

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2000

OR

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

For the transition period from _____ to _____

Commission file number 0-28740

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 No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On August 10, 2000 there were outstanding 21,953,653 shares of the Company's common stock, \$.0001 par value per share ("Common Stock").

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	JUNE 30, 2000 ----- (UNAUDITED)	DECEMBER 31, 1999 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,586	\$ 15,306
Investment securities	5,000	5,033
Receivables, less allowance for doubtful accounts of \$8,684 and \$8,576 at June 30, 2000 and December 31, 1999, respectively	55,289	62,919
Inventory	1,357	777
Prepaid expenses and other current assets	1,430	1,347
	-----	-----
Total current assets	83,662	85,382
Other investments	2,347	2,347
Property and equipment, net	8,792	5,942
Due from affiliate and officer, less allowance for doubtful accounts of \$403 at June 30, 2000 and December 31, 1999, respectively	1,909	1,849
Other assets, net	1,006	202
Intangible assets, net	19,447	19,961
	-----	-----
TOTAL ASSETS	\$ 117,163 =====	\$ 115,683 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of capital lease obligations	\$ 507	\$ 514
Current portion of long-term debt	279	493
Accounts payable	6,384	5,039
Claims payable	35,273	39,702
Payables to plan sponsors and others	26,894	24,171
Accrued expenses	4,374	6,468
	-----	-----
Total current liabilities	73,711	76,387
Capital lease obligations, net of current portion	437	718
Long-term debt, net of current portion	2,833	2,279
Other non current liabilities	985	
Minority interest	1,112	1,112
STOCKHOLDERS' EQUITY		
Preferred stock, \$.0001 par value; 5,000,000 shares authorized, 250,000 Series A junior participating shares issued and outstanding	0	0
Common stock, \$.0001 par value; 40,000,000 shares authorized, 19,255,706 and 18,829,198 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	2	2
Treasury stock at cost	(338)	(338)
Additional paid-in-capital	91,948	91,614
Accumulated deficit	(52,768)	(54,575)
Stockholder notes receivable	(759)	(1,516)
	-----	-----
Total stockholders' equity	38,085	35,187
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 117,163 =====	\$ 115,683 =====

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(UNAUDITED)		(UNAUDITED)	
Revenue	\$ 95,691	\$ 88,894	\$ 184,795	\$ 163,809
Cost of revenue	87,366	81,077	169,659	147,810
Gross profit	8,325	7,817	15,136	15,999
Selling, general and administrative expenses	7,310	7,074	13,529	14,586
Amortization of goodwill and other intangible assets	256	194	514	444
Income from operations	759	549	1,093	969
Interest income, net	323	188	714	384
Other	-	-	-	(12)
Net income	1,082	737	1,807	1,341
Basic income per common share	\$ 0.06	\$ 0.04	\$ 0.10	\$ 0.07
Diluted income per common share	\$ 0.06	\$ 0.04	\$ 0.09	\$ 0.07
Weighted average common shares used in computing basic income per share	18,832	18,777	18,821	18,639
Weighted average common shares used in computing diluted income per share	18,957	18,953	19,218	18,833

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

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

	SIX MONTHS ENDED	
	JUNE 30,	
	2000	1999
	----- (Unaudited) -----	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,807	\$ 1,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other	2,020	1,181
Provision for losses on receivables	108	-
Changes in assets and liabilities:		
Receivables	7,522	3,988
Inventory	(580)	327
Prepaid expenses and other current assets	(83)	(20)
Accounts payable	1,345	(1,157)
Claims payable	(4,429)	441
Payables to plan sponsors and others	2,723	(658)
Accrued expenses	(2,094)	(970)
Non current liabilities	985	-
Net cash provided by operating activities	9,324	4,473
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,356)	(1,592)
Loans to affiliate and officer, net	(60)	(1,770)
Stockholder loans, net	757	222
Purchase of investment securities	(4,000)	(1,013)
Maturities of investment securities	7,334	4,033
Decrease (increase) in other assets	(804)	130
Net cash (used in) provided by investing activities	\$ (4,430)	\$ 3,311
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(288)	(328)
(Decrease) increase in debt	340	(5,308)
Exercise of stock options	334	11
Purchase of treasury stock	-	(338)
Net cash (used in) provided by financing activities	386	(5,963)
	-----	-----
Net increase in cash and cash equivalents	5,280	1,821
CASH AND CASH EQUIVALENTS--BEGINNING OF PERIOD	\$ 15,306	\$ 4,495
	=====	=====
CASH AND CASH EQUIVALENTS--END OF PERIOD	\$ 20,586	\$ 6,316
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 209	\$ 86
	=====	=====
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 its subsidiaries collectively, (the "Company" or "MIM") 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 six months ended June 30, 2000, are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2000.

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, 1999, 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Numerator:				
Net (loss) income	\$ 1,082	\$ 737	\$ 1,807	\$ 1,341
Denominator - Basic:				
Weighted average number of common shares outstanding	18,832	18,777	18,821	18,639
Basic income per share	\$ 0.06	\$ 0.04	\$ 0.10	\$ 0.07
Denominator - Diluted:				
Weighted average number of common shares outstanding	18,832	18,777	18,821	18,639
Common share equivalents of outstanding stock options	125	176	397	194
Total shares outstanding	18,957	18,953	19,218	18,833
Diluted income per share	\$ 0.06	\$ 0.04	\$ 0.09	\$ 0.07

NOTE 3--COMMITMENTS AND CONTINGENCIES

On March 31, 1999, the State of Tennessee, (the "State"), and Xantus Healthplans of Tennessee, Inc. ("Xantus"), entered into a consent decree under which Xantus was placed in receivership under the laws of the State of Tennessee. On September 2, 1999, the Commissioner of the Tennessee Department of Commerce and Insurance (the "Commissioner"), acting as receiver of Xantus, filed a proposed plan of rehabilitation (the "Plan"), as opposed to a liquidation of Xantus. A rehabilitation under receivership, similar to a reorganization under federal bankruptcy laws, was approved by the Chancery Court (the "Court") of the State of Tennessee, would allow Xantus to remain operating as a TennCare MCO, providing full health care related services to its enrollees. Under the Plan, the State, among other things, agreed to loan to Xantus approximately \$30,000 to be used solely to repay pre-petition claims of providers, which claims aggregate approximately \$80,000. Under the Plan, the Company received in the fourth quarter of 1999, \$4,200, including \$600 of unpaid rebates to Xantus, which the Company was allowed to retain under the terms of the preliminary rehabilitation plan for Xantus. A plan for the payment of the remaining amounts has not been finalized and the recovery of any additional amounts is uncertain. The Company recorded a special charge in the fourth quarter of 1999 of \$2,700 for the estimated loss on the remaining amounts owed, net of the unpaid amounts to network pharmacies.

The Company has been disputing several improper reductions of payments by Tennessee Health Partnership ("THP"). These reductions relate to an alleged coordination of benefits issue raised by THP related to services provided in prior years for which the Company was not the claims processor. In addition, there exists a dispute over items billed in addition to the Company's capitated rate under the contracts with THP and Preferred Health Plans ("PHP"). There is also a dispute over certain overpayments made by the Company resulting from overbilling due to what the Company believes are errors contained in the pricing files of THP's claims processor. The contracts with these organizations require that the disputes be arbitrated. While the Company believes that it is owed these amounts from THP and intends to pursue vigorously its claims, at this time, the Company is unable to assess the likelihood that it will prevail. In the fourth quarter of 1999, the Company recorded a special charge of \$3,300 for estimated losses related to these disputes.

On May 4, 2000, the Company reached a negotiated settlement with PHP, under which, among other things, the Company retained rebates that would have otherwise been due and owing PHP, PHP paid the Company an additional \$850 and the respective parties released each other from any and all liability with respect to past or future claims.

In 1998, the Company recorded a \$2,200 non-recurring charge against earnings in connection with an agreement in principle with respect to a civil settlement of the Federal and State of Tennessee investigation in connection with the conduct of two former officers of a subsidiary prior to the Company's initial public offering. The definitive agreement covering this settlement was executed on June 15, 2000 and, among other things, provides for the execution and delivery by the Company of a \$1,800 promissory note secured by certain tangible assets.

NOTE 4--SUBSEQUENT EVENT

On August 4, 2000, the Company, through its principal pharmacy benefit management operating subsidiary, MIM Health Plans, Inc., acquired all of the issued and outstanding membership interests of American Disease Management Associates, L.L.C., a Delaware limited liability company ("ADIMA"), from Radix Capital Investment Group, LLC, a Delaware limited liability company, Elizabeth Williams, Bruce Blake and Sal Rafanelli, pursuant to a Purchase Agreement dated as of August 3, 2000. ADIMA, located in Livingston, New Jersey, provides intravenous and injectible specialty pharmaceutical products to chronically ill patients receiving healthcare services from home by IV certified registered nurses, typically after a hospital discharge.

The aggregate purchase price for ADIMA was approximately \$24 million consisting of \$19 million in cash and the balance in Company common stock, a portion of which is being held in escrow to secure potential indemnification claims for breaches of seller's representations and warranties. The cash portion of the purchase price was partially funded with cash on hand and the remainder with funds from its primary lender under its existing \$30 million revolving credit facility. The transaction will be accounted for as a purchase.

