FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 1998

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)

One Blue Hill Plaza, 15th Floor, Pearl River, New York 10965

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

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

Yes |X| No |_|

APPLICABLE ONLY TO CORPORATE ISSUERS:

On October 29, 1998, there were outstanding 17,840,748 shares of the Company's common stock, $.0001 par value per share ("Common Stock").

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PART 1
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,146	$ 9,593
Investment securities	19,108	19,235
Receivables, less allowance for doubtful accounts of $3,008 and $1,386 at September 30, 1998 and December 31, 1997	47,636	23,666
Inventory	905	--
Prepaid expenses and other current assets	842	888
Total current assets	78,637	53,382
Investment securities, net of current portion	1,027	3,401
Other investments	2,300	2,300
Property and equipment, net	4,446	3,499
Due from affiliates, less allowance for doubtful accounts of $2,360	--	--
Other assets, net	146	145
Deferred income taxes	270	--
Intangible assets, net	19,452	--
Total assets	$ 106,278	$ 62,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$ 245	$ 222
Current portion of long-term debt	248	--
Accounts payable	5,621	931
Deferred revenue	--	2,799
Claims payable	32,609	26,979
Payables to plan sponsors and others	17,863	10,839
Accrued expenses	3,165	2,279
Total current liabilities	59,751	44,049
Capital lease obligations, net of current portion	595	756
Long-term debt, less current portion	4,240	--
Commitments and contingencies		
Minority interest	1,112	1,112
Stockholders' equity		
Preferred stock, $.0001 par value; 5,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.0001 par value; 40,000,000 shares authorized, 17,840,748 and 13,335,120 shares issued and outstanding at September 30, 1998 and December 31, 1997	2	1
Additional paid-in capital	91,608	73,585
Accumulated deficit	(49,281)	(55,061)
Stockholder notes receivable	(1,749)	(1,715)
Total stockholders' equity	40,580	16,810
Total liabilities and stockholders' equity	$ 106,278	$ 62,727

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

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

	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998	1997
	(Unaudited)		(Unaudited)	
Revenue	$115,737	$48,311	$323,578	$164,955
Cost of revenue	107,839	46,558	303,883	155,359
Gross profit	7,898	1,753	19,695	9,596
Selling, general and administrative expenses	6,071	5,240	15,332	13,143
Income (loss) from operations	1,827	(3,487)	4,363	(3,547)
Interest income, net	428	566	1,418	1,737
Income (loss) before minority interest	2,255	(2,921)	5,781	(1,810)
Minority interest	--	--	(1)	5
Net income (loss)	$ 2,255	$(2,921)	$ 5,780	$ (1,805)
Basic earnings (loss) per share	$ 0.15	$ (0.23)	$ 0.41	$ (0.15)
Diluted earnings (loss) per share	$ 0.14	$ (0.23)	$ 0.37	$ (0.15)
Weighted average shares outstanding used in computing basic earnings (loss) per share	15,485	12,911	14,142	12,381
Weighted average shares outstanding used in computing diluted earnings (loss) per share	16,659	12,911	15,753	12,381

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

MIM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share amounts)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Cash flows from operating activities:		
Net income	$ 5,780	$ (1,805)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Net loss allocated to minority interest	1	(5)
Depreciation and amortization	1,236	767
Stock option charges	22	22
Provision for losses on receivables and loans to affiliates	(139)	562
Changes in assets and liabilities net of effects from acquisition of subsidiary		
Receivables	(14,556)	(1,662)
Prepaid expenses and other current assets	157	2
Accounts payable	(1,644)	(662)
Inventory	(83)	--
Deferred revenue	(2,799)	--
Claims payable	5,027	(3,931)
Payables to plan sponsors and others	7,024	2,934
Accrued expenses	(1,351)	192
Net cash (used in) operating activities	(1,325)	(3,586)
Cash flows from investing activities:		
(Increase) decrease in other assets	28	(177)
Loans to affiliates, net	--	329
Stockholder loans, net	(34)	(58)
Purchase of investment securities	(25,872)	(25,332)
Maturities of investment securities	28,373	33,598
Purchase of property and equipment	(1,568)	(1,132)
Cost incurred in purchase of subsidiary net of cash acquired	(594)	--
Net cash provided by investing activities	333	7,228
Cash flows from financing activities:		
Principal payments on capital lease obligations	(167)	(162)
Net borrowings from line of credit	1,708	--
Proceeds from exercise of stock options	4	113
Net cash provided by (used in) financing activities	1,545	(49)
Net increase (decrease) in cash and cash equivalents	553	3,593
Cash and cash equivalents--beginning of period	$ 9,593	$ 1,834
Cash and cash equivalents--end of period	$ 10,146	$ 5,427
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 89	$ 32

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:

The Company issued 3,912,448 shares of Common Stock to acquire Continental Managed Pharmacy Services and subsidiaries. The aggregate value of the shares issued approximated $18,000. See Note 3.

A capital lease obligation of $40 was incurred when the Company entered into a lease for equipment.

