

Form

Unknown document format

line; FONT-SIZE: 10pt; FONT-FAMILY: times new roman">

NASDAQ Health Services

137 137 179 131 173

SIC Code 8000-8099 Health Services

112 120 112 82 110

-29-

ITEM 6 SELECTED FINANCIAL DATA

Set forth below is our selected historical consolidated financial data for the five years ended December 31, 2009. The selected historical consolidated financial data should be read in conjunction with the consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report. The consolidated statement of operations data and balance sheet data as of and for the years ended December 31, 2006, 2007, 2008 and 2009 are derived from our audited consolidated financial statements which have been audited by Grant Thornton LLP, our independent registered public accounting firm. The consolidated statement of operations data and balance sheet data as of and for the year ended December 31, 2005 are derived from our audited consolidated financial statements which have been audited by Kaufman, Rossin & Co., P.A.

	For the years ended December 31,				
	2009 (5)	2008 (4)	2007 (3)	2006 (2)	2005 (1)
Statement of Operations Data					
Revenue	\$ 354,407,100	\$ 317,211,727	\$ 277,577,289	\$ 228,216,073	\$ 183,765,191
Operating income (loss)	\$ 22,981,103	\$ 16,540,974	\$ 8,071,571	\$ (232,952)	\$ 3,232,678
Income from continuing operations before income taxes	\$ 23,348,679(8)	\$ 16,618,535(6) (7)	\$ 9,440,738(6)	\$ 825,561(6)	\$ 3,849,549
Net income	\$ 14,448,566	\$ 10,204,467	\$ 5,913,998	\$ 472,561	\$ 2,381,743
Basic earnings per share	\$ 0.32	\$ 0.21	\$ 0.12	\$ 0.01	\$ 0.05
Diluted earnings per share	\$ 0.31	\$ 0.20	\$ 0.11	\$ 0.01	\$ 0.05
Weighted average common shares outstanding-basic					
	44,496,487	49,093,039	50,573,349	50,032,555	48,975,803
Weighted average common shares outstanding-diluted					
	45,940,636	50,353,644	51,796,185	51,472,616	51,007,396
Cash dividend declared	-	-	-	-	-
Balance Sheet Data					
Cash and equivalents	\$ 6,794,809	\$ 2,701,243	\$ 38,682,186	\$ 23,110,042	\$ 15,572,862
Short-term investments	\$ 27,036,310	\$ 33,641,140	\$ -	\$ -	\$ -
Total current assets	\$ 35,715,053	\$ 40,867,225	\$ 44,763,752	\$ 30,464,838	\$ 24,479,528
Total assets	\$ 51,332,242	\$ 49,144,355	\$ 53,811,047	\$ 41,841,033	\$ 33,115,106
Total current liabilities	\$ 8,008,609	\$ 6,339,625	\$ 15,545,068	\$ 10,911,770	\$ 3,416,244
Total liabilities	\$ 8,406,336	\$ 6,339,625	\$ 15,545,068	\$ 10,911,770	\$ 3,416,244
Total working capital	\$ 27,706,444	\$ 34,527,600	\$ 29,218,684	\$ 19,553,068	\$ 21,063,284
Long - term obligations, including current portion	\$ 715,909	\$ -	\$ -	\$ -	\$ -
Total stockholders' equity	\$ 42,925,906	\$ 42,804,730	\$ 38,265,979	\$ 30,929,263	\$ 29,698,862

(1) The financial data for 2005 includes a deferred tax asset of \$7,993,000 and an income tax expense of \$1,468,000.

(2) The financial data for 2006 includes a deferred tax asset of \$7,367,000 and an income tax expense of \$353,000.

(3) The financial data for 2007 includes a deferred tax asset of \$4,309,000 and an income tax expense of \$3,527,000.

(4) The financial data for 2008 includes a deferred tax asset of \$1,244,000 and an income tax expense of \$6,414,000.

(5) The financial data for 2009 includes a deferred tax asset of \$1,678,000 and an income tax expense of \$8,900,000.

(6)

Edgar Filing: - Form

In accordance with U.S. GAAP, 2009, 2008, 2007 and 2006 results of operations include stock based compensation expense of \$1,355,000, \$1,229,000, \$616,000 and \$736,000, respectively.

(7) Includes a gain on the sale of our HMO of \$5.9 million and related stay bonuses and termination costs of \$1.6 million.

(8) Includes an incremental gain on the sale of our HMO of \$1.3 million.

-30-

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

During 2009 and the last four months of 2008, we operated only our PSN business, having sold our HMO on August 29, 2008. During 2007 and through August 28, 2008, we operated two financial reporting segments, the PSN business and the HMO business. The sale allowed us to focus solely on our core PSN business in 2009 and to significantly reduce general and administrative costs.

Our results are impacted by many factors, but most notably are influenced by our ability to establish and maintain a competitive and efficient cost structure and to accurately and consistently negotiate competitive payments from Humana. Benefit costs are subject to a high rate of inflation due to many forces, including new higher priced technologies and medical procedures, new prescription drugs and therapies, an aging population, lifestyle challenges including obesity and smoking, the tort liability system, and government regulation.

We rely on a key statistical performance measure, the medical expense ratio ("MER"), which is computed by taking total medical expenses as a percentage of revenue. This measure represents a statistic used to measure gross profit.

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 2 of the "Notes to Consolidated Financial Statements" included in this Form 10-K. As disclosed in Note 2, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results may ultimately differ materially from those estimates. We believe that the following discussion addresses our most critical accounting policies, including those that are perceived to be the most important to the portrayal of our financial condition and results of operations and that require complex and/or subjective judgments by management.