* * * *

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 Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (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 June 30, 2000 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, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding the Company's expectations, hopes, beliefs, intentions or strategies regarding the future. Forward looking statements may include statements relating to the Company's business development activities, 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 likely outcome of, and the effect of legal proceedings or investigations on the Company and its business and operations 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, 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 contains 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

MIM is an independent pharmacy benefit management ("PBM"), specialty pharmaceutical and fulfillment/ e-commerce organization that partners with healthcare providers and sponsors to control prescription drug costs. MIM's innovative pharmacy benefit products and services use clinically sound guidelines to ensure cost control and quality care. MIM's specialty pharmaceutical division specializes in serving the chronically ill affected by life threatening diseases. MIM's fulfillment and e-commerce pharmacy specializes in serving individuals that require long-term maintenance medications. MIM's online pharmacy, www.MIMRx.com, develops private label websites to offer affinity groups innovative, customized, health information services and products on the Internet for their members. A majority of the Company's revenues to date have been derived from providing PBM services in the State of Tennessee to MCOs participating in the State of Tennessee's TennCare program. At June 30, 2000, the Company provided PBM services to 112 health plan sponsors with an aggregate of approximately 3.1 million plan members, of which TennCare represented five MCO's with approximately 1.1 million plan members. Revenues derived from the Company's contracts with those TennCare MCO's accounted for 50.6% of the Company's revenues at June 30, 2000, compared to 51.1% of the Company's revenues at June 30, 1999.

Business

The Company operates a single segment business with several components and derives its revenues primarily from agreements to provide PBM services to various health plan sponsors in the United States. As part of its operations, the Company has mail order and e-commerce business components. Net sales and operating contribution for these components for the three months and six months ended June 30, 2000 and 1999, respectively, are presented below:

NET REVENUE BY COMPONENT

Component	FOR THE THREE MONTHS ENDED JUNE 30,				FOR THE SIX MONTHS ENDED JUNE 30,			
	2000		1999		2000		1999	
	REVENUE	%	REVENUE	%	REVENUE	%	REVENUE	%
PBM	\$86,244	90%	\$78,787	89%	\$ 165,321	89%	\$ 143,867	88%
Mail Order and E-Commerce	9,439	10%	9,904	11%	19,336	11%	19,527	12%
Corporate and All Others	8	0%	203	0%	138	0%	415	0%
Total Revenue	95,691	100%	\$88,894	100%	\$ 184,795	100%	\$ 163,809	100%

OPERATING CONTRIBUTION BY COMPONENT

Component	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
PBM	\$ 3,874	\$ 2,158	\$ 5,853	\$ 4,284
Mail Order and E-Commerce	(1,192)	322	(933)	519
Corporate and All Others	(1,923)	(1,931)	(3,827)	(3,834)
Total Operating Profit	\$ 759	\$ 549	\$ 1,093	\$ 969

RESULTS OF OPERATIONS

Three months ended June 30, 2000 compared to three months ended June 30, 1999

For the three months ended June 30, 2000, the Company recorded revenues of \$95.7 million compared with \$88.9 million for the same period in 1999, an increase of \$6.8 million. Contracts with TennCare MCO's accounted for increased revenues of \$1.1 million, while commercial revenue increased \$5.7 million. The increase in TennCare related revenue includes \$1.4 million related to a fee settlement for the administration of a behavioral health program during 1998.

Cost of revenue for the three months ended June 30, 2000, increased to \$87.4 million from \$81.1 million for the same period in 1999, an increase of \$6.3 million. Cost of revenue with respect to contracts with TennCare MCO's decreased \$1.5 million, while the commercial costs increased \$7.8 million. As a percentage of revenue, cost of revenue increased to 91.3% for the three months ended June 30, 2000, from 91.2% for the three months ended June 30, 1999, an increase of 0.1%.

For the three months ended June 30, 2000 and 1999, 31.0% of the Company's revenues were generated from capitated contracts.

General and administrative expenses were \$7.3 million for the three month period ended June 30, 2000, as compared to \$7.1 million for the three months ended June 30, 1999, an increase of \$0.2 million due in part to higher costs related to the relocation of our fulfillment facility. Although the Company experienced increased costs associated with the sales force as well as in the legal area due to the Company's obligation to advance legal fees on behalf of certain former employees as required under Delaware law and the Company's By-laws, were offsetting operational efficiencies. As a percentage of revenue, general and administrative expenses decreased to 7.7% for the three months ended June 30, 2000, from 8.0% for the same period for 1999.

For the three months ended June 30, 2000 and 1999, the Company recorded amortization of goodwill and other intangibles of \$0.3 million and \$0.2 million respectively, in connection with the acquisition of Continental.

For the three months ended June 30, 2000, the Company recorded interest income of \$0.3 million compared to \$0.2 million for the three months ended June 30, 1999, an increase of \$0.1 million, primarily due to additional interest earned on monies derived from the Company's increased collection efforts, resulting in higher cash balances.

For the three months ended June 30, 2000, the Company recorded net income of \$1.1 million or \$0.06 per share. This compares with net income of \$0.7 million, or \$0.04 per share for the three months ended June 30, 1999.

Six months ended June 30, 2000 compared to six months ended June 30, 1999

For the six months ended June 30, 2000, the Company recorded revenues of \$184.8 million compared with \$163.8 million for the same period in 1999, an increase of \$21.0 million. Contracts with TennCare MCO's accounted for increased revenues of \$9.7 million, while commercial revenue increased \$11.3 million. The increase in TennCare revenue included \$1.4 million related to a fee settlement for the administration of a behavioral health program during 1998.

Cost of revenue for the six months ended June 30, 2000, increased to \$169.7 million from \$147.8 million for the same period in 1999, an increase of \$21.9 million. Cost of revenue with respect to contracts with TennCare MCO's increased \$7.6 million, while the commercial costs increased \$14.3 million. As a percentage of revenue, cost of revenue increased to 91.8% for the six months ended June 30, 2000, from 90.2% for the six months ended June 30, 1999, an increase of 1.6%, due in part to greater pharmaceutical utilization by plan members receiving PBM services under the Company's capitated contracts.

For the six months ended June 30, 2000, 32.7% of the Company's revenues were generated from capitated contracts, compared to 37.9% for the same period a year ago, a decrease of 5.2%. Based upon its present contracted arrangements, the Company anticipates that approximately 25% of its revenues for the remainder of 2000 will be derived from capitated or other risk-based contracts.

General and administrative expenses were \$13.5 million for the six months ended June 30, 2000, as compared to \$14.6 million for the six months ended June 30, 1999, a decrease of \$1.1 million. This decrease was primarily a result of a restructuring of the Company's operations during 1999. However the savings resulting from the restructuring were offset by greater than usual costs associated with the sales force and legal expenditures. Legal costs increased primarily due to the Company's obligations to advance legal fees on behalf of certain former officers and employees as required under Delaware law and the Company's by laws. As a percentage of revenue, general and administrative expenses decreased to 7.3% for the six months ended June 30, 2000, from 8.9% for the same period for 1999.

For the six months ended June 30, 2000, the Company recorded amortization of goodwill and other intangibles of \$0.5 million in connection with its acquisition of Continental, an increase of \$0.1 million compared to \$0.4 million for the same period last year.

For the six months ended June 30, 2000, the Company recorded interest income of \$0.7 million compared to \$0.4 million for the six months ended June 30, 1999, an increase of \$0.3 million, primarily due to additional interest earned on monies derived from the Company's increased collection efforts.

For the six months ended June 30, 2000, the Company recorded net income of \$1.8 million or \$0.09 per diluted share. This compares with net income of \$1.3 million, or \$0.07 per diluted share for the six months ended June 30, 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company utilizes both funds generated from operations, if any, and funds raised in the Company's public offering for capital expenditures and other working capital needs. For the six months ended June 30, 2000, net cash provided to the Company by operating activities totaled \$9.3 million as compared to \$4.4 million for the same period a year ago. This increase was primarily due to an increase in payables to plan sponsors and others of \$2.7 million, and a decrease in accounts receivable of \$7.5 million. The increase in payables to plan sponsors and others reflects increased manufacturer's rebates, which are shared with certain clients. The decrease in accounts receivable is a result of the Company's success in its collection efforts.

Net cash used in investing activities was \$4.4 million, of which the purchase of property and equipment represents \$4.3 million. The majority of these purchases were for the relocation and upgrade of the fulfillment center in Columbus, Ohio.

For the six months ended June 30, 2000, net cash of \$0.4 million was provided by financing activities. The exercise of stock options provided \$0.3 million.

At June 30, 2000, the Company had working capital of \$10.0 million compared to \$9.0 million at December 31, 1999. Cash and cash equivalents increased to \$20.6 million at June 30, 2000, compared with \$15.3 million at December 31, 1999.

On February 4, 2000, the Company, through its principal PBM operating subsidiary, MIM Health Plans, Inc. ("Health Plans"), secured a \$30.0 million revolving credit facility (the "Facility"). The Facility will be used by the Company for general working capital purposes, capital expenditures and for future acquisitions. In addition, a portion of the Facility is available to the Company for the further development of the Company's e-commerce business and operations. The Facility has a three year term and provides for borrowing of up to \$30.0 million at a rate of interest selected by the Company equal to the Index Rate (defined as the base rate on corporate loans at large U.S. money center commercial banks, as quoted in the Wall Street Journal) plus a margin, or a London InterBank Offered Rate plus a margin. Health Plans' obligations under the Facility are secured by a first priority security interest in all of Health Plans' receivables as well as other related collateral. Health Plans' obligations under the Facility are guaranteed by the Company and certain other affiliated entities. In connection with the ADIMA acquisition described in Part II, Item 5 below, the Facility was modified to, among other things, add ADIMA as a guarantor of Health Plan's obligations under the Facility.

