FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended   March 31, 1999

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________ to ______________________

Commission file number   0-28740

MIM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	05-0489664
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Clearbrook Road, Elmsford, NY 10523
(Address of principal executive offices)

(914) 460-1600
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

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

Yes _X_   No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

On May 10, 1999, there were outstanding 18,771,689 shares of the Company's common stock, $.0001 par value per share ("Common Stock").

INDEX

		Page Number
PART I	FINANCIAL INFORMATION	
Item 1	Financial Statements	
	Consolidated Balance Sheets at March 31, 1999 (unaudited) and December 31, 1998	3
	Unaudited Consolidated Statements of Operations for the three months ended March 31, 1999 and 1998	4
	Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 1999 and 1998	5
	Notes to the Consolidated Financial Statements	6-7

	Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	8-15
	Item 3	Quantitative and Qualitative Disclosures about Market Risk	16
PART II		OTHER INFORMATION	
	Item 2	Changes in Securities and Use of Proceeds	17
	Item 4	Submission of Matters to a Vote of Security Holders	18
	Item 5	Other Information	18
	Item 6	Exhibits and Reports on Form 8-K	18
	SIGNATURES		19
	Exhibit Index		20

PART 1
FINANCIAL INFORMATION

Item 1. Financial Statements

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	March 31, 1999 (Unaudited)	December 31, 1998
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,753	$ 4,495
Investment securities	8,875	11,694
Receivables, less allowance for doubtful accounts of $2,185 and $2,239 at March 31, 1999 and December 31, 1998, respectively	57,164	64,747
Inventory	1,024	1,187
Prepaid expenses and other current assets	901	857
Total current assets	71,717	82,980
Other investments	2,317	2,311
Property and equipment, net	6,159	4,823
Due from affiliates, less allowance for doubtful accounts of $403 at March 31, 1999 and December 31, 1998, respectively	14	34
Other assets, net	165	293
Deferred income taxes	274	270
Intangible assets, net	19,145	19,395
Total assets	$ 99,791	$ 110,106
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$ 463	$ 277
Current portion of long-term debt	387	208
Accounts payable	5,243	6,926
Claims payable	23,133	32,855
Payables to plan sponsors and others	20,721	16,490
Accrued expenses	6,193	6,401
Total current liabilities	56,140	63,157
Capital lease obligations, net of current portion	1,135	598
Long-term debt, net of current portion	1,842	6,185
Commitments and contingencies		
Minority interest	1,112	1,112
Stockholders' equity		
Preferred stock, $.0001 par value; 5,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.0001 par value; 40,000,000 shares authorized, 18,651,698 and 18,090,748 shares issued and outstanding at March 31, 1999 and December 31, 1998, respectively	2	2
Treasury stock at cost	(338)	--
Additional paid-in capital	91,611	91,603
Accumulated deficit	(50,186)	(50,790)
Stockholder notes receivable	(1,527)	(1,761)
Total stockholders' equity	39,562	39,054
Total liabilities and stockholders' equity	$ 99,791	$ 110,106

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

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three months ended March 31,	
	1999	1998
	(Unaudited)	
Revenue	$ 74,915	$ 97,963
Cost of revenue	66,733	92,384
Gross profit	8,182	5,579
Selling, general and administrative expenses	7,512	4,450
Amortization of goodwill and other intangibles	250	--
Income from operations	420	1,129
Interest income, net	196	507
Other	(12)	--
Net income	$ 604	$ 1,636
Basic income per common share	$ 0.03	$ 0.12
Diluted income per common share	$ 0.03	$ 0.11
Weighted average common shares used in computing basic income per share	18,422	13,369
Weighted average common shares used in computing diluted income per share	18,910	15,132

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

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	1999	1998
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 604	$ 1,636
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and other	626	361
Stock option charges	4	7
Changes in assets and liabilities:		
Receivables	7,583	(11,076)
Inventory	163	--
Prepaid expenses and other current assets	(44)	56
Accounts payable	(1,683)	(564)
Deferred revenue	--	(2,799)
Claims payable	(9,722)	2,483
Payables to plan sponsors and others	4,231	1,110
Accrued expenses	(212)	(690)
Net cash provided by (used in) operating activities	1,550	(9,476)
Cash flows from investing activities:		
Purchase of property and equipment	(784)	(487)
Loans to affiliates, net	20	--
Stockholder loans, net	234	(12)
Purchase of investment securities	--	(4,000)
Maturities of investment securities	2,819	10,293
Decrease (increase) in other assets	127	(43)
Net cash provided by investing activities	2,416	5,751
Cash flows from financing activities:		
Principal payments on capital lease obligations	(210)	(53)
Net payments to debt	(4,164)	--
Proceeds from exercise of stock options	4	1
Purchase of treasury stock	(338)	--
Net cash used in financing activities	(4,708)	(52)
Net decrease in cash and cash equivalents	(742)	(3,777)
Cash and cash equivalents--beginning of period	$ 4,495	$ 9,593
Cash and cash equivalents--end of period	$ 3,753	$ 5,816
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ --	$ --
Interest	$ 86	$ 19
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Equipment acquired under capital lease obligations	$ 933	$ --

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

MIM CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of MIM Corporation and subsidiaries (the "Company") have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "Commission"). Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. The results of operations and cash flows for the three months ended March 31, 1999 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 1999.

These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, notes and information included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 filed with the Commission (the "Form 10-K").

The accounting policies followed for interim financial reporting are the same as those disclosed in Note 2 to the consolidated financial statements included in the Form 10-K.

NOTE 2 - EARNINGS PER SHARE

The following table sets forth the computation of basic earnings per share and diluted earnings per share:

	Three Months Ended March 31, 1999	1998
Numerator:		
Net income	$ 604	$ 1,636
Denominator:		
Weighted average number of common shares outstanding	18,422	13,369
Basic earnings per share	$ .03	$ .12
Denominator:		
Weighted average number of common shares outstanding	18,422	13,369
Common share equivalents of outstanding stock options	488	1,763
Total shares outstanding	18,910	15,132
Diluted earnings per share	$ .03	$ .11

NOTE 3 - COMMITMENTS AND CONTINGENCIES

On March 31, 1999, the State of Tennessee and Xantus Healthplan of Tennessee, Inc. ("Xantus") entered into a consent decree whereby, among other things, the Commissioner of Commerce and Insurance for the State of Tennessee was appointed receiver of Xantus for purposes of rehabilitation. At this time, the Company is unable to predict the effects of this action on the Company's ability to collect monies owed to it by Xantus for pharmacy benefit management ("PBM") services rendered by the Company from January 1, 1999 through April 1, 1999. As of April 1, 1999, Xantus owed the Company $10.7 million. To date, the Company has withheld from its pharmacy providers approximately $4.0 million of claims

submitted by them on behalf of Xantus members as permitted by the Company's agreements with these pharmacy providers. State of Tennessee officials have publicly indicated that the State will ensure that all TennCare providers negatively impacted by the appointment of the receiver for Xantus will eventually receive from Xantus or the State at least 50% of all outstanding amounts owed by Xantus to such providers as of April 1, 1999. The Company can give no assurance that Xantus or the State will eventually pay any or all of these amounts. The failure of the Company to collect from Xantus or the State all or a substantial portion of the monies owed to it by Xantus would have a material adverse effect on the Company's financial condition and results of operations. The receiver has begun to pay the Company on behalf of Xantus for services rendered to Xantus and its members following April 1, 1999.

NOTE 4 - SUBSEQUENT EVENT

In April 1999, the Company loaned to the Chairman and Chief Executive Officer of the Company $1,700, evidenced by a promissory note and a pledge of 1,500 shares of Common Stock to secure his obligations under the promissory note. The note requires repayment of principal and interest by March 31, 2004. Interest is accrued monthly at the Prime Rate (as defined in the note) then in effect. The loan was approved by the Company's Board of Directors in order to provide funds with which the Chairman could pay the tax liability associated with the exercise of stock options representing 1,500 shares of Common Stock in January 1998.

As part of the Company's normal review process, the Company determined that two of the Company's capitated TennCare(R) contracts were not achieving profitability projections. Accordingly, in accordance with the terms of these contracts, the Company exercised its right to terminate these contracts effective on September 28, 1999. Representatives of the Company and these TennCare managed care organizations are presently renegotiating these contracts. While the Company believes it is reasonably likely that the terms of the contracts can be renegotiated, no assurance can be given that the Company will successfully renegotiate the contracts with either or both of these customers. In addition, no assurance can be given that the Company will not incur losses under either or both of these contracts during the interim period until termination becomes effective. The Company does not believe that the loss of these contracts, if they cannot be renegotiated, would have a material adverse effect on its liquidity.

* * * *

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Form 10-K, as well as the unaudited consolidated interim financial statements and the related notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1999 filed with the Commission (this "Report").

This Report contains statements not purely historical and which may be considered forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding the Company's expectations, hopes, intentions or strategies regarding the future, as well as statements which are not historical fact. Forward looking statements may include statements relating to the Company's business development activities, its' sales and marketing efforts, the status of material contractual arrangements including the negotiation or re-negotiation of such arrangements, future capital expenditures, the effects of regulation and competition on the Company's business, future operating performance of the Company and the results, the benefits and risks associated with integration of acquired companies, the effect of year 2000 problems on the Company's operations and/or effect of legal proceedings or investigations and/or the resolution or settlement thereof. Investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. These factors include, among other things, risks associated with risk-based or "capitated" contracts, increased government regulation related to the health care and insurance industries in general and more specifically, pharmacy benefit management organizations, increased competition from the Company's competitors, including competitors with greater financial, technical, marketing and other resources, and the existence of complex laws and regulations relating to the Company's business. This Report along with the Company's Form 10-K contain information regarding important factors that could cause such differences. The Company does not undertake any obligation to publicly release the results of any revisions to these forward looking statements that may be made to reflect any future events and circumstances.

Overview

RxCare of Tennessee, Inc. ("RxCare"), a pharmacy services administrative organization owned by the Tennessee Pharmacists Association and representing approximately 1,250 retail pharmacies, initially retained the Company in 1993 to assist in obtaining contracts with managed care organization's ("MCO's") applying to participate in the TennCare program to provide pharmacy benefit management ("PBM") services to those MCO's and their TennCare eligible and commercial recipients. In January 1994, the State of Tennessee instituted its TennCare program by contracting with MCO's to provide mandated health services to TennCare beneficiaries on a capitated basis. In turn, certain of these MCO's contracted with RxCare to provide TennCare mandated pharmaceutical benefits to their TennCare beneficiaries through RxCare's network of retail pharmacies, in most cases on a corresponding capitated basis.

From January 1994 through December 31, 1998, the Company provided a broad range of PBM services with respect to RxCare's TennCare, TennCare Partners, the TennCare behavioral health program, and commercial PBM business under an agreement with RxCare (the "RxCare Contract"). Under the RxCare Contract, the Company performed essentially all of RxCare's obligations under its PBM contracts with plan sponsors, including designing and marketing PBM programs and services. Under the RxCare Contract, the Company paid certain amounts to RxCare and shared with RxCare the profit, if any, derived from services performed under RxCare's contracts with the plan sponsors.

