of the 2000 LTIP is to motivate key employees to produce a greater return to the Company's stockholders by offering these employees an opportunity to benefit from stock appreciation through stock ownership. The 2000 LTIP is intended to reward high levels of corporate performance and to facilitate the recruiting and retention of talented employees.

All full-time and part-time employees (including officers and directors who are employees) and non-employee directors (except with respect to grants of incentive stock options) of the Company and its affiliates will be eligible to participate in the 2000 LTIP at the discretion of the Compensation Committee. Approximately 12,372 individuals are currently eligible to participate in the 2000 LTIP, of which approximately 3,643 have received awards. The Compensation Committee will make awards based on, among other factors, an individual's capacity for contributing to the future growth and profitability of the Company. Each award will be evidenced by an agreement or certificate setting forth the terms and conditions of the award, including the term of the award, which will not be greater than ten years. All awards are non-transferable unless the agreement or certificate permits the transfer to the participant's successor upon the participant's death.

The Compensation Committee administers the 2000 LTIP and grants awards under the 2000 LTIP, except with respect to awards for non-employee directors, in which case the Board administers the 2000 LTIP. The Compensation Committee has the power to interpret the 2000 LTIP, to determine the terms of the agreements or certificates, and to make all other determinations necessary or advisable for the administration of the 2000 LTIP. In addition, the Compensation Committee may delegate all or any part of its authority under the 2000 LTIP to the Chief Executive Officer for purposes of determining awards of options solely to participants who are not Vice Presidents or Senior Executives (as those terms are defined) and who are not subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, subject to certain limitations. The Compensation Committee has made such delegation from time to time.

Upon the initial adoption of the plan, 5,400,000,000 shares of Common Stock were initially available for issuance thereunder. An additional 8,400,000 shares were made available for issuance, in three annual installments of 2,800,000 shares each, on January 1 of 2002, 2003, and 2004. Any shares forfeited under the Express Scripts, Inc. Amended and Restated 1992 and 1994 Stock Option Plans and the Express Scripts, Inc. Amended and Restated 1992 Stock Option Plan for Outside Directors (collectively, the "1992 and 1994 Plans") have been and will continue to be

added to the balance available under the 2000 LTIP. As of March 31, 2006, options for 2,701,635 shares were outstanding under the 1992 and 1994 Plans. Shares issued under the 2000 LTIP may be authorized and unissued shares or treasury shares. Any shares subject to an award under the 2000 LTIP which are not used because the award expires, the conditions of the award are not met, or the award is forfeited may be used again for an award under the 2000 LTIP. Any shares covered by a stock appreciation right in excess of the number of shares issued, used to pay a purchase or exercise price, or used to satisfy tax withholdings may also be used again under the 2000 LTIP. Any unexercised or undistributed portion of any terminated, expired, exchanged, or forfeited award or any award settled in cash in lieu of shares will be available for further awards. The closing price of the Common Stock on March 31, 2006, as reported on the Nasdaq National Market, was \$87.90 per share.

### **Types of Awards**

*General.* The Compensation Committee has the discretion to award options, stock appreciation rights, restricted stock, performance shares, and other awards.

*Options.* Options may be either incentive stock options or non-qualified stock options. Only non-qualified stock options may be granted to non-employee directors. To date, no incentive stock options have been issued under the 2000 LTIP. The purchase price of the option is set forth in the agreement or certificate but may not be less than 100% of the fair market value of the shares on the grant date. Fair market value, as defined, generally means the closing sales price of the Common Stock. Options, once issued, may not be repriced without first obtaining the approval of the stockholders. The purchase price is payable in full at the time of exercise, provided that, to the extent permitted by law and in accordance with rules adopted by the Compensation Committee, participants may simultaneously exercise options and sell the shares thereby acquired pursuant to a brokerage or similar relationship and use the proceeds from such sale to pay the purchase price of such shares. The purchase price may be paid in cash or, if the Compensation Committee so permits, through delivery or tender to the Company of shares held, either actually or by attestation, by the participant for at least six months, or, if the Compensation Committee so permits, a combination thereof, unless otherwise provided in the agreement or certificate; provided that, no shares may be tendered in exercise of an incentive stock option if such shares were acquired by the optionee through the exercise of an incentive stock option unless (i) such shares have been held by the optionee for at least one year and (ii) at least two years have elapsed since the grant date. Further, the Compensation Committee, in its discretion, may approve other methods or forms of payment of the purchase price, and establish rules and procedures therefor.

