

MIM CORP
Form 10-Q/A
May 20, 2003

The following items were the subject of a Form
12b-25 and are included herein: Part I, Item 2.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2003

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
(State or other jurisdiction of incorporation
or organization)

05-0489664
(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)

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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

On May 9, 2003, there were outstanding 22,188,767 shares of the Company's common stock, \$.0001 par value per share.

INDEX

PART I FINANCIAL INFORMATION

	Page Number
Item 1. Financial Statements	
Consolidated Balance Sheets at March 31, 2003 (unaudited) and December 31, 2002	1
Unaudited Consolidated Statements of Income for the three months ended March 31, 2003 and 2002	2
Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2003 and 2002	3
Notes to the Unaudited Consolidated Interim Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosure About Market Risk	17
Item 4. Controls and Procedures	17
PART II OTHER INFORMATION	
Item 2. Changes in Securities and Use of Proceeds	18
Item 6. Exhibits and Reports on Form 8-K	18
SIGNATURES	
Exhibit Index	22

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,364	\$ 5,751
Receivables, less allowance for doubtful accounts of \$3,564 and \$3,483 at March 31, 2003 and December 31, 2002, respectively	80,062	75,512
Inventory	5,947	9,320
Prepaid expenses and other current assets	2,025	2,104
	<hr/>	<hr/>
Total current assets	89,398	92,687
Property and equipment, net	7,279	7,388
Deferred income tax	3,046	3,046
Other assets, net	581	704
Goodwill, net	61,085	61,085
Intangible assets, net	16,924	17,321
	<hr/>	<hr/>
Total assets	\$ 178,313	\$ 182,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 571	\$ 634
Line of credit	674	4,608
Accounts payable	12,769	17,302
Claims payable	39,995	34,869
Payables to plan sponsors	23,492	23,921
Accrued expenses and other current liabilities	7,876	6,252
	<hr/>	<hr/>
Total current liabilities	85,377	87,586
Capital lease obligations, net of current portion	335	430
Other non current liabilities	7	7
	<hr/>	<hr/>
Total liabilities	85,719	88,023

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

Stockholders' equity:		
Common stock, \$.0001 par value; 40,000,000 shares authorized, 21,951,430 and 22,964,694 shares outstanding at March 31, 2003, and December 31, 2002, respectively	2	2
Treasury stock, 2,198,076 and 1,398,183 shares at cost at March 31, 2003, and December 31, 2002, respectively	(8,002)	(2,934)
Additional paid-in capital	120,700	120,651
Accumulated deficit	(20,106)	(23,511)
	<u> </u>	<u> </u>
Total stockholders' equity	92,594	94,208
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 178,313	\$ 182,231
	<u> </u>	<u> </u>

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

Page 1

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

	Three Months Ended March 31,	
	2003	2002
	<u> </u>	<u> </u>
	(Unaudited)	
Revenue	\$ 162,152	\$ 151,651
Cost of revenue	143,551	135,623
	<u> </u>	<u> </u>
Gross profit	18,601	16,028
Selling, general and administrative expenses	12,227	9,929

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

Changes in assets and liabilities, net of acquired assets:		
Receivables, net	(4,947)	(4,463)
Inventory	3,372	(2,185)
Prepaid expenses and other current assets	79	(158)
Accounts payable	(4,533)	1,482
Claims payable	5,126	14,654
Payables to plan sponsors and others	(429)	(1,946)
Accrued expenses and other current liabilities	1,624	(321)
	<hr/>	<hr/>
Net cash provided by operating activities	5,514	12,967
	<hr/>	<hr/>
Cash flows from investing activities:		
Purchase of property and equipment, net of disposals	(804)	(735)
Cost of acquisitions, net of cash acquired	-	(35,024)
Decrease in due from officer	-	2,132
Decrease in other assets	49	6
	<hr/>	<hr/>
Net cash used in investing activities	(755)	(33,621)
	<hr/>	<hr/>
Cash flows from financing activities:		
Net borrowings on line of credit	(3,934)	9,014
Purchase of treasury stock	(5,068)	-
Proceeds from exercise of stock options	14	1,287
Principal payments on capital lease obligations	(158)	(144)
	<hr/>	<hr/>
Net cash (used in) provided by financing activities	(9,146)	10,157
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(4,387)	(10,497)
Cash and cash equivalents--beginning of period	5,571	12,487
	<hr/>	<hr/>
Cash and cash equivalents--end of period	\$ 1,364	\$ 1,990
	<hr/>	<hr/>