The Company and RxCare did not renew the RxCare Contract which expired on December 31, 1998. The negotiated termination of the Company's relationship with RxCare, among other things, allowed the Company to directly market its services to Tennessee customers, including those MCO's and commercial

customers then serviced by the Company through the RxCare Contract, prior to its expiration. The RxCare Contract had previously prohibited the Company from soliciting and/or marketing its PBM services in Tennessee other than on behalf of, and for the benefit of, RxCare. The Company's marketing efforts after its negotiated settlement resulted in the Company executing agreements, effective as of January 1, 1999, to provide PBM services directly to five of the six TennCare MCO's representing approximately 900,000 of the 1.2 million TennCare lives previously managed under the RxCare Contract, as well as substantially all third party administrators ("TPA's") and employer groups previously managed under the RxCare Contract. Effective May 1, 1999, the Company entered into a contract with the sixth TennCare MCO representing approximately 300,000 TennCare lives, thereby contracting with all of the TennCare MCO's that the Company managed through the RxCare Contract prior to December 31, 1998. To date, the Company has not contracted with the two TennCare behavioral health organizations ("BHO's") to which it previously provided PBM services under the RxCare Contract as the State presently administers the pharmacy benefit for these BHO's. For the year ended December 31, 1998, amounts paid to the Company by these BHO's represented approximately 27% of the Company's revenues.

A majority of the Company's revenues are derived from providing PBM services in the State of Tennessee to MCO's participating in the State of Tennessee's TennCare program. At March 31, 1999, the Company provided PBM services to 140 health plan sponsors with an aggregate of approximately 1.7 million plan members, of which TennCare represented health plans with approximately 900,000 plan members. The five TennCare contracts accounted for 47.4% of the Company's revenues for the three months ended March 31, 1999 and 76.0% of the Company's revenues for the three months ended March 31, 1998. With the addition of the sixth TennCare MCO as of May 1, 1999, the Company anticipates that approximately 45% of its revenues for fiscal 1999 will be derived from providing PBM services to these six TennCare MCO's.

Results of Operations

Three months ended March 31, 1999 compared to three months ended March 31, 1998

For the three months ended March 31, 1999, the Company recorded revenue of $74.9 million, a decrease of $23.1 million from the same period a year ago. TennCare contracts accounted for decreased revenues of $38.9 million as the Company did not retain contracts as of January 1, 1999 with the sixth TennCare MCO and the two TennCare BHO's it previously managed under the RxCare Contract. The loss of these contracts represents $17.6 million and $23.6 million, respectively, of the decrease in revenue, partially offset by increases in other TennCare contracts. Commercial revenue increased $8.9 million, partially offset by a decrease of $8.5 million due to the loss of a contract with a Nevada based managed care organization, representing a net increase of $.4 million in commercial revenue. Revenue increased $15.4 million as a result of the Company's acquisition in August 1998 of the operations of Continental Managed Pharmacy Services Inc. ("Continental").

For the three months ended March 31, 1999, approximately 17% of the Company's revenues were generated from capitated or other risk-based contracts, compared to 39% for the three months ended March 31, 1998. This decrease resulted from the loss, as of January 1, 1999, of a major contract with on of the TennCare MCO's the Company managed on a capitated basis throughout 1998 under the RxCare Contract, as well as the addition of other business through the Company's acquisition of Continental.

Cost of revenue for the three months ended March 31, 1999 decreased $25.7 million from $92.4 million to $66.7 million compared to the same period a year ago. TennCare contracts accounted for $36.4 million of such decrease due to the loss as of January 1, 1999 of the sixth TennCare MCO and the two TennCare BHO's previously managed under the RxCare Contract until December 31, 1998. The loss of these contracts represents $16.2 million and $22.2 million, respectively, of the decrease, partially offset by increases in other TennCare contracts. Cost of revenue increases of $6.7 million from commercial business were completely offset by a decrease in cost of revenue of $8.5 million due to the loss of a contract with a Nevada based managed care organization, representing a net decrease of $1.8 million. Such decreases in cost of revenue were partially offset by increases of $12.5 million generated from Continental. As a percentage of revenue, cost of revenue decreased to 89.1% for the three months ended March 31, 1999

from 94.3% for the three months ended March 31, 1998 primarily due to the contribution of Continental's drug distribution business which has experienced better margins than historically experienced by the Company's core PBM line of business.

Generally, loss contracts arise only on capitated or other risk-based contracts and primarily result from higher than expected pharmacy utilization rates, higher than expected inflation in drug costs and the inability of the Company to restrict its MCO clients' formularies to the extent anticipated by the Company at the time contracted PBM services are implemented, thereby resulting in higher than expected drug costs. At such time as management estimates that a contract will sustain losses over its remaining contractual life, a reserve is established for these estimated losses. Management does not believe that there is an overall trend towards losses on its existing capitated contracts.

Selling, general and administrative expenses were $7.5 million for the three months ended March 31, 1999, an increase of $3.0 million as compared to $4.5 million for the three months ended March 31, 1998. The acquisition of Continental accounted for $2.5 million of the increase. The remaining $0.5 million increase in expenses reflects expenditures incurred in connection with the Company's continuing commitment to enhance its ability to manage efficiently pharmacy benefits by investing in additional personnel and information systems to support new and existing customers and increased legal costs. As a percentage of revenue, selling, general and administrative expenses increased to 10.0% for the three months ended March 31, 1999 from 4.5% for the three months ended March 31, 1998 mainly attributable to revenue decrease experienced from the loss of the three TennCare contracts (as discussed above).

For the three months ended March 31, 1999, the Company recorded amortization of goodwill and other intangibles of $0.3 million in connection with its acquisition of Continental. The Continental acquisition resulted in the recording of approximately $18.5 million of goodwill and $1.2 million of other intangible assets, which will be amortized over their estimated useful lives (25 years for goodwill and 6 years and 4 years for other intangible assets).

For the three months ended March 31, 1999, the Company recorded interest income, net of interest expense, of $0.2 million. Interest income was $0.3 million, a decrease of $0.2 million from the same period a year ago, resulting from a reduced level of invested capital due to the additional working capital needs of the Company. See "Liquidity and Capital Resources."

For the three months ended March 31, 1999, the Company recorded net income of $.6 million, or $.03 per diluted share. For the three months ended March 31, 1998, the Company recorded net income of $1.6 million, or $.11 per diluted share.

For the three months ended March 31, 1999, accounts receivable decreased $7.5 million to $57.2 million from $64.7 million from December 31, 1998. The decrease resulted primarily from a proportionate decrease in PBM business during the period.

Liquidity and Capital Resources

The Company utilizes both funds generated from operations, if any, and funds raised in its initial public offering (the "Offering") for capital expenditures and working capital needs. For the three months ended March 31, 1999, net cash provided from operating activities totaled $1.6 million, due mainly to a decrease in accounts receivable of $7.6 million and an increase in payables to plan sponsors of $4.2 million partially offset by a decrease in claims payable of $9.7 million. The decrease in accounts receivable resulted primarily from a proportionate decrease in PBM business. Payables to plan sponsors increased due to changes in contractual terms, whereby the Company incurred additional sharing obligations upon contract renegotiations effective January 1, 1999. Claims payable decreased due primarily to the loss as of January 1, 1999 of the three TennCare contracts discussed above.

Investing activities generated $2.4 million primarily from proceeds of maturities of investment securities of $2.8 million. This cash provided was partially offset by purchases of $.8 million of equipment primarily to upgrade and enhance information systems necessary to strengthen and support the Company's

ability to manage its customer's PBM programs and to be competitive in the PBM industry. Financing activities used $4.7 million of cash primarily from a decrease in revolving debt of $4.2 million.

At March 31, 1999, the Company had working capital of $15.6 million, including $8.9 million in investment securities, compared to $19.8 million at December 31, 1998. Cash and cash equivalents decreased to $3.8 million at March 31, 1999 compared with $4.5 million at December 31, 1998. The Company had investment securities held to maturity of $8.9 million at March 31, 1999 and $11.7 million at December 31, 1998. The decrease in cash and investment securities was due to the Company's increased working capital requirements. With the exception of the Company's $2.3 million preferred stock investment in Wang Healthcare Information Systems, Inc., the Company's investments are primarily corporate debt securities rated AA or higher and government securities.

Effective January 1, 1999, the Company began to provide PBM services directly to five of the six TennCare MCO's representing 900,000 of the 1.2 million TennCare lives previously managed under the RxCare Contract. Effective May 1, 1999, the Company entered into a contract with the sixth TennCare MCO representing approximately 300,000 TennCare lives, thereby contracting with all of the TennCare MCO's that the Company managed through the RxCare Contract prior to December 31, 1998. To date, however, the Company has not contracted with either of the two TennCare BHO's for which it previously provided PBM services under the RxCare Contract as the State presently administers the pharmacy benefit for these BHO's. The Company does not believe that the loss of these contracts will have a material adverse effect on its liquidity.

As part of the Company's normal review process, the Company determined that two of the Company's capitated TennCare contracts were not achieving profitability projections. Accordingly, in accordance with the terms of these contracts, the Company exercised its right to terminate these contracts effective on September 28, 1999. Representatives of the Company and these TennCare MCO's are presently renegotiating these contracts. While the Company believes it is reasonably likely that the terms of the contracts can be renegotiated, no assurance can be given that the Company will successfully renegotiate the contracts with either or both of these customers. In addition, no assurance can be given that the Company will not incur losses under either or both of these contracts during the interim period until termination becomes effective. The Company does not believe that the loss of these contracts, if they cannot be renegotiated, would have a material adverse effect on its liquidity.

On March 31, 1999, the State of Tennessee and Xantus Healthplan of Tennessee, Inc. ("Xantus") entered into a consent decree whereby, among other things, the Commissioner of Commerce and Insurance for the State of Tennessee was appointed receiver of Xantus for purposes of rehabilitation. At this time, the Company is unable to predict the effects of this action on the Company's ability to collect monies owed to it by Xantus for PBM services rendered by the Company from January 1, 1999 through April 1, 1999. As of April 1, 1999, Xantus owed the Company $10.7 million. To date, the Company has withheld from its pharmacy providers approximately $4.0 million of claims submitted by them on behalf of Xantus members as permitted by the Company's agreements with these pharmacy providers. State of Tennessee officials have publicly indicated that the State will ensure that all TennCare providers negatively impacted by the appointment of the receiver for Xantus will eventually receive from Xantus or the State at least 50% of all outstanding amounts owed by Xantus to such providers as of April 1, 1999. The Company can give no assurance that Xantus or the State will eventually pay any or all of these amounts. The failure of the Company to collect from Xantus or the State all or a substantial portion of the monies owed to it by Xantus would have a material adverse effect on the Company's financial condition and results of operations. The receiver has begun to pay the Company on behalf of Xantus for services rendered to Xantus and its members following April 1, 1999.

In April 1999, the Company loaned to the Chairman and Chief Executive Officer of the Company $1.7 million, evidenced by a promissory note and a pledge of 1.5 million shares of Common Stock to secure his obligations under the promissory note. The note requires repayment of principal and interest by March 31, 2004. Interest is accrued monthly at the Prime Rate (as defined in the note) then in effect. The loan was approved by the Company's Board of Directors in order to provide funds with which the Chairman could pay the tax liability associated with the exercise of stock options representing 1.5 million shares of Common Stock in January 1998.

