

FORM 10-Q  
 UNITED STATES  
 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 September 30, 2002  
 -----  
 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   
 -----

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 120-2 of the Exchange Act).

Yes  No   
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APPLICABLE ONLY TO CORPORATE ISSUERS:

On November 11, 2002, there were outstanding 24,345,548 shares of the Company's common stock, \$.0001 par value per share.

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PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2002	December 31, 2001
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 2,841	\$ 12,487
Receivables, less allowance for doubtful accounts of \$3,405 and \$5,543 at September 30, 2002 and December 31, 2001, respectively	70,642	70,089
Inventory	9,547	3,726
Prepaid expenses and other current assets	2,854	1,439
Total current assets	85,884	87,741
Property and equipment, net	7,957	9,287
Due from officer	--	2,132
Other assets, net	871	1,650
Goodwill, net	62,782	37,033
Intangible assets, net	17,712	1,976
Total assets	\$ 175,206	\$ 139,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 649	\$ 594
Line of credit	5,618	--
Accounts payable	10,456	4,468
Claims payable	43,843	46,564
Payables to plan sponsors	23,108	21,063
Accrued expenses and other current liabilities	4,349	5,745
Total current liabilities	88,023	78,434
Capital lease obligations, net of current portion	548	1,031
Other non current liabilities	57	58
Total liabilities	88,628	79,523
Stockholders' equity:		
Common stock, \$.0001 par value; 40,000,000 shares authorized, 22,947,194 and 22,004,101 shares issued and outstanding at September 30, 2002, and December 31, 2001, respectively	2	2
Treasury stock, 1,393,183 shares at cost	(2,934)	(2,934)
Additional paid-in capital	117,403	105,424
Accumulated deficit	(27,893)	(42,196)
Total stockholders' equity	86,578	60,296
Total liabilities and stockholders' equity	\$ 175,206	\$ 139,819

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 September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Revenue	\$ 138,530	\$ 119,886	\$ 425,913	\$ 332,773
Cost of revenue	120,566	106,231	374,472	294,047
Gross profit	17,964	13,655	51,441	38,726
Selling, general and administrative expenses	11,733	9,826	32,786	27,599
TennCare reserve adjustment	--	(1,496)	(851)	(2,476)
Amortization of intangibles	396	551	973	1,631
Income from operations	5,835	4,774	18,533	11,972
Interest (expense) income, net	(221)	(43)	(655)	(27)
Income before provision for income taxes	5,614	4,731	17,878	11,945
Provision for income taxes	1,123	409	3,575	932
Net income	\$ 4,491	\$ 4,322	\$ 14,303	\$ 11,013
	=====	=====	=====	=====
Basic income per common share	\$ 0.20	\$ 0.20	\$ 0.63	\$ 0.53
	=====	=====	=====	=====
Diluted income per common share	\$ 0.19	\$ 0.19	\$ 0.60	\$ 0.51
	=====	=====	=====	=====
Weighted average common shares used in computing basic income per common share	22,944	21,361	22,801	20,894
	=====	=====	=====	=====
Weighted average common shares used in computing diluted income per common share	23,813	22,589	23,951	21,624
	=====	=====	=====	=====

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

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

	Nine Months Ended September 30,	
	2002	2001
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 14,303	\$ 11,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,544	5,288
TennCare reserve adjustment	(851)	--
Issuance of stock to employees	109	28
Provision for losses on receivables	941	883
Changes in assets and liabilities, net of acquired assets:		
Receivables, net	5,264	(11,134)
Inventory	(2,268)	(1,440)
Prepaid expenses and other current assets	(1,305)	205
Accounts payable	56	1,846
Claims payable	(2,721)	4,139
Payables to plan sponsors and others	2,046	(6,734)
Accrued expenses and other current liabilities	(1,900)	(1,072)
Non current liabilities	--	(457)
Net cash provided by operating activities	18,218	2,565
Cash flows from investing activities:		
Purchase of property and equipment, net of disposals	(1,751)	(2,281)
Cost of acquisitions, net of cash acquired	(34,851)	(1,987)
Decrease (increase) in due from officer	2,132	(96)
(Increase) decrease in other assets	(98)	100
Net cash used in investing activities	(34,568)	(4,264)
Cash flows from financing activities:		
Net borrowings on line of credit	5,618	--
Purchase of treasury stock	--	(2,596)
Proceeds from exercise of stock options	1,514	5,030
Principal payments on capital lease obligations	(428)	(448)
Net repayment of debt	--	(165)
Net cash provided by financing activities	6,704	1,821
Net decrease in cash and cash equivalents	(9,646)	122
Cash and cash equivalents--beginning of period	12,487	1,290
Cash and cash equivalents--end of period	\$ 2,841	\$ 1,412

(continued)

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

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

Nine Months Ended September 30,  
-----  
2002                      2001  
-----  
(Unaudited)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 705 =====	\$ 151 =====
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION:		
Reclassification of stockholder notes to other assets	\$ -- =====	\$ 771 =====
Contribution of minority interest to additional paid-in capital upon dissolution of subsidiary	\$ -- =====	\$1,112 =====
Stock issued in connection with acquisition	\$ 10,355 =====	\$ -- =====

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

MIM CORPORATION AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(In thousands, except per share amounts)

NOTE 1 - BASIS OF PRESENTATION

These unaudited consolidated interim financial statements should be read in conjunction with the MIM Corporation and Subsidiaries (collectively, the "Company") 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, 2001 (the "Form 10-K") filed with the Commission. The accounting policies followed for interim financial reporting are similar to those disclosed in Note 2 of Notes to Consolidated Financial Statements included in Form 10-K. The following accounting policies are described further below:

CONSOLIDATION

The consolidated financial statements include the accounts of MIM Corporation and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVENTORY

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventory consists principally of purchased prescription drugs.

REVENUE RECOGNITION

**CAPITATED AGREEMENTS.** The Company's capitated contracts with plan sponsors require the Company to provide covered pharmacy services to plan sponsor members in return for a fixed fee per member per month paid by the plan sponsor. Capitated contracts have terms varying from six months to one year. These contracts are subject to rate adjustment or termination upon the occurrence of certain events. 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 expected loss contracts.

**FEE-FOR-SERVICE.** Under fee-for-service contracts, revenues from orders dispensed by the Company's pharmacy networks are recognized when the pharmacy services are reported to the Company by the dispensing pharmacist through the on line claims processing systems.

All revenue is recorded net of any rebate share payable to plan sponsors. The Company does not sell products separately from the services offered to members and plan sponsors and does not maintain revenue or cost of revenue information with regard to product sales.

When the Company independently has a contractual obligation to pay a network pharmacy provider for benefits provided to its plan sponsors' members, the Company includes payments from these plan sponsors as revenue, and payments to the network pharmacy providers as cost of revenue ("gross") in accordance with Emerging Issues Task Force ("EITF") 99-19, "Recording Revenue Gross as a Principal versus Net as an Agent". These transactions require the Company to assume credit risk and act as a principal. If the Company was merely administering plan sponsors' network pharmacy contracts in which the Company does not assume credit risk, but acts as an agent, the Company records only the administrative or dispensing fees as revenue ("net").

**PRESCRIPTION SERVICES.** The Company's integrated pharmacy benefit services include the delivery of pharmaceutical services and products. Such services and products may be provided by any of the Company's pharmacy dispensing locations. Revenue is recognized for these products and services when they are dispensed and/or shipped.

COST OF REVENUE

Cost of revenue includes pharmacy claims, fees paid to pharmacists and other direct costs associated with pharmacy management, claims processing operations and mail order services, offset by volume rebates received from pharmaceutical manufacturers. The Company does not maintain cost of revenue information with regards to product sales.

CLAIMS PAYABLE

The Company is responsible for all covered prescription drugs provided to plan members during the contract period. Claims payable also includes estimates of certain prescriptions that were dispensed to members for whom the related claims had not yet been submitted.

PAYABLES TO PLAN SPONSORS

Payables to plan sponsors represent the sharing of pharmaceutical rebates with the plan sponsors, as well as profit sharing plans with certain capitated contracts.

NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Numerator:				
Net income .....	\$ 4,491	\$ 4,322	\$ 14,303	\$ 11,013
Denominator - Basic:				
Weighted average number of common shares outstanding .....	22,944	21,361	22,801	20,894
Basic income per common share .....	\$ 0.20	\$ 0.20	\$ 0.63	\$ 0.53
Denominator - Diluted:				
Weighted average number of common shares outstanding .....	22,944	21,361	22,801	20,894
Common share equivalents of outstanding stock options .....	869	1,228	1,150	730
Total diluted shares outstanding .....	23,813	22,589	23,951	21,624
Diluted income per common share .....	\$ 0.19	\$ 0.19	\$ 0.60	\$ 0.51

NOTE 3 - DUE FROM COMPANY OFFICER

On March 23, 2002, officer repaid in full a \$1,700 loan from the Company, together with all accrued and unpaid interest thereon, totaling approximately \$2,100.