(continued)

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

Page 3

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

	Three Months Ended March 31,	
	2003	2002
	<hr/>	<hr/>
	(Unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 260	\$ 224
	<hr/>	<hr/>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION:		
Stock issued in connection with acquisition	\$ -	\$ 10,355
	<hr/>	<hr/>

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

Page 4

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 ("MIM") and Subsidiaries (collectively with MIM, the "Company") audited consolidated financial statements, notes and information included in MIM's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "Form 10-K") filed with the Commission. The audited consolidated financial statements have been prepared in accordance with accounting principals generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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. These accounting policies are described further below:

Consolidation

The consolidated financial statements include the accounts of MIM and its subsidiaries. All significant 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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, overnight investments and money market accounts with maturities of 90 days or less.

Receivables

Receivables include amounts due from plan sponsors under the Company's PBM contracts, amounts due from pharmaceutical manufacturers for rebates, service fees resulting from the distribution of certain drugs through retail pharmacies and amounts due from certain third party payors.

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.

Claims Payable

The Company is responsible for covered prescriptions provided to plan members during the contract period. Claims payable 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 and, on a limited basis, profit sharing plans with certain capitated contracts.

The Company estimates the portion of those pharmacy rebates that are shared with plan sponsors and adjusts pharmacy rebates payable to plan sponsors when the amounts are paid typically on a quarterly basis, or as significant events occur. These estimates are accrued periodically based on actual and estimated claims data and agreed upon contractual rebate sharing rates. The Company records any cumulative effect of these adjustments against costs as identified, and adjusts its estimates prospectively to consider recurring matters. Adjustments generally result from contract modifications with clients, differences between the estimated and actual product mix subject to rebates or whether the product was included in the applicable formulary.

Revenue Recognition

The Company generates revenue principally through the sale of prescription drugs which are dispensed either through a pharmacy participating in the Company's retail pharmacy network or a pharmacy owned by the Company. Revenue is derived under two types of agreements: (i) fee-for-service agreements, which accounted for approximately 91% of the Company's revenues in the three months ended March 31, 2003, and (ii) capitated agreements, which accounted for approximately 9%, or \$15,202, of the Company's revenues in the three months ended March 31, 2003.

Fee-For-Service Agreements. Fee-for-service agreements include (i) specialty and mail service agreements, where the Company dispenses prescription medications through its own pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in the Company's retail pharmacy network. Under fee-for-service agreements, revenue is recognized either (a) when the pharmacy services are reported to the Company through the point of sale ("POS") claims processing system and the drug is dispensed to the member, in the case of a prescription filled through a pharmacy participating in the Company's retail pharmacy network, or (b) at the time the drug is dispensed, in the case of a prescription filled through a pharmacy owned by the Company.

Gross Vs. Net Revenue Recognition For Certain PBM Contracts. Revenue generated under PBM agreements is classified as gross or net by the Company based on whether it is acting as a principal or agent in the fulfillment of prescriptions through its retail pharmacy network. In making this determination, the Company evaluates each contract using the indicators set forth in Emerging Issues Task Force No. 99-19 "Reporting Gross Revenue as a Principal vs. Net as an Agent" ("EITF 99-19"). When the Company independently has a contractual obligation to pay a network pharmacy provider for benefits provided to its plan sponsors members, and has other indicators of risk and reward, 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 EITF 99-19, as 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').

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 three years. 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.

Co-payments. When prescriptions are filled and the Company is the participating pharmacy, the Company is entitled to receive co-payments from its members and record these co-payments as revenue when the amounts are deemed collectible and reasonably estimable. When prescriptions are filled through its retail pharmacy networks, the Company is not entitled to these amounts and does not account for co-payments in its financial statements as these amounts are never billed or collected by the Company and it has no legal right or obligation to co-payments collected by the pharmacies in its retail network.