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

MIM CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of MIM Corporation and subsidiaries (the "Company") have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "Commission"). Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. The results of operations and cash flows for the nine months ended September 30, 1998 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 1998.

These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, notes and information included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, as amended by the amendments thereto on Forms 10-K/A, filed with the Commission (as amended, the "Form 10-K") along with the information contained in the Registration Statement on Form S-4 (the "Form S-4") filed in connection with the Company's recent acquisition (Note 3).

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

NOTE 2 - EARNINGS PER SHARE

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

	(In thousands, except per share amounts)			
	Three Months Ended September 30,		Nine Months Ended September30,	
	1998	1997	1998	1997
Numerator:				
Net income	$ 2,255	$ (2,921)	$ 5,780	$ (1,805)
Denominator:				
Weighted average number of common shares outstanding	15,485	12,911	14,142	12,381
Basic Earnings per Share	$ .15	$ (.23)	$ .41	$ (.15)
Denominator:				
Weighted average number of common shares outstanding	15,485	12,911	14,142	12,381
Common share equivalents of outstanding stock options	1,174	--	1,611	--
Total shares outstanding	16,659	12,911	15,753	12,381
Diluted Earnings per Share	$ .14	$ (.23)	$ .37	$ (.15)

NOTE 3 - RECENT ACQUISITION

On August 24, 1998, the Company completed its acquisition of Continental Managed Pharmacy Services, Inc. and its subsidiaries (collectively, "Continental"). Continental provides pharmacy benefit management and mail order pharmacy services. The acquisition was treated as a purchase for financial reporting purposes. The Company issued 3,912,448 shares of Common Stock as consideration for the purchase. The aggregate purchase price, including costs of acquisition of $.9 million, approximated $18.9 million. Assets acquired approximated $11.3 million and liabilities assumed approximated $12.0 million resulting in approximately $19.6 million of goodwill and other intangible assets which will be amortized over their estimated useful lives (25 years and 6.5 years, respectively). The consolidated financial statements of the Company for the three and nine month periods include the results of Continental from date of acquisition.

The following unaudited consolidated pro forma information has been prepared assuming Continental was acquired as of January 1, 1997, with pro forma adjustments for amortization of goodwill and other intangible assets and income taxes. The pro forma information is presented for informational purposes only and is not indicative of what would have occurred if the acquisition had been made on January 1, 1997. In addition, this pro forma information is not intended to be a projection of future operating results.

	Nine months ended September 30, In Thousands, except per share amounts	
	1998	1997
Revenue	$364,224	$196,265
Net income (loss)	$ 6,140	$ (1,944)
Basic earning (loss) per share	$ .35	$ (.12)
Diluted earning (loss) per share	$ .32	$ (.12)

The amounts above include $47,684 of revenue from the operations of Continental for the nine months ended September 30, 1998 and $31,310 for the nine months ended September 30, 1997.

NOTE 4 - OTHER COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") for the nine months ended September 30, 1998. There were no transactions during the period that would be required to be reported as a component of comprehensive income.

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Form 10-K and the Form S-4 concerning its recent acquisition (see below), as well as the unaudited consolidated interim financial statements and the related notes thereto included in Item 1 of this Report.

Certain statements contained in this report are not purely historical and are considered forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding the Company's expectations, hopes, intentions or strategies regarding the future, as well as statements which are not historical fact. Forward looking statements may include statements relating to the Company's business development activities, its' sales and marketing efforts, the status of material contractual arrangements including the negotiation or re-negotiation of such arrangements, future capital expenditures, the effects of regulation and competition on the Company's business, future operating performance of the Company and the results, the benefits and risks associated with integration of acquired companies, the effect of year 2000 problems on the Company's operations and/or effect of legal proceedings or investigations and/or the resolution or settlement thereof. Investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. These factors include, among other things, risks associated with risk-based or "capitated" contracts, increased government regulation related to the health care and insurance industries in general and more specifically, pharmacy benefit management organizations, increased competition from the Company's competitors, including competitors which are vertically integrated with pharmaceutical manufacturers, and the existence of complex laws and regulations relating to the Company's business. This Report along with the Company's Forms 10-K and S-4 contain information regarding important factors that could cause such differences. The Company does not undertake any obligation to publicly release the results of any revisions to these forward looking statements that may be made to reflect any future events or circumstances.

Overview

A majority of the Company's revenues to date have been derived from operations in the State of Tennessee in conjunction with RxCare of Tennessee, Inc. ("RxCare"), a pharmacy services administrative organization owned by the Tennessee Pharmacists Association, a not-for-profit organization. The Company assisted RxCare in defining and marketing pharmacy benefit services to private health plan sponsors on a consulting basis in 1993, but did not commence substantial operations until January 1994 when RxCare began servicing health plan sponsors involved in the newly instituted TennCare(R) state health program. At September 30, 1998, the Company provided pharmacy benefit management services to 125 health plan sponsors with an aggregate of approximately 3.2 million plan members. TennCare(R) represented eight health plans with approximately 2.5 million plan members.