Under Section 145 of the Delaware General Corporation Law ("Section 145") and the Company's Amended and Restated By-Laws ("By-Laws"), the Company is obligated to indemnify two former officers of the Company (one of which is also a former director and still a principal stockholder of the Company) who are the subject of the indictments brought in the United States District Court for the Western District of Tennessee (as more fully described in the Form 10-K), unless it is ultimately determined by the Company's Board of Directors that these former officers failed to act in good faith and in a manner they reasonably believed to be in the best interests of the Company, that they had reason to believe that their conduct was unlawful of for any other reason under which indemnification would not be required Section 145 or the By-Laws. In addition, until the Board makes such a determination, the Company is also obligated under Section 145 and its By-Laws to advance the costs of defense to such persons; however, if the Board determines that either or both of these former officers are not entitled to indemnification, such individuals would be obligated to reimburse the Company for all amounts so advanced. The Company is not presently in a position to assess the likelihood that either or both of these former officers will be entitled to such indemnification and continued advancement of defense costs or to estimate the total amount that it may have to pay in connection with such obligations or the time period over which such amounts will have to be advanced. No assurance can be given, however, that the Company's obligations to either or both of these former officers would not have a material adverse effect on the Company's results of operations or financial condition.

At December 31, 1998, the Company had, for tax purposes, unused net operating loss ("NOL") carryforwards of approximately $47 million which will begin expiring in 2008. As it is uncertain whether the Company will realize the full benefit from these NOL carryforwards, the Company has recorded a valuation allowance equal to the deferred tax asset generated by the carryforwards. The Company assesses the need for a valuation allowance at each balance sheet date. The Company has undergone a "change in control" as defined in the Internal Revenue Code of 1986, as amended ("Code"), and the rules and regulations promulgated thereunder. The amount of NOL carryforwards that may be utilized in any given year will be subject to a limitation as a result of this change. The annual limitation approximates $2.7 million. Actual utilization in any year will vary based on the Company's tax position in that year.

As the Company continues to grow, it anticipates that its working capital needs will also continue to increase. The Company expects to spend approximately $1.7 million on capital expenditures during fiscal 1999 (no substantial portion of which was expended in the first quarter of 1999) primarily for expansion and continued upgrading of information systems. The Company believes that it has sufficient cash on hand or available to fund the Company's anticipated working capital and other cash needs for at least the next 12 months.

The Company may also pursue joint venture arrangements, business acquisitions and other strategic transactions and arrangements designed to expand its business, which the Company would expect to fund from cash on hand or future indebtedness or, if appropriate, the sale or exchange of equity securities of the Company.

Other Matters

The Company's pharmaceutical claims costs historically have been subject to significant increases from October through February, which the Company believes is due to the need for increased medical attention to, and intervention with, MCO's members during the colder months. The resulting increase in pharmaceutical costs impacts the profitability of capitated contracts or other risk-based arrangements. Risk-based business represented approximately 17% of the Company's revenues while non-risk business (including the provision of mail order services) represented approximately 83% of the Company's revenues for the three months ended March 31, 1999. Non-risk arrangements mitigate the adverse effect on profitability of higher pharmaceutical costs incurred under risk-based contracts. The Company presently anticipates that approximately 36% of its revenues in fiscal 1999 will be derived from risk-based arrangements.

Changes in prices charged by manufacturers and wholesalers or distributors for pharmaceuticals, a component of pharmaceutical claims, have historically affected the Company's cost of revenue. The

Company believes that it is likely that prices will continue to increase which could have an adverse effect on the Company's gross profit. To the extent such cost increases adversely effect the Company's gross profit, the Company may be required to increase contract rates on new contracts and upon renewal of existing contracts. However, there can be no assurance that the Company will be successful in obtaining these rate increases. The higher level of non-risk contracts with the Company's customers in 1999 compared to prior years mitigates the adverse effects of price increases, although no assurance can be given that the recent trend towards no-risk arrangements will continue.

Year 2000 disclosure

The so-called "year 2000 problem," which is common to many companies, concerns the inability of information systems, primarily computer hardware and software programs, to recognize properly and process date sensitive information following December 31, 1999. The Company has committed substantial resources (approximately $2.6 million) over the past two years to improve its information systems ("IS project"). The Company has used this IS project as an opportunity to evaluate its state of readiness, estimate expected costs and identify and quantify risks associated with any potential year 2000 issues.

State of Readiness:

In evaluating the Company's potential exposure to the year 2000 problem, management first identified those systems that were critical to the ongoing business of the Company and that would require significant manual intervention should those systems be unable to process dates correctly following December 31, 1999. Those systems were the Company's claims adjudication and processing system and the internal accounting system (which includes pharmacy reimbursement). Once those systems were identified, the following steps were identified as those that would be required to be taken to ascertain the Company's state of readiness:

I. Obtaining letters from software and hardware vendors concerning the ability of their products to properly process dates after December 31, 1999;

II. Testing the operating systems of all hardware used in the identified information systems to determine if dates after December 31, 1999 can be processed correctly;

III. Surveying other parties who provide or process information in electronic format to the Company as to their state of readiness and ability to process dates after December 31, 1999; and

IV. Testing the identified information systems to confirm that they will properly recognize and process dates after December 31, 1999.

The Company (excluding for purposes of this year 2000 discussion only, Continental) has completed Step I. The Company will continue to obtain letters from new hardware and software vendors. The Company is currently in the process of implementing Step II. The Company has begun testing its operating systems, and where appropriate software patches have been acquired. Any software or hardware determined to be non-compliant will be modified, repaired or replaced. Installation of patches and full operating systems testing is anticipated to be completed during the second quarter of 1999. The Company cannot estimate the costs of such modifications, repairs and replacements at this time, but does not believe that the costs of such modifications, repairs or replacements will be material. The Company will disclose the results of its testing and attempt to further quantify this estimate in future periodic reports following its completion of Step II.

With respect to Step III above, the Company has engaged in discussions with the third party vendors that transmit data from member pharmacies and based upon such discussions it believes that such third party vendors' systems will be able to properly recognize and process dates after December 31, 1999. The Company is in the process of surveying member pharmacies in its network as to their ability to transmit data correctly to such third party vendors and anticipates completing this survey during the second quarter of 1999. Once this survey is complete, the Company will evaluate any additional steps required to allow member pharmacies to transmit data after December 31, 1999 and will disclose such additional steps, if any, and their related costs in future periodic reports.

With respect to Step IV above, the Company intends to perform a comprehensive year 2000 compliance test of the claims adjudication and processing systems as part of the next regularly scheduled disaster recovery drill, which is currently planned for June 1999. This date has been postponed from the previously scheduled March 1999 test in order to incorporate software upgrades during the second quarter of 1999. The Company's internal accounting and other administrative systems generally have been internally developed during the last few years or are presently being developed. Accordingly, in light of the fact that such systems were developed with a view to year 2000 compliance, the Company fully expects that these systems will be able to properly recognize and process dates after December 31, 1999. The Company intends to test these systems for year 2000 compliance as part of the disaster recovery drill described above.

Continental's computer systems related to the delivery of pharmaceutical products through mail order were upgraded in the fourth quarter of 1998 to become year 2000 compliant. All internal systems at Continental are scheduled to be compliant by the end of the third quarter of 1999.

Costs:

As noted above, the Company spent approximately $2.6 million over the past two years to improve its information systems. In addition, the Company anticipates that it will spend approximately $1.7 million during 1999 to further improve its information systems. These improvements were not, and are not intended to specifically address the year 2000 issue, but rather to address other business needs and issues. Nonetheless, the IS project has provided the Company with a platform from which to address any year 2000 issues. Management does not believe that the amount of funds expended in connection with the IS project would have differed materially in the absence of the year 2000 problem. The Company's cash on hand as a result of the Offering has provided all of the funds expended to date on the IS project and is expected to provide substantially all of the funds expected to be spent during 1999 on the IS project.

Risks:

On July 29, 1998, the Commission issued Release No. 33-7558 (the "Release") in an effort to provide further guidance to reporting companies concerning disclosure of the year 2000 problem. In this Release the Commission required that registrants include in its year 2000 disclosure a description of its "most reasonably likely worst case scenario." Based on the Company's assessment and the results of remediation performed to date as described above, the Company believes that all problems related to the year 2000 will be addressed in a timely manner so that the Company will experience little or no disruption in its business immediately following December 31, 1999. However, if unforeseen difficulties arise, if the Company's assessment of Continental uncovers significant problems (which is not presently expected to occur) or if compliance testing is delayed or necessary remediation efforts are not accomplished in accordance with the Company's plans described above, the Company anticipates that its "most reasonably likely worst case scenario" (as required to be described by the Release) is that some percentage of the Company's claims would need to be processed manually for some limited period of time. At this point in time, the Company cannot reasonably estimate the number of pharmacies or the level of claims involved or the costs that would be incurred if the Company were required to hire temporary staff and incur other expenses to manually process such claims. The Company expects to be better able to quantify the number of pharmacies and level of claims involved as well as the related costs following its completion of the survey of member pharmacies in the second quarter of 1999 and presently intends to disclose such estimates in future periodic reports. In addition, the Company anticipates that all businesses (regardless of their state of readiness), including the Company, will encounter some minimal level of disruption in its business (e.g., phone and fax systems, alarm systems, etc.) as a result of the year 2000 problem. However, the Company does not believe that it will incur any material expenses or suffer any material loss of revenues in connection with such minimal disruptions.

Contingency Plans:

As discussed above, in the event of the occurrence of the "most reasonably likely worst case scenario" the Company would hire an appropriate level of temporary staff to manually process the pharmacy claims

submitted on paper. As discussed above, at this time the Company cannot reasonably estimate the number of pharmacies or level of claims involved or the costs that would be incurred if the Company were required to hire temporary staff and incur other expenses to manually process such claims. While some level of manual processing is common in the industry and while manual processing increases the time it takes the Company to pay the member pharmacies and invoice the related payors, the Company does not foresee any material lost revenues or other material expenses in connection with this scenario. However, an extended delay in processing claims, making payments to pharmacies and billing the Company's customers could materially adversely impact the Company's liquidity.

In addition, while not part of the "most reasonably likely worst case scenario," the delay in paying such pharmacies for their claims could result in adverse relations between the Company and the pharmacies. Such adverse relations could cause certain pharmacies to drop out of the Company's networks which in turn could cause the Company to be in breach under service area provisions under certain of its services agreements with its customers. The Company does not believe that any material relationship with any pharmacy will be so affected or that any material number of pharmacies would withdraw from the Company's networks or that it will breach any such service area provision of any contract with its customers. Notwithstanding the foregoing, based upon past experience, the Company believes that it could quickly replace any such withdrawing pharmacy so as to prevent any breach of any such provision. The Company cannot presently reasonably estimate the possible impact in terms of lost revenues, additional expenses or litigation damages or expenses that could result from such events.

Forward Looking Statements:

Certain information set forth above regarding the year 2000 problem and the Company's plans to address those problems are forward looking statements under the Securities Act and the Exchange Act. See the first paragraph in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of forward looking statements and related risks and uncertainties. In addition, certain factors particular to the year 2000 problem could cause actual results to differ materially from those contained in the forward looking statements, including, without limitation: failure to identify critical information systems which experience failures, delays and errors in the compliance and remediation efforts described above, unexpected failures by key vendors, member pharmacies, software providers or business partners to be year 2000 compliant or the inability to repair critical information systems in the time frames described above. In any such event, the Company's results of operations and financial condition could be materially adversely affected. In addition, the failure to be year 2000 compliant of third parties outside of the Company's control such as electric utilities or financial institutions could adversely effect the Company's results of operations and financial condition.