Cost of Revenue

Cost of revenue includes pharmacy claims, fees paid to pharmacies 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 respect to product sales.

Income Taxes

The Company accounts for income taxes under the asset and liability method, and deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities at currently enacted tax laws and rates.

Disclosure of Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable and short-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate fair value due to their short-term nature.

Accounting for Stock-Based Compensation

The Company accounts for employee stock based compensation plans and non-employee director stock incentive plans in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Stock options granted to non-employees are accounted for in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", as well as Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments That Are Issued To Other Than Employees for Acquiring, or In Conjunction with Selling, Goods or Services" ("EITF 96-18").

The fair value of the Company's compensation cost for stock option plans for employees and directors, had it been determined, in accordance with SFAS 123, would have been as follows for the three months ended:

	Three Months Ended March 31,	
	2003	2002
Net income, as reported	\$ 3,405	\$ 5,207
Add: Stock award-based employee compensation included in reported net income, net of related tax effect	\$ -	\$ -
Deduct: Total stock based employee expense determined under fair value based method for all awards, net of related tax effects	\$ (687)	\$ (808)
Pro forma net income	\$ 2,718	\$ 4,399
Earnings per share:		
Basic - as reported	\$ 0.15	\$ 0.23
Basic - pro forma	\$ 0.12	\$ 0.20
Diluted - as reported	\$ 0.15	\$ 0.22
Diluted - pro forma	\$ 0.12	\$ 0.18

As pro forma compensation expense for options granted is recorded over the vesting period, future pro forma compensation expense may be greater as additional options are granted.

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 March 31,	
	2003	2002
Numerator:		
Net income	\$ 3,405	\$ 5,207
Denominator - Basic:		
Weighted average number of common shares outstanding	22,560	22,541
Basic income per common share	\$ 0.15	\$ 0.23
Denominator - Diluted:		
Weighted average number of common shares outstanding	22,560	22,541
Common share equivalents of outstanding stock options	339	1,450
Total diluted shares outstanding	22,899	23,991
Diluted income per common share	\$ 0.15	\$ 0.22

NOTE 3 - 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 Management and Delivery Services, which is comprised of specialty pharmacy distribution and clinical management services.

The accounting policies applied to the 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 March 31,	
	2003	2002
Revenues:		
PBM Services	\$ 108,040	\$ 118,678
Specialty Management and Delivery Services	54,112	32,974
Total	\$ 162,152	\$ 151,652
Depreciation expense:		
PBM Services	\$ 861	\$ 1,069
Specialty Management and Delivery Services	52	18
Total	\$ 913	\$ 1,087

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Income from operations:		
PBM Services	\$ 2,306	\$ 3,320
Specialty Management and Delivery Services	3,621	3,374
	<u> </u>	<u> </u>
Total	\$ 5,927	\$ 6,694
	<u> </u>	<u> </u>
Total assets:		
PBM Services	\$ 75,385	\$ 88,343
Specialty Management and Delivery Services	102,928	97,536
	<u> </u>	<u> </u>
Total	\$ 178,313	\$ 185,879
	<u> </u>	<u> </u>
Capital expenditures:		
PBM Services	\$ 404	\$ 254
Specialty Management and Delivery Services	400	426
	<u> </u>	<u> </u>
Total	\$ 804	\$ 680
	<u> </u>	<u> </u>

NOTE 4 - 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 on the closing date at \$10,355, including 20,002 shares of common stock, valued at \$355, as part of MIM's transaction costs. The common stock of MIM was valued using the average market price for the twenty consecutive trading 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.

Page 9

NOTE 5 - TENNCARE® RESERVE ADJUSTMENTS

There were no TennCare reserve adjustments in the current quarter of 2003. The TennCare reserve adjustment of \$851 in the first quarter of 2002 was a result of the collection of receivables from Xantus Healthplans of Tennessee, Inc., which were previously reserved.

NOTE 6 - TREASURY STOCK

On February 27, 2003, the Executive Committee of the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an aggregate of \$10 million of its Common Stock in open market or private transactions. As of March 31, 2003, the Company has repurchased 799,893 shares of its Common Stock in the open market at an aggregate purchase price of \$5.1 million.