The contract with RxCare accounted for 73.4% of the Company's revenues for the nine months ended September 30, 1998 and expires on December 31, 1998. On September 29, 1998, in accordance with the terms of that contract, the Company notified RxCare of its intention not to renew the current agreement. Management of the Company does not believe it will enter into a new agreement with RxCare, but rather the Company intends to market its pharmacy benefit management services in Tennessee directly to managed care organizations, behavioral health organizations, third party administrators, employer groups as well as the State of Tennessee. However, no assurances can be made that such marketing efforts will result in contracts between the Company and such organizations. The failure of the Company to successfully market the its services directly to health care organizations in Tennessee would have a material adverse effect on the Company's financial condition and results of operations.

Recent Acquisition

On August 24, 1998, the Company completed its acquisition of Continental, which provides pharmacy benefit management services to approximately 74 groups with membership of approximately 195,000 lives along with mail order pharmacy services for a variety of customers. The acquisition was treated as a purchase for financial reporting purposes. The Company issued 3,912,448 shares of Common Stock as consideration for the purchase. The aggregate purchase price, including costs of acquisition of $.9 million, approximated $18.9 million. Assets acquired approximated $11.3 million and liabilities assumed approximated $12.0 million resulting in approximately $19.6 million of goodwill and other intangible assets which will be amortized over their estimated useful lives (25 years and 6.5 years, respectively). The consolidated financial statements of the Company for the three and nine month periods include the results of Continental from date of acquisition.

Results of Operations

Three months ended September 30, 1998 compared to three months ended September 30, 1997

For the three months ended September 30, 1998, the Company recorded revenue of $115.7 million, an increase of $67.4 million from the same period a year ago. Approximately $17.3 million of the increase in revenues resulted from an increase of 71,000 lives managed under existing commercial plans and the servicing of 18 new commercial plans covering approximately 224,000 lives. The acquisition of Continental increased revenues $6.6 million. Revenue from TennCare(R) contracts increased approximately $43.5 million as a result of two new contracts entered into in the fourth quarter of 1997 ($26.4 million) and contract renewals on more favorable terms and increased enrollment in the TennCare(R) plans ($17.1 million).

During the three months ended September 30, 1998, approximately 30% of the Company's revenues were generated from risk-based (capitated) contracts, compared to 51% during the three months ended September 30, 1997.

Effective July 1, 1998, the Tennessee Department of Health assumed financial responsibility for the TennCare(R) behavioral health pharmacy program and the costs associated therewith. The Company's behavioral health organization ("BHO") contracts provided $31.3 million of revenues for the three months ended September 30, 1998. The Tennessee Department of Health has the right, but is not obligated, to enter into a separate agreement with a pharmacy services provider, which would effectively replace the Company's BHO contracts. To date, the Department of Health has not taken such action. The BHO contracts, like all of the TennCare(R) contracts, expire on December 31, 1998. The ability of the Company to negotiate an arrangement with the Department of Health or the failure to renew these contracts with the BHO's at all or on terms as favorable as those currently in effect could have a material adverse effect on the Company's business and results of operations.

Cost of revenue for the three months ended September 30, 1998 increased $61.3 million to $107.8 million compared to the same period a year ago. New commercial contracts, together with increased enrollment in existing commercial plans accounted for $15.6 million of this increase. The acquisition of Continental accounted for $5.2 million of this increase. TennCare(R) contracts were responsible for the remaining $40.5 million of the increase. Costs relating to the two new TennCare(R) contracts accounted for $25.5 million of such increase. Costs associated with eligibility increases in existing plans, increased drug prices and increased utilization of prescription drugs accounted for the remaining $15.0 million increase. As a percentage of revenue, cost of revenue decreased to 93.2% for the three months ended September 30, 1998 from 96.4% for the three months ended September 30, 1997 as a result of contract renewals on more favorable terms and a greater percentage of the Company's revenues being generated from non-risk based arrangements.

Selling, general and administrative expenses were $6.1 million for the three months ended September 30, 1998 compared to $5.2 million for the three months ended September 30, 1997. The increase was primarily due to the acquisition of Continental. As a percentage of revenue, selling, general and administrative expenses decreased to 5.2% for the three months ended September 30, 1998 from 10.8% for the three months ended September 30, 1997 as revenue increases did not result in proportional increases in expenditures.

For the three months ended September 30, 1998, the Company recorded interest income of $.4 million, a decrease of $.1 million from the same period a year ago. The decrease in interest income resulted from a reduced level of investment opportunities due to the additional working capital needs of the Company (See "Liquidity and Capital Resources").

For the three months ended September 30, 1998, the Company recorded net income of $2.3 million, or $.14 per diluted share. This compares with a net loss of $2.9 million, or $(.23) per diluted share, for the three months ended September 30, 1997.