We believe that our most critical accounting policies include "Use of Estimates, Revenue, Expense and Receivables."

Use of Estimates, Revenue, Expense and Receivables

Our revenue is primarily derived from risk-based health insurance arrangements in which the premium is paid to us monthly and varies depending on the county, age and severity of illness of the Humana Participating Customer. We assume the economic risk of funding our customers' healthcare services and related administrative costs. Premium revenue is recognized in the period in which eligible individuals are entitled to receive healthcare services. Because we have the obligation to fund medical expenses, we recognize gross revenue and medical expenses associated with the Humana Agreements in our consolidated financial statements. We record healthcare premium payments we receive in advance of the service period as unearned premiums.

Periodically we receive retroactive adjustments to the premiums paid to us based on the updated health status of our customers (known as a Medicare risk adjustment or "MRA" score). The factors considered in this update include changes in demographic factors, risk adjustment scores, customer information and adjustments required by the risk sharing requirements for prescription drug benefits under Part D of the Medicare program. In addition, the number of customers for whom we receive capitation fees may be retroactively adjusted due to enrollment changes not yet processed, or not yet reported. These retroactive adjustments could, in the near term, materially impact the revenue that has been recorded. We record any adjustments to revenue at the time that the information necessary to make the determination of the adjustment is available and the collectibility of the amount is reasonably assured, or the

likelihood of repayment is probable.

Medical expenses are recognized in the period in which services are provided and include an estimate of our obligations for medical services that have been provided to our customers but for which we have neither received nor processed claims, and for liabilities for physician, hospital and other medical expense disputes. We develop our estimated medical claims payable by using an actuarial process that is consistently applied. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical expense trends. The actuarial process and models develop a range of projected medical claims payable and we record to the amount within the range that is our best estimate of the ultimate liability. The actual liability incurred could differ materially from the amount recorded.

Each period we re-examine previously established medical claims payable estimates based on actual claim submissions and other changes in facts and circumstances. As the estimate of medical claims payable recorded in prior periods become more exact, we adjust the amount of our liability estimates, and include the changes in such estimates in medical expense in the period in which the change is identified. In each reporting period, our operating results include the effects of more completely developed medical expense payable estimates associated with previously reported periods. While we believe our medical expenses payable are adequate to cover future claims payments required, such estimates are based on claims experience to date and various assumptions. Therefore, the actual liability could differ materially from the amounts recorded. See Notes 2 and 8 to the Consolidated Financial Statements and Item 1A Risk Factors - "A Failure To Estimate Incurred But Not Reported..."

Pending Adoption of an Accounting Pronouncement

There are no pending accounting pronouncements that are expected to have a significant impact on our financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Contractual Obligations and Other Contractual Commitments

The following table summarizes our significant contractual obligations and commercial commitments as of December 31, 2009.

Contractual Obligations	Total	Payment Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 years
Operating lease obligations	\$ 5,693,000	\$ 1,398,000	\$ 2,042,000	\$ 1,176,000	\$ 1,077,000
Service Agreements	1,443,000	987,000	456,000	-	-
Employment obligations	3,313,000	3,313,000	-	-	-
	\$ 10,449,000	\$ 5,698,000	\$ 2,498,000	\$ 1,176,000	\$ 1,077,000

As of December 31, 2009, our long-term debt totaled \$716,000 (including current portion) and we had no payment obligations that would constitute capital lease obligations.

We utilized vendors during the year to assist us with the implementation of the EMR system as well as other initiatives. Payments under these service contracts for the years subsequent to December 31, 2009 are approximately \$987,000, \$305,000 and \$151,000 in the years 2010, 2011 and 2012, respectively. Some contracts will automatically renew unless written notice is provided to the vendor within the stated period of time prior to the end of the contract period.

Impact of Inflation

In February of 2010, CMS announced that Medicare program spending is projected to increase by 8.1% in 2009. CMS also projects that the Medicare spending growth rate from 2009 to 2019 will increase by an average of 7.5%. The principal projected drivers for this growth include continued cost-increasing medical innovation, inflation, continued strong demand for prescription drugs and the aging baby-boomer demographic.

Comparison of 2009 and 2008

Summary

In 2009, income before income taxes increased by 40.4% over 2008 from \$16.6 million in 2008 to \$23.3 million in 2009, an increase of \$6.7 million. Excluding the gain on sale of our HMO of \$5.9 million and \$1.3 million in 2008 and 2009, respectively, and the stay bonuses and termination costs related to the sale that were expensed in 2008 of \$1.6 million, our income before income taxes would have been \$22.0 million in 2009 compared to \$12.3 million in 2008, an increase of \$9.7 million or 78.9%.

Net income in 2009 was \$14.4 million compared to \$10.2 million in 2008, an increase of \$4.2 million or 41.2%. Basic earnings per share were \$0.32 in 2009 and \$0.21 in 2008. Diluted earnings per share were \$0.31 in 2009 compared to \$0.20 in 2008. The increase in earnings per share was primarily a result of our increased net income and the impact of our share buyback program that began in October 2008. We repurchased an aggregate of 7,816,678 shares in 2009 and 4,191,798 shares in 2008. The gain on the sale of the HMO, net of the related stay bonuses and termination costs in 2008, increased net income in 2009 by \$0.01 per basic and diluted share and by \$0.06 per basic and diluted share in 2008