NOTE 7 - SUBSEQUENT EVENTS

On May 14, 2003, E. David Corvese, founder and a former Director of the Company, filed a suit against the Company in Delaware Chancery Court seeking indemnification of \$2.4 million he paid to settle certain claims and charges of the federal government and State of Tennessee. He also seeks a declaration that he is not obligated to repay the Company for legal fees,

costs and expenses previously advanced to him to defend those claims and charges. MIM intends to defend the suit vigorously and to assert several substantive defenses. The Company believes that the resolution of the suit will not have a material adverse effect on its financial position.

* * * *

Page 10

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 ("MIM") and subsidiaries (collectively with MIM, the "Company"), including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in MIM's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "Form 10-K") filed with the U.S. Securities and Exchange Commission (the "Commission"), as well as MIM's unaudited consolidated interim financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (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.

Business Overview

The Company is a pharmaceutical healthcare organization delivering innovative pharmacy benefit management, specialty pharmaceutical management and 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, labor unions, self-funded employer groups, government agencies, and other self-funded plan sponsors, directly or indirectly through third party administrators (collectively, "Plan Sponsors"). These services are organized under two reportable operating segments: PBM Services and Specialty Management and Delivery Services.

The Company offers 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.

Through its BioScrip® specialty injectable and infusion therapy programs, the Company distributes high-cost pharmaceuticals and provides clinically focused case and disease management programs to Members afflicted with chronic illnesses or genetic impairments. The disease states or conditions for which the Company has such programs include

HIV/AIDS, oncology, hemophilia, multiple sclerosis, growth hormone deficiency, Gaucher's disease, rheumatoid arthritis, infertility, respiratory syncytial virus (RSV), hepatitis C, Crohn's disease and transplants. The specialty drugs distributed through the BioScrip® programs are dispensed and serviced from the Company's various dispensing locations in Columbus, Ohio; Livingston, New Jersey; and Roslyn Heights, New York. The Roslyn Heights facility has been utilized since February 2002, the acquisition date of Vitality Home Infusion Services, Inc. ("Vitality"), a New York-based provider of specialty pharmaceutical injectable therapy services. The Livingston location has been utilized since August 2000, the acquisition date of American Disease Management Associates, LLC ("ADIMA"), a New Jersey-based provider of specialty injectable and infusion therapy services.

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 Management and Delivery 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

The Company generates revenue principally through the sale of prescription drugs which are dispensed either through a pharmacy participating in the Company's retail pharmacy network or a pharmacy owned by the Company. Revenue is derived under two types of agreements: (i) fee-for-service agreements, which accounted for approximately 91% of the Company's revenues in the three months ended March 31, 2003, and (ii) capitated agreements, which accounted for approximately 9%, or \$15,202, of the Company's revenues in the three months ended March 31, 2003.

Fee-For-Service Agreements. Fee-for-service agreements include (i) specialty and mail service agreements, where the Company dispenses prescription medications through its own pharmacy facilities and (ii) PBM agreements, where prescription medications are dispensed through pharmacies participating in the Company's retail pharmacy network. Under fee-for-service agreements, revenue is recognized either (a) when the pharmacy services are reported to the Company through the point of sale ("POS") claims processing system and the drug is dispensed to the Member, in the case of a prescription filled through a pharmacy participating in the Company's retail pharmacy network, or (b) at the time the drug is dispensed, in the case of a prescription filled through a pharmacy owned by the Company.

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 three years. 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.

Allowance for Doubtful Accounts

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. 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.

Deferred Tax Assets

Deferred tax assets are recognized based on temporary differences between book and tax basis of assets and liabilities. A valuation allowance is recorded against these assets when, in the opinion of the Company, it is uncertain that the Company will realize the benefit from its deferred tax assets.

Impairment of Long Lived Assets

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets, including intangible assets, may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on the present value of the cash flows using discount rates that reflect the inherent risk of the underlying business. It is the Company's belief that no such impairment existed as of March 31, 2003.