Nine months ended September 30, 1998 compared to nine months ended September 30, 1997

For the nine months ended September 30, 1998, the Company recorded revenue of $323.6 million, an increase of $158.6 million from the same period a year ago. Commercial plans provided approximately $57.8 million of the increase including $26.6 million of revenue from a Nevada based managed care organization (the "Nevada Plans") The increase in revenues resulted from managing an additional 71,000 lives under existing commercial plans and servicing 18 new commercial plans covering approximately 224,000 lives. The acquisition of Continental resulted in increased revenues of $6.6 million. Revenue from TennCare(R) contracts increased approximately $92.4 million as a result of two new contracts entered into in the fourth quarter of 1997 ($72.4 million) and contract renewals on more favorable terms and increased enrollment in the TennCare(R) plans ($47.4 million). Increases in TennCare(R) revenues were partially offset by a decrease of $25.6 million from the restructuring of a major TennCare(R) contract in April of 1997.

During the nine months ended September 30, 1998, approximately 35% of the Company's revenues were generated from risk-based (capitated) contracts, compared to 58% during the same period a year ago.

Effective July 1, 1998, the Tennessee Department of Health assumed financial responsibility for the TennCare(R) behavioral health pharmacy program and the costs associated therewith. The Company's BHO contracts provided $85.2 million of revenues for the nine months ended September 30, 1998. The Tennessee Department of Health has the right, but is not obligated, to enter into a separate agreement with a pharmacy services provider, which would effectively replace the Company's BHO contracts. To date, the Department of Health has not taken such action. The BHO contracts, like all of the TennCare(R) contracts, expire on December 31, 1998. The ability of the Company to negotiate an arrangement with the Department of Health or the failure to renew these contracts with the BHO's at all or on terms as favorable as those currently in effect could have a material adverse effect on the Company's business and results of operations.

Cost of revenue for the nine months ended September 30, 1998 increased $148.5 million to $303.9 million compared to the same period a year ago. New commercial contracts together with increased enrollment in existing commercial plans accounted for $58.3 million of the increase, including $26.8 million relating to the Nevada Plans. Costs attributable to the acquisition of Continental accounted for $5.2 million of the increase. TennCare(R) contracts increased cost of revenue $85.0 million. Costs relating to the two new TennCare(R) contracts accounted for $67.8 million of such increase. Increased enrollment in existing TennCare(R) sponsors increased cost of revenue $42.6 million. These cost increases were offset by the above-mentioned restructuring of a major TennCare(R) contract, which resulted in a decrease in cost of revenue of $25.4 million. As a percentage of revenue, cost of revenue decreased to 93.9% for the nine months ended September 30, 1998 from 94.2% for the nine months ended September 30, 1997 as a result of contract renewals on more favorable terms and a greater percentage of the Company's revenues being generated from non-risk based arrangements.

At December 31, 1997, a reserve of $4.1 million was established for anticipated losses in connection with certain of the Nevada Plans. These losses were expected to result from unfavorable factors, including higher pharmacy utilization rates, higher than expected inflation in drug costs and the inability to restrict the formularies under certain Nevada Plans, resulting in higher than anticipated drug costs. The arrangements with these Nevada Plans were terminated in August of 1998. The reserve established was adequate to absorb the actual losses.

Selling, general and administrative expenses were $15.3 million for the nine months ended September 30, 1998 compared to $13.1 million for the nine months ended September 30, 1997. The acquisition of Continental accounted for $1.1 million of the increase. The remaining $1.1 million increase reflects the Company's continued investment in infrastructure partially offset by lower legal costs. As a percentage of revenue, selling, general and administrative expenses decreased to 4.7% for the nine months ended September 30, 1998 from 8.0% for the nine months ended September 30, 1997 as revenue increases did not result in proportional increases in expenditures.

For the nine months ended September 30, 1998, the Company recorded interest income of $1.4 million, a decrease of $.3 million from the same period a year ago. The decrease in interest income resulted from a reduced level of investment opportunities due to the additional working capital needs of the Company (See "Liquidity and Capital Resources").

For the nine months ended September 30, 1998, the Company recorded net income of $5.8 million, or $.37 per diluted share. This compares with a net loss of $1.8 million, or $(.15) per diluted share, for the nine months ended September 30, 1997.

Liquidity and Capital Resources

The Company utilizes both funds generated from operations and its initial public offering (the "Offering") for capital expenditures and working capital needs. For the nine months ended September 30, 1998, net cash used in operating activities totaled $1.3 million, primarily due to increases in accounts receivable of approximately $14.6 million. The increase in accounts receivable resulted primarily from an increase in the pharmacy benefit management business. Such uses were largely offset by increases in claims payable of approximately $5.0 million and payable to plan sponsors of $7.0 million. For the nine months ended September 30, 1998, the Company purchased $1.6 million of property and equipment with cash primarily on hand, primarily to upgrade and enhance information systems necessary to strengthen and support the Company's ability to manage is customers pharmacy benefits payments. The Company does not have any additional material commitments for the remainder of 1998.

At September 30, 1998, the Company had working capital of $18.9 million, compared to $9.3 million at December 31, 1997. Cash and cash equivalents increased to $10.1 million at September 30, 1998 compared with $9.6 million at December 31, 1997. The Company had investment securities held to maturity of $20.1 million and $22.6 million at September 30, 1998 and December 31, 1997, respectively. The decrease in investment securities was due to increased working capital requirements.