From time to time, the Company may be a party to legal proceedings or involved in related investigations, inquiries or discussions, in each case, arising in the ordinary course of the Company's business. Although no assurance can be given, management does not presently believe that any current matters would have a material adverse effect on the liquidity, financial position or results of operations of the Company.

At December 31, 1999, the Company had, for tax purposes, unused net operating loss carry forwards of approximately \$43.0 million which will begin expiring in 2009. As it is uncertain whether the Company will realize the full benefit from these 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 by the Internal Revenue Code of 1986, as amended ("Code"), and the rules and regulations promulgated thereunder. The amount of net operating loss carryforwards that may be utilized in any given year will be subject to a limitation as a result of this change. The annual limitation is approximately \$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 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 also may pursue joint venture arrangements, business acquisitions and other transactions designed to expand its PBM, e-commerce/fulfillment or specialty pharmacy businesses, which the Company would expect to fund from cash on hand, the Facility, other future indebtedness or, if appropriate, the sale or exchange of equity securities of the Company.

OTHER MATTERS

As a result of providing capitated PBM services to certain TennCare MCO's, 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 and other risk-based arrangements. Risk-based business represented approximately 33% of the Company's revenues while non-risk business (including mail order services) represented approximately 67% of the Company's revenues for the three months ended June 30, 2000, compared to the same period in 1999, which had approximately 38% of risk-based generated revenue and approximately 62% non-risk (including mail order services) generated revenue. Non-risk arrangements mitigate the adverse effect on profitability of higher pharmaceutical costs incurred under risk-based contracts, as higher utilization positively impacts profitability under fee-for-service (or non-risk-based) arrangements. The Company presently anticipates that approximately 25% of its revenues in fiscal 2000 will be derived from risk-based arrangements.

Changes in prices charged by manufacturers and wholesalers or distributors for pharmaceuticals, a component of pharmaceutical claims costs, directly affects 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 on risk-based arrangements. Because plan sponsors are responsible for the payment of prescription costs in non risk-based arrangements, the Company's gross profit is not adversely affected by changes in pharmaceutical prices. To the extent such cost increases adversely effect the Company's gross profit, the Company may be required to increase risk-based contract rates on new contracts and upon renewal of existing risk-based contracts. However, there can be no assurance that the Company will be successful in obtaining these rate increases.

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. There are currently no loss contracts and management does not believe that there is an overall trend towards losses on its existing capitated contracts.

* * * *

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk represents the only market risk exposure applicable to the Company. The Company's exposure to market risk for changes in interest rates relate primarily to the Company's investments in marketable securities. All of these instruments are classified as held-to-maturity on the Company's consolidated balance sheet 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:

	2000	2001	2002	2003	2004	THEREAFTER
SHORT-TERM INVESTMENTS:						
Fixed rate investments	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -
Weighted average rate	5.25%	-	-	-	-	-
LONG-TERM INVESTMENTS:						
Fixed rate investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Weighted average rate	-	-	-	-	-	-
LONG-TERM DEBT:						
Variable rate instruments	\$ 279	\$ 2,833	\$ -	\$ -	\$ -	\$ -
Weighted average rate	7.64%	9.49%	0.00%	0.00%	0.00%	0.00%

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 for that instrument at June 30, 2000, and multiplying 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 June 30, 2000, 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

The Company has been disputing several improper reductions of payments by Tennessee Health Partnership ("THP"). These reductions relate to an alleged coordination of benefits issue raised by THP related to services provided in prior years for which the Company was not the claims processor. In addition, there exists a dispute over items billed in addition to the Company's capitated rate under the contracts with THP and Preferred Health Plans ("PHP"). There is also a dispute over certain overpayments made by the Company resulting from overbilling due to what the Company believes are errors contained in the pricing files of THP's claims processor. The contracts with these organizations require that the disputes be arbitrated. While the Company believes that it is owed these amounts from THP and intends to pursue vigorously its claims, at this time, the Company is unable to assess the likelihood that it will prevail. In 1999, the Company recorded a special charge of \$3,300 for estimated losses related to these disputes.

On February 22, 2000, THP demanded arbitration against the Company alleging that the Company overbilled THP, and THP overpaid the Company, in the approximate amount of \$1.3 million. On March 20, 2000, the Company filed its answer and counterclaim and asserted that all amounts billed to, and paid by, THP were proper under the Agreements and that THP improperly withheld payments in the approximate amount of \$0.5 million. The Company believes that it is owed these amounts from THP and intends to pursue vigorously its counterclaims. However, at this time, the Company is unable to assess the likelihood that it will prevail.

In 1998, the Company recorded a \$2,200 non-recurring charge against earnings in connection with an agreement in principle with respect to a civil settlement of the Federal and State of Tennessee investigation in connection with the conduct of two former officers of a subsidiary prior to the Company's initial public offering. The definitive agreement covering this settlement was executed on June 15, 2000.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

From August 14, 1996 through June 30, 2000, the \$46.8 million net proceeds from the Company's underwritten initial public offering of its Common Stock (the "Offering"), affected pursuant to a Registration Statement assigned file number 333-05327 by the Securities and Exchange Commission (the "Commission") and declared effective by the Commission on August 14, 1996, have been applied in the following approximate amounts (in thousands):

Construction of plant, building and facilities.....	\$ -
Purchase and installation of machinery and equipment.....	\$ 6,821
Purchases of real estate.....	\$ -
Acquisition of other businesses.....	\$ 2,325
Repayment of indebtedness.....	\$ -
Working capital.....	\$ 12,056
Temporary investments:	
Marketable securities.....	\$ 5,000
Overnight cash deposits.....	\$ 20,586

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 prospectus, the Company intended to apply approximately \$18.6 million of Offering proceeds to fund such expansion. The Company has determined not to apply any material portion of the Offering proceeds to fund the expansion of this business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's annual meeting of stockholders (the "Annual Meeting") was held on July 13, 2000. The following proposal for the election of six (6) directors to the Board of Directors, each to serve for a one (1) year term, was submitted to a vote of the stockholders. The Company's nominated and elected directors are Richard H. Friedman, Scott R. Yablon, Richard A. Cirillo, Esq., Louis DiFazio, Ph.D., Michael Kooper and Louis a. Luzzi, Ph.D., the votes in favor of and against the election of each director were as follows:

NAME	FOR	WITHHELD
Richard H. Friedman	15,266,199	209,416
Scott R. Yablon	15,266,199	209,416
Richard A. Cirillo	15,266,199	209,416
Dr. Louis DiFazio	15,266,199	209,416
Michael Kooper	15,266,199	209,416
Dr. Louis A. Luzzi	15,266,199	209,416

There were no other proposals submitted for stockholder approval at the Annual Meeting.

ITEM 5. OTHER INFORMATION

On August 4, 2000, the Company, through its principal pharmacy benefit management operating subsidiary, MIM Health Plans, Inc., acquired all of the issued and outstanding membership interests of American Disease Management Associates, L.L.C., a Delaware limited liability company ("ADIMA"), from Radix Capital Investment Group, LLC, a Delaware limited liability company, Elizabeth Williams, Bruce Blake and Sal Rafanelli, pursuant to a Purchase Agreement dated as of August 3, 2000. ADIMA, located in Livingston, New Jersey, provides intravenous and injectible specialty pharmaceutical products to chronically ill patients receiving healthcare services from home by IV certified registered nurses, typically after a hospital discharge.

The aggregate purchase price for ADIMA was approximately \$24 million consisting of \$19 million in cash and the balance in Company common stock, a portion of which is being held in escrow to secure potential indemnification claims for breaches of seller's representations and warranties. The cash portion of the purchase price was partially funded with cash on hand and the remainder with funds from its primary lender under its existing \$30 million revolving credit facility. The transaction will be accounted for as a purchase.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION
10.1	Amendment to Credit Agreement, dated May 24, 2000, among MIM Health Plans, Inc., MIM Corporation, the Credit Parties signatories thereto and General Electric Credit Corporation, for itself and as agent for other lenders from time to time a party to the Credit Agreement, dated February 4, 2000.
10.2	Corporate Integrity Agreement between the Office of the Inspector General of the Department of Health and Human Services and MIM Corporation dated as of June 15, 2000.
27	Financial Data Schedule

(b) Reports on Form 8-K

One Current Report on Form 8-K was filed with the Commission during the second quarter of 2000 and one Current Report on Form 8-K was filed in the third quarter of 2000. The first was filed on May 1, 2000, regarding the Company's press release on first quarter earnings. The second was filed on August 10, 2000, regarding the Company's acquisition of American Disease Management Associates, L.L.C., a Delaware limited liability company which provides intravenous and injectible specialty pharmaceutical products to chronically ill patients receiving healthcare services from home by IV certified registered nurses.

* * * *

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 14, 2000.