NOTE 4 - TENNCARE(R) RESERVE ADJUSTMENTS

There were no TennCare(R) reserve adjustments in the current quarter of 2002. The TennCare(R) reserve adjustments of \$851 and \$1,496 in the first quarter of 2002 and the third quarter of 2001, respectively, were a result of the collection of receivables from Xantus Healthplans of Tennessee, Inc., which were previously reserved. During the first quarter of 2001, the Company recorded a reserve adjustment of \$980 to reflect a favorable settlement with Tennessee Health Partnership ("THP") relative to the amount initially reserved. This dispute related to several improper reductions of payments from THP for services provided to THP and its enrollees.

NOTE 5 - TREASURY STOCK

In February 2001, the Company repurchased 1,298 shares of the Company's common stock for \$2,596, at a price of \$2.00 per share of common stock.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

In 1998, the Company recorded a \$2,200 special charge against earnings in connection with an agreement in principle with respect to a civil settlement of a Federal and State of Tennessee investigation for conduct involving two former officers of the Company occurring prior to the Company's August 1996 initial public offering. The definitive agreement covering that settlement was executed on June 15, 2000, and required payment of \$775 in 2000, payment of \$900 in 2001, and payment of \$525 in 2002. On July 1, 2002, this settlement was paid in full.

NOTE 7 - ACQUISITIONS

On January 31, 2002, the Company acquired all of the issued and outstanding capital stock of Vitality Home Infusion Services, Inc. ("Vitality"). Vitality is a New York-based provider of specialty pharmaceutical services. Vitality provides such services on a national basis to chronically ill and genetically impaired patients, particularly focusing on oncology, infectious disease, immunology and rheumatology disease.

The aggregate purchase price for Vitality was \$46,416 (including \$1,416 in transaction costs), payable \$35,000 in cash and 612,419 shares of MIM common stock valued at \$10,355, including 20,002 shares of common stock, valued at \$355, for transaction costs. The common stock of MIM was valued using the average market price for twenty days prior to the date of the purchase agreement. The purchase price for Vitality has been allocated to assets and liabilities based on management's best estimates of fair value and based on a final valuation performed by an independent outside valuation firm. The following table sets forth the allocation of the purchase price as of September 30, 2002:

Purchase price:	
Funded from the Company's line of credit	\$ 35,000
Common stock value	10,355
Transaction costs	1,061
	-----
Total purchase price	46,416
Less: net tangible assets as of January 31, 2002	4,441
	-----
Excess of purchase price over net tangible assets acquired	\$ 41,975
	=====
Allocation of excess purchase price:	
Customer relationships	\$ 11,000
Trademarks	4,700
Non-compete agreements	730
Goodwill	25,545
	-----
Total	\$ 41,975
	=====

VITALITY PRO FORMA FINANCIAL INFORMATION

The following unaudited consolidated pro forma financial information for the three and nine month periods ended September 30, 2002 and 2001, respectively, has been prepared assuming Vitality was acquired as of January 1, 2001, utilizing the purchase method of accounting, with pro forma adjustments for non-amortizing goodwill, amortizing intangibles, interest expense, rent expense and income tax benefit. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results that would have been realized had the acquisition occurred on January 1, 2001. This pro forma financial information is not intended to be a projection of future operating results.

Pro Forma Income Statement

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Revenues	\$ 138,530	\$ 138,153	\$ 432,956	\$ 385,884
Net income	\$ 4,491	\$ 4,536	\$ 14,115	\$ 13,411
Basic income per common share	\$ 0.20	\$ 0.21	\$ 0.62	\$ 0.62
Diluted income per common share	\$ 0.19	\$ 0.20	\$ 0.59	\$ 0.60

NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," which establish accounting and reporting standards governing business combinations, goodwill and intangible assets. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 142 states that goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test. Under the new rules, an acquired intangible asset should be separately recognized and amortized over its useful life (unless an indefinite life) if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged regardless of the acquirer's intent to do so. The Company adopted these standards on January 1, 2002.

Pursuant to SFAS No. 142, substantially all of the Company's intangible assets will no longer be amortized and the Company is required to perform an annual impairment test for goodwill and intangible assets. Goodwill and intangible assets are allocated to various reporting units, which are either the operating segment or one reporting level below the operating segment. SFAS No. 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value. The impairment test for intangible assets consists of comparing the fair value of the intangible asset to its carrying value. If the carrying value of the intangible asset exceeds its fair value an impairment loss is recognized. Fair value for goodwill and intangible assets are determined based on discounted cash flows and appraised values. During the first quarter of 2002, the Company completed its initial impairment review which indicated that there was no impairment of goodwill or intangible assets.

The following table provides a reconciliation of reported net income for the three and nine month periods ended September 30, 2001, to adjusted net income as if SFAS No. 142 had been applied as of January 1, 2001.

	Three Months Ended September 30, 2001		Nine Months Ended September 30, 2001	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income as reported	\$ 4,322	\$ 0.19	\$ 11,013	\$ 0.51
Add back goodwill amortization (net of tax)	439	0.02	1,298	0.06
Net income as adjusted	\$ 4,761	\$ 0.21	\$ 12,311	\$ 0.57

The changes in the net carrying amount of goodwill for the nine months ended September 30, 2002, are as follows:

Balance as of December 31, 2001	\$ 37,033
Goodwill acquired (Vitality)	25,545
Miscellaneous purchase price adjustments	204
	-----
Balance (net of amortization) as of September 30, 2002	\$ 62,782
	=====

Gross amortizable intangible assets with definite lives at September 30, 2002 consist of customer relationships of \$13,948 amortized over four to twenty years and noncompete agreements of \$862 amortized over three to four years and \$127 of trademarks amortized over three years. Gross intangible assets with indefinite lives at September 30, 2002 are trademarks of \$4,700 and goodwill of \$66,938. Accumulated amortization for intangibles and goodwill at September 30, 2002 is \$6,081.

NOTE 9 - OPERATING SEGMENTS

The Company operates in two distinct segments: (1) PBM Services, which is comprised of fully integrated pharmacy benefit management and mail services; and (2) Specialty Pharmaceuticals, which is comprised of specialty pharmacy distribution and clinical management services.

The accounting policies applied to business segments are the same as those described in the summary of significant accounting policies as disclosed in Note 2 of Notes to Consolidated Financial Statements in the Form 10-K.

Segment Reporting Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Revenues:				
PBM Services	\$ 94,826	\$110,176	\$306,819	\$304,295
Specialty Pharmaceuticals	43,704	9,710	119,094	28,478
	-----	-----	-----	-----
Total	\$138,530	\$119,886	\$425,913	\$332,773
	=====	=====	=====	=====
Depreciation expense:				
PBM Services	\$ 666	\$ 971	\$ 2,461	\$ 2,860
Specialty Pharmaceuticals	238	111	675	328
	-----	-----	-----	-----
Total	\$ 904	\$ 1,082	\$ 3,136	\$ 3,188
	=====	=====	=====	=====
Income from operations:				
PBM Services	\$ 1,460	\$ 4,025	\$ 6,207	\$ 8,781
Specialty Pharmaceuticals	4,375	749	12,326	3,191
	-----	-----	-----	-----
Total	\$ 5,835	\$ 4,774	\$ 18,533	\$ 11,972
	=====	=====	=====	=====
Total assets:				
PBM Services	\$ 74,280	\$ 98,889		
Specialty Pharmaceuticals	100,926	32,867		
	-----	-----		
Total	\$175,206	\$131,756		
	=====	=====		
Capital expenditures:				
PBM Services	\$ 179	\$ 455	\$ 752	\$ 1,835
Specialty Pharmaceuticals	205	107	1,024	483
	-----	-----	-----	-----
Total	\$ 384	\$ 562	\$ 1,776	\$ 2,318
	=====	=====	=====	=====

Revenues for the three months ended September 30, 2002 included \$14,116 from capitated arrangements compared to \$24,308 for the same period in 2001. This represents 10.1% of the Company's current quarterly revenues compared to 20.3% for the same quarter in 2001.

Revenues for the nine months ended September 30, 2002 included \$37,886 from capitated arrangements compared to \$80,222 for the same period a year ago. This represents 8.9% of the Company's current nine month revenues compared to 24.1% for the same period in 2001.

\* \* \* \*

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited consolidated financial statements of MIM Corporation and subsidiaries (collectively, the "Company"), including the 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, 2001 (the "Form 10-K") filed with the U.S. Securities and Exchange Commission (the "Commission"), as well as the Company's unaudited consolidated interim financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002 (this "Report").