At December 31, 1997, the Company had unused net operating loss carryforwards of approximately $18.3 million which will begin expiring in 2008. As it is uncertain whether the Company will realize the full benefit from these carryforwards, the Company has recorded a valuation equal to the deferred tax asset generated by the carryforwards. The Company assesses the need for a valuation allowance at each balance sheet date. The Company has undergone a "change in control" as defined by the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder. The amount of net operating loss carryforwards that may be utilized in any given year will be subject to a limitation as a result of this change. The annual limitation approximates $2.7 million. Actual utilization in any year will vary based on the Company's tax position in that year.

As the Company continues to grow it anticipates that its working capital needs will also continue to increase. The Company believes that it has sufficient cash on hand or available to fund the Company's anticipated working capital and other cash needs for at least the next 12 months.

As part of its continued efforts to expand its pharmacy management business, the Company expects to incur additional sales and marketing expenses. The Company also may pursue joint venture arrangements, business acquisitions and other transactions designed to expand its pharmacy benefit management business, which the Company would expect to fund from cash on hand or future indebtedness or, if appropriate, the sale or exchange of equity securities of the Company.

Other Matters

The Company's pharmaceutical claims costs historically have been subject to a significant increase over annual averages from October through February, which the Company believes is due to increased medical problems during the colder months. The resulting increase in pharmaceutical costs impacts the profitability of risk based or capitated contracts. Risk based contracts represented approximately 35% of the Company's revenue while non-risk contracts represented approximately 65% of the Company's revenue for the nine months ended September 30, 1998. Non-risk contracts mitigate the adverse effect on profitability of higher pharmaceutical costs incurred under risk based contracts.

Changes in prices charged by manufacturers and wholesalers for pharmaceuticals, a component of pharmaceutical claims, have historically affected the Company's cost of revenue. The Company believes that it is likely for prices to continue to increase which could have an adverse effect on the Company's gross profit. To the extent such cost increases adversely effect the Company's gross profit, the Company may be required to increase contract rates on new contracts and upon renewal of existing contracts. However, there can be no assurance that the Company will be successful in obtaining these increased rates. The higher level of non-risk contracts with the Company's customers mitigates the adverse effects of price increases.

The TennCare(R) program has been controversial since its inception and has generated federal and state government investigations and adverse publicity. There can be no assurances that the Company's association with the TennCare(R) program will not adversely affect the Company's business or results of operations in the future.

Year 2000 disclosure

The so-called "year 2000 problem," which is common to many companies, concerns the inability of information systems, primarily computer software programs, to recognize properly and process date sensitive information following December 31, 1999. The Company has committed substantial resources (approximately $2.2 million) over the past eighteen months to improve its information systems ("IS project"). The Company has used this IS project as an opportunity to evaluate its state of readiness, estimate expected costs and identify and quantify risks associated with any potential year 2000 issues.

State of Readiness:

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

I. Obtaining letters from software and hardware vendors concerning the ability of their products to properly process dates after December 31, 1999;
II. Testing the operating systems of all hardware used in the identified information systems to determine if dates after December 31, 1999 can be processed correctly;

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

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

The Company (excluding for purposes of this year 2000 discussion only, Continental) anticipates completion of Step I and Step II above for all material software and hardware by the end of the 1998. Any software or hardware determined to be noncompliant will be modified, repaired or replaced. The Company cannot estimate the costs of such modifications, repairs and replacements at this time, but does not believe that the costs of such modifications, repairs or replacements will be material. The Company will attempt to further quantify this estimate in its Annual Report on Form 10-K for the year ended December 31, 1998 ("1998 Form 10-K") following its completion of Step II as described above.

With respect to Step III above, the Company has engaged in discussions with the third party vendors that transmit data from member pharmacies and based upon such discussions it believes that such third party vendors' systems will be able to properly recognize and process dates after December 31, 1999. The Company is in the process of surveying member pharmacies in its network as to their ability to transmit data correctly to such third party vendors and anticipates completing this survey during the first quarter of fiscal 1999. Once this survey is complete, the Company will evaluate any additional steps required to allow member pharmacies to transmit data after December 31, 1999 and will disclose such additional steps, if any, and their related costs in the 1998 Form 10-K or in future periodic reports.

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

Because the Company only recently completed its acquisition of Continental, its assessment of the state of readiness at Continental is still ongoing and is scheduled to be completed in early 1999. The Company will disclose its assessment of Continental's state of readiness in 1998 Form 10-K or in future periodic reports.

Costs:

As noted above, the Company spent approximately $2.2 million over the past 18 months to improve its information systems. In addition, the Company anticipates that it will spend approximately $1.7 million over the next 12 months to further improve its information systems. These improvements were not specifically instituted to address the year 2000 issue, but rather to address other business issues. Nonetheless, the IS project provided the Company with a platform from which to address any year 2000 issues. Management does not believe that the amount of funds expended in connection with the IS project would have differed materially in the absence of the year 2000 problem. The Company's cash on hand as a result of the Offering has provided all of the funds expended to date on the IS project and is expected to provide substantially all of the funds expected to be spent in the next 12 months on the IS project.