MIM CORPORATION

Date: August 14, 2000

/s/ Edward J. Sitar

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

EXHIBIT INDEX

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

EXHIBIT NUMBER

DESCRIPTION

10.1	Amendment to Credit Agreement, dated May 24, 2000, among MIM Health Plans, Inc., MIM Corporation, the Credit Parties signatories thereto and General Electric Credit Corporation, for itself and as agent for other lenders from time to time a party to the Credit Agreement, dated February 4, 2000.
10.2	Corporate Integrity Agreement between the Office of the Inspector General of the Department of Health and Human Services and MIM Corporation dated as of June 15, 2000.
27	Financial Data Schedule

AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (the "AMENDMENT") is entered into as of May 24, 2000, by and among MIM HEALTH PLANS, INC., a Delaware corporation (the "BORROWER"), MIM CORPORATION, a Delaware corporation ("HOLDINGS"), the other Credit Parties signatory to the Credit Agreement (as defined below), the lending institutions signatories to the Credit Agreement and such other institutions that become a "Lender" pursuant to the Credit Agreement (collectively the "LENDERS" and each individually a "LENDER"), and GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation ("AGENT"), as a Lender and as Agent for the Lenders. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

RECITALS

WHEREAS, the Credit Parties entered into that certain Credit Agreement, dated as of February 4, 2000 (as may be amended, modified, supplemented or restated from time to time, the "CREDIT AGREEMENT") pursuant to which the Lenders made available to the Borrower certain credit facilities; and

WHEREAS, the Borrower has requested amendments to certain terms of the Credit Agreement; and

WHEREAS, the Lenders are willing to consent to the requested amendments under the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual promises herein contained and for other valuable consideration, and intending to be legally bound hereby, the parties hereto agree as follows:

SECTION 1. Modification of Annex G.

The parties hereto agree that Section (e) of Annex G of the Credit Agreement is amended to read in its entirety as follows:

Minimum Net Worth. Holdings and its Subsidiaries on a consolidated basis shall maintain at all times Net Worth equal to or greater than the sum of (a) \$35,188,000 plus (b) for each Fiscal Quarter ending after December 31, 1999, seventy five percent (75%) of any increase to Net Worth of Holdings and Subsidiaries above the Net Worth of such Persons as of the end of the immediately preceding Fiscal Quarter.

SECTION 2. Effectiveness of Amendment. This Amendment shall not be effective until the date on which Holdings and each Credit Party have satisfied (or the Agent and the Requisite Lenders have waived in writing) each of the following conditions precedent:

(a) The Agent shall have received this Amendment duly executed by all parties hereto;

(b) The Agent shall have received a certificate of the Secretary or an Assistant Secretary of Holdings and each of the Credit Parties, in form and substance satisfactory to the Agent, with respect to the incumbency of officers of Holdings and each of the Credit Parties authorized to execute and deliver this Amendment; and

(c) The Agent shall have received payment of all fees and expenses of Agent's counsel in connection with the execution and delivery of this Amendment.

If the foregoing conditions precedent are not satisfied by May 31, 2000, this Amendment shall be null and void. Once the above conditions precedent have been satisfied, then this Amendment shall be deemed to be effective as of the date of the Credit Agreement.

SECTION 3. Miscellaneous.

(a) No Waiver. Except to the extent that the Credit Agreement is specifically modified by this Amendment, nothing in this Amendment shall constitute a waiver by the Agent or Lenders of their rights and remedies under the Credit Agreement. No act or omission by the Agent or Lenders under this Amendment or in their relations with Holdings or any Credit Party shall constitute a waiver of any of their rights and remedies under the Credit Agreement, as amended by this Amendment, unless such waiver is in writing, signed by the Agent, and then only to the extent specifically set forth therein.

(b) Reaffirmation. Holdings and each Credit Party hereby acknowledge that all terms and conditions of the Credit Agreement, as amended hereby, are and shall remain in full force and effect. Holdings and each Credit Party hereby reaffirm the outstanding principal obligation under the Notes. This Amendment is incorporated into the Credit Agreement by reference and shall constitute a part thereof as if fully set forth therein. In the event that any of the terms or the provisions of the Credit Agreement are inconsistent or contradictory of the terms hereof, the terms of this Amendment shall control.

(c) Representations and Warranties. Holdings and each Credit Party hereby confirm to the Agent and the Lenders that the representations and warranties of Holdings or any Credit Party contained in the Credit Agreement or any other Loan Document are true and correct as if made on the date hereof.

(d) Release. Holdings and each Credit Party acknowledge and agree that, as of the date hereof, they do not have any claim, defense or set-off right against the Agent or Lenders or their respective officers, directors, employees, agents,

successors, assigns or affiliates, nor any claim, defense or set-off right to the enforcement by the Agents or Lenders of the full amount of the Obligations. Holdings and each Credit Party hereby forever expressly waive, release, relinquish, satisfy, acquit and discharge the Agent and Lenders, and their respective officers, directors, employees, agents, successors, assigns and affiliates, from any and all defenses to payment or other defenses, set-offs, claims, counterclaims, liability and causes of action, accrued or unaccrued, whether known or unknown, which occurred or arose on or prior to the date hereof.

(e) Counterparts. This Amendment may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment may be delivered by facsimile transmission with the same force and effect as if originally executed copies of this Credit Agreement were delivered to all parties hereto.

(f) Severability. The invalidity or unenforceability of any one or more phrases, sentences, clauses or Sections contained in this Amendment shall not affect the validity or enforceability of the remaining portions of this Amendment, or any part thereof.

(g) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have each caused this Amendment to be duly executed by their duly authorized representatives as of the date first above written.

MIM HEALTH PLANS, INC.

By: _____
Name:
Title:

MIM CORPORATION

By: _____
Name:
Title:

PRO-MARK HOLDINGS, INC.

By: _____
Name:
Title:

GENERAL ELECTRIC CAPITAL CORPORATION, as Agent

By: _____
Name:
Title:

GENERAL ELECTRIC CAPITAL CORPORATION, as Lender

By: _____
Name:
Title:

CORPORATE INTEGRITY AGREEMENT
BETWEEN THE
OFFICE OF INSPECTOR GENERAL
OF THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
AND
MIM CORPORATION

I. PREAMBLE

MIM Corporation ("MIM") hereby enters into this Corporate Integrity Agreement ("CIA") with the Office of Inspector General ("OIG") of the United States Department of Health and Human Services ("HHS") to ensure compliance with the requirements of Medicare, Medicaid and all other Federal health care programs (as defined in 42 U.S.C. ss. 1320a-7b(f)) (hereinafter collectively referred to as the "Federal health care programs"), by MIM, its subsidiaries, and their employees and agents, including independent contractors, who provide a health care item or service paid for directly or indirectly by a Federal health care program (hereinafter, "Covered Persons"). Pharmacy networks for whom MIM provides pharmacy benefit management services are not Covered Persons. MIM's compliance with the terms and conditions in this CIA shall constitute an element of MIM's present responsibility with regard to participation in the Federal health care programs. Contemporaneously with this CIA, MIM is entering into a Settlement

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Agreement with the United States, and this CIA is incorporated by reference into the Settlement Agreement.

On November 5, 1999, MIM provided to the OIG a copy of MIM's compliance manual entitled MIM Corporation, LEGAL AND ETHICAL POLICIES, COMPLIANCE MANUAL, October 1999 ("the MIM Compliance Manual"). The MIM Corporate Integrity Program described herein is intended to supplement MIM's compliance efforts and policies described in the MIM Compliance Manual. MIM's Compliance Manual makes clear that if there should be an inconsistency between the Compliance Manual and this CIA, the CIA shall control. If MIM becomes aware of any remaining inconsistencies, MIM shall amend the MIM Compliance Manual to conform to the CIA.

II. TERM OF THE CIA

The period of the compliance obligations assumed by MIM under this CIA shall be five (5) years from the effective date of this CIA (unless otherwise specified). The effective date of this CIA will be the date on which the final signatory of this CIA executes this CIA (the "effective date").

III. CORPORATE INTEGRITY OBLIGATIONS

MIM shall establish a compliance program that includes the following elements.

A. COMPLIANCE OFFICER. The MIM Compliance Manual identifies MIM's Compliance Officer (see, MIM Compliance Manual, section 1). For at least the duration of this CIA, MIM shall continue to employ an individual to serve as Compliance Officer,

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who shall be responsible for developing and implementing policies, procedures, and practices designed to ensure compliance with the requirements set forth in this CIA and with the requirements of the Federal health care programs. For at least the duration of this CIA, the Compliance Officer shall continue to be a member of senior management of MIM, shall make regular (at least quarterly) reports regarding compliance matters directly to the CEO and/or to the Board of Directors of MIM and shall be authorized to report to the Board of Directors at any time at his or her sole discretion. The Compliance Officer shall be responsible for monitoring the day-to-day activities engaged in by MIM to further its compliance objectives, as well as any reporting obligations created under this CIA. In the event a new Compliance Officer is appointed during the term of this CIA, MIM shall notify the OIG, in writing, within fifteen (15) days of that person assuming the position.