This Report contains statements not purely historical and which may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Company's expectations, hopes, beliefs, intentions or strategies regarding the future. These forward-looking statements may include statements relating to the Company's business development activities; sales and marketing efforts; the status of material contractual relationships and the expenditures associated with one or more of them; the effect of regulation and competition on our business; future operating performance and results of the company; the benefits and risks associated with the integration of acquired companies; and the likely outcome and effect of legal proceedings on the company and its business and operations and/or the resolution or settlement thereof. Although we believe any and all of these statements should be based on reasonable assumptions, there is no way to guarantee that we will always be able to meet the expectations arising from those forward-looking statements and their underlying assumptions. Actual results may differ materially from those implied in the forward-looking statements because of the various factors enumerated in our periodic filings with the SEC. These factors include, among other things, the status of contract negotiations; increased government regulation relating to the health care and insurance industries in general, and more specifically, pharmacy benefit management, mail service and specialty pharmaceutical distribution organizations; the existence of complex laws and regulations relating to the Company's business; increased competition from the Company's competitors, including those competitors with greater financial, technical, marketing and other resources, and risks associated with risk-based or capitated contracts. This Report contains information regarding important factors that could cause such differences. The Company does not undertake any obligation to supplement these forward looking statements to reflect any future events and circumstances.

### OVERVIEW

The Company is a pharmaceutical healthcare organization delivering innovative pharmacy benefit management, specialty pharmaceutical distribution and other pharmacy-related healthcare solutions. The Company combines its clinical management expertise, sophisticated data management and therapeutic fulfillment capabilities to serve the particular needs of each of its customers and respective pharmacy benefit recipients covered by a customer's pharmacy-related health benefits. The Company provides a broad array of pharmacy benefits and pharmacy products and services to individual enrollees ("Members") receiving health benefits, principally through health insurers, including managed care organizations ("MCOs") and other insurance companies, and, to a lesser extent, third party administrators, labor unions, self-funded employer groups, government agencies, and other self-funded plan sponsors (collectively, "Plan Sponsors"). These services are organized under two reported operating segments: pharmacy benefit management and mail services (collectively, "PBM Services"), and specialty pharmacy distribution and clinical management services ("Specialty Pharmaceuticals").

The Company offers small and mid-sized Plan Sponsors a broad range of PBM Services designed to promote the cost-effective delivery of clinically appropriate pharmacy benefits through its network of retail pharmacies and its own mail service distribution facility. PBM Services revenues are recognized two different ways. When the Company has a contractual obligation to pay its network pharmacy providers for services provided to Members of Plan Sponsors and assumes credit risk for these benefits, it recognizes the total payments (including the cost of the prescription drug) from these Plan Sponsors as revenue, and payments to network pharmacy providers as cost of revenue ("gross"). When the Company does not assume credit risk for the network pharmacy payments, it records only the administrative or dispensing fees as revenue ("net").

The Company's Specialty Pharmaceuticals programs are offered to Plan Sponsors of all sizes and include the distribution of biotech and other specialty prescription medications and the provision of pharmacy-related clinical management services and disease state programs to the chronically ill and genetically impaired directly and through Plan Sponsors. These services are offered through its BioScrip(R) specialty injectable and infusion therapy programs.

The Company also distributes high-cost injectable and infusion prescription medications and therapies, through its Vitality Home Infusion Services, Inc. ("Vitality") and American Disease Management Associates L.L.C. ("ADIMA") subsidiaries.

Depending on the goals and objectives of its Plan Sponsor customers, the Company provides some or all of the following clinical services to each Plan Sponsor as part of its PBM Services and Specialty Pharmaceuticals services: pharmacy case management, therapy assessment, compliance monitoring, health risk assessment, patient education and drug usage and interaction evaluation, pharmacy claims processing, mail services and related prescription distribution, benefit design consultation, drug utilization review, formulary management and consultation, drug data analysis, drug interaction management, patient compliance, program management and pharmaceutical rebate administration.

#### CRITICAL ACCOUNTING POLICIES

##### REVENUE RECOGNITION AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Revenue for the PBM is recognized either at the time that the pharmacy service is reported to the Company from participating pharmacies under the fee-for-service contracts or, in the case of a capitated agreement, in the month in which the services are performed. As outlined above, revenue is recorded gross or net based on whether or not the credit risk is assumed by the Company.

Allowances for doubtful accounts are based on estimates of losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances.

##### REBATES

Manufacturers' rebates are recorded as estimates until such time as the rebate monies are received. These estimates are based on historical results and trends as well as the Company's forecasts. In January 2001, the Company adopted Emerging Issues Task Force Issue No. 00-22 ("EITF 00-22"), "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22, states, among other things, that rebates received from pharmaceutical manufacturers should be recognized as a reduction of cost of revenue and rebates shared with Plan Sponsors as a reduction of revenue.

##### PURCHASE PRICE ALLOCATION

The Company accounts for its acquisitions under the purchase method of accounting and accordingly, the acquired assets and liabilities assumed are recorded at their respective fair values. The recorded values of assets and liabilities are based on third party estimates and independent valuations when available. The remaining values are based on management's judgments and estimates, and accordingly, the Company's financial position or results of operations may be affected by changes in estimates and judgments.

## INCOME TAXES

As part of the process of preparing the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These timing differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheet.

## RESULTS OF OPERATIONS

### REVENUES AND GROSS PROFIT

The following table provides details for the PBM Services segment for the three and nine month periods ended September 30, 2002 and 2001:

	PBM Services (\$ in thousands)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2002	2001	% Inc/ (Dec)	2002	2001	% Inc/ (Dec)
Revenues	\$94,826	\$110,176	(13.9%)	\$306,819	\$304,295	0.8%
Cost of revenues	87,633	99,729	(12.1%)	283,335	275,170	3.0%
Gross profit	\$ 7,193	\$ 10,447	(31.1%)	\$ 23,484	\$ 29,125	(19.4%)
Gross profit percentage	7.6%	9.5%		7.7%	9.6%	

PBM Services revenues decreased 13.9% to \$94.8 million in the third quarter compared to \$110.2 million in the third quarter of 2001 and increased slightly to \$306.8 for the nine months ended September 30, 2002 compared to the same period in 2001. In the second quarter of 2002, the Company changed the terms of some of its PBM customers, where the Company no longer accepted credit risk on these customers. After giving effect to that change, current accounting rules required the Company to classify these customers' gross PBM Services revenue on a net basis. That change had the effect of reducing the gross PBM Services revenue and cost of revenue by \$20.4 million and \$51.1 million for the quarter and nine months ended September 30, 2002, respectively, with no resulting effect on reported gross profit. The third quarter 2002 revenue decrease and the minimal revenue increase for the nine months ended September 30, 2002, were the result of decreases in revenue associated with the Company's classification of certain PBM Services revenues from gross to net, the liquidation of Access MedPLUS in the fourth quarter of 2001, and the Company's termination of certain unprofitable PBM accounts, partially offset by increases from continued growth in its retail network and mail services.

Cost of revenue decreased \$12.1 million in the third quarter of 2002 and increased \$8.2 million in the nine months ended September 30, 2002 compared to the same periods in 2001. The changes are a result of the same reasons discussed above.

Gross profit decreased \$3.3 million in the third quarter of 2002 and \$5.6 million in the nine months ended September 30, 2002 compared to the same periods in 2001, due to the liquidation of Access MedPLUS and the Company's termination of certain unprofitable PBM accounts. These decreases were partially offset by increases from continued growth in its retail network and mail services.

The following table provides details for the Specialty Pharmaceuticals segment for the three and nine month periods ending September 30, 2002 and 2001.

Specialty Pharmaceuticals (\$ in thousands)						
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2002	2001	% Inc/ (Dec)	2002	2001	% Inc/ (Dec)
Revenues	\$ 43,704	\$ 9,710	350.1%	\$ 119,094	\$ 28,478	318.2%
Cost of revenues	32,933	6,502	406.5%	91,137	18,877	382.8%
Gross profit	\$ 10,771	\$ 3,208	235.7%	\$ 27,957	\$ 9,601	191.2%
Gross profit percentage	24.6%	33.0%		23.5%	33.7%	

Specialty Pharmaceuticals revenues increased \$34.0 million in the third quarter of 2002 to \$43.7 million, and \$90.6 million to \$119,094 million for the nine months ended September 30, 2002 compared to the same periods last year. These increases were the result of the inclusion of Vitality's revenues from February 2002 (the acquisition date) (see Note 7 of Notes to Unaudited Consolidated Financial Statements), and continued growth in the Company's BioScrip(R) injectable and infusion therapy programs.