* * * *

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company believes that interest rate risk represents the only market risk exposure applicable to the Company. The Company's exposure to market risks associated with changes in interest rates relates primarily to the Company's investments in marketable securities in accordance with the Company's corporate investment policies and guidelines. All of these instruments are classified as "held-to-maturity" on the Company's consolidated balance sheets and were entered into by the Company solely for investment purposes and not for trading purposes. The Company does not invest in or otherwise use derivative financial instruments. The Company's investments consist primarily of corporate debt securities, corporate preferred stock and State and local governmental obligations, each rated AA or higher. The table below presents principal cash flow amounts and related weighted average effective interest rates by expected (contractual) maturity dates for the Company's financial instruments subject to interest rate risk:

	1999	2000	2001	2002	2003	Thereafter
Short-term investments						
Fixed rate investments	8,850	--	--	--	--	--
Weighted average rate	6.57%	--	--	--	--	--
Long-term investments:						
Fixed rate investments	--	--	--	--	--	--
Weighted average rate	--	--	--	--	--	--
Long-term debt:						
Variable rate instruments	112	312	1,773	--	--	--
Weighted average rate	9.00%	9.00%	7.78%	--	--	--

In the table above, the weighted average interest rate for fixed and variable rate financial instruments in each year was computed utilizing the effective interest rate at March 31, 1999 for that instrument multiplied by the percentage obtained by dividing the principal payments expected in that year with respect to that instrument by the aggregate expected principal payments with respect to all financial instruments within the same class of instrument.

At March 31, 1999, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, claims payable and payables to plan sponsors and others approximate fair value due to their short-term nature.

Because management does not believe that its exposure to interest rate market risk is material at this time, the Company has not developed or implemented a strategy to manage this market risk through the use of derivative financial instruments or otherwise. The Company will assess the significance of interest rate market risk from time to time and will develop and implement strategies to manage that risk as appropriate.

* * * *

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

On March 31, 1999, the State of Tennessee and Xantus Healthplan of Tennessee, Inc. ("Xantus") entered into a consent decree whereby, among other things, the Commissioner of Commerce and Insurance for the State of Tennessee was appointed receiver of Xantus for purposes of rehabilitation. At this time, the Company is unable to predict the effects of this action on the Company's ability to collect monies owed to it by Xantus for pharmacy benefit management services rendered by the Company from January 1, 1999 through April 1, 1999. As of April 1, 1999, Xantus owed the Company $10.7 million. To date, the Company has withheld from its pharmacy providers approximately $4.0 million of claims submitted by them on behalf of Xantus members as permitted by the Company's agreements with these pharmacy providers. State of Tennessee officials have publicly indicated that the State will ensure that all TennCare providers negatively impacted by the appointment of the receiver for Xantus will eventually receive from Xantus or the State at least 50% of all outstanding amounts owed by Xantus to such providers as of April 1, 1999. The Company can give no assurance that Xantus or the State will eventually pay any or all of these amounts. The failure of the Company to collect from Xantus or the State all or a substantial portion of the monies owed to it by Xantus would have a material adverse effect on the Company's financial condition and results of operations. The receiver has begun to pay the Company on behalf of Xantus for services rendered to Xantus and its members following April 1, 1999.

Item 2. Changes in Securities and Use of Proceeds

From August 14, 1996 through March 31, 1999, the $46,788,000 net proceeds from the initial public offering (the "Offering"), pursuant to a Registration Statement assigned file number 333-05327 by the Securities and Exchange Commission and declared effective by the Commission on August 14, 1996, have been applied in the following approximate amounts:

Construction of plant, building and facilities	$ --
Purchase and installation of machinery and equipment	$ 5,069,000
Purchases of real estate	$ --
Acquisition of other business	$ 2,341,000
Repayment of indebtedness	$ --
Working capital	$26,750,000
Temporary investments:	
Marketable securities	$ 8,875,000
Overnight cash deposits	$ 3,753,000

To date, the Company has expended a relatively insignificant portion of the Offering proceeds on expansion of the Company's "preferred generics" business which was described more fully in the Offering prospectus and the Company's Annual Report on Form 10-K for the year ended December 31, 1996. At the time of the Offering, however, as disclosed in the Offering prospectus and subsequent Forms SR, the Company intended to apply approximately $18.6 million of Offering proceeds to fund an expansion of the "preferred generics" program. The Company has determined not to apply any material portion of the Offering proceeds to fund any expansion of this program. The Company presently intends to use the remaining Offering proceeds to support the continued growth of its PBM and mail order business.

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

No matters were submitted to a vote of the Company's security holders during the first quarter of fiscal 1999.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
10.58	Commercial Term Promissory Note, dated April 14, 1999, by Richard H. Friedman in favor of MIM Corporation
10.59	Pledge Agreement, dated April 14, 1999, by Richard H. Friedman in favor of MIM Corporation
10.60	Amended and Restated 1996 Non-Employee Directors Stock Incentive Plan (effective as of March 1, 1999)
10.61	1999 Cash Bonus Plan for Key Employees
27	Financial Data Schedule

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the first quarter of fiscal 1999.

SIGNATURES

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

MIM CORPORATION

Date: May 17, 1999

/s/ Edward J. Sitar

Edward J. Sitar
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

(Exhibits being filed with this Quarterly Report on Form 10-Q)

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27	Financial Data Schedule

COMMERCIAL TERM PROMISSORY NOTE

$1,700,000.00 April 14, 1999
Elmsford, New York

FOR VALUE RECEIVED, the undersigned (the "Maker", whether one or more), hereby unconditionally promise(s) to pay to the order of MIM CORPORATION ("Payee"), at Payee's offices located at 100 Clearbrook Road, Elmsford, New York 10523, or such other office as the holder hereof may designate, in lawful money of the United States, the principal sum of One Million Seven Hundred Thousand and No/100 Dollars ($1,700,000.00), together with interest thereon as provided for below.

1. Payment of Principal. Maker shall pay the entire principal amount hereof on March 31, 2004.

2. Interest Rate; Payment of Interest. Maker shall pay interest on the unpaid principal balance hereof outstanding from time to time at a rate per annum equal to the Prime Rate (as defined below) in effect from time to time. All such interest shall be due on March 31, 2004. Anything contained in this Note to the contrary notwithstanding, during any period in which an Event of Default (as defined below) is continuing, the interest rate hereunder shall, at the option of the Payee, be increased to a rate per annum equal to the rate which would otherwise apply plus two (2) percent per annum, and all interest accruing at such rate shall be payable upon demand by the Payee. "Prime Rate" shall mean the rate of interest per annum announced from time to time by The Chase Manhattan Bank (or its successor) as its prime rate in effect at its principal office in New York City (the prime rate of interest not being intended to be the lowest rate of interest charged by such bank in connection with extensions of credit).

Interest shall commence to accrue on the date hereof and shall continue to accrue until the principal hereof is paid in full (whether before or after maturity or judgment).

Anything contained in this Note to the contrary notwithstanding, the Payee does not intend to charge and the Maker shall not be required to pay interest or other charges in excess of the maximum rate permitted by applicable law. Any payments in excess of such maximum shall be refunded to Maker or credited against principal.

3. Prepayment. Maker may prepay the principal hereof, in whole or in part at any time without penalty or premium. All such prepayments shall, unless the Payee otherwise agrees, be applied in inverse order of maturity.

4. Expenses. Maker shall pay the Payee, on demand, for all reasonable costs and expenses, including, but not limited to, reasonable attorneys' fees, incurred in the collection of this Note.

5. Default; Acceleration. The occurrence of any of the following shall constitute an "Event of Default":

a. Maker shall fail to make any payment of any principal, interest or other amount when due or fail to perform any or observe any term or provision of this Note and, in any case, such failure shall continue for a period of ten (10) calendar days.

b. Any event of default or default shall occur under any pledge or other security agreement or other related document executed by the Maker in favor of Payee.

c. Maker or any endorser or guarantor hereof shall die (if an individual) or be dissolved (if an entity) and the unpaid principal balance of this Note and all accrued and unpaid interest hereunder shall not be paid in full within one hundred eighty (180) calendar days after such death or dissolution (provided, however, that nothing contained herein shall be interpreted or construed to limit the right of the holder hereof to file a claim (with respect to the indebtedness of the Note) against the estate of the decedent Maker, endorser or guarantor, as the case may be, during (or after) such 180 day period); or shall make an assignment for the benefit of creditors; or shall have a receiver, custodian, trustee or conservator appointed for all or substantially all its assets.

d. Any case or proceeding under any bankruptcy, insolvency, receivership or similar law affecting Maker or any endorser or guarantor shall be commenced.

e. Any representation or warranty of Maker contained in this Note or any related document shall prove to be untrue or misleading in any material respect.

f. Maker's employment with Payee shall terminate for any reason whatsoever, whether or not for cause and whether terminated by Payee or Maker and the unpaid principal balance of this Note and all accrued and unpaid interest hereunder shall not be paid in full within one hundred eighty (180) calendar days after the date of termination.

Upon the occurrence, and at any time during the continuance of an Event of Default, Payee, at Payee's option and without the need for presentment, demand, protest, or other notice of any kind, may declare all unpaid principal hereof and interest hereunder to be immediately due and payable and same shall become immediately due and payable upon such declaration.

7. Certain Waivers. Maker and any endorser or guarantor hereof (collectively, the "Obligors") and each of them (i) waive(s) presentment, diligence, protest, demand, notice of acceptance or reliance, notice of non-payment, notice of dishonor, notice of protest and all other notices to parties in connection with the delivery, acceptance, performance, default or enforcement of this Note, any endorsement or guaranty of this Note, or any collateral or other security; (ii) consent(s) to any and all delays, extensions, renewals or other modifications with respect to this Note, any related document or the debt(s) or collateral evidenced hereby or thereby or any waivers of any term hereof or thereof, any release, surrender, taking of additional, substitution, exchange, failure to perfect, record, preserve, realize upon, or lawfully dispose of, or any other impairment of, any collateral or other security, or any

other failure to act by the Payee or any other forbearance or indulgence shown by the Payee, from time to time and in one or more instances (without notice to or assent from any of the Obligors) and agree(s) that none of the foregoing shall release, discharge or otherwise impair any of their liabilities; (iii) agree(s) that the full or partial release or discharge of any Obligor(s) shall not release, discharge or otherwise impair the liabilities of any other Obligor(s); and (iv) otherwise waive(s) any other defenses based on suretyship or impairment of collateral.

8. Jury Waiver. THE MAKER HEREBY KNOWINGLY AND VOLUNTARILY WAIVES TRIAL BY JURY AND THE RIGHT THERETO IN ANY ACTION OR PROCEEDING OF ANY KIND, ARISING UNDER OR OUT OF, OR OTHERWISE RELATED TO OR OTHERWISE CONNECTED WITH, THIS NOTE AND/OR ANY RELATED DOCUMENT.

9. Binding Nature. This Note shall bind the Maker and Maker's heirs, representatives, successors and assigns and shall inure to the benefit of the Payee, its successors and assigns. The term "Payee" as used herein shall include, in addition to the initial Payee, any successors, endorsees, or other assignees of such Payee and shall also include any other holder of this Note.

10. Governing Law. This Note shall be governed by and construed and interpreted in accordance with the laws the State of New York, without regard to its rules pertaining to conflicts of laws thereunder.

11. Miscellaneous. No delay or omission by the Payee in exercising any right or remedy hereunder or under any guaranty hereof shall operate as a waiver of such right or remedy or any other right or remedy; and a waiver on one occasion shall not be a bar to or waiver of any right or remedy on any other occasion. All rights and remedies of the Payee hereunder, any other applicable document and under applicable law shall be cumulative and not in the alternative. No provision of this Note or any guaranty hereof may be waived or modified orally but only by a writing signed by the party against whom enforcement of such amendment, waiver or other modification is sought.