B. WRITTEN STANDARDS. The MIM Compliance Manual establishes Policies and Procedures including a Code of Conduct (see, MIM Compliance Manual, section 1). The MIM Compliance Manual also contains Statements of Corporate Policy that establish Policies and Procedures in several areas, including the following: (1) Compliance with Legal and Ethical Policies; (2) Reporting and Investigating Suspected Violations of Legal and Ethical Policies; (3) Remedies and Sanctions for Violations of Legal and Ethical Policies; (4) Compliance with Laws Regulating Pharmacy Benefit Managers; (5) Conflicts of Interest; (6) Sanctioned Individuals; (7) Contact with the Press and Government Agencies (see, MIM Compliance Manual, sections 2, 3, 4, 5, 10, 15 and 20, respectively). The Policies and Procedures specifically address the need to avoid conflicts of interest and the payment or receipt of unlawful remuneration when soliciting or referring business related to Federal health care programs. In addition, the Policies and Procedures include disciplinary guidelines and methods for employees to make disclosures or otherwise report on compliance issues to MIM management through the Confidential Disclosure Program required by section III.E, below.

For at least the duration of this CIA, MIM shall maintain the written Policies and Procedures regarding the operation of MIM's compliance program and its compliance with all Federal and State health care statutes, regulations and guidelines, including the requirements of the Federal health care programs. The Policies and Procedures shall, at a minimum, set forth:

a. MIM's commitment to full compliance with all statutes, regulations, and guidelines applicable to Federal health care programs, including its commitment to prepare and submit accurate billings consistent with Federal health care program regulations and procedures or instructions otherwise communicated to MIM by the Health Care Financing Administration ("HCFA") (or other appropriate regulatory agencies) and the State of Tennessee and/or their respective agents;

b. MIM's requirement that all Covered Persons, when employed by or doing business with MIM, shall be expected to comply with all statutes, regulations, and guidelines applicable to Federal health care programs and with MIM's own Policies and Procedures (including the requirements of this CIA);

c. the requirement that all Covered Persons, when employed by or doing business with MIM, shall be expected to report suspected violations of any statute, regulation, or guideline applicable to Federal health care programs or of MIM's own Policies and Procedures;

d. the possible consequences to both MIM and to any subsidiary or Covered Person when employed by or doing business with MIM of failure to comply with all statutes, regulations, and guidelines applicable to Federal health care programs and with MIM's own Policies and Procedures or of failure to report such non-compliance; and

e. the right of all Covered Persons to use the confidential disclosure program, as well as MIM's commitment to confidentiality and non-retaliation with respect to disclosures.

Within one hundred and twenty (120) days of the effective date of the CIA, each Covered Person shall certify, in writing, that he or she has received, read, understands, and will abide by the Policies and Procedures set forth in MIM's Compliance Manual. New Covered Persons shall receive the Compliance Manual and shall complete the required certification within thirty (30) days after the commencement of their employment or independent contract or within one hundred and twenty (120) days of the effective date of the CIA, whichever is later. In addition, MIM shall make the promotion of, and adherence to, the Policies and Procedures an element in evaluating the performance of managers, supervisors, and all other Covered Persons. MIM shall make compliance staff and/or supervisors available to explain any and all Policies and Procedures to any inquiring Covered Persons.

MIM will annually review the Policies and Procedures and will make any necessary revisions. These revisions shall be distributed within thirty (30) days of the effective date of any such change. Covered Persons shall certify on an annual basis that they have received, read, understand and will abide by the Policies and Procedures set forth in the Compliance Manual. A summary of the Policies and Procedures will be provided to OIG in the Implementation Report. The Policies and Procedures will be available to OIG upon request.

C. TRAINING AND EDUCATION.1

1. General Training. Within one hundred and twenty (120) days of the effective date of this CIA, MIM shall provide at least one (1) hour of "General Training," as described below, to each Covered Person. This General Training shall explain:

- a. MIM's Corporate Integrity Agreement requirements;
- b. MIM's Compliance Program (including the Policies and Procedures as they pertain to general compliance issues);
- c. fraud and abuse risk areas that pertain to pharmacy benefit managers, particularly those that contract with managed care organizations.

General Training materials shall be made available to the OIG, upon request.

New Covered Persons shall receive the General Training described above within thirty (30) days of the beginning of their employment or within one hundred and twenty (120) days after the effective date of this CIA, whichever is later. Each Covered Person shall receive retraining in General Training on an annual basis.

1/ The training and education requirements of this CIA do not apply to agents and independent contractors in the case of short-term workers who are not reasonably expected to work more than one month, except to the extent that such individual actually works in excess of one month during a 12-month period.

2. Specific Training. Within one hundred and twenty (120) days of the effective date of this CIA, each Covered Person who is involved directly or indirectly in one or more of the following activities shall receive training as described in Attachment A hereto (Training Breakdown), in addition to the general training required above to address the fraud and abuse risk areas that he or she should consider when carrying out one or more of the following activities:

- a. processing claims and pharmacy auditing;

- b. negotiating with pharmaceutical manufacturers, distributors or retailers;
- c. handling physician and consumer problems with the formulary and/or the drug benefit in question;
- d. managing compliance with the applicable drug formulary (including, but not limited to, processing medically necessary exception requests);
- e. providing disease management services; or
- f. collecting utilization data for a managed care organization or other applicable payor(s);
- g. sales and marketing;
- h. supervision of claims processing personnel; or
- i. supervision of non-claims processing personnel.

At a minimum, this Specific Training shall include a discussion of the following:

- a. the applicable reimbursement rules and principles of the Federal health care program(s) in question;
- b. the legal sanctions for improper billings to Federal health care programs;
- c. the prohibition against improper claims processing for Federal health care programs, including but not limited to the failure to process claims or inexcusable delay in processing claims;

- d. the prohibitions against paying or receiving remuneration to induce referrals as they relate to Federal health care programs;
- e. the issues of medical necessity and overutilization in the fee-for-service context and underutilization in the managed care context;
- f. special issues related to pharmacy benefit management companies in Federal health care programs and their relationships with managed care organizations, pharmaceutical manufacturers, pharmacists, physicians and beneficiaries; and
- g. the legal sanctions for making false statements in connection with Federal health care programs.

Specific Training materials shall be made available to OIG, upon request. Persons providing the Specific Training must be knowledgeable about the subject areas. New Covered Persons shall receive the Specific Training described above within thirty (30) days of the beginning of their employment or within one hundred and twenty (120) days after the effective date of this CIA, whichever is later. Each year, every Covered Person subject to these Specific Training requirements shall receive annual retraining in the subject areas described above for a period of time that is at least half of the Specific Training requirement for applicable new Covered Persons, but in no event will the Specific Training retraining be less than one hour.

3. Certification. Each Covered Person shall certify, in writing, that he or she has attended the required training. The certification shall specify the type of training received and the date received. The Compliance Officer shall retain the certifications, along with specific course materials. These shall be made available to OIG upon request.

D. REVIEW PROCEDURES. MIM shall retain one or more entity(ies), such as accounting, auditing, law (as appropriate), or consulting firm(s) (hereinafter "Independent Review Organization(s)"), to perform review procedures to assist MIM in assessing the adequacy of its drug benefit management and compliance practices pursuant to this CIA. This shall be an annual requirement and shall cover a twelve (12) month period. The Independent Review Organization must have expertise in the claims processing, formulary management, reporting and other requirements of the Federal health care programs from which MIM seeks reimbursement either directly or indirectly. The Independent Review Organization must be retained to conduct the audit of the first year within one hundred and twenty (120) days of the effective date of this CIA.

The Independent Review Organization will conduct two separate engagements. One will be an analysis of MIM's claims processing, formulary management, reporting and other requirements of the Federal health care programs to assist MIM and OIG in determining compliance with all applicable statutes, regulations, and directives/guidance ("drug-benefit management engagement"). The second engagement will determine whether MIM is in compliance with this CIA ("compliance engagement").

1. Drug-Benefit Management Engagement. The drug-benefit management engagement shall consist of a review of a statistically valid sample of claims that can be projected to the population of claims for Federal health care programs processed by MIM for the relevant period. The sample size shall be determined through the use of a probe sample. At a minimum, the full sample must be within a ninety (90) percent confidence level and a precision of twenty-five (25) percent. The probe sample must contain at least thirty (30) sample units and cannot be used as part of the full sample. Both the probe sample and the sample must be selected through random numbers. MIM shall use OIG's Office of Audit Services Statistical Sampling Software, also known as "RAT-STATS," which is available through the Internet at "www.hhs.gov/progorg/oas/ratstat.html".

Each annual drug-benefit management engagement analysis shall include the following components in its methodology:

- a. Drug-Benefit Management Engagement Objective: A statement stating clearly the objective intended to be achieved by the drug-benefit management engagement and the procedure or combination of procedures that will be applied to achieve the objective.
- b. Drug-Benefit Management Engagement Population: Identify the population, which is the group about which information is needed. Explain the methodology used to develop the population and provide the basis for this determination.
- c. Sources of Data: Provide a full description of the source of the information upon which the drug benefit management engagement conclusions will be based, including the legal or other standards applied, documents relied upon, payment data, and/or any contractual obligations.

- d. Sampling Unit: Define the sampling unit, which is any of the designated elements that comprise the population of interest.
- e. Sampling Frame: Identify the sampling frame, which is the totality of the sampling units from which the sample will be selected.