Cost of revenue increased \$26.4 million in the third quarter of 2002 and \$72.3 million for the nine months ended September 30, 2002 compared to the same periods in 2001. These increases are commensurate with the inclusion of Vitality since February 2002 and the growth in the Company's BioScrip(R) programs from 2001.

Gross profit increased \$7.6 million for the third quarter of 2002 and \$18.4 million for the nine months ended September 30, 2002 from the same periods in 2001, due to the inclusion of Vitality from February 2002, as well as increases from the BioScrip(R) programs, reflecting their revenue growth from 2001.

The gross profit percentages declined in both the third quarter of 2002 and the nine months ended September 30, 2002 compared to the same periods in 2001 as a result of increases in the lower margin BioScrip(R) injectable therapy programs. The current gross profit percentages now reflect a higher proportion of injectable therapy programs in the total Specialty Pharmaceuticals business, when, in the previous year, the infusion therapy program represented a higher percentage of the total Specialty Pharmaceuticals business. Infusion therapy historically has yielded a higher gross profit percentage.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") increased to \$11.7 million for the third quarter of 2002, or 8.5% of revenue, from \$9.8 million, or 8.2% of revenue for the same period a year ago. This increase is principally the result of operating cost increases commensurate with the Company's business growth, the inclusion of Vitality's SG&A in the Company's results since February 2002, as well as overall higher insurance premiums. SG&A expenses for the first nine months of 2002 increased to \$32.8 million, or 7.7% of revenue, from \$27.6 million, or 8.3% of revenue, in the first nine months of 2001, for the same reasons previously discussed.

#### TENNCARE(R) RESERVE ADJUSTMENTS

There were no TennCare(R) reserve adjustments in the current quarter of 2002. The TennCare(R) reserve adjustments of \$0.9 million in the first quarter of 2002 and \$1.5 million in the third quarter of 2001, respectively, were the result of the collection of receivables from Xantus Healthplans of Tennessee, Inc., which were previously reserved. During the first quarter of 2001, the Company also recorded a reserve adjustment of \$1.0 million to reflect a favorable settlement with Tennessee Health Partnership ("THP") relating to several improper reductions of payments from THP for which the Company had provided services.



## AMORTIZATION OF INTANGIBLES

For the third quarter of 2002 and the nine months ended September 30, 2002, the Company recorded amortization of \$0.4 million and \$1.0 million, respectively, compared to \$0.6 million and \$1.6 million for the same periods, respectively, in 2001. These decreases in 2002 are the result of the adoption of SFAS No. 142 (see Note 8 of Notes to Unaudited Consolidated Financial Statements), which were partially offset by the amortization of identifiable intangibles resulting from the acquisition of Vitality on January 31, 2002.

## NET INTEREST EXPENSE

Net interest expense was \$0.2 million and \$0.7 million for the three months and nine months ended September 30, 2002, respectively, compared to nominal amounts of net interest expense for the same periods in 2001. The interest expense in 2002 is primarily a result of using the Company's revolving credit facility to fund the \$35 million cash portion of the Vitality \$45 million purchase price on January 31, 2002.

## PROVISION FOR INCOME TAXES

Tax expense for the third quarter of 2002 and for the nine months ended September 30, 2002 was \$1.1 million and \$3.6 million, respectively, compared to \$0.4 million and \$0.9 million, respectively, for the same periods last year. The effective tax rates for the third quarter and nine months ended September 30, 2002 were 20.0%, compared to 8.6% and 7.8%, respectively, for the same periods last year. The Company was able to fully offset taxable income in 2001 with its Federal net operating loss carry forwards, but expects to only partially offset expected 2002 taxable income with available Federal net operating loss carry forwards.

## INCOME FROM OPERATIONS

Income from operations for the third quarter of 2002 increased 22% over the same period last year to \$5.8 million. 2001 income from operations of \$4.8 million includes a benefit of \$1.0 million (a special gain from a TennCare(R) reserve adjustment of \$1.5 million, offset by amortization of goodwill). Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the third quarter of 2002 totaled \$7.3 million, compared to \$6.6 million for the same period last year. EBITDA for 2001 includes the special gain above of \$1.5 million.

Income from operations for the nine months ended September 30, 2002 increased 55% to \$18.5 million from \$12.0 million for the same period last year. Income from operations includes a special gain from a TennCare(R) reserve adjustment of \$0.9 million in 2002 and a benefit of \$1.1 million in 2001 (special gains from TennCare(R) adjustments of \$2.5 million, above offset by amortization of goodwill). EBITDA for the nine months of 2002 grew 34% to \$23.1 million, compared to \$17.3 million in the previous year's period. EBITDA includes the special gains above of \$0.9 million and \$2.5 million in 2002 and 2001, respectively.

## NET INCOME AND EARNINGS PER SHARE

Net income for the third quarter of 2002 was \$4.5 million or \$0.19 per diluted share, compared to net income of \$3.4 million or \$0.15 per diluted share for the same period last year, excluding a 2001 special gain from a TennCare(R) reserve adjustment of \$0.06 per diluted share and adding back the 2001 impact of \$0.02 for the application of SFAS No. 142 regarding the amortization of goodwill. Average diluted shares outstanding for the third quarter increased by 1.2 million to 23.8 million shares.

Net income for the nine months ended September 30, 2002 was \$13.6 million or \$0.57 per diluted share, compared to net income of \$10.0 million or \$0.47 per diluted share for the same period last year, excluding 2002 and 2001 special gains from TennCare(R) reserve adjustments of \$0.03 and \$0.10 per diluted share, respectively, and adding back the 2001 impact of \$0.06 per diluted share for the application of SFAS No. 142 regarding the amortization of goodwill. Average diluted shares outstanding for the nine months increased by 2.3 million to 24.0 million shares.

## LIQUIDITY AND CAPITAL RESOURCES

The Company utilizes both funds generated from operations and available credit under its Facility (as defined below) for acquisitions, capital expenditures and general working capital needs.

For the nine months ended September 30, 2002, net cash provided by operating activities totaled \$18.2 million compared to \$2.6 million for the same period last year. This improvement is the result of continued growth in the Company's businesses and the inclusion of Vitality results from February 2002.

Net cash used in investing activities during the nine months ended September 30, 2002 was \$34.6 million compared to \$4.3 million used in the same period in 2001. This increase reflects approximately \$35 million of the Facility used for the acquisition of Vitality (see Note 7 of Notes to Unaudited Consolidated Financial Statements), partially offset by the repayment in full, in March 2002, of a \$2.1 million officer loan (see Note 3 of Notes to Unaudited Consolidated Financial Statements).

For the nine months ended September 30, 2002, net cash provided by financing activities was \$6.7 million compared to \$1.8 million in the same period in 2001. The increase is primarily the result of \$5.6 million currently outstanding under the Facility after repaying most of the borrowings used to pay the cash portion of the purchase price for the Vitality acquisition and the absence of treasury stock purchases in 2002 that, in the 2001 period, totaled \$2.6 million.

At September 30, 2002, the Company had a working capital deficit of \$2.1 million compared to working capital of \$9.3 million at December 31, 2001. This change is primarily the result of the acquisition of Vitality. Goodwill and intangible assets, classified as non-current, increased \$41.5 million while the \$5.6 million unpaid balance under the Facility was classified as a current liability.

The allowance for doubtful accounts at September 30, 2002 of \$3.4 million, or 4.8% of accounts receivable, decreased \$2.1 million from \$5.5 million, or 7.9% of accounts receivable at December 31, 2001. This decrease was primarily the result of a reduction to a reserve, in the first quarter of 2002, established in a prior period for the collection of receivables from Xantus Healthplans of Tennessee, Inc., which was no longer required (as discussed in Note 4 of Notes to Unaudited Consolidated Financial Statements).

On November 1, 2000, the Company entered into a \$45 million revolving credit facility (the "Facility") with HFG Healthco-4 LLC, an affiliate of Healthcare Finance Group, Inc. ("HFG"). The Facility has a three-year term and is secured by the Company's receivables. Interest is payable monthly and provides for borrowing of up to \$45 million at the London Inter-Bank Offered Rate (LIBOR) plus 2.1%. The Facility contains various covenants that, among other things, require the Company to maintain certain financial ratios, as defined in the agreements governing the Facility. As of September 30, 2002, there was \$5.6 million outstanding under the Facility as a result of the Company's acquisition of Vitality. The Facility terminates on October 31, 2003. The Company believes that it will be able to extend or renew the Facility, or alternatively, obtain a new credit facility with another lender, however, there can be no assurances that the Company will be able to renew or extend the Facility or obtain a new one on terms favorable to the Company. Failure to renew or extend the Facility or enter into a new credit facility could have a material adverse effect on the Company.