IN WITNESS WHEREOF, the Maker has executed and delivered this Note as of the day and year first written above.

Maker:

/s/ Richard H. Friedman
- --------------------------
Richard H. Friedman

PLEDGE AGREEMENT

This PLEDGE AGREEMENT (this "Pledge Agreement") dated as of April 14, 1999 is made by Richard H. Friedman (the "Pledgor"), an individual residing at 2 Palmer Place, Armonk, New York 10504, in favor of MIM Corporation, a Delaware corporation (the "Secured Party"), with an office at 100 Clearbrook Road, Elmsford, New York 10523.

W I T N E S S E T H :

WHEREAS, Pledgor is the record and beneficial owner of 1,500,000 shares of the common stock, par value $.0001 per share (the "Common Stock") of the Secured Party; and

WHEREAS, simultaneously with the execution and delivery of this Pledge Agreement, the Pledgor is executing and delivering to the Secured Party a Commercial Term Promissory Note dated of even date herewith, in the original principal amount of $1,700,000.00 (such Note, as the same may be amended, supplemented or otherwise modified from time to time, and any note or instrument given in or evidencing a substitution, refinancing, refunding, replacement, extension or exchange of or for such Note, being collectively referred to herein as the "Promissory Note") evidencing a commercial $1,700,000.00 term loan (the "Loan"); and

WHEREAS, to induce the Pledgee to make the Loan, the Pledgor promised to pledge the aforesaid 1,500,000 shares as security for the payment of the Promissory Note.

NOW, THEREFORE, in consideration of the foregoing premises, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Pledgor hereby agrees with the Secured Party as follows:

1. Defined Terms. The following terms shall have the following meanings as used herein:

"Business Day": any day other than Saturday or Sunday or other day in which banks are authorized to be closed in the State of New York.

"Code": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Collateral": all of Pledgor's right, title and interest in, to or under any of the following:

(i) all of the stock described in Schedule I attached hereto and hereby made a part hereof;

(ii) all dividends (cash or non-cash) and all other distributed stock rights, subscription rights, warrants, interest, cash, instruments, new securities, security entitlements and all other property to which the Pledgor now or hereafter becomes entitled by reason of its interest in any or all of the foregoing;

(iii) all substitutions, additions, replacements, rollovers, splits, products and accessions for, of and/or to any of the foregoing;

(iv) all cash and non-cash proceeds of all of the foregoing;

(v) any and all stock certificates or other instruments or other writings evidencing any stock or other securities referred to in clauses (i) through (iii) above; and

(vi) any and all other property (tangible or intangible) identified herein as additional collateral.

"Default": any event which with the giving of notice or passage of time, or both, would become an Event of Default.

"Event of Default": the occurrence of any of the following (whether or not an event or circumstance is mentioned once or more than once):

(i) any "Event of Default" as defined in the Promissory Note;

(ii) any representation or warranty made by the Pledgor hereunder proves to

have been false or misleading in any material respect when given;

(iii) any default by the Pledgor in the observance or performance of Sections 5(b), 5(e) or 5(g) hereof; or

(iv) any default by the Pledgor in the observance or performance of any other covenant or agreement set forth herein and such default shall continue unremedied for a period of thirty (30) calendar days after the earlier to occur of (i) written notice of such default shall have been given to the Pledgor by the Secured Party of such default or (ii) the Pledgor becoming actually aware of such default.

"Lien": any security interest, mortgage, lien, pledge, charge, title retention agreement, hypothecation, levy, execution, seizure, attachment, garnishment, voting agreement, assignment or other encumbrance.

"Loan to Collateral Value Ratio": at any particular time, the ratio of (a) the sum of (i) the then outstanding principal amount of the Promissory Note plus (ii) the then accrued and unpaid interest under the Promissory Note to (b) the fair market value (to be determined by the Secured Party on the basis of the then applicable quoted price on the stock exchange on which the capital stock of the Secured Party is traded, or, if such

quotation(s) is/are not available for any reason, on a basis to be determined by the Secured Party in its good faith discretion) of the then remaining Specified Pledged Stock owned by the Pledgor and for which certificates (and accompanying duly executed stock powers in blank) have been delivered to and are then in the possession of the Secured Party and in which the Secured Party has a first priority secured interest.

"Obligations": all indebtedness, liabilities, covenants and duties of, all terms and conditions to be observed by, and all other obligations of the Pledgor under the Promissory Note and this Pledge Agreement, whether now existing or hereafter arising, including without limitation all principal, interest, and reasonable costs and expenses (including without limitation reasonable attorneys fees) under the Promissory Note.

"Person": any individual, corporation, partnership, trust or unincorporated organization, a government or any agency or political subdivision thereof, or other entity.

"Pledge Agreement": this Pledge Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Proceeds": proceeds of every kind, nature and description and in whatever form (whether cash or non-cash) including, but not limited to, any and all dividends or other income from the Specified Pledged Stock or other collateral and collections thereon or distributions with respect thereto.

"Specified Pledged Stock": as defined in Schedule I hereto.

2. Grant of Security Interest. The Pledgor hereby delivers to the Secured Party all the Specified Pledged Stock and hereby grants to the Secured Party a first priority security interest in the Collateral, as collateral security for the full and prompt payment, performance and observance when due (whether due at the stated maturity, by demand, acceleration or otherwise) of the Obligations.

3. Stock Powers. Pledgor shall cause any and all certificates or other instruments or other writings at any time representing or evidencing any of the Collateral to be immediately delivered to the Secured Party along with undated stock powers (or other appropriate indorsements) covering such certificates, instruments or other writings duly executed in blank by the Pledgor with, if the Secured Party so requests, signature guaranteed.

4. Representations and Warranties. The Pledgor represents and warrants that:

(a) The Pledgor has not created any restrictions on transferability (other than those created under this Agreement) with respect to the Collateral;

(b) the Pledgor is the legal and beneficial owner of, and has good and marketable title to, the Specified Pledged Stock listed, free of any and all Liens or options in favor of, or claims of, any other Person, except for the Lien created by this Pledge Agreement;

(c) The security interest granted pursuant to this Pledge Agreement will constitute a valid, perfected first priority security interest in the Collateral, enforceable as such against the Pledgor and all other parties; and

(d) This Pledge Agreement is the legal, valid and binding obligation of the Pledgor, enforceable against Pledgor in accordance with its terms, and the execution, delivery and performance of this Pledge Agreement by the Pledgor does not and will not violate any applicable law, or any agreement, instrument or order applicable to the Pledgor or any of Pledgor's property; and

(e) The Pledgor's residence is located at 2 Palmer Place, Armonk, New York 10504, and the Pledgor's principal place of business is located at 100 Clearbrook Road, Elmsford, New York 10523.

5. Covenants. The Pledgor covenants and agrees with the Secured Party that, from and after the date of this Pledge Agreement until the Obligations are paid in full:

(a) If the Pledgor shall, now or hereafter, as a result of Pledgor's ownership of any of the Specified Pledged Stock or the other Collateral, become entitled to receive or shall receive any shares of stock (including, without limitation, any shares of capital stock representing a stock dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate issued in connection with any reorganization), or any other distributed stock rights, subscription rights, warrants, interest, cash (other than those cash dividends which the Pledgor is permitted to receive under Section 6), instruments, new securities, security entitlements or any other property, or any substitutions of, additions to, replacements for, rollovers, splits, products and/or accessions for, of and/or to, or otherwise with respect to, any Collateral, the Pledgor shall accept any and all of the same as the agent of the Secured Party, hold the same in trust for the Secured Party and deliver (to the extent same are certificated or otherwise evidenced by a writing) any and all certificates, other instruments or other writings evidencing same forthwith to the Secured Party in the exact form received, duly endorsed by the Pledgor to the Secured Party, if required, together with an undated stock power(s) covering same duly executed in blank by the Pledgor and with, if the Secured Party so requests, signature guaranteed, any and all of the foregoing to be held by the Secured Party as additional collateral security for the Obligations. Any sums paid upon or in respect of the Specified Pledged Stock (or any other Collateral) upon the liquidation or dissolution of the Secured Party (including without limitation any liquidating dividend) shall be paid over to the Secured Party to be held by it hereunder as additional collateral security for the Obligations, and in case any distribution of capital shall be made on or in respect of the Specified Pledged Stock (or any other Collateral) or any property (cash or non-cash) shall be distributed upon or with respect to the Specified Pledged Stock (or any other Collateral) pursuant to the recapitalization or reclassification of the capital of the Secured Party or pursuant to the reorganization thereof, the property so distributed shall be delivered to the Secured Party to be held by it hereunder as additional collateral security for the Obligations. If any sums of money or property so paid or distributed in respect of the Specified Pledged Stock (or any other Collateral) shall be received by the Pledgor, the Pledgor shall, until such money or property is paid or delivered to the Secured Party, hold such money or property in trust for the Secured Party, segregated from other funds of the Pledgor, as additional collateral security for the Obligations.

(b) Without the prior written consent of the Secured Party, the Pledgor will not directly or indirectly create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Collateral or any interest therein, except for the Lien provided for by this Pledge Agreement and any other Liens in favor of the Secured Party. The Pledgor will defend the right, title and interest of the Secured Party in and to the Collateral against the claims and demands of all Persons whomsoever.

(c) At any time and from time to time, upon the written request of the Secured Party, and at the sole expense of the Pledgor, the Pledgor will promptly and duly execute and/or deliver such Uniform Commercial Code financing statements and such further instruments and other documents and take such further actions as the Secured Party may request to perfect its security interest in any and all Collateral, or may otherwise reasonably request for the purposes of obtaining or preserving the full benefits of this Pledge Agreement and of any and all of the rights, remedies and powers herein granted. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note, other instrument or chattel paper, such note, instrument or chattel paper shall be immediately delivered to the Secured Party, duly endorsed in a manner satisfactory to the Secured Party, to be held as additional collateral pursuant to this Pledge Agreement.

(d) The Pledgor agrees to pay, and to save the Secured Party harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Pledge Agreement or the exercise by the Secured Party of any of its rights, remedies or powers hereunder.

(e) Subject to the proviso set forth in this sentence, the Pledgor shall not sell, transfer, assign or otherwise dispose of the Collateral; provided, however, that the Secured Party hereby agrees that Secured Party shall, at the written request of the Pledgor, release from time to time up to an aggregate of 300,000 shares (as adjusted, if applicable, for any stock split or reverse stock split, combination or the like) of Common Stock from the Lien of this Pledge Agreement (and the Pledgor shall, after such release, have the right to retain and/or sell or otherwise dispose of the released Collateral) if all of the following conditions are satisfied:

(i) no Event of Default or Default has occurred and is continuing immediately prior to, nor shall any Event of Default or Default result from, such release;

(ii) the Loan to Collateral Value Ratio during the entire ninety (90) day period immediately prior to such release, and the Loan to Collateral Value Ratio immediately after such release, is no greater than 1.0 to 2.0; and

(iii) the Pledgor has given to the Secured Party prior written notice of Pledgor's intent to request any such release and such prior written notice is given no less than 10 and no more than 45 Business Days prior to the proposed date of release.

(f) [RESERVED]

(g) In the event Pledgor shall move his residence or principal place of business, he shall (i) attempt to give the Secured Party prior written notice thereof and (ii) in any event give to the Secured Party, within 10 calendar days after such move, written notice of such move.