The drug-benefit management engagement shall provide:

- a. findings regarding the accuracy and integrity of MIM's drug-benefit management system (including, but not limited to, its strengths and weaknesses, internal controls, and effectiveness);
- b. findings regarding whether MIM is properly processing claims reimbursed by Federal health care programs (i.e., properly reimbursing providers for goods and services provided to Federal health care program beneficiaries).
- c. findings regarding MIM's procedures to correct inaccurate or untimely claims processing;
- d. findings regarding any problems revealed by the audit regarding MIM's contractual dealings with manufacturers, distributors and retailers; and
- e. findings regarding the steps MIM is taking to bring its operations into compliance or to correct problems identified by the audit.

2. Compliance Engagement. An Independent Review Organization shall also conduct a compliance engagement that shall provide findings regarding whether MIM's program, policies, procedures, and operations comply with the terms of this CIA. This engagement shall include section by section findings regarding the requirements of this CIA.

A complete copy of the Independent Review Organization(s)'s drug-benefit management engagement and compliance engagement shall be included in each of MIM's Annual Reports to OIG.

3. Disclosure of Overpayments and Reportable Events. If, as a result of these engagements, MIM or the Independent Review Organization(s) identifies any claims processing, formulary management or other policies, procedures and/or practices that result in an overpayment from or Reportable Event (defined in section III.H) related to any Federal health care program or its agents, MIM shall follow the Reporting procedures set forth below at section III.H.

4. Verification/Validation. In the event that the OIG determines that it is necessary to conduct an independent review to determine whether or the extent to which MIM is complying with its obligations under this CIA, upon receipt of notice and explanation from the OIG of the need for such independent review, MIM agrees to pay for the reasonable cost of any such review by the OIG or any of its designated agents.

E. CONFIDENTIAL DISCLOSURE PROGRAM. Within one-hundred twenty (120) days after the effective date of this CIA, MIM shall implement (to the extent it has not already done so) the Confidential Disclosure Program described at Chapters 3 and 4 of its Compliance Manual, which program must include measures (E.G., a toll-free compliance telephone line) to enable Covered Persons or other individuals to disclose to the Compliance Officer or some other person who is not in the reporting individual's chain of command, any identified issues or questions associated with MIM's policies, practices or procedures with respect to the Federal health care program, believed by the individual to be inappropriate. As provided in MIM's Compliance Manual, all Covered Persons working for MIM are required to report suspected legal or compliance violations. In addition to describing the hotline in the MIM Compliance Manual, MIM shall publicize the existence of the hotline (E.G., in e-mails to employees and by posting the hotline number in prominent common areas).

The Confidential Disclosure Program shall emphasize a NON-RETRIBUTION, NON-RETALIATION policy, and shall include a reporting mechanism for ANONYMOUS, CONFIDENTIAL communication. Upon receipt of a complaint, the Compliance Officer (or designee) shall gather the information in such a way as to elicit all relevant information from the individual reporting the alleged misconduct. The Compliance Officer (or designee) shall make a preliminary good faith inquiry into the allegations set forth in every disclosure to ensure that he or she has obtained all of the information necessary to determine whether a further review should be conducted. For any disclosure that is sufficiently specific so that it reasonably: (1) permits a determination of the appropriateness of the alleged improper practice, and (2) provides an opportunity for taking corrective action, MIM shall conduct an internal review of the allegations set forth in such a disclosure and ensure that proper follow-up is conducted.

The Compliance Officer shall maintain a confidential disclosure log, which shall include a record and summary of each allegation received, the status of the respective investigations, and any corrective action taken in response to the investigation.

F. INELIGIBLE PERSONS.

1. Definition. For purposes of this CIA, an "Ineligible Person" shall be any individual or entity who: (i) is currently excluded, suspended, debarred or otherwise ineligible to participate in the Federal health care programs; or (ii) has been convicted of a criminal offense related to the provision of health care items or services and has not been reinstated in the Federal health care programs after a period of exclusion, suspension, debarment, or ineligibility.

2. Screening Requirements. MIM shall not hire or engage as contractors any Ineligible Person. To prevent hiring or contracting with any Ineligible Person, MIM shall screen all prospective Covered Persons prior to engaging their services by (i) requiring applicants to disclose whether they are Ineligible Persons, and (ii) reviewing the General Services Administration's List of Parties Excluded from Federal Programs (available through the Internet at <http://www.arnet.gov/epl>) and the HHS/OIG Cumulative Sanction Report (available through the Internet at <http://www.dhhs.gov/progorg/oig>) (these lists and reports will hereinafter be referred to as the "Exclusion Lists").

3. Review and Removal Requirement. Within ninety (90) days of the effective date of this CIA, MIM will review its list of current Covered Persons against the Exclusion Lists. Thereafter, MIM will review the list semi-annually. If MIM has notice that a Covered Person has become an Ineligible Person, MIM will remove such person from responsibility for, or involvement with, MIM's business operations related to the Federal health care programs and shall remove such person from any position for which the person's salary or the items or services rendered, ordered, or prescribed by the person are paid in whole or part, directly or indirectly, by Federal health care programs or otherwise with Federal funds at least until such time as the person is reinstated into participation in the Federal health care programs.

4. Pending Charges and Proposed Exclusions. If MIM has notice that a Covered Person is charged with a criminal offense related to any Federal health care program, or is suspended or proposed for exclusion during his or her employment or contract with MIM, within 10 days of receiving such notice MIM will remove such individual from responsibility for, or involvement with, MIM's business operations related to the Federal health care programs until such criminal action, suspension, or proposed exclusion is resolved.

G. NOTIFICATION OF PROCEEDINGS. Within thirty (30) days of discovery, MIM shall notify OIG, in writing, of any ongoing investigation or legal proceeding of which it is aware conducted or brought by a governmental entity or its agents involving an allegation that MIM has committed a crime or has engaged in fraudulent activities or any other knowing misconduct. This notification shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation or legal proceeding. MIM shall also provide written notice to OIG within thirty (30) days of the resolution of the matter, and shall provide OIG with a description of the findings and/or results of the proceedings, if any.

H. REPORTING.

1. Reporting of Overpayments. If, at any time, MIM identifies or learns of any billing, coding or other policies, procedures and/or practices that result in an overpayment, MIM shall notify the payor (E.G., TennCare managed care organization or Medicaid agency or Medicare fiscal intermediary or carrier, as applicable) using any prescribed form of such payor, within 30 days of discovering that an overpayment has been made, and take remedial steps within a time frame agreed to with the payor to correct the problem, including preventing the underlying problem and the overpayments from recurring. Where the payor has no prescribed form, the notice to the payor shall include:

- a. a statement that the refund is being made pursuant to this CIA;
- b. a description of the complete circumstances surrounding the overpayment;

- c. the methodology by which the overpayment was determined;
- d. the amount of the overpayment;
- e. any claim-specific information used to determine the overpayment (E.G., beneficiary health insurance number, claim number, --- service date, and payment date);
- f. the provider identification number under which the repayment is being made.

Where it is not feasible for MIM to include all such information in the notice within the time frame specified, MIM shall specify in the notice the time frame in which it can reasonably furnish this information to the payor.

2. Reporting of Reportable Events. If MIM determines that a Reportable Event has occurred, MIM shall notify the OIG within 30 days of such determination. If the Reportable Event results in an overpayment, MIM shall notify the OIG at the same time as the notice to the payor and shall include all of the information required by section III.H.1 plus: (i) the payor's name, address, and contact person where the overpayment was sent; and (ii) the date of the check and identification number (or electronic transaction number) on which the overpayment was repaid. Regardless of whether the Reportable Event resulted in an overpayment, MIM shall report to the OIG the following:

- a. a complete description of the Reportable Event, including the relevant facts, persons involved, and legal and program authorities;

- b. MIM's actions to correct the Reportable Event; and
- c. any further steps MIM plans to take to address such Reportable Event and prevent it from recurring.

3. Definition of "Overpayment." For purposes of this CIA, an "overpayment" shall mean the amount of money MIM has received in excess of the amount due and payable pursuant to Federal health care programs' statutes, regulations or program directives applicable to MIM, including carrier, intermediary, Medicaid agency and TennCare managed care organization instructions.

4. Definition of "Reportable Event." For purposes of this CIA, a "Reportable Event" means anything that involves: (i) a substantial overpayment; or (ii) a matter that a reasonable person would consider a potential violation of criminal, civil or administrative laws applicable to any Federal health care program for which penalties or exclusion are authorized.

IV. NEW LOCATIONS

In the event that MIM purchases or establishes new business units after the effective date of this CIA, MIM shall notify OIG of this fact within thirty (30) days of the date of purchase or establishment. This notification shall include the location of the new operation(s), phone number, fax number, Federal health care program provider number(s) (if any), and the corresponding payor(s) (contractor specific) that has issued each provider number. All Covered Persons at such locations shall be subject to the requirements in this CIA that apply to new Covered Persons (E.G., completing certifications and undergoing training).

V. IMPLEMENTATION AND ANNUAL REPORTS

A. IMPLEMENTATION REPORT. Within one hundred and fifty (150) days after the effective date of this CIA, MIM shall submit a written report to OIG summarizing the status of its implementation of the requirements of this CIA. This Implementation Report shall include:

1. any changes to the identity and position of the Compliance Officer required by section III.A, from the description currently set forth at Section 1 of the MIM Compliance Manual;
2. any further revisions made to MIM's Policies and Procedures set forth in the MIM Compliance Manual in order to bring them into compliance with this CIA;
3. a description of the training programs required by section III.C, including a description of the targeted audiences and a schedule of when the training sessions were held;

4. a certification by the Compliance Officer that:

- a. the Policies and Procedures required by section III.B have been developed, are being implemented, and have been distributed to all pertinent Covered Persons;
- b. all Covered Persons have completed the Compliance Manual certification required by section III.B; and
- c. all Covered Persons have completed the training and executed the certification required by section III.C.