As the Company continues to grow, it anticipates that its working capital needs will also continue to increase. The Company believes that its cash on hand, together with funds available under the Facility and cash expected to be generated from operating activities will be sufficient 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 Services and Specialty Pharmaceuticals businesses, which the Company would expect to fund from cash on hand, borrowings under the Facility, other future indebtedness or, if appropriate, the private and/or public sale or exchange of equity securities of the Company.

At December 31, 2001, the Company had unused Federal net operating loss carryforwards of \$40.3 million, which will begin expiring in 2009. Since the Company has not had a history of consistent profitability, it is uncertain whether the Company will realize the benefit from its deferred tax assets and has provided a valuation allowance.

As of December 31, 2001, certain of the Company's Federal net operating loss carryforwards are subject to limitation and may be utilized in a future year upon release of the limitation. If Federal net operating loss carryforwards are not utilized in the year they are available they may be utilized in a future year to the extent they have not expired.

#### OTHER MATTERS

The TennCare(R) program operates under a demonstration waiver from The United States Center for Medicare and Medicaid Services ("CMS"). That waiver is the basis of the Company's ongoing service to those MCOs in the TennCare(R) program. The waiver expired on December 31, 2001 and was renewed without material modification through December 31, 2002 and further extended through December 31, 2004, without material modification to those goods and services being provided by the Company or the manner in which the Company is compensated. While the Company believes that pharmacy benefits will continue to be provided to Medicaid and other eligible TennCare(R) enrollees through MCOs in one form or another through at least December 31, 2004. Should the funding sources and/or conditions for the TennCare(R) program change significantly, the TennCare(R) program's ability to pay the MCOs, and in turn the MCO's ability to pay the Company, could materially and adversely affect the Company's financial position and results of operations.

In the first quarter of 2001, the Company commenced a stock repurchase program pursuant to which the Company is authorized to repurchase up to \$5.0 million of its common stock from time to time on the open market or in private transactions. To date, the Company has used, in the aggregate, approximately \$2.6 million towards the repurchase of its common stock under this program.

On October 1, 2002, the U.S. Department of Health and Human Services Office of Inspector General ("OIG") released its Draft Compliance Program Guidance for Pharmaceutical Manufacturers (the "Draft Guidance") designed to provide voluntary, nonbinding guidance to assist pharmaceutical manufacturers in devising effective legal compliance programs. The Draft Guidance identifies in general terms certain areas of potential legal risk that OIG encourages pharmaceutical manufacturers to consider in structuring compliance programs. OIG has solicited public comment on the Draft Guidance and will at some time in the future publish final guidance along with a discussion of relevant comments. The Company currently maintains a compliance program that includes the key compliance program elements described in the Draft Guidance. We do not believe that the Draft Guidance, if adopted in its current form, would be likely to have a material effect on our business operations or financial results. However, it is possible that the Draft Guidance could be changed prior to publication of the final version, and any such changes could impact our business operations, possibly materially.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There has been no material change from the information provided in Item 7a of the Form 10-K.

#### ITEM 4. CONTROLS AND PROCEDURES

As of November 12, 2002, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of November 12, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to November 12, 2002.

PART II

OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On January 31, 2002, the Company issued 612,419 shares of its common stock in connection with the acquisition of Vitality. (see Note 7 of Notes to Unaudited Consolidated Financial Statements).

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit 3.1 Amended and restated Certificate of Incorporation (incorporated by reference to Exhibit 3-1 to the Company's Registration Statement on Form S-1, File No. 333-05327)

Exhibit 3.2 Amended and Restated By-Laws of MIM Corporation

Exhibit 4.1 Amended and Restated Rights Agreement dated as of May 20, 1999 between MIM Corporation and American Stock Transfer and Trust Company (incorporated by reference to Exhibit 4.1 to post-effective amendment No. 2 to the Company's Form 8-A/A dated May 20, 1999.

Exhibit 10.1 Employment letter dated October 1, 2002, between the Company and James S. Lusk.

(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the quarter ended September 30, 2002.

SIGNATURES

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

MIM CORPORATION

November 14, 2002

/s/ James S. Lusk

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James S. Lusk  
Chief Financial Officer

CERTIFICATION

I, Richard H. Friedman, certify that:

1. I have reviewed this quarterly report on Form 10-Q;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (i) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (ii) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (iii) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

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/s/ Richard H. Friedman

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Chief Executive Officer

CERTIFICATION

I, James S. Lusk, certify that:

1. I have reviewed this quarterly report on Form 10-Q;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (i) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (ii) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (iii) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

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/s/ James S. Lusk  
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Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and restated Certificate of Incorporation (incorporated by reference to Exhibit 3-1 to the Company's registration Statement of Form S-1, File No. 333-05327)
3.2	Amended and restated By-Laws of MIM Corporation
4.1	Amended and Restated Rights Agreement dated as of May 20, 1999 between MIM Corporation and American Stock Transfer and Trust Company (incorporated by reference to Exhibit 4.1 to post-effective amendment No. 2 to the Company's Form 8-A/A dated May 20, 1999.
10.1	Employment letter dated October 1, 2002, between the Company and James S. Lusk



## BY-LAWS

of

MIM Corporation  
(a Delaware corporation)

ARTICLE 1  
OFFICES

Section 1.01. Offices. The Corporation may have offices at such places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE 2  
MEETINGS OF STOCKHOLDERS

Section 2.01. Place of Meeting. Meetings of the stockholders shall be held at such place, within the State of Delaware or elsewhere, as may be fixed from time to time by the Board of Directors. If no place is so fixed for a meeting, it shall be held at the Corporation's then principal executive office.

Section 2.02. Annual Meeting. The annual meeting of stockholders shall be held, unless the Board of Directors shall fix some other hour or date therefor, at 10:00 o'clock A.M. on the third Wednesday of May in each year, if not a legal holiday under the laws of Rhode Island, and, if a legal holiday, then on the next succeeding secular day not a legal holiday under the laws of Rhode Island, at which the stockholders shall elect by plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting.

Section 2.03. Notice of Annual Meetings. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than 10 days nor more than 60 days before the date of the meeting.

Section 2.04. List of Stockholders. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If

-1-

the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 2.05. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chairman or the Vice Chairman and shall be called by the Chief Operating Officer or Secretary at the request in writing of a majority of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 2.06. Notice of Special Meetings. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than 10 days nor more than 60 days before the date of the meeting.

Section 2.07. Quorum; Voting. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. When a quorum is present at any meeting,

except for elections of directors, which shall be decided by plurality vote, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of statute or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question. Unless otherwise provided in the Certificate of Incorporation, each stockholder shall at every meeting of stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no shares shall be voted pursuant to a proxy more than three years after the date of the proxy unless the proxy provides for a longer period.

Section 2.08. Action Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes

that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in the State, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days after the earliest dated consent delivered in the manner required by this Section to the corporation, written consents signed by a sufficient number of stockholders to take action are delivered in the manner required by this Section to the Corporation. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

Section 2.09. Nominations and Stockholder Business.

(a) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who (x) was a stockholder of record at the time of giving of notice provided for in Section 2.09(a)(2), (y) is entitled to vote at the meeting and (z) complied with the notice procedures set forth in Section 2.09(a)(2).

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a)(1) of this Section 2.09, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and of the beneficial

owners, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owners, if any, on whose behalf the nomination or proposal is made, (x) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owners, if any, and (y) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owners, if any.

(3) Notwithstanding anything in the second sentence of paragraph (a)(2) of this Section 2.09 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by paragraph (a)(2) of this Section 2.09 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Stockholders.

(1) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting.

(2) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Corporation who (x) has given timely notice thereof meeting the requirements of Section 2.09(b)(3), (y) is a stockholder of record at the time of giving of such notice and (z) is entitled to vote at the meeting.

(3) To be timely, a stockholder's notice referred to in Section 2.09(b)(2) must have been delivered to the secretary of the Corporation at the principal executive offices of the Corporation not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the tenth day following the day on which public announcement is made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving the notice and the beneficial owners, if any, on whose behalf the nomination is made, (x) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owners, if any, and (y) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owners, if any.

(c) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.09 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.09. The presiding officer of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 2.09 and, if any proposed nomination or business is not in compliance with this Section 2.09, to declare that such defective nomination or proposal be disregarded.

(2) For purposes of this Section 2.09, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14, or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 2.09, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.09. Nothing in this Section 2.09 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE 3  
DIRECTORS

Section 3.01. Number and Term of Office. The number of directors of the Corporation shall be such number as shall be designated from time to time by resolution of the Board of Directors and initially shall be two. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 3.02 hereof. Each director elected shall hold office for a term of one year and shall serve until his successor is elected and qualified or until his earlier death, resignation or removal. Directors need not be stockholders.