6. Voting Rights; Dividends. Unless an Event of Default shall have occurred and be continuing, the Pledgor shall be permitted to receive non-liquidating cash dividends paid on the Collateral and to exercise all voting and corporate rights with respect to the applicable Collateral, provided, however, that Pledgor covenants to the Secured Party that no vote shall be cast or corporate right exercised or other action taken by Pledgor which, in the Secured Party's reasonable judgment, would impair the Collateral or which would be inconsistent with or result in any violation of any provision of any agreement or instrument relating to any Obligation, including without limitation the Promissory Note, this Pledge Agreement, or any other financing document contemplated by the Promissory Note. The Secured Party, if an Event of Default shall have occurred or be continuing, shall have the right to receive and hold as additional collateral any dividends or other distributions on the Specified Pledged Stock or other Collateral and, in the event that the Pledgor shall be delivered or otherwise have received (or be entitled to receive) any such dividends or other distributions, Pledgor shall hold same in trust for, and immediately turn over same to, the Secured Party who may hold same as part of the Collateral hereunder; provided, that, the Secured Party shall also have the right (whether or not an Event of Default then exists) to receive and hold as Collateral any liquidating dividend.

7. Rights of the Secured Party. (a) If any Event of Default shall occur and be continuing, (A) any and all shares of the Specified Pledged Stock and any other applicable Collateral may, at the Secured Party's option, be registered in the name of the Secured Party or its nominee, and/or (B) the Secured Party or its nominee may exercise (i) all voting, corporate and any other rights pertaining to any and all Collateral, whether at any meeting of shareholders of the Secured Party or otherwise and/or (ii) any and all rights of conversion, exchange, subscription and any other rights, privileges or options pertaining to any and all Collateral as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Specified Pledged Stock (and any other applicable Collateral) upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate structure of the Secured Party, or upon the exercise by the Pledgor or the Secured Party of any right, privilege or option pertaining to such shares of the Specified Pledged Stock (and any other applicable Collateral), and in connection therewith, the right to deposit and deliver any and all of the Specified Pledged Stock (and any other applicable Collateral) with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine), all without liability to the Pledgor, but the Secured Party shall have no duty to the Pledgor to exercise any of the foregoing rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

(b) The rights of the Secured Party under this Agreement shall not be conditioned or contingent upon the pursuit by the Secured Party of any right or remedy against any other Person or against the Collateral or any other security or collateral. The Secured Party shall have no obligation or duty (and shall not be liable for any failure) to demand, collect, apply or realize upon all or any part of the Collateral or for any delay in doing so, to collect or to sell or otherwise dispose of any

Collateral (whether upon the request of the Pledgor or any other Person or otherwise and whether or not an Event of Default has occurred or the value of the Collateral has (or may) increase or decrease), to advise the Pledgor of any actual or anticipated changes in the value of the Collateral, to act as an investment advisor or insurer of any of the Collateral, to preserve rights against prior parties, to protect Collateral (except, with respect to Collateral in its possession, as specifically set forth in Section 11 below), to take any other action whatsoever with regard to the Collateral or any part thereof, or to seek payment from any particular source, and any such obligation or duty is hereby waived to the fullest extent permitted by applicable law.

8. Remedies. If an Event of Default shall occur and be continuing, the Secured Party may exercise, in addition to all other rights, remedies and powers granted in this Pledge Agreement or in any other instrument or agreement, all rights, remedies, and powers whether as a secured party or otherwise, under the Code or other applicable law. Without limiting the generality of the foregoing, the Secured Party, without the need for demand of payment or other performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Pledgor or any other Person (all of which demands, defenses, advertisements and notices are hereby waived), may at any and all times demand, sue for, collect, receive, issue entitlement orders (without Pledgor's consent), and/or exercise all options and other rights under or with respect to, and/or appropriate and/or realize upon or otherwise deal with, any or all of the Collateral, and/or make any settlement or compromise which the Secured Party reasonably deems desirable with respect to any or all Collateral, and/or sell, assign, give an option or options to purchase or otherwise dispose of and deliver any and all of the Collateral (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, in the over-the-counter market, at any exchange, broker's board or office of the Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold (and in so purchasing the Secured Party may apply towards the purchase price the unpaid amount of any Obligations) . The Secured Party shall have the right to apply any Proceeds from time to time held by it and the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred in respect thereof or incidental to the care or safekeeping by the Secured Party (or any agent or representative of the Secured Party) of any of the Collateral or in any way relating to the Collateral or the rights, remedies or powers of the Secured Party hereunder, including, without limitation, reasonable attorneys' fees and disbursements of counsel to the Secured Party, to the payment of any and all of the Obligations (whether matured or unmatured), in such order and manner as the Secured Party may elect, and only after such application and after the payment by the Secured Party of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the Code, need the Secured Party account for the surplus, if any, to the Pledgor. To the extent permitted by applicable law, the Pledgor waives all claims, damages and demands it may acquire against the Secured Party arising out of the exercise by the Secured Party of any rights, remedies or powers hereunder except to the extent that such claims, damages or demands arise from the gross negligence or willful misconduct of the Secured Party. If any notice of a proposed sale or other disposition of Collateral shall be required by law, ten (10) calendar days prior written notice of the time and place of any public sale or of the time after which

any private sale or other intended disposition is to be made shall be deemed reasonable. The Pledgor shall remain fully liable for any deficiency if the proceeds of any sale or other disposition or any application of the Collateral are insufficient to pay the Obligations and the costs and expenses of the Secured Party. Nothing contained in this Agreement shall be interpreted or construed so as to require the Secured Party to realize upon the Collateral prior to attempting to collect any of the Obligations, and the Secured Party may exercise all of its various rights, remedies and powers in such order and manner as Secured Party, in its discretion, shall deem advisable.

9. Private Sales. (a) The Pledgor recognizes that the Secured Party may be unable to effect a public sale of any or all the Specified Pledged Stock (or other applicable Collateral), by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise (including without limitation the impracticability of such a public sale due to the value of the Specified Pledged Stock or otherwise), and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Secured Party shall be under no obligation to delay a sale of any of the Specified Pledged Stock (or other Collateral) for the period of time necessary to permit the registration of such securities for public sale under the Securities Act, or under applicable state securities laws.

(b) The Pledgor further agrees to use Pledgor's best efforts to do or cause to be done all such other acts as may be necessary to make any sale or sales of all or any portion of the Specified Pledged Stock (or other Collateral) pursuant to this Pledge Agreement valid and binding and in compliance with any and all other applicable requirements of law. The Pledgor further agrees that a breach of any of the covenants contained in this Section 9 will cause irreparable injury to the Secured Party, that the Secured Party has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 9 shall be specifically enforceable against the Pledgor, and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred.

10. Certain Waivers. The Pledgor waives (i) diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon the Pledgor with respect to the Obligations or any other obligations or liabilities of the Pledgor to the Secured Party and (ii) the benefit of any marshalling doctrine with respect to the Secured Party's exercise of its rights, remedies or powers hereunder or otherwise.

11. Limitation on Duties Regarding Collateral. The Secured Party's sole duty with respect to the custody, safekeeping and physical preservation and protection of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as the Secured Party deals with similar securities and property for its own account. Neither the Secured Party nor any of its officers, employees or agents shall be (i) liable or responsible for any

failure to demand, exercise any options or rights with respect to, notify the Pledgor of any conversions, splits, calls or similar matter, collect or realize upon any of the Collateral or for any delay in doing so or for any change in the value of any Collateral (whether before or after an Event of Default) or (ii) under any obligation to sell or otherwise dispose of any Collateral, whether upon the request of the Pledgor or otherwise.

12. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

13. Severability. Any provision of this Pledge Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof in such jurisdiction, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. Paragraph Headings. The paragraph headings used in this Pledge Agreement are for convenience of reference only and shall not affect the construction hereof or be taken into consideration in the interpretation hereof.

15. No Waiver; Cumulative Remedies; Waivers and Amendments.

(a) The Secured Party shall not by any act (except by a written instrument executed and delivered by the Secured Party in accordance with subparagraph (b) below), delay, indulgence, omission or otherwise be deemed to have waived any right, remedy or power hereunder or to have acquiesced in any Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Secured Party, any right, remedy or power shall operate as a waiver thereof. No single or partial exercise of any right, remedy or power hereunder shall preclude any other or further exercise thereof or the exercise of any other right, remedy or power. A waiver by the Secured Party of any right, remedy or power hereunder on any one occasion shall not be construed as a bar to any right, remedy or power which the Secured Party would otherwise have on any future occasion. The rights, remedies and powers of the Secured Party herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights, remedies or powers provided by applicable law or any other agreement, instrument or other document. Secured Party may exercise any or all such rights, remedies and powers at any time(s) in any order which Secured Party chooses.

(b) None of the terms or provisions of this Pledge Agreement may be amended, waived, supplemented or otherwise modified except by a written instrument executed and delivered by the party sought to be charged.

16. Successors and Assigns. This Pledge Agreement shall be binding upon the successors, assigns, heirs and representatives of the Pledgor and shall inure to the benefit of the Secured Party and its successors and assigns. Pledgor shall not, without the prior written consent of the Secured Party, assign any of his rights or obligations hereunder.

17. Notices. Notices by one party to the other shall be in writing and may be given by certified mail, by overnight mail sent by Federal Express or other nationally recognized overnight courier, or delivery by hand, addressed to such party at the address set forth in the first paragraph hereof and shall be deemed given (a) in the case of certified mail, four (4) Business Days after being deposited in the mail, first class postage pre-paid, (b) in the case of overnight mail, one (1) Business Day after being sent by overnight mail, and (c) in the case of delivery by hand, when delivered. Either party may change its address for delivery of notices by written notice to the other in the manner set forth in this Section 17.

18. Costs and Expenses. The Pledgor hereby agrees to pay or reimburse the Secured Party, on demand, for all reasonable costs and expenses (including without limitation all reasonable attorneys' fees and disbursements and the reasonable fees and disbursements of all other experts including without limitation all accountants and appraisers) incurred by the Secured Party in connection with preserving, amending, defending, protecting, exercising or enforcing this Pledge Agreement or any of its rights, remedies and powers hereunder, or attempting to do any of the foregoing, including without limitation all reasonable costs and expenses incurred in connection with the exercise of any right, remedy or power with respect to the Collateral.

19. Integration. This Pledge Agreement represents the entire agreement of the Pledgor and the Secured Party with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Secured Party relative to the subject matter hereof not expressly set forth or referred to herein.

20. Gender. Whenever the context herein so requires, the neuter gender includes the masculine or feminine, and the singular number includes the plural, and vice-versa.

21. Counterparts. This Pledge Agreement may be executed by facsimile and in one or more counterparts, each of which shall be considered an original but all of which together shall be deemed one and the same instrument.

22. Governing Law; Jury Trial Waiver.

(a) THIS PLEDGE AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PLEDGOR UNDER THIS PLEDGE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS THEREUNDER.

(b) THE PLEDGOR HEREBY KNOWINGLY AND VOLUNTARILY WAIVES TRIAL BY JURY AND THE RIGHT THERETO IN ANY ACTION OR PROCEEDING OF ANY KIND, ARISING UNDER OR OUT OF, OR OTHERWISE RELATED TO OR CONNECTED WITH, THIS PROMISSORY NOTE AND/OR THIS PLEDGE AGREEMENT.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Pledge Agreement as of the day and year first above written.