Risks:

On July 29, 1998, the Commission issued Release No. 33-7558 (the "Release") in an effort to provide further guidance to reporting companies concerning disclosure of the year 2000 problem. In this Release the Commission required that registrants include in its year 2000 disclosure a description of its "most reasonably likely worst case scenario." Based on the Company's assessment and the results of remediation performed to date as described above, the Company believes that all problems related to the year 2000 will

be addressed on a timely basis so that the Company will experience little or no disruption in its business immediately following December 31, 1999. However, if unforeseen difficulties arise, if the Company's assessment of Continental uncovers significant problems (which is not presently expected to occur) or if compliance testing is delayed or necessary remediation efforts are not accomplished in accordance with the Company's plans described above, the Company anticipates that its "most reasonably likely worst case scenario" (as required to be described by the Release) is that some percentage of the Company's claims would need to be processed manually for some limited period of time. At this point in time, the Company cannot reasonably estimate the number of pharmacies or the level of claims involved or the costs that would be incurred if the Company were required to hire temporary staff and incur other expenses to manually process such claims. The Company expects to be better able to quantify the number of pharmacies and level of claims involved as well as the related costs following its completion of the survey of member pharmacies in the first quarter of fiscal 1999 and presently intends to disclose such estimates in the 1998 Form 10-K. In addition, the Company anticipates that all businesses (regardless of their state of readiness), including the Company, will encounter some minimal level of disruption in its business (e.g., phone and fax systems, alarm systems, etc.) as a result of the year 2000 problem. However, the Company does not believe that it will incur any material expenses or suffer any material loss of revenues in connection with such minimal disruptions.

Contingency Plans:

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

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

Forward Looking Statements:

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

failure to be year 2000 compliant of third parties outside of our control such as electric utilities or financial institutions could adversely effect the Company's results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

PART II
OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

From August 14, 1996 through September 30, 1998, the $46,788,000 net proceeds from the Offering, pursuant to a Registration Statement assigned file number 333-05327 by the Securities and Exchange Commission (the "Commission") and declared effective by the Commission on August 14, 1996, have been applied in the following approximate amounts:

Construction of plant, building and facilities	$ --
Purchase and installation of machinery and equipment	$ 3,171,000
Purchases of real estate	$ --
Acquisition of other business	$ 2,300,000
Repayment of indebtedness	$ --
Working capital	$11,036,000
Temporary investments:	
Marketable securities	$20,135,000
Overnight cash deposits	$10,146,000

To date the Company has expended a relatively insignificant portion of the Offering proceeds on expansion of the Company's "preferred generics" business although, at the time of the Offering as disclosed in the prospectus related thereto, the Company intended to apply approximately $18.6 million of Offering proceeds to fund such expansion. As of the date of this filing, the Company has not determined the ultimate amount or timing of application of Offering proceeds to such use.

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

The Company's annual meeting of stockholders ("Annual Meeting") was held on August 21, 1998 in Trumbull, Connecticut. Listed below are the proposals submitted to stockholder vote in the Company's Proxy Statement dated August 5, 1998 and the results of the stockholder voting at the Annual Meeting.

1. Issuance of 3,912,448 shares of Common Stock to the holders of Continental in connection with the merger through which Continental became a wholly owned subsidiary of the Company.

For	Against	Abstain
8,529,695	40,200	6,800

2. Election of six directors to serve a one-year term. The Company's nominated and elected directors are Richard H. Friedman, Scott R. Yablon, Louis A. Luzzi, Ph. D., Richard Cirillo, Michael Kooper and Louis DiFazio, Ph.D. Each of the directors received the same number of votes.

For	Against
8,537,295	39,400

3. Transact other Company business that properly comes before the Annual Meeting.

For	Against	Abstain
8,359,759	171,915	15,021

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

Item 5. Other Information

On August 24, 1998, the Company completed its acquisition of Continental, which provides pharmacy benefit management and mail order pharmacy services. The acquisition was treated as a purchase for financial reporting purposes. The Company issued 3,912,448 shares of Common Stock as consideration for the purchase. The aggregate purchase price, including costs of acquisition of $.9 million, approximated $18.9 million. Assets acquired approximated $11.3 million and liabilities assumed approximated $12.0 million resulting in approximately $19.6 million of goodwill and other intangible assets which will be amortized over their estimated useful lives (25 years and 6.5 years, respectively). The consolidated financial statements of the Company for the three and nine month periods include the results of Continental from date of acquisition.

Effective July 6, 1998, the Company consummated a stock option repricing program. Each then current employee of the Company holding options under the Company's 1996 Stock Incentive Plan was offered an opportunity to reprice the exercise price of not less than all options granted at a particular exercise price to an exercise price of $6.50 per share. In consideration of receiving repriced options, each employee agreed that all such repriced options, including those already vested, would become unvested and exercisable in three equal installments on the first three anniversaries of the date of the repricing.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
10.51	Employment Agreement dated August 19, 1998 between MIM Corporation and Edward J. Sitar.
27	Financial Data Schedule

(b) Reports on Form 8-K

September 8, 1998: Item 2 - reporting the closing of the Continental transaction; Item 7 - providing historical and pro forma financial information regarding the Continental transaction and filing other relevant exhibits.