Section 3.02. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10 percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office.

Section 3.03. Resignations. Any director may resign at any time by giving written notice to the Board of Directors, the Chairman, the Chief Operating Officer, the Secretary or any Assistant Secretary. Such resignation shall take effect at the time of receipt thereof or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.04. Direction of Management. The business of the Corporation shall be managed under the direction of its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

Section 3.05. Place of Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 3.06. Annual Meeting. Immediately after each annual election of directors, the Board of Directors shall meet for the purpose of organization, election of officers, and the transaction of other business, at the place where such election of directors was held or, if notice of such meeting is given, at the place specified in such notice. Notice of such meeting need not be given. In the absence of a quorum at said meeting, the same may be held at any other time and place which shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by the directors, if any, not attending and participating in the meeting.

Section 3.07. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board.

Section 3.08. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman or the Vice Chairman on 2 days' notice to each director; either personally (including telephone), or in the manner specified in Section 4.01; special meetings shall be called by the Chairman, the Vice Chairman or the Secretary in like manner and on like notice on the written request of two directors.

Section 3.09. Quorum; Voting. At all meetings of the Board, a majority of the directors shall constitute a quorum for the transaction of business; and at all meetings of any committee of the Board, a majority of the members of such committee shall constitute a quorum for the transaction of business. The act of a majority of the directors present at any meeting of the Board of Directors or any committee thereof at which there is a quorum present shall be the act of the Board of Directors or such committee, as the case may be, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors or committee thereof, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.10. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 3.11. Participation in Meetings. One or more directors may participate in any meeting of the Board or committee thereof by means of conference telephone or similar communications equipment by which all persons participating can hear each other.

Section 3.12. Committees of Directors. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution, shall have and may exercise all of the powers and authority of the Board of Directors and may authorize the seal of the Corporation to be affixed to all papers which may require it, but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution providing for the issuance of shares of stock adopted by the Board of Directors, fix any preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-Laws of the Corporation; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when requested.

Section 3.13. Compensation of Directors. Each director shall be entitled to receive such compensation, if any, as may from time to time be fixed by the Board of Directors. Members of special or standing committees may be allowed like compensation for attending committee meetings. Directors may also be reimbursed by the Corporation for all reasonable expenses incurred in traveling to and from the place of each meeting of the Board or of any such committee or otherwise incurred in the performance of their duties as directors. No payment referred to herein shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE 4  
NOTICES

Section 4.01. Notices. Whenever, under the provisions of law or of the Certificate of Incorporation or of these By-Laws, notice is required to be given to any director or stockholder, such requirement shall not be construed to necessitate personal notice. Such notice may in every instance be effectively given by depositing a writing in a post office or letter box, in a postpaid, sealed wrapper, or by dispatching a prepaid telegram, cable, telecopy or telex or by delivering a writing in a sealed wrapper prepaid to a courier service guaranteeing delivery within 2 business days, in each case addressed to such director or stockholder, at his address as it appears on the records of the Corporation in the case of a stockholder and at his business address (unless he shall have filed a written request with the Secretary that notices be directed to a different address) in the case of a director. Such notice shall be deemed to be given at the time it is so dispatched.

Section 4.02. Waiver of Notice. Whenever, under the provisions of law or of the Certificate of Incorporation or of these By-Laws, notice is required to be given, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent thereto. Neither the business nor the purpose of any meeting need be specified in such a waiver.

ARTICLE 5  
OFFICERS

Section 5.01. Number. The officers of the Corporation shall be a Chief Executive Officer, a Secretary and a Treasurer, and may also include a Chairman, Vice Chairman, one or more Executive Vice Presidents and/or Vice Presidents, one or more Assistant Secretaries and Assistant Treasurers, and such other officers as may be elected by the Board of Directors. Any number of offices may be held by the same person.

Section 5.02. Election and Term of Office. The officers of the Corporation shall be elected by the Board of Directors. Officers shall hold office at the pleasure of the Board.

Section 5.03. Removal. Any officer may be removed at any time by the Board of Directors. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors.

Section 5.04. Chairman and Vice Chairman.

(a) The Chairman, if there is one, shall preside at all meetings of the Board of Directors and of the stockholders and shall perform such other duties, if any, as may be specified by the Board from time to time.



(b) The Vice Chairman, if there is one, shall preside at all meetings of the Board of Directors and of the stockholders in the absence of the Chairman, and shall perform such other duties, if any, as may be specified by the Board from time to time.

Section 5.05. Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and shall have overall responsibility for the management of the business and operations of the Corporation and shall see that all orders and resolutions of the Board are carried into effect. In the absence of the Chairman and the Vice Chairman, he shall preside over meetings of the Board of Directors and of the stockholders of the Corporation. In general, he shall perform all duties incident to the office of Chief Executive Officer, and such other duties as from time to time may be assigned to him by the Board.

Section 5.06. Executive Vice Presidents and Vice Presidents. The Executive Vice Presidents and Vice Presidents shall perform such duties and have such authority as may be specified in these By-Laws or by the Board of Directors or the Chief Executive Officer.

Section 5.07. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the stockholders and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the President. He shall have custody of the corporate seal of the Corporation and he, or an Assistant Secretary, shall have authority to affix the same to any instrument, and when so affixed it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature.

Section 5.08. Assistant Secretaries. The Assistant Secretary or Secretaries shall, in the absence or disability of the Secretary, perform the duties and exercise the authority of the Secretary and shall perform such other duties and have such other authority as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 5.09. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors or the Chief Executive Officer or the Chief Financial Officer, taking proper vouchers for such disbursements, and shall render to the Board of Directors when the Board so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

Section 5.10. Assistant Treasurers. The Assistant Treasurer or Treasurers shall, in the absence or disability of the Treasurer, perform the duties and exercise the authority of the Treasurer and shall perform such other duties and have such other authority as the Board of Directors may from time to time prescribe.

ARTICLE 6  
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 6.01. Indemnification. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving while a director or officer of the Corporation at the request of the Corporation as a director, officer, employee, agent, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall be indemnified by the Corporation against expenses (including attorneys' fees), judgments, fines, excise taxes and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding to the full extent permissible under Delaware law.

Section 6.02. Advances. Any person claiming indemnification within the scope of Section 6.01 shall be entitled to advances from the Corporation for payment of the expenses of defending actions against such person in the manner and to the full extent permissible under Delaware law.

Section 6.03. Procedure. On the request of any person requesting indemnification under Section 6.01, the Board of Directors or a committee thereof shall determine whether such indemnification is permissible or such determination shall be made by independent legal counsel if the Board or committee so directs or if the Board or committee is not empowered by statute to make such determination.

Section 6.04. Other Rights. The indemnification and advancement of expenses provided by this Article 6 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any insurance or other agreement, vote of shareholders or disinterested directors or otherwise, both as to actions in their official capacity and as to actions in another capacity while holding an office, and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such person.

Section 6.05. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, agent, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of these By-laws.

Section 6.06. Modification. The duties of the Corporation to indemnify and to advance expenses to a director or officer provided in this Article 6 shall be in the nature of a contract between the Corporation and each such director or officer, and no amendment or repeal of any provision of this Article 6 shall alter, to the detriment of such director or officer, the right of such person to the advancement of expenses or indemnification related to a claim based on an act or failure to act which took place prior to such amendment, repeal or termination.

ARTICLE 7  
CERTIFICATES OF STOCK

Section 7.01. Stock Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate in the form prescribed by the Board of Directors signed on behalf of the Corporation by the Chairman or Vice Chairman or Chief Executive Officer or Chief Operating Officer or an Executive Vice President or Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, representing the number of shares owned by him in the Corporation. Any or all signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent, or registrar at the date of issue.

Section 7.02. Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 7.03. Transfers of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 7.04. Fixing Record Date. The Board of Directors of the Corporation may fix a record date for the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof, or to consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action.

Such record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and such record date shall not be (i) in the case of such a meeting of stockholders, more than 60 nor less than 10 days before the date of the meeting of stockholders, or (ii) in the case of consents in writing without a meeting, more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors, or (iii) in other cases, more than 60 days prior to the payment or allotment or change, conversion or exchange or other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting.

Section 7.05. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of stock to receive dividends and to vote as such owner, and shall be entitled to hold liable for calls and assessments a person registered on its books as the owner of stock, and shall not be bound to recognize any equitable or other claim to, or interest in, such stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE 8  
AMENDMENTS

Section 8.01. Amendments. These By-Laws may be altered, amended or repealed, and new By-Laws may be adopted, by the stockholders or by the Board of Directors at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors if notice of such alteration, amendment, repeal or adoption of new By-Laws be contained in the notice of such special meeting.