WITNESS:

/s/ Melissa Kratka
- --------------------------

/s/ Richard H. Friedman, Pledgor

Richard H. Friedman, Pledgor

ACCEPTED:

MIM CORPORATION

By /s/ Scott R. Yablon

Its President

SCHEDULE I

1,500,000 shares of the Common Stock of the Secured Party, par value $.0001 per share issued to the Pledgor and evidenced by stock certificate numbers 5897 (collectively, the "Specified Pledged Stock").

MIM CORPORATION

1996 NON-EMPLOYEE DIRECTORS STOCK INCENTIVE PLAN

As Amended and Restated
Effective March 1, 1999

TABLE OF CONTENTS

		Page
SECTION 1	Purpose	3
SECTION 2	Administration	3
SECTION 3	Eligibility	4
SECTION 4	Stock	5
SECTION 5	Granting of Options	5
SECTION 6	Terms and Conditions of Options	5
SECTION 7	Option Agreements - Other Provisions	9
SECTION 8	Capital Adjustments	9
SECTION 9	Amendment or Discontinuance of the Plan	10
SECTION 10	Termination of Plan	11
SECTION 11	Shareholder Approval	11
SECTION 12	Miscellaneous	11

MIM CORPORATION
1996 NON-EMPLOYEE DIRECTORS
STOCK INCENTIVE PLAN

SECTION 1

Purpose

This MIM CORPORATION 1996 NON-EMPLOYEE DIRECTORS STOCK INCENTIVE PLAN ("Plan") is intended to provide a means whereby MIM Corporation, a Delaware corporation (the "Company"), may, through the grant of non-qualified stock options ("Options") to purchase common stock of the Company ("Common Stock") to Non-Employee Directors (as defined in Section 3), attract and retain capable independent directors and motivate such independent directors to promote the best interests of the Company and of any Related Corporation.

For purposes of the Plan, a Related Corporation of the Company shall mean either a corporate subsidiary of the Company, as defined in section 424(f) of the Internal Revenue Code of 1986, as amended ("Code"), or the corporate parent of the Company, as defined in section 424(e) of the Code. Further, as used in the Plan, the term "non-qualified stock option" shall mean an option which, at the time such option is granted, does not qualify as an incentive stock option within the meaning of section 422 of the Code.

SECTION 2

Administration

The Plan shall be administered by the Company's Compensation Committee ("Committee"), which shall consist of not less than two (2) directors of the Company who shall be appointed by, and shall serve at the pleasure of, the Company's Board of Directors ("Board"). Each member of such Committee, while serving as such, shall be deemed to be acting in his or her capacity as a director of the Company.

The Committee shall have full authority, subject to the terms of the Plan, to interpret the Plan, but shall have no discretion with respect to the selection of Non-Employee Directors to receive Options, the number of shares of Common Stock subject to the Plan, setting the purchase price for shares of Common Stock subject to an Option at other than fair market value, the method or

methods for determining the amount of Options to be granted to each Non-Employee Director, the timing of grants hereunder or with respect to any other matter which would cause this Plan to fail to comply with Rule 16b-3(c)(2)(ii) under the Securities Exchange Act of 1934. Subject to the foregoing, the Committee may correct any defect, supply any omission and reconcile any inconsistency in this Plan and in any Option granted hereunder in the manner and to the extent it shall deem desirable. The Committee also shall have the authority to establish such rules and regulations, not inconsistent with the provisions of the Plan, for the proper administration of the Plan, and to amend, modify or rescind any such rules and regulations, and to make such determinations and interpretations under, or in connection with, the Plan, as it deems necessary or advisable. All such rules, regulations, determinations and interpretations shall be binding and conclusive upon the Company, its shareholders and all Non-Employee Directors (including former Non-Employee Directors), and upon their respective legal representatives, beneficiaries, successors and assigns and upon all other persons claiming under or through any of them.

No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

SECTION 3

Eligibility

The persons who shall be eligible to receive Options under the Plan shall be those directors of the Company (the "Non-Employee Directors") who:

(a) are not employees of the Company or any Related Corporation,

(b) have not been employees of the Company or any Related Corporation during the immediately preceding 12-month period, and

(c) are initially elected to the Board of Directors on or after the date of the Plan's adoption by the Board of Directors (the "Effective Date").

SECTION 4

Stock

Options may be granted under the Plan to purchase up to a maximum of three hundred thousand (300,000) shares of the Company's Common Stock, par value $0.0001 per share, subject to adjustment as hereinafter provided. Shares issuable under the Plan may be authorized but unissued shares or reacquired shares, and the Company may purchase shares required for this purpose, from time to time, if it deems such purchase to be advisable.

If any Option granted under the Plan expires or otherwise terminates, in whole or in part, for any reason whatever (including, without limitation, the Non-Employee Director's surrender thereof) without having been exercised, the shares subject to the unexercised portion of such Option shall continue to be available for the granting of Options under the Plan as fully as if such shares had never been subject to an Option.

SECTION 5

Granting of Options

An option to purchase 20,000 shares of Common Stock (as adjusted pursuant to Section 8) automatically shall be granted to any person on the date he or she first becomes a Non-Employee Director, whether by reason of his or her election by stockholders or appointment by the Board to be a director, or, if applicable, the expiration of the 12-month period specified in Section 3(b) with respect to a present or future director who had previously been an employee of the Company or any Related Corporation; provided, that if a Non-Employee Director who previously received a grant of an Option under this Section 5 terminates service as a director and is subsequently elected or appointed to the Board again, such director shall not be eligible to receive a second grant of Options under the Plan.

SECTION 6

Terms and Conditions of Options

Options granted pursuant to the Plan shall include expressly or by reference the following terms and conditions:

(a) Number of Shares. A statement of the number of shares to which the Option pertains.

(b) Price. A statement of the Option price which shall be determined as follows:

(1) with respect to any Option granted on or prior to the effective date of the Company's initial public offering, if any, the exercise price shall be the initial public offering price set forth on the cover page of the prospectus included within the registration statement for such Offering as of the date it is declared effective with the Securities and Exchange Commission provided that such offering is declared effective within ninety days after the grant date of such Option; otherwise, the exercise price shall be the fair market value of the optioned shares of Common Stock as determined as of the date of grant in accordance with Section 6(b)(2)(iv) hereinbelow; and

(2) with respect to any Option granted after the effective date of the Company's initial public offering, if any, the exercise price shall be the fair market value of the optioned shares of Common Stock, which shall be:

(i) the mean between the highest and lowest quoted selling price, if there is a market for the Common Stock on a registered securities exchange or in an over the counter market, on the date of grant;

(ii) the weighted average of the means between the highest and lowest sales on the nearest date before and the nearest date after the date of grant, if there are no sales on the date of grant but there are sales on dates within a reasonable period both before and after the date of grant;

(iii) the mean between the bid and asked prices, as reported by the National Quotation Bureau on the date of grant, if actual sales are not available during a reasonable period beginning before and ending after the date of grant; or

(iv) if Sections 6(b)(2)(i) through (iii) are inapplicable, such other method of determining fair market value as shall be authorized by the Code, or the rules or regulations thereunder, and adopted by the Committee.

Where the fair market value of the optioned shares of Common Stock is determined under Section 6(b)(2)(ii) above, the average of the means between the highest and lowest sales on the nearest date before and the nearest date after the date of grant is to be weighted inversely by the respective numbers of trading days between the selling dates and the date of grant (i.e., the valuation date), in accordance with Treas. Reg. ss. 20.2031-2(b)(1).

(c) Term. Subject to earlier termination as provided in Section 8 hereof, the term of each Option shall be ten (10) years from the date of grant.

(d) Exercise. Each Option shall become initially exercisable in the following amounts and upon the following dates provided that the Non-Employee Director has served continuously as a director of the Company from the date of grant to and including each such initial exercise date: (i) as to 6,667 shares, on the first anniversary date of the date of grant; (ii) as to an additional 6,667 shares, on the later of (A) the first anniversary date of the grantee's first election to the Board subsequent to the date of grant or (B) the second anniversary date of the date of grant; and (iii) as to the remaining 6,666 shares, on the later of (A) the first anniversary date of the grantee's second election to the Board subsequent to the date of grant or (B) the third anniversary date of the date of grant. Any Option shares, the right to the purchase of which has accrued, may be purchased at any time up to the expiration or termination of the Option. Exercisable Options may be exercised, in whole or in part, from time to time by giving written notice of exercise to the Company at its principal office, specifying the number of shares to be purchased and accompanied by payment in full of the aggregate price for such shares. Only full shares shall be issued under the Plan, and any fractional share which might otherwise be issuable upon exercise of an Option granted hereunder shall be forfeited.

The Option price shall be payable in cash or its equivalent.

(e) Expiration of Term or Removal of Non-Employee Director as Director. If a Non-Employee Director's service as a director with the Company terminates prior to the expiration date of his or her Option for any reason (such as, without limitation, failure to be re-elected by the stockholders),

such Option may be exercised by the Non-Employee Director, only to the extent of the number of shares with respect to which the Non-Employee Director could have exercised it on the date of such termination of service as a director, at any time prior to the expiration or other termination of the Option as set forth in Section 6(c) hereof.

(f) Non-Transferability. No Option shall be assignable or transferable by the Non-Employee Director otherwise than by will or by the laws of descent and distribution, and during the lifetime of the Non-Employee Director, the Option shall be exercisable only by him or her or, in the case of his or her legal disability, by his or her guardian or legal representative. If the Non-Employee Director is married at the time of exercise and if the Non-Employee Director so requests at the time of exercise, the certificate or certificates shall be registered in the name of the Non-Employee Director and the Non-Employee Director's spouse, jointly, with right of survivorship. In the event of the Non-Employee Director's death, the Option may be exercised by the Non-Employee Director's estate, personal representative or beneficiary if, when and to the extent that the Non-Employee Director would have been so entitled hereunder but for such death after giving effect to all the provisions hereof including Section 6(e) hereinabove.

(g) Rights as a Shareholder. A Non-Employee Director shall have no rights as a shareholder with respect to any shares covered by his or her Option until the issuance of a stock certificate to him or her for such shares.

(h) Listing and Registration of Shares. Each Option shall be subject to the requirement that, if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the shares covered thereby upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option or the purchase of shares thereunder, or that action by the Company or by the Non-Employee Director should be taken in order to obtain an exemption from any such requirement, no such Option may be exercised, in whole or in part, unless and until such listing, registration, qualification, consent, approval, or action shall have been effected, obtained, or taken under conditions acceptable to the Committee. Without limiting the generality of the foregoing, each Non-Employee Director or his

or her legal representative or beneficiary may also be required to give satisfactory assurance that shares purchased upon exercise of an Option are being purchased for investment and not with a view to distribution, and certificates representing such shares may be legended accordingly.

SECTION 7

Option Agreements - Other Provisions

Options granted under the Plan shall be evidenced by written documents ("Option Agreements") in such form as the Committee shall, from time to time, approve, which Option Agreements shall contain such provisions, not inconsistent with the provisions of the Plan as the Committee shall deem advisable. Each Non-Employee Director shall enter into, and be bound by, such Option Agreements.

SECTION 8

Capital Adjustments

The number of shares which may be issued under the Plan, as stated in Section 4 hereof, and the number of shares issuable upon exercise of outstanding Options under the Plan (as well as the Option price per share under such outstanding Options), shall, subject to the provisions of section 424(a) of the Code, be adjusted proportionately to reflect any stock dividend, stock split, share combination, or similar change in the capitalization of the Company.