Accounting for Stock-Based Compensation

The Company accounts for employee stock based compensation plans and non-employee director stock incentive plans in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Stock options granted to non-employees are accounted for in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", as well as Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments That Are Issued To Other Than Employees for Acquiring, or In Conjunction with Selling, Goods or Services" ("EITF 96-18").

Results of Operations

Specialty Management and Delivery Services

The following table provides details for the Specialty Management and Delivery Services segment for the three month periods ending March 31, 2003 and 2002:

Specialty Management and Delivery Services (\$ in thousands)			
Three Months Ended March 31,			
	2003	2002	% Inc
Revenues	\$ 54,112	\$ 32,974	64.1%
Cost of revenues	43,949	25,630	71.5%
Gross profit	\$ 10,163	\$ 7,344	38.4%
Gross profit percentage	18.8%	22.3%	

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Specialty Management and Delivery Services revenues increased \$21.1 million in the first quarter of 2003 to \$54.1 million, compared to the same period last year. This increase was due to continued growth in the Company's injectable and infusion therapy programs.

Cost of revenues increased \$18.3 million in the first quarter of 2003 compared to the same period in 2002. This increase is commensurate with the growth in the Company's Specialty Management and Delivery Services business.

Gross profit increased \$2.8 million for the first quarter of 2003 from the same period in 2002. This increase is commensurate with the growth in the Company's Specialty Management and Delivery Services business.

Page 13

Gross profit percentage declined in the first quarter of 2003 compared to the same period in 2002 as a result of increased revenues in the lower margin BioScrip® injectable therapy programs. The current gross profit percentages now reflect a higher proportion of injectable therapy programs in the total Specialty Management and Delivery Services business, when, in the previous year, the infusion therapy program represented a higher percentage of the total Specialty Management and Delivery Services business.

PBM Services

The following table provides details for the PBM Services segment for the three month periods ended March 31, 2003 and 2002:

PBM Services (\$ in thousands)			
Three Months Ended March 31,			
	2003	2002	% (Dec)
Revenues	\$ 108,040	\$ 118,678	(9.0%)
Cost of revenues	99,602	109,994	(9.4%)
Gross profit	\$ 8,438	\$ 8,684	(2.8%)
Gross profit percentage	7.8%	7.3%	

PBM Services revenues decreased to \$108.0 million in the first quarter of 2003 compared to \$118.7 million in the first quarter of 2002. In the second quarter of 2002, the Company changed the terms of its agreements with 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' PBM Services revenues on a net basis. That change had the effect of reducing PBM Services revenues and cost of revenues by \$3.4 million for the quarter ended March 31, 2003, with no resulting effect on reported gross profit.

Cost of revenues decreased \$10.4 million in the first quarter of 2003 as a result of the same reasons discussed above.

Gross profit decreased \$0.2 million in the first quarter of 2003 compared to the same period in 2002, as a result of the termination of certain unprofitable accounts, partially offset by a higher gross profit percentage on the PBM Services segment.

CONSOLIDATED RESULTS

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased to \$12.2 million for the first quarter of 2003, or 7.5% of revenues, from \$9.9 million, or 6.5% of revenues, for the same period a year ago. This increase is the result of increased investment in sales resources and expanded management to support the growth of the Company's businesses.

TennCare® Reserve Adjustments

There were no TennCare reserve adjustments in the current quarter of 2003. The TennCare reserve adjustments of \$0.9 million in the first quarter of 2002 was the result of the collection of receivables from Xantus Healthplans of Tennessee, Inc., which were previously reserved.

Amortization of Intangibles

For the first quarter of 2003, the Company recorded amortization of \$0.4 million compared to \$0.3 million for the same period in 2002. This increase in 2003 is the result of the amortization of identifiable intangibles resulting from the acquisition of Vitality on January 31, 2002.

Page 14

Net Interest Expense

Net interest expense was \$0.3 million for the three months ended March 31, 2003 compared to \$0.2 million of net interest expense for the same period in 2002. The increase in interest expense is primarily a result of using the Company's revolving credit facility to fund the \$35 million cash portion of the Vitality purchase price in January, 2002.