5. a description of the confidential disclosure program required by section III.E;

6. the identity of the Independent Review Organization(s) and the proposed start and completion date of the first audit;

7. a summary of personnel actions taken pursuant to section III.F; and

8. a summary of any reporting undertaken pursuant to sections III.D.3. and/or III.H since the effective date of this CIA.

B. ANNUAL REPORTS. MIM shall submit to OIG an Annual Report with respect to the status and findings of MIM's compliance activities.

The Annual Reports shall include:

1. any change in the identity or position description of the Compliance Officer described in section III.A;
2. a certification by the Compliance Officer that:
 - a. all Covered Persons have completed the annual Compliance Manual certification required by section III.B; and
 - b. all Covered Persons have completed the training and executed the certification required by section III.C.
3. notification of any changes or amendments to the Policies and Procedures required by section III.B and the reasons for such changes;
4. a complete copy of the report prepared pursuant to the Independent Review Organization(s)'s drug-benefit management and compliance engagement, including a copy of the methodology used;
5. MIM's response/corrective action plan to any issues raised by the Independent Review Organization;

6. a summary of the Reportable Events and misconduct reported throughout the course of the previous twelve (12) months pursuant to III.D.3 and III.H.

7. a report of the aggregate overpayments that have been returned to the Federal health care programs that were discovered as a direct or indirect result of implementing this CIA. Overpayment amounts should be broken down into the following categories: Medicare, Medicaid (report each applicable state separately), and other Federal health care programs;

8. a copy of the confidential disclosure log required by section III.E;

9. a description of any personnel action (other than hiring) taken by MIM as a result of the obligations in section III.F;

10. a summary describing any ongoing investigation or legal proceeding known to MIM conducted or brought by a governmental entity involving an allegation that MIM has committed a crime or has engaged in fraudulent activities, which should have been reported pursuant to section III.G. The summary shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation, legal proceeding or requests for information;

11. a corrective action plan to address the probable violations of law identified in section III.H; and

12. a listing of all of MIM's locations (including locations and mailing addresses), the corresponding name under which each location is doing business, the corresponding phone numbers and fax numbers, each location's Federal health care program provider identification number(s) and the payor (specific contractor or State agency) that issued each provider identification number.

The first Annual Report shall be received by the OIG no later than one year and ninety (90) days after the effective date of this CIA. Subsequent Annual Reports shall be submitted no later than sixty (60) days after the anniversary date of the effective date of this CIA.

C. CERTIFICATIONS. The Implementation Report and Annual Reports shall include a certification by the Compliance Officer under penalty of perjury, that: (1) MIM is in compliance with all of the requirements of this CIA, to the best of his or her knowledge; and (2) the Compliance Officer has reviewed the Report and has made reasonable inquiry regarding its content and believes that, upon such inquiry, the information is accurate and truthful.

VI. NOTIFICATIONS AND SUBMISSION OF REPORTS

Unless otherwise stated in writing subsequent to the effective date of this CIA, all notifications and reports required under this CIA shall be submitted to the entities listed below:

OIG:

Civil Recoveries Branch - Compliance Unit

Office of Counsel to the Inspector General
Office of Inspector General
U.S. Department of Health and Human Services
Cohen Building, Room 5527
330 Independence Avenue, SW
Washington, DC 20201
Phone 202.619.2078
Fax 202.205.0604

MIM:

Barry A. Posner, Esq.
Vice President & General Counsel
MIM Corporation
100 Clearbrook Road
Elmsford, NY 10523

VII. OIG INSPECTION, AUDIT AND REVIEW RIGHTS

In addition to any other rights OIG may have by statute, regulation, or contract, OIG or its duly authorized representative(s), may examine MIM's books, records, and other documents and supporting materials for the purpose of verifying and evaluating: (a) MIM's compliance with the terms of this CIA; and (b) MIM's compliance with the requirements of the Federal health care programs in which it participates. The documentation described above shall be made available by MIM to OIG or its duly authorized representative(s) at all reasonable times for inspection, audit or reproduction. Furthermore, for purposes of this provision, OIG or its duly authorized representative(s) may interview any of MIM's Covered Persons who consent to be interviewed at the individual's place of business during normal business hours or at such other place and time as may be mutually agreed upon between the individual and OIG. MIM agrees to assist OIG in contacting and arranging interviews with such Covered Persons upon OIG's request. MIM's employees may elect to be interviewed with or without a representative of MIM present.

VIII. DOCUMENT AND RECORD RETENTION

MIM shall maintain for inspection all documents and records relating to reimbursement from the Federal health care programs or to compliance with this CIA, one year longer than the term of this CIA (or longer if otherwise required by law).

IX. DISCLOSURES

Subject to HHS's Freedom of Information Act ("FOIA") procedures, set forth in 45 C.F.R. Part 5, the OIG shall make a reasonable effort to notify MIM prior to any release by OIG of information submitted by MIM pursuant to its obligations under this CIA and identified upon submission by MIM as trade secrets, commercial or financial information and privileged and confidential under the FOIA rules. MIM shall refrain from identifying any information as trade secrets, commercial or financial information and privileged and confidential that does not meet the criteria for exemption from disclosure under FOIA.

X. BREACH AND DEFAULT PROVISIONS

MIM is expected to fully and timely comply with all of the obligations herein throughout the term of this CIA or other time frames herein agreed to.

A. STIPULATED PENALTIES FOR FAILURE TO COMPLY WITH CERTAIN OBLIGATIONS. As a contractual remedy, MIM and OIG hereby agree that failure to comply with certain obligations set forth in this CIA may lead to the imposition of the following monetary penalties (hereinafter referred to as "Stipulated Penalties") in accordance with the following provisions.

1. A Stipulated Penalty of \$2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day, beginning one-hundred twenty (120) days after the effective date of this CIA and concluding at the end of the term of this CIA, MIM fails to have in place any of the following:

- a. a Compliance Officer;
- b. written Policies and Procedures;
- c. a training program; and
- d. a Confidential Disclosure Program.

2. A Stipulated Penalty of \$2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day MIM fails to meet any of the deadlines to submit the Implementation Report or the Annual Reports to the OIG.

3. A Stipulated Penalty of \$2,000 (which shall begin to accrue on the date the failure to comply began) for each day MIM:

a. hires or enters into a contract with an Ineligible Person after that person has been listed by a federal agency as excluded, debarred, suspended or otherwise ineligible for participation in the Medicare, Medicaid or any other Federal health care program (as defined in 42 U.S.C. ss. 1320a-7b(f)) (this Stipulated Penalty shall not be demanded for any time period during which MIM can demonstrate that it did not discover the person's exclusion or other ineligibility after making a reasonable inquiry (as described in section III.F.2) as to the status of the person);

b. employs or contracts with an Ineligible Person and that person: (i) has responsibility for, or involvement with, MIM's business operations related to the Federal health care programs or (ii) is in a position for which the person's salary or the items or services rendered, ordered, or prescribed by the person are paid in whole or part, directly or indirectly, by Federal health care programs or otherwise with Federal funds (this Stipulated Penalty shall not be demanded for any time period during which MIM can demonstrate that it did not discover the person's exclusion or other ineligibility after making a reasonable inquiry (as described in section III.F.3) as to the status of the person); or

c. employs or contracts with a person who: (i) has been charged with a criminal offense related to any Federal health care program, or (ii) is suspended or proposed for exclusion, and that person has responsibility for, or involvement with, MIM's business operations related to the Federal health care programs (this Stipulated Penalty shall not be demanded for any time period before 10 days after MIM received notice of the relevant matter or after the resolution of the matter as described in section III.F.4).

4. A Stipulated Penalty of \$1,500 (which shall begin to accrue on the date MIM fails to grant access) for each day MIM fails to grant access to the information or documentation as required in section VII of this CIA.

5. A Stipulated Penalty of \$1,000 (which shall begin to accrue ten (10) days after the date that OIG provides notice to MIM of the failure to comply) for each day MIM fails to comply fully with any obligation of this CIA. With respect to the Stipulated Penalty provision described in this section X.A.5 only, the OIG shall not seek a Stipulated Penalty if MIM demonstrates to the OIG's satisfaction that the alleged failure to comply could not be cured within the 10-day period, but that: (i) MIM has begun to take action to cure the failure to comply, (ii) MIM is pursuing such action with due diligence, and (iii) MIM has provided to the OIG a reasonable timetable for curing the failure to comply.

B. PAYMENT OF STIPULATED PENALTIES.

1. Demand Letter. Upon a finding that MIM has failed to comply with any of the obligations described in section X.A and determining that Stipulated Penalties are appropriate, OIG shall notify MIM by personal service or certified mail of (a) the specific grounds for its determination that MIM has failed to comply fully with the CIA; and (b) the OIG's exercise of its contractual right to demand payment of the Stipulated Penalties (this notification is hereinafter referred to as the "Demand Letter").