A participant may not hold incentive stock options with a fair market value (determined as of the date of grant) in excess of \$100,000 in the year in which they are first exercisable if such limitation is necessary to qualify the option as an incentive stock option. If, when an incentive stock option is granted, the participant possesses more than 10% of the total voting power of all of the stock of the Company and its subsidiaries, the option price for such incentive stock option will be at least 110% of the fair market value of the shares subject to the option on the grant date, and such option will expire five years after the grant date.

The Board (which may delegate the determination to a committee of the board) may determine the level of an option award for a non-employee director, and the board may consider such factors as compensation practices of comparable companies with respect to directors, consultants' recommendations and such other information as the Board may deem appropriate. The Board has adopted certain policies regarding equity awards to non-employee directors (see "Item 1 - Election of Directors - Directors' Compensation" beginning on page \_\_\_\_). In the absence of action by the Board, each individual who is first elected or appointed as a non-employee director after the adoption of the 2000 LTIP shall receive (i) an option to acquire 12,000 shares on the date of the first meeting of the Board after such director's election or appointment, and a like grant on each anniversary of such date, and (ii) an option to acquire 16,000 shares on the date of the first meeting of the board after such director's election or appointment, and a like grant each third year thereafter. The term of an option granted to a non-employee director shall be seven years from the date that it is granted. Subject to provisions on a change in control (described below) and the provisions on termination of service (described below), an option granted to a non-employee director shall become exercisable in installments on a

cumulative basis at a rate of one-third each year, beginning on the first anniversary of the date of grant and on each successive anniversary thereafter, until the date such option expires or is terminated.

As of March 31, 2006, options for 4,409,910 shares were outstanding under the 2000 LTIP.

*Stock Appreciation Rights.* Stock appreciation rights entitle the participant, subject to the terms and conditions determined by the Compensation Committee, to all or a portion of the excess of the fair market value of a specified number of shares on the exercise date over a specified price, which will not be less than 100% of the fair market value of the shares on the grant date. A stock appreciation right may be granted in connection with a previously or contemporaneously granted option, or independent of any option. If issued in connection with an option, the Compensation Committee may impose a condition that its exercise cancels the connected option and that exercise of the connected options cancels the stock appreciation right. Each stock appreciation right may be exercisable in whole or in part according to the agreement or certificate. Except as otherwise provided in the agreement or certificate, upon exercise of a stock appreciation right, the participant will receive cash, stock or a combination of cash and stock (as determined by the Compensation Committee if not otherwise specified in the award) as promptly as practicable after such exercise. The agreement or certificate may limit the amount or percentage of the total appreciation on which payment may be made in the event of the exercise of a stock appreciation right. As of March 31, 2006, stock appreciation rights for 803,787 shares were outstanding under the 2000 LTIP.

*Performance Shares and Other Performance Award.* Performance shares and other performance-based awards entitle the participant to future payments based upon the achievement of performance targets (as described below) established in writing by the Compensation Committee. The agreement or certificate may establish that a portion of the maximum amount of an award will be paid for performance that exceeds the minimum target but falls below the maximum target and will provide for the timing of such payment. The agreement or certificate may permit an acceleration of the performance period and an adjustment of performance targets and payments with respect to some or all of the performance shares awarded to a participant, upon such terms and conditions as will be set forth in the agreement or certificate, upon the occurrence of certain events, which may include a fundamental change, the participant's death or disability, a change in accounting practices of the Company or its affiliates, or, with respect to payments in stock for performance share awards, a reclassification, stock dividend, stock split or stock combination as provided in the 2000 LTIP. A "fundamental change" generally means a dissolution or liquidation of the Company, a sale of substantially all of the Company's assets, a merger or consolidation of the Company, regardless of whether the Company is the surviving entity, or a statutory share exchange. To the extent cash is distributed, a performance share earned after the conclusion of the performance period will have a value equal to the fair market value of a share of Common Stock on the last day of the performance period. Following conclusion or acceleration of each performance period, the Compensation Committee will determine the extent to which performance targets have been attained, any other terms and conditions have been satisfied and payment is due. As of March 31, 2006, performance shares with an aggregate target of 46,250 shares were outstanding under the 2000 LTIP.

*Restricted Stock.* Restricted stock may be granted in the form of shares registered in the name of the participant but held by the Company until the restrictions have lapsed. Restricted stock may, in the discretion of the Compensation Committee, provide dividends and voting rights prior to vesting. The Compensation Committee in its discretion may establish any employment conditions, performance conditions (as described below), or restrictions on transferability. The term of any award or performance period may not exceed ten years. As of March 31, 2006, 294,776 shares of restricted stock were outstanding under the 2000 LTIP.

*Other Awards.* The Compensation Committee may also grant other stock-based or cash awards in its sole discretion, including, wi