Provision for Income Taxes

Tax expense for the first quarter of 2003 was \$2.3 million compared to \$1.3 million for the same period last year. The effective tax rate for the first quarter of 2003 was 40.0% compared to 20.0% for the same period last year. At December 31, 2002, the Company had net operating losses ("NOLs") of approximately \$21.5 million which will begin expiring in 2009. As opposed to the Company's NOLs that reduced the effective tax rate in 2002 and 2001, the current NOLs will be recorded directly in stockholders' equity when utilized rather than as a reduction of tax expense since they were generated primarily as a result of the exercise of non-qualified stock options in prior years. However, the Company will receive a cash flow benefit from the reduction in its income tax liability when the remaining NOLs are utilized.

Net Income and Earnings Per Share

Net income for the first quarter of 2003 was \$3.4 million, or \$0.15 per diluted share, compared to net income of \$5.2 million, or \$0.22 per diluted share, for the same period last year. Average diluted shares outstanding for the first quarter decreased by 0.4 million to 22.9 million shares due to the Company's repurchase of its stock.

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 three months ended March 31, 2003, net cash provided by operating activities totaled \$5.5 million compared to \$13.0 million for the same period last year.

Net cash used in investing activities during the three months ended March 31, 2003 was \$0.8 million, consisting of property and equipment purchases, compared to \$33.6 million used in the same period in 2002. The Company paid \$3.5 million in case to acquire Vitality, partially offset by the repayment in full, in March 2002, of a \$2.1 million officer loan.

For the three months ended March 31, 2003, net cash used in financing activities was \$9.1 million compared to net cash provided of \$10.2 million in the same period in 2002. Outstanding bank borrowings under the Company's \$45 million revolving credit facility (the "Facility") with HFG Healthco-4 LLC, an affiliate, of Healthcare Finance Group ("HFG"), were \$0.7 million at March 31, 2003, an \$8.3 million decrease from the same period in 2002. Outstanding bank borrowings decreased as a result of operating cash generated by the Company's business and operations. The reduction in outstanding debt was achieved after the use of approximately \$5.0 million for the repurchase of Company stock under its repurchase program.

At March 31, 2003 the Company had working capital of \$4.0 million compared to \$5.1 million at December 31, 2002. This change is primarily the result of lower inventory levels, reduced accounts payable, and the repurchase of Company stock.

On November 1, 2000, the Company entered into the Facility. 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 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 agreement governing the Facility. The Facility terminates 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 New 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 Management and Delivery Services businesses, which the Company would expect to fund from cash on hand, borrowings under the New Facility, other future indebtedness or, if appropriate, the private and/or public sale or exchange of equity securities of the Company.

At December 31, 2002, the Company had NOLs of approximately \$21.5 million which will begin expiring in 2009. As opposed to the Company's NOLs that reduced the effective tax rate in 2002 and 2001, the current NOLs will be recorded directly in stockholders' equity when utilized, rather than as a reduction of tax expense as they were generated primarily as a result of the exercise of stock options in prior years. However, the Company will receive the cash flow benefit from the reduction in its income tax liability when the remaining NOLs are utilized. For 2003, the Company believes that its effective tax rate will be approximately 40%. The Company did not have tax expense in 2000 because it did not have any taxable income.

As of January 1, 2003, certain of the NOLs described above were subject to limitation and may be utilized in a future year upon release of the limitation and recorded directly in stockholders' equity as discussed above. If the NOLs 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

TennCare Relationship

On April 7, 2003, the State of Tennessee Bureau of TennCare[®] notified all TennCare MCOs that effective July 1, 2003, pharmacy benefit management and claims processing services would be consolidated under TennCare management. As such, all TennCare MCOs were instructed by the Bureau of TennCare to terminate their PBM agreements with their current pharmacy benefit managers.

On May 2, 2003 the Bureau of TennCare requested that the Company and other PBM organizations each submit a proposal (i) to provide clinical pharmacy management PBM services (but not claims processing services) directly to the State of Tennessee through the Bureau of TennCare from July 1, 2003 through December 31, 2003; and (ii) to provide both claims processing and clinical management PBM services to the State of Tennessee with respect to all aspects of the TennCare pharmacy program, including TennCare and the TennCare Partners Program, the behavioral health benefit for TennCare enrollees, from January 1, 2004 through December 31, 2007. The Company made a presentation to the Bureau of TennCare on May 9, 2003.