In the event of a corporate transaction (as that term is described in section 424(a) of the Code and the Treasury Regulations issued thereunder as, for example, a merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation), and, provision is not made for the continuance and assumption of Options under the Plan, or the substitution for such Options of new Options to acquire securities or other property to be delivered in connection with the transaction, the Committee shall, upon written notice to the holders of Options, provide that all unexercised Options will terminate immediately prior to the consummation of such merger, consolidation, acquisition, reorganization, liquidation, sale or transfer unless exercised (to the extent then exercisable) by the holder within a specified number of days (which shall not be less than seven (7) days) following the date of such notice.

SECTION 9

Amendment or Discontinuance of the Plan

(a) General. The Board from time to time may suspend or discontinue the Plan or amend it in any respect whatsoever, provided, however, that an amendment to the Plan shall require shareholder approval (given in the manner set forth in Section 9(b) below) if such amendment would materially:

(1) increase the benefits accruing to Non-Employee Directors under the Plan;

(2) increase the number of shares of Common Stock which may be issued to Non-Employee Directors under the Plan; or

(3) modify the requirements as to eligibility to participate in the Plan.

The foregoing notwithstanding, no such suspension, discontinuance or amendment shall materially impair the rights of any holder of an outstanding Option without the consent of such holder. Further, the provisions of this Plan establishing the directors eligible to receive Options under this Plan, the timing of the grants of such Options, the purchase price for shares subject to Options, the number of Shares covered by each Option, the method or methods for determining the amount of Options to be granted to each Non-Employee Director, and any other provision of the Plan which, if amended more than once every six months, would cause the Plan to fail to comply with Rule 16b-3(c)(2)(ii)(B) under the Securities Exchange Act of 1934, shall not be amended more than once every six months.

(b) Shareholder Approval Requirements. Shareholder approval must be by either:

(1) the written consent of the holders of a majority of the outstanding shares of Common Stock complying with the requirements of the certificate of incorporation and bylaws of the Company and of the applicable provisions of the Delaware General Corporation Law; or

(2) a majority of the outstanding shares of Common Stock present, or represented, and entitled to vote at a meeting duly held in accordance with the requirements of the certificate of incorporation and bylaws of the Company and of the applicable provisions of the Delaware General Corporation Law.

SECTION 10

Termination of Plan

Unless earlier terminated as provided in the Plan, the Plan and all authority granted hereunder shall terminate absolutely at 12:00 midnight on day immediately prior to the tenth anniversary of the date of the Plan's adoption by the Board, and no Options hereunder shall be granted thereafter. Nothing contained in this Section 10, however, shall terminate or affect the continued existence of rights created under Options issued hereunder and outstanding on said Plan termination date, which by their terms extend beyond such date.

SECTION 11

Shareholder Approval

The Effective Date of this Plan shall be the date of the Plan's adoption by the Board; provided, however, that if the Plan is not approved by the shareholders in the manner described in Section 9(b), within twelve (12) months after said date, the Plan and all Options granted hereunder shall be null and void.

SECTION 12

Miscellaneous

(a) Governing Law. The operation of, and the rights of Non-Employee Directors under, the Plan, the Option Agreements and any Options granted hereunder shall be governed by applicable Federal law, and otherwise by the laws of the State of Delaware.

(b) Rights. Neither the adoption of the Plan nor any action of the Board or the Committee shall be deemed to give any individual any right to be granted an Option, or any other right hereunder, unless and until the Committee shall have granted such individual an Option, and then his or her rights shall be only such as are provided by the Option Agreement.

Any Option under the Plan shall not entitle the holder thereof to any rights as a shareholder of the Company prior to the exercise of such Option and the issuance of the shares pursuant thereto. Further, any provisions of the Plan or the Option Agreement with a Non-Employee Director notwithstanding, the granting of an Option to a Non-Employee Director shall not entitle that Non-Employee Director to continue to serve as a director of the Company or a Related Corporation or affect the terms and conditions of such service.

(c) Indemnification of Board and Committee. Without limiting any other rights of indemnification which they may have from the Company and any Related Corporation, the members of the Board and the members of the Committee shall be indemnified by the Company against all costs and expenses reasonably incurred by them in connection with any claim, action, suit, or proceeding to which they or any of them may be a party by reason of any action taken or failure to act under, or in connection with, the Plan, or any Option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit, or proceeding, except a judgment based upon a finding of willful misconduct or recklessness on their part. Upon the making or institution of any such claim, action, suit, or proceeding, the Board or Committee member shall notify the Company in writing, giving the Company an opportunity, at its own expense, to handle and defend the same before such Board or Committee member undertakes to handle it on his or her own behalf.

(d) Application of Funds. The proceeds received by the Company from the sale of Common Stock pursuant to Options granted under the Plan shall be used for general corporate purposes. Any cash received in payment for shares upon exercise of an Option to purchase Common Stock shall be added to the general funds of the Company and shall be used for its corporate purposes.

(e) No Obligation to Exercise Option. The granting of an Option shall impose no obligation upon a Non-Employee Director to exercise such Option.

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MIM CORPORATION
1999 CASH BONUS PLAN
FOR KEY EMPLOYEES

Effective March 1, 1999

SECTION 1 - Purpose

This MIM CORPORATION 1999 CASH BONUS PLAN FOR KEY EMPLOYEES (the "Plan") is intended to provide a means whereby MIM Corporation, a Delaware corporation (the "Company"), and any Subsidiary or other Affiliate of the Company (as such terms are defined below) may, through the grant of Bonuses (as defined below) to Key Employees (as defined below), attract and retain such Key Employees and motivate them to exercise their best efforts on behalf of the Company and its Subsidiaries and Affiliates.

As used in the Plan, the following terms shall have the following meanings:

"Affiliate" means any corporation, limited liability company, partnership or other entity, including Subsidiaries, which is controlled by or under common control with the Company.

"Bonus" means an award granted to a Key Employee pursuant to Section 4 of this Plan.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Employee" means any employee of the Company or its Subsidairies and Affiliates (including any directors and officers who also are employees).

"Key Employee" means any Employee who is identified by the Committee (as defined below) as being instrumental to the success of the Company and its Subsidiaries and Affiliates and who is designated by the Committee for participation in the Plan, as provided in Section 4.

"Subsidiary" means any corporation (whether or not in existence at the time the Plan is adopted) which, at the time a Bonus is granted, is a subsidiary of the Company under the definition of "subsidiary corporation" contained in section 424(f) of the Code or any similar provision hereafter enacted.

SECTION 2 - Administration

The Plan shall be administered by the Company's Compensation Committee (the "Committee"), which shall consist of not less than two (2) non-employee directors (within the meaning of Rule 16b-3(b)(3) under the Securities Exchange Act of 1934, or any successor thereto) who are also outside directors (within the meaning of Treas. Reg. ss. 1.162-27(e)(3), or any successor thereto) of the Company who shall be appointed by, and shall serve at the pleasure of, the Company's

Board of Directors (the "Board"). Each member of such Committee, while serving as such, shall be deemed to be acting in his or her capacity as a director of the Company.

The Committee shall have full and final authority in its absolute discretion, subject to the terms of the Plan, to select the Key Employees to be granted Bonuses under the Plan, to grant Bonuses on behalf of the Company, and to set the date of grant and the other terms of such Bonuses. The Committee may correct any defect, supply any omission and reconcile any inconsistency in the Plan and in any Bonus granted hereunder in the manner and to the extent it shall deem desirable. Notwithstanding the preceding, the Committee shall not have the power or authority to take any action with respect to a Bonus which is intended to qualify as "performance-based compensation" within the meaning of section 162(m) of the Code if the taking of such action would cause such Bonus to cease to so qualify.

No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Bonus granted hereunder.

SECTION 3 - Eligibility

The class of persons who shall be eligible to receive Bonuses under the Plan shall be Key Employees. More than one Bonus may be granted to a Key

Employee under the Plan.

SECTION 4 - Bonus Awards

(a) Granting of Bonuses. From time to time until the suspension or termination of the Plan, the Committee may, on behalf of the Company, grant to Key Employees such Bonuses as it determines are warranted, subject to the limitations of the Plan. The granting of a Bonus under the Plan shall not be deemed either to entitle the recipient to, or to disqualify the recipient from, any other Bonus award under the Plan or under any other plan. In making any determination as to whether an Employee shall be considered a Key Employee, as to whether a Key Employee shall be granted a Bonus and as to the terms and amount of any such Bonus, the Committee shall take into account the duties of the Key Employee, the Committee's views as to his or her present and potential contributions to the success of the Company or its Subsidiaries and Affiliates, and such other factors as the Committee shall deem relevant in accomplishing the purposes of the Plan.

(b) Terms and Conditions of Bonuses. Bonuses granted pursuant to the Plan may be made outright or may be subject to the achievement of such performance objectives over such period as the Committee, in its discretion, may determine. Different performance objectives and periods may be established for different Bonus awards. In its discretion, the Committee may condition the granting of a Bonus on the execution by the Key Employee of a written agreement containing such terms and conditions as the Committee deems appropriate.

(c) Payment. All Bonuses, to the extent earned, shall be paid in cash as soon as reasonably practicable following the date of grant by the Committee or, in the case of a Bonus the payment of which is contingent upon the achievement of performance objectives, upon the Committee's determination that such objectives have been satisfied within the prescribed period of time.

SECTION 5 - Amendment or Discontinuance of the Plan

At any time and from time to time, the Board may suspend or terminate the Plan or amend it, and the Committee may amend any outstanding Bonus award, in any respect whatsoever, except that in the event that Bonuses awarded under the Plan are intended to qualify as "performance-based compensation" as described in section 162(m) of the Code, then any amendment to the Plan or to an outstanding Bonus award which would require shareholder approval pursuant to Treas. Reg. ss. 1.162-27(e)(4), or any successor thereto, to preserve such qualification shall not be made absent the approval by the affirmative votes of holders of at least a majority of the shares present, or represented, and entitled to vote at a duly held meeting of stockholders of the Company. The foregoing notwithstanding, no such suspension, discontinuance or amendment shall materially impair the rights of any Key Employee in respect of an outstanding Bonus award without the consent of such Key Employee.

SECTION 6 - Effective Date

This Plan is effective as of March 1, 1999.

SECTION 7 - Miscellaneous

(a) Governing Law. The Plan, and the Bonus awards granted thereunder, shall be governed by applicable federal law and otherwise by the laws of the State of Delaware.

(b) Rights. Neither the adoption of the Plan nor any action of the Committee shall be deemed to give any individual any right to be granted a Bonus, or any other right hereunder, unless and until the Committee shall have granted such individual a Bonus, and then his or her rights shall be only such as are provided by the Plan and by the Committee in granting such Bonus. No provision of the Plan or any Bonus shall limit the right of the Company or any Subsidiary or Affiliate, in its discretion, to terminate the employment of any Key Employee at any time for any reason whatsoever.

(c) Non-Transferability. No Bonus award shall be assignable or transferable by the Key Employee otherwise than by will or by the laws of descent and distribution.

(d) Withholding to Satisfy Tax Obligations. The obligation of the Company to pay cash to a Key Employee in connection with a Bonus awarded to such Key Employee shall be subject to applicable federal, state and local tax withholding requirements.

IN WITNESS WHEREOF, MIM Corporation has caused these presents to be duly executed, under seal, this 1st day of March, 1999.

MIM Corporation

By: /s/ Barry A. Posner

Name: Barry A. Posner
Title: Vice President and General Counsel

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