Within ten (10) days of MIM's receipt of the Demand Letter, MIM shall either (a) cure the breach to the OIG's satisfaction and pay the applicable stipulated penalties; or (b) request a hearing before an HHS administrative law judge ("ALJ") to dispute the OIG's determination of noncompliance, pursuant to the agreed upon provisions set forth below in section X.D. In the event MIM elects to request an ALJ hearing, the Stipulated Penalties shall continue to accrue until MIM cures, to the OIG's satisfaction, the alleged breach in dispute. Failure to respond to the Demand Letter in one of these two manners within the allowed time period shall be considered a material breach of this CIA and shall be grounds for exclusion under section X.C.

2. Timely Written Requests for Extensions. MIM may submit a timely written request for an extension of time to perform any act or file any notification or report required by this CIA. Notwithstanding any other provision in this section, if OIG grants the timely written request with respect to an act, notification, or report, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until one day after MIM fails to meet the revised deadline as agreed to by the OIG-approved extension. Notwithstanding any other provision in this section, if OIG denies such a timely written request, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until two (2) business days after MIM receives OIG's written denial of such request. A "timely written request" is defined as a request in writing received by OIG at least five (5) business days prior to the date by which any act is due to be performed or any notification or report is due to be filed.

3. Form of Payment. Payment of the Stipulated Penalties shall be made by certified or cashier's check, payable to "Secretary of the Department of Health and Human Services," and submitted to OIG at the address set forth in section VI.

4. Independence from Material Breach Determination. Except as otherwise noted, these provisions for payment of Stipulated Penalties shall not affect or otherwise set a standard for the OIG's determination that MIM has materially breached this CIA, which decision shall be made at the OIG's discretion and governed by the provisions in section X.C, below.

C. EXCLUSION FOR MATERIAL BREACH OF THIS CIA

1. Notice of Material Breach and Intent to Exclude. The parties agree that a material breach of this CIA by MIM constitutes an independent basis for MIM's exclusion from participation in the Federal health care programs (as defined in 42 U.S.C. ss. 1320a-7b(f)). Upon a determination by OIG that MIM has materially breached this CIA and that exclusion should be imposed, the OIG shall notify MIM by certified mail of (a) MIM's material breach; and (b) OIG's intent to exercise its contractual right to impose exclusion (this notification is hereinafter referred to as the "Notice of Material Breach and Intent to Exclude").

2. Opportunity to cure. MIM shall have thirty-five (35) days from the date of the Notice of Material Breach and Intent to Exclude Letter to demonstrate to the OIG's satisfaction that:

- a. MIM is in full compliance with this CIA;
- b. the alleged material breach has been cured; or
- c. the alleged material breach cannot be cured within the 35-day period, but that: (i) MIM has begun to take action to cure the material breach, (ii) MIM is pursuing such action with due diligence, and (iii) MIM has provided to OIG a reasonable timetable for curing the material breach.

3. Exclusion Letter. If at the conclusion of the thirty five (35) day period, MIM fails to satisfy the requirements of section X.C.2, OIG may exclude MIM from participation in the Federal health care programs. OIG will notify MIM in writing of its determination to exclude MIM (this letter shall be referred to hereinafter as the "Exclusion Letter"). The Exclusion Letter shall state the specific grounds for the OIG's determination to exclude MIM. Subject to the Dispute Resolution provisions in section X.D, below, the exclusion shall go into effect thirty (30) days after the date of the Exclusion Letter. The exclusion shall have national effect and will also apply to all other federal procurement and non-procurement programs. If MIM is excluded under the provisions of this CIA, MIM may seek reinstatement pursuant to the provisions at 42 C.F.R. ss.ss. 1001.3001-.3004.

4. Material Breach. A material breach of this CIA means:

- a. a failure by MIM to report a Reportable Event known to MIM, take corrective action and pay the appropriate refunds, as provided in section III.D;
- b. repeated or flagrant violations of the obligations under this CIA, including, but not limited to, the obligations addressed in section X.A of this CIA;
- c. a failure to respond to a Demand Letter concerning the payment of Stipulated Penalties in accordance with section X.B above; or
- d. a failure to retain and use an Independent Review Organization for review purposes in accordance with section III.D.

D. DISPUTE RESOLUTION

1. Review Rights. Upon the OIG's delivery to MIM of its Demand Letter or of its Exclusion Letter, and as an agreed-upon contractual remedy for the resolution of disputes arising under the obligation of this CIA, MIM shall be afforded certain review rights comparable to the ones that are provided in 42 U.S.C. ss. 1320a-7(f) and 42 C.F.R. Part 1005 as if they applied to the Stipulated Penalties or exclusion sought pursuant to this CIA. Specifically, the OIG's determination to demand payment of Stipulated Penalties or to seek exclusion shall be subject to review by an ALJ and, in the event of an appeal, the Departmental Appeals Board ("DAB"), in a manner consistent with the provisions in 42 C.F.R. ss. 1005.2-1005.21. Notwithstanding the language in 42 C.F.R. ss. 1005.2(c), the request for a hearing involving stipulated penalties shall be made within fifteen (15) days of the date of the Demand Letter and the request for a hearing involving exclusion shall be made within thirty (30) days of the date of the Exclusion Letter.

2. Stipulated Penalties Review. Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding for stipulated penalties under this CIA shall be (a) whether MIM was in full and timely compliance with the obligations of this CIA for which the OIG demands payment; (b) the period of noncompliance; and (c) with respect to a Stipulated Penalty authorized under section X.A.5 only, whether the failure to comply could not be cured within the 10-day period, but that by the end of that period (i) MIM had begun to take action to cure the failure to comply, (ii) MIM was and is pursuing such action with due diligence, and (iii) MIM had provided to the OIG a reasonable timetable for curing the material breach. MIM shall have the burden of proving its full and timely compliance and the steps taken to cure the noncompliance, if any. If the ALJ finds for the OIG with regard to a finding of a breach of this CIA and orders MIM to pay Stipulated Penalties, such Stipulated Penalties shall become due and payable twenty (20) days after the ALJ issues such a decision notwithstanding that MIM may request review of the ALJ decision by the DAB. If MIM requests review of the ALJ decision by the DAB, then MIM shall deposit the Stipulated Penalties amount into an interest-bearing escrow account pending the DAB's decision. If the DAB affirms the ALJ decision, the proceeds of the escrow account shall be immediately due and payable to the OIG. If the DAB overturns the ALJ decision, the escrow account shall be dissolved and the proceeds returned to MIM.

3. Exclusion Review. Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding for exclusion based on a material breach of this CIA shall be (a) whether MIM was in material breach of this CIA; (b) whether such breach was continuing on the date of the Exclusion Letter; and (c) the alleged material breach could not have been cured within the 35 day period, but that (i) MIM had begun to take action to cure the material breach within the 35 day period, (ii) MIM has pursued and is pursuing such action with due diligence, and (iii) MIM provided to OIG within the 15 day period a reasonable timetable for curing the material breach. For purposes of the exclusion herein, exclusion shall take effect only after an ALJ decision that is favorable to the OIG. MIM's election of its contractual right to appeal to the DAB shall not abrogate the OIG's authority to exclude MIM upon the issuance of the ALJ's decision. If the ALJ sustains the determination of the OIG and determines that exclusion is authorized, such exclusion shall take effect twenty (20) days after the ALJ issues such a decision, notwithstanding that MIM may request review of the ALJ decision by the DAB.

4. Finality of Decision. The review by an ALJ or DAB provided for above shall not be considered to be an appeal right arising under any statutes or regulations. Consequently, the parties to this CIA agree that the DAB's decision (or the ALJ's decision if not appealed) shall be considered final for all purposes under this CIA and MIM agrees to waive any right it may have to appeal the decision administratively, judicially or otherwise seek review by any court or other adjudicative forum.

XI. PRIVILEGE

Nothing in this CIA, or any communication or report made pursuant to this CIA, shall constitute or be construed as any waiver by MIM of MIM's attorney-client, work product or other applicable privileges. Notwithstanding that fact, the existence of any such privilege does not affect MIM's obligation to comply with the provisions of this CIA.

XII. EFFECTIVE AND BINDING AGREEMENT

Consistent with the provisions in the Settlement Agreement pursuant to which this CIA is entered, and into which this CIA is incorporated, MIM and OIG agree as follows:

A. This CIA shall be binding on the successors, assigns and transferees of MIM;

B. This CIA shall become final and binding on the date the final signature is obtained on the CIA, which the parties may sign in separate counter parts;

C. Any modifications to this CIA shall be made with the prior written consent of the parties to this CIA; and

D. The undersigned MIM signatories represent and warrant that they are authorized to execute this CIA. The undersigned OIG signatory represents that he is signing this CIA in his official capacity and that he is authorized to execute this CIA.

/S/ RITA MARCOUX

3/15/00

Rita Marcoux
Compliance Officer
MIM Corporation

DATE

/S/ BARRY A. POSNER

3/17/00

Barry A. Posner
Vice President and General Counsel
MIM Corporation

DATE

/S/ THOMAS CRANE

3/21/00

Thomas S. Crane
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

DATE

ON BEHALF OF THE OFFICE OF INSPECTOR GENERAL
OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

/S/ LEWIS MORRIS

6/15/00

LEWIS MORRIS
Assistant Inspector General for Legal Affairs
Office of Inspector General
U. S. Department of Health and Human Services

DATE

3-MOS

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	JUN-30-2000	
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