September 14, 1998: Item 5 - reporting a change in address as a result of the move of the Company's principal executive offices.

SIGNATURES

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

MIM Corporation

Date: November 16, 1998

/s/ Scott R. Yablon

Scott R. Yablon
President, Chief Operating Officer, Chief Financial Officer and Director
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit 10.51	Employment Agreement dated August 19, 1998 between MIM Corporation and Edward J. Sitar.
Exhibit 27	Financial Data Schedule

September 1, 1998

Via Federal Express

Mr. Edward J. Sitar
960 Glenwood Avenue
Plainfield, New Jersey 07060-3420

Re: MIM Corporation

Dear Ed:

MIM Corporation, a Delaware corporation (the "Company"), is pleased to offer you employment as the Vice President - Finance of the Company, on the terms and subject to the conditions set forth below. The terms and conditions of your employment, upon your execution and delivery of this letter to us, will be as follows:

1. POSITION AND DUTIES

Vice President - Finance of the Company, with overall responsibility for the accounting and finance areas of the Company and its subsidiaries and affiliates including, but not limited to:

(i) Preparation of, and primary responsibility for all audited and unaudited financial statements relating to the Company and its subsidiaries and affiliates; and

(ii) the hiring of personnel in support of such group, with the prior approval of Chief Operating Officer.

In such capacity, you shall report to, and shall have such further duties as shall be assigned to you by, the Company's President and Chief Operating Officer, Scott R. Yablon.

2. TERM:

Subject to the execution and delivery of this letter, a Non-Qualified Stock Option Agreement substantially in the form attached hereto as Exhibit A (the "Option Agreement") and the Restrictive Covenants substantially in the form attached hereto as Exhibit B, each between the Company and you, your employment shall commence and shall continue until terminated by you or the Company. The first year of your employment shall terminate on December 31, 1998. Each year of your employment thereafter shall coincide with the calendar year.

3. BASE COMPENSATION:

Your base salary shall be at the rate of $165,000.00 per calendar year, payable bi-weekly, or at such other times as other employees of the Company are paid generally. Your performance and compensation shall be reviewed twelve (12) months after the commencement of your employment and every twelve (12) months thereafter. However, any increase in your compensation shall be in the Company's sole and absolute discretion.

4. BONUS COMPENSATION:

During your employment, you shall be eligible to receive bonus compensation under the Company's executive bonus program established for the benefit of senior executives of the Company. During your first year of employment ending December 31, 1998, you not will be eligible to receive any such

bonus. You will be eligible to receive bonuses under this program beginning in fiscal 1999.

Eligibility for the aforementioned bonuses will be premised upon your continuing employment through the end of the calendar year to which the bonus in any year of your employment relates.

All base, bonus or other compensation received shall be subject to applicable federal, state and local withholding and other taxes.

5. TRANSPORTATION ALLOWANCE:

During your employment, the Company will provide you with a monthly allowance of $500 for the use of an automobile.

6. MOVING EXPENSES:

The Company will pay or reimburse you for all reasonable expenses actually incurred by you, up to a maximum of $25,000, in connection with the sale of your current primary residence, the purchase of a new primary residence in reasonable proximity to the Company's principal executive offices and the moving of your household items to your new residence, including without limitation, broker or agent's sales commissions, reasonable legal fees and expenses and financing costs.

7. PARTICIPATION IN BENEFIT PLANS; VACATION:

During your employment with the Company, you shall be permitted, if and to the extent eligible, to participate in all employee benefit plans, policies and practices now or hereafter maintained by or on behalf of the Company, commensurate with your position with the Company. 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 also be entitled to receive $3,000.00 toward insurance premiums. You will be entitled to three weeks of vacation in 1999 and four weeks of vacation thereafter.

8. EXPENSES:

Subject to such policies as may from time to time be established by the Company's Board of Directors, the Company will pay or reimburse you for all reasonable and necessary expenses actually incurred or paid by you during the term of your employment in the performance of your duties under this agreement, upon submission and approval of expense statements, vouchers or other reasonable supporting information in accordance with the then customary practices of the Company.

9. SEVERENCE; CHANGE OF CONTROL:

If, within the three-month period following a "Change of Control" (as defined below), you are terminated by the Company or a successor entity or you elect to terminate your employment after the Company or such successor entity materially reduces your duties and responsibilities, or assigns you duties materially inconsistent with your position prior to such Change of Control, then you shall be entitled to receive six months salary and other benefits earned and accrued prior to the effective date of the termination of your employment (and reimbursement for expenses incurred prior thereto).

In addition, all outstanding unvested options held by you shall vest and become immediately exercisable and shall otherwise be exercisable in accordance with their terms. In such event, you shall also 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. Thereafter you shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment or other triggering event, or any other rights hereunder.