To date, the Company has not been notified whether or not it was selected to provide services under one or both of the arrangements described above. As such, the Company is unable to assess the likelihood that it will continue to perform PBM services either for the TennCare MCOs it currently services or directly through the Bureau of TennCare or that it will be awarded the business solicited by the State. In accordance with the State's April 17, 2003 mandate, the Company received termination notices from two of the TennCare MCOs that it currently services. Given that no decision has been communicated to the Company, the Company believes that there is additional uncertainty as to whether termination of PBM agreements with the TennCare MCOs it currently services will actually be effective at July 1, 2003.

Management believes that if its current PBM agreements are in fact terminated, and the Company is not selected to provide services under either of the arrangements discussed above, it would have an adverse effect on the Company's future

operating results. The Company's PBM agreements with the TennCare MCOs its services are currently expected to generate \$85 million in revenue and approximately \$5.5 million in gross profit for the second half of 2003. The Company has initiated a review of its cost structure to prepare for these pending decisions.

Stock Repurchase Program

On February 28, 2003, the Company announced a stock repurchase program pursuant to which it is authorized to purchase up to \$10 million of its common stock from time to time in the open market or in private transactions. As of March 31, 2003, the Company has used, in the aggregate, approximately \$5.1 million of this authorization. The Board's current authorization supersedes the repurchase program adopted by the Company in 2001.

Regulatory Matters

On April 18, 2003, the U.S. Department of Health and Human Services, Office of Inspector General ("OIG") released Compliance Program Guidance for Pharmaceutical Manufacturers (the "Guidance") designed to provide voluntary, nonbinding guidance to assist companies that develop, manufacture, market and sell pharmaceutical products or biological products, including PBM's in devising effective compliance programs. The Guidance provides the OIG's view of the fundamental elements of pharmaceutical manufacturer's compliance programs and principles that should be considered when creating and implementing an effective compliance program, or as a benchmark for companies with existing compliance programs. The Company currently maintains a compliance program that includes the key compliance program elements described in the Guidance. The Guidance, if adopted in its current form, would be likely to have a material effect on our business operations of financial results. The Company's management believes that the fundamental elements of its compliance program are consistent with the principles, policies and intent of the Guidance.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company's exposure to market risk for changes in interest relate primarily to the Company's debt. At March 31, 2003 the Company did not have any long-term debt. The Company does not invest in, or otherwise use, derivative financial instruments.

At March 31, 2003, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, claims payable, payables to Plan Sponsors and others, and debt approximate fair value due to their short-term nature.

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

Item 4. Controls and Procedures

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of disclosure controls and procedures has been evaluated within 90 days of the filing date of this Quarterly Report on Form 10-Q and, based on that evaluation the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of that evaluation.

**PART II
OTHER INFORMATION**

Item 2. Changes in Securities and Use of Proceeds

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On January 31, 2002, the Company issued 612,419 shares of its common stock in connection with the acquisition of Vitality (see Note 4 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 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 15, 2003)
- Exhibit 4.1 Amended and Restated Rights Agreement, dated as of December 3, 2002 between MIM Corporation and American Stock Transfer and Trust Company (incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 3 to the Company's Form 8-A/A dated December 4, 2002)
- Exhibit 99.1 Section 906 Certification of Richard H. Friedman
- Exhibit 99.2 Section 906 Certification of James S. Lusk

(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the quarter ended March 31, 2003.

Page 18

SIGNATURES

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

MIM CORPORATION

Date: May 15, 2003

/s/ James S. Lusk

James S. Lusk
Chief Financial Officer

Page 19

CERTIFICATION

I, Richard H. Friedman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MIM Corporation;
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 period presented in this quarterly report;

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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 we 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: May 15, 2003

/s/ Richard H. Friedman

Chief Executive Officer

Page 20

CERTIFICATION

I, James S. Lusk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MIM Corporation;

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 period 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 we 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: May 15, 2003

/s/ James S. Lusk

Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
99.1	Section 906 Certification of Richard H. Friedman
99.2	Section 906 Certification of James S. Lusk