October 1, 2002

Mr. James S. Lusk  
42 Colts Glen Lane  
Basking Ridge, NJ 07920

Re: MIM Corporation and Subsidiaries  
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Dear Jim:

MIM Corporation, a Delaware corporation (the "Company"), is pleased to offer you employment as the Company's Chief Financial Officer, on the terms and subject to the conditions set forth below. The terms and conditions of your employment would be as follows:

1. POSITION AND DUTIES: Executive Vice President and Chief Financial Officer.  
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In such capacity, you shall be the principal financial and accounting officer of the Company and shall be responsible for all financial reporting and other matters typical of a Chief Financial Officer. In such capacity, you will faithfully perform the duties of said office and position and such other duties of an executive, managerial and administrative nature as are specified and designated from time to time by the Company's Board of Directors.

You will report primarily to, and shall have such further duties as shall be assigned to you by the Chief Executive Officer of the Company, subject to the authority of the Board of Directors. Subject to the terms and conditions of this Agreement, you acknowledge and understand that you are an employee at will.

2. BASE COMPENSATION: Your base salary will be at an annual rate of \$300,000.00 per year, payable bi-weekly, or at such other times as other employees of the Company are paid.  
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3. LONG-TERM INCENTIVE COMPENSATION: As further compensation hereunder, effective upon the later to occur of the date you commence your employment with the Company and the date you execute definitive agreements with respect to each such grant, the Company would grant to you 150,000 non-qualified stock options ("Options") to purchase the Company's common stock, par value \$0.0001 per share ("Common Stock"). The Options shall vest in equal installments on the first,  
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second and third anniversary dates of your employment. The grant and vesting of your options would be subject to the terms and conditions set forth in the form of a definitive non-qualified stock option agreement. Such options shall be priced at the closing stock price on the trading day immediately preceding your first day of employment with the Company. Six months after the commencement of your employment, you will be reviewed and a determination will be made, in the Company's sole and absolute discretion, as to the granting of additional Options.

4. TRANSPORTATION ALLOWANCE: During your employment, the Company will provide you with a monthly allowance of \$1000 for the use of an automobile.  
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5. PARTICIPATION IN HEALTH AND OTHER BENEFIT PLANS: During your employment with the Company, you shall be permitted, if and to the extent eligible, to participate in all employee health and other related benefit plans,  
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Mr. James S. Lusk  
October 1, 2002  
Page 2

policies and practices now or hereafter available to members of senior management generally and maintained by or on behalf of the Company, including the Company's medical expense reimbursement plan (the "MERP") and a life insurance policy equal to three times your then annual salary. Nothing in this agreement shall preclude the Company from terminating or amending any such plans or coverage so as to eliminate, reduce or otherwise change any benefit payable thereunder.

You shall be eligible to participate in the Company's 1998 Cash Bonus Program For Key Employees. During the first calendar year of your employment, you would participate pro rata based on the number of days during calendar year 2002 that you were employed by the Company.

6. EXPENSES:  
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Subject to such policies as may from time to time be established by the Company's Board of Directors, the Company would pay or reimburse you for all reasonable and necessary expenses (which shall include professional fees and dues reasonably necessary to the performance of your duties hereunder) actually incurred or paid by you during the term of your employment in the performance of your duties, upon submission and approval of expense statements, vouchers or other supporting information in accordance with the then customary practices of the Company.

7. VACATION:

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You would be entitled to four weeks (20 business days) vacation during the term of your employment.

8. TERMINATION; SEVERANCE  
CHANGE OF CONTROL:

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If your employment with the Company is terminated for any reason whatsoever, whether by you or the Company, the Company would not be liable for, or obligated to pay you any bonus compensation or any other compensation contemplated hereby not already paid or not already accrued at the date of such termination, and no other benefits shall accrue or vest subsequent to such date. If you are terminated by the Company (or any successor) other than for "Cause" (as defined below), (i) you will be entitled to receive severance payments equal to one year of salary at your then current salary level, payable in accordance with the Company's then applicable payroll practices and subject to all applicable federal, state and local withholding; and (ii) all outstanding unvested Options granted to you (or hereafter under the Bonus Program) and held by you shall vest and become immediately exercisable and shall otherwise be exercisable in accordance with their terms and you shall become vested in any pension or other deferred compensation other than pension or deferred compensation under a plan intended to be qualified under Section 401(a) or 403(a) of the Internal Revenue Code of 1986, as amended (the "Code"); and (iii) you shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment or any other rights hereunder. For purposes of this Agreement, "Cause" shall mean any of the following: (1) commission by you of criminal conduct which involves moral turpitude; (2) acts which constitute fraud or self-dealing by or on the part of you against the Company, including, without limitation, misappropriation or embezzlement; (3) your willful engagement in conduct which is materially injurious to the Company; or (4) your gross misconduct in the performance of duties as an employee of the Company, including, without limitation, failure to obey lawful written instructions of the Board of Directors of the Company, any committee

thereof or any executive officer of the Company or failure to correct any conduct which constitutes a breach of any written agreement between you and the Company or of any written policy promulgated by the Board of Directors of either the Company, any committee thereof or any executive officer of the Company, in either case after not less than ten days' notice in writing to you of the Company's intention to terminate you if such failure is not corrected within the specified period (or after such shorter notice period if the Company in good faith deems such shorter notice period to be necessary due to the possibility of material injury to the Company). In addition, if you are terminated by the Company (or any successor) within one year of a "Change of Control" (as defined below) or, within such one (1) year period, you elect to terminate your employment after the Company or a successor entity materially reduces your authority, duties and responsibilities, or assigns you duties materially inconsistent with your position or positions with the Company or a successor entity immediately prior to such Change of Control, (I) you shall receive severance payments equal to one year of your then current salary (and reimbursement for expenses incurred prior to the effective date of the termination of employment; (II) all outstanding unvested Options granted to you (or hereafter under the Bonus Program) and held by you shall vest and become immediately exercisable and shall otherwise be exercisable in accordance with their terms and you shall become vested in any pension or other deferred compensation other than pension or deferred compensation under a plan intended to be qualified under Section 401(a) or 403(a) of the Code; ; and (III) you shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment or any other rights hereunder.

For purposes of this Agreement, "Change of Control" means the occurrence of one or more of the following: (i) a "person" or "group" within the means the meaning of sections 13(d) and 14(d) of the Securities and Exchange Act of 1934 (the "Exchange Act") becomes the "beneficial owner" (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company (including options, warrants, rights and convertible and exchangeable securities) representing 50.1% or more of the combined voting power of the Company's then outstanding securities in any one or more transactions unless approved by at least two-thirds of the Board of Directors



then serving at that time; provided, however, that purchases by employee benefit plans of the Company and by the Company or its affiliates shall be disregarded; or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the operating assets of the Company; or (iii) a merger or consolidation, or a transaction having a similar effect, where (A) the Company is not the surviving corporation, (B) the majority of the Common Stock of the Company is no longer held by the stockholders of the Company immediately prior to the transaction, or (C) the Company's Common Stock is converted into cash, securities or other property (other than the common stock of a company into which the Company is merged), unless such merger, consolidation or similar transaction is with a subsidiary of the Company or with another company, a majority of whose outstanding capital stock is owned by the same persons or entities who own a majority of the Company's Common Stock at such time; or (iv) at any annual or special meeting of stockholders of the Company at which a quorum is present (or any adjournments or postponements thereof), or by written consent in lieu thereof, directors (each a "New Director" and collectively the "New Directors") then constituting a majority of the Company's Board of Directors shall be duly elected to serve as New Directors and such New Directors shall have been elected by stockholders of the Company who shall be an (I) "Adverse Person(s)"; (II) "Acquiring Person(s)"; or (III) "40% Person(s)" (as each of the terms set forth in (I), (II), and (III) hereof are defined in that certain Amended and Restated Rights Agreement, dated May 20, 1999, between the Company and American Stock Transfer & Trust Company, as Rights Agent.