For purposes of this Agreement, "Change of Control" means the occurrence of one of the following:

(i) a "person" or "group" within 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% or more of the combined voting power of the Company's then outstanding securities in any one or more transactions; provided, however, that purchases by employee benefits 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 (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 at that time own a majority of the Company's outstanding common stock (the "Common Stock")), 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).

10. OPTIONS TO PURCHASE COMMON STOCK: As further compensation hereunder, and to induce you to accept our employment offer, effective upon the later to occur of the date you commence your employment with the Company and the date you execute the Option Agreement, the Company shall grant to you 50,000 options to purchase the Common Stock, par value $0.0001 per share, of the Company ("Common Stock"), on the terms and conditions set forth in the form of Option Agreement as aforesaid. The grant of your options to purchase Common Stock is subject, however, to approval by the Company's Compensation Committee of its Board of Directors. Such options shall vest over a three year period in three equal annual installments, all as more fully set forth in the Option Agreement.

11. RESTRICTIVE COVENANTS: Contemporaneously with the commencement of your employment, you shall execute and deliver the Restrictive Covenants substantially in the form attached hereto as Exhibit, whereby, among other things, you will agree to not compete with the "Business" of the Company (as defined) during the term of your employment and for a period of one year following such termination and to not disclose to any third party any trade secrets or proprietary information relating to the Company, now or hereafter acquired by you.

12. ASSIGNABILITY; BINDING NATURE: This agreement is binding upon, and will inure to the benefit of the parties hereto and their respective successors, heirs, administrators, executors and assigns. None of your rights or obligations under this agreement may be transferred by will or operation of law. The rights and obligation of the Company under this agreement may be assigned or transferred by operation of law in the event of a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company.

13. ENTIRE AGREEMENT: This agreement supersedes all prior agreements and, together with the Option Agreement, the Confidentiality Agreement and the Non-Competition Agreement, contains the entire

agreement between the parties concerning the subject matter hereof.

14. AMENDMENTS AND WAIVERS: This agreement may not be modified, amended, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

15. NOTICES: Any notice given hereunder must be in writing and will be deemed received when delivered personally or by courier, or five (5) days after being mailed, certified or registered mail, return receipt requested and duly addressed to the party concerned at the address indicated above or at such other address as such party may subsequently provide in writing.

16. GOVERNING LAW: The agreement will be governed by, and construed and interpreted in accordance with the laws of the State of New York.

If you are in agreement with the terms and conditions of your employment pursuant to this letter agreement, kindly execute this letter agreement in the space provided below and return it to the undersigned.

Sincerely yours,

MIM Corporation

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

AGREED TO AND ACCEPTED BY:

/s/ Edward J. Sitar
Name: Mr. Edward J. Sitar

Exhibit B

RESTRICTIVE COVENANTS

Covenant Against Competition; Other Covenants. The Executive acknowledges that (i) the principal business of the Company 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 and/or the purchasing of pharmaceutical products on behalf of pharmacy networks and long term care facilities (including assisted living facilities and nursing homes) (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"); provided, however, that Business shall not include any areas of business and/or services that the Company is not engaged in at such time that the Company is sold, merged, consolidated or any other event that would constitute a "Change of Control" (as defined in Section 9 of the Agreement), regardless of whether the successor or acquiring entity is then engaged in such other areas of business and/or services; (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) the Company's Business is national in scope; (iv) the Executive's work for the Company has given and will continue to give him access to the confidential affairs and proprietary information of the Company; (v) the covenants and agreements of the Executive contained in these Restrictive Covenants are essential to the business and goodwill of the Company; and (vi) the Company would not have entered into the Agreement (as defined below) but for the covenants and agreements set forth herein. Accordingly, the Executive covenants and agrees that:

(a) At any time during his employment with the Company and ending one year following (i) termination of the Executive's employment with the Company (irrespective of the reason for such termination) or (ii) payment of any severance in accordance with Section 9 of Executive's Employment Agreement with the Company dated September 1, 1998 (the "Agreement"), whichever occurs last, the Executive shall not engage, directly or indirectly (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), anywhere in the United States in (i) the Business and (ii) any 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 the Executive is employed, the Executive 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 the Executive 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 the Executive 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 the Executive is acting to the extent necessary to comply with legal process; provided that in the event that the Executive is 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, he shall immediately notify the Company thereof.

(c) During the period commencing on the date hereof and ending two years following the date upon which the Executive shall cease to be an employee of the Company or its affiliates, the Executive shall not, without the Company's prior written consent, directly or indirectly, 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 behalf of the Executive 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. During such period, the Executive will not, whether for his 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 the Executive or made available to the Executive 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.

(a) The Executive acknowledges and agrees 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 the Executive breaches, or threatens 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):

(i) 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 the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants.

(ii) The right and remedy to require the Executive 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 him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to the Company and, if applicable, its affected affiliates.

(b) The Executive agrees that in any action seeking specific performance or other equitable relief, he 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 the Executive, whether predicated on the Agreement or otherwise, shall not constitute a defense to the enforcement of the Restrictive Covenants.

/s/ Edward J. Sitar

Edward J. Sitar

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9-MOS
DEC-31-1998
JAN-1-1998
SEP-30-1998
10,146
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