9. TERMINATION UPON DISABILITY

If by virtue of ill health or other disability you are unable to perform substantially and continuously the duties assigned to you for more than 180 consecutive or non-consecutive days out of any consecutive twelve-month period, the Company shall have the right, to the extent permitted by law, to terminate your employment upon written notice; provided that the Company will have no right to terminate your employment if, in the opinion of a qualified physician reasonably acceptable to the Company, it is reasonably certain that you will be able to resume your duties on a regular full-time basis within 30 days of the

date you receive notice of such termination. Upon a termination of your employment by virtue of disability, (i) you shall receive severance payments equal to one year of your then current salary (and reimbursement for expenses incurred prior to the effective date of the termination of employment and other benefits (including bonuses awarded but not yet paid) earned and accrued under this agreement prior to the effective date of the termination of your employment; (ii) you shall receive for a period of one year after termination of employment continuing coverage under the health benefit plans and programs you would have received under this agreement as would have applied in the absence of such termination, it being expressly understood and agreed that nothing in this clause (ii) shall restrict the ability of the Company to amend or terminate such plans and programs from time to time in its sole discretion; provided, however, that the Company shall in no event be required to provide any coverage after such time as you become entitled to coverage under the benefit plans and programs of another employer or recipient of your services (and provided, further, that such entitlement shall be determined without regard to any individual waivers or other arrangements); (iii) all fully vested and exercisable Options granted to and held by you may be exercised by you or your estate or beneficiaries for a period of one (1) year from and after the date of your disability; and (iv) you shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

10. TERMINATION UPON DEATH:

If you die during the term of your employment, the obligations of the Company with respect to you shall terminate in their entirety, except as follows: Upon death, (i) you or your estate or beneficiaries shall be entitled to receive accrued and unpaid salary (including bonuses awarded or declared and not paid) and reimbursement for expenses incurred prior to the date of your termination; (ii) all vested and exercisable Options granted to you may be exercised by your estate for a period of one (1) year from and after the date of your death; and (iii) neither you or your estate or beneficiaries shall have any further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

11. RESTRICTIVE COVENANT:  
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As a condition to your employment with the Company, you will be obligated to enter into a restrictive covenant agreement between you and the Company, covering, among other things, non-competition provisions, non-solicitation provisions, and the protection of the Company's trade secrets. That agreement is attached hereto as Exhibit A.
12. OTHER TERMS:  
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Your employment, restrictive covenants and option agreements will include other customary and usual terms, provisions, conditions and representations as are found in the Company's similar arrangements with its employees.
13. CONDITION TO EMPLOYMENT:  
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Your employment is conditioned on the approval of your employment and this letter agreement by the Board of Directors of the Company.
14. ARBITRATION:  
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If any dispute arises with respect to the rights and obligations hereunder and is not resolved by us, such dispute will be submitted to binding arbitration, which shall be conducted in accordance with the commercial arbitration rules (the "Rules") of the American Arbitration Association ("AAA") in effect at the time arbitration is commenced. Arbitration may be commenced by either party by service and filing of a demand for arbitration in accordance with the Rules of the AAA then in effect. There shall be one arbitrator in any arbitration pursuant to this agreement. The selection of arbitrator shall be made in accordance with the Rules of the AAA then in effect. The venue of arbitration shall be the State of New York, City of New York. The arbitrators in any arbitration pursuant to this agreement shall apply the substantive laws of the State of New York. Any arbitral award obtained pursuant to this agreement may be confirmed pursuant to Article 75 of the New York Civil Practice Law and Rules in New York State Supreme Court or in any other court of competent jurisdiction within or without the State of New York.

Please call me to discuss any questions or comments that you may have regarding these terms. After I receive your agreement to the foregoing, definitive documentation will be prepared. I look forward to hearing from you and working with you. Best regards.

Sincerely yours,

MIM CORPORATON

By: /s/ Richard H. Friedman

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Name: Richard H. Friedman

Title:

Agreed to and Accepted By:

\_\_\_\_\_  
James S. Lusk

RESTRICTIVE COVENANTS

Covenant Against Competition; Other Covenants. You acknowledge that (i) the principal business of the Company (for purposes of these restrictive covenants, the "Company" shall include all subsidiaries and affiliates of MIM Corporation) is the provision of a broad range of services designed to promote the cost-effective delivery of pharmacy benefits, including pharmacy benefit management services, claims processing, the purchasing of pharmaceutical products on behalf of pharmacy networks and long term care facilities (including assisted living facilities and nursing homes) and specialty pharmaceutical programs and mail order pharmacy services, including the dispensing of prescription pharmaceutical products, and the sale and distribution, on a retail and wholesale basis, of OTC's, vitamins, supplements, herbals and other goods typically offered for sale through a retail, mail order or internet on-line pharmacy (such business, and any and all other businesses that after the date hereof, and from time to time during the Term, become material with respect to the Company's then-overall business, herein being collectively referred to as the "Business"); (ii) the Company is dependent on the efforts of a certain limited number of persons who have developed, or will be responsible for developing the Company's Business; (iii) is national in scope; (iv) your work for the Company will give you access to the confidential affairs and proprietary information of the Company; (v) your covenants and agreements contained in these Restrictive Covenants are essential to the business and goodwill of the Company; and (vi) the Company would not have offered you employment but for the covenants and agreements set forth herein. Accordingly, you covenant and agree that:

(a) At any time during your employment with the Company and ending nine months following (i) termination of your employment with the Company (irrespective of the reason for such termination) or (ii) payment of any severance, whichever occurs last, you shall not engage, directly or indirectly, in sales or marketing or otherwise assisting any company or other business entity (which includes, without limitation, owning, managing, operating, controlling, being employed by, giving financial assistance to, participating in or being connected in any material way with any person or entity other than the Company), engaged in (i) the Business or (ii) any material component of the Business; provided, however, that the Executive's ownership as a passive investor of less than two percent (2%) of the issued and outstanding stock of a publicly held corporation shall not be deemed to constitute competition.

(b) During and after the period during which you are employed, you shall keep secret and retain in strictest confidence, and shall not use for his benefit or the benefit of others, except in connection with the Business and affairs of the Company and its affiliates, all confidential matters relating to the Company's Business and the business of any of its affiliates and to the Company and any of its affiliates, learned by you heretofore or hereafter directly or indirectly from the Company or any of its affiliates (the "Confidential Company Information"), including, without limitation, information

with respect to (i) the strategic plans, budgets, forecasts, intended expansions of product, service, or geographic markets of the Company and its affiliates, (ii) sales figures, contracts, agreements, and undertakings with or with respect to customers, (iii) profit or loss figures, and (iv) customers, clients, suppliers, sources of supply and customer lists, and shall not disclose such Confidential Company Information to anyone outside of the Company except with the Company's express written consent and except for Confidential Company Information which is at the time of receipt or thereafter becomes publicly known through no wrongful act of you or is received from a third party not under an obligation to keep such information confidential and without breach of these Restrictive Covenants or the Agreement. Notwithstanding the foregoing, this section (b) shall not apply to the extent that you are acting to the extent necessary to comply with legal process; provided that in the event that you are subpoenaed to testify or to produce any information or documents before any court, administrative agency or other tribunal relating to any aspect pertaining to the Company, you shall immediately notify the Company thereof.

(c) During the period commencing on the date hereof and ending one year following the date upon which you shall cease to be an employee of the Company or its affiliates, you shall not, without the Company's prior written consent, directly or indirectly, (i) solicit or encourage to leave the employment or other service of the Company or any of its affiliates, any employee or independent contractor thereof or hire (on your behalf or any other person or entity) any employee or independent contractor who has left the employment or other service of the Company or any of its affiliates within one year of the termination of such employee's or independent contractor's employment or other service with the Company and its affiliates, or (ii) solicit, contact, market to, work for, or assist others in soliciting any customer or client of the Company with whom the Company was in contact with or was providing goods and services to at the time of your termination of employment with the Company. During such period, you will not, whether for your own account or for the account of any other person, firm, corporation or other business organization, intentionally interfere with the Company's or any of its affiliates' relationship with, or endeavor to entice away from the Company or any of its affiliates, any person who during the Term is or was a customer or client of the Company or any of its affiliates.

(d) All memoranda, notes, lists, records, property and any other tangible product and documents (and all copies thereof) made, produced or compiled by you or made available to you concerning the Business of the Company and its affiliates shall be the Company's property and shall be delivered to the Company at any time on request.

Rights and Remedies upon Breach of Restrictive Covenants.  
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(a) You acknowledge and agree that any breach by him of any of the provisions of sections (a) through (d) above (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if you breach, or threaten to commit a breach of, any of the Restrictive Covenants, the Company and its affiliates shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company and its affiliates under law or in equity (including, without limitation, the recovery of damages):

(b) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court having equity jurisdiction, including, without limitation, the right to an entry against you of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants.

(c) The right and remedy to require you to account for and pay over to the Company and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by you as the result of any transactions constituting a breach of the Restrictive Covenants, and you shall account for and pay over such Benefits to the Company and, if applicable, its affected affiliates.

(d) You agree that in any action seeking specific performance or other equitable relief, you will not assert or contend that any of the provisions of these Restrictive Covenants are unreasonable or otherwise unenforceable. The existence of any claim or cause of action by you, whether predicated on the Agreement or otherwise, shall not constitute a defense to the enforcement of the Restrictive Covenants.

Agreed to and accepted by:

/s/ James S. Lusk

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James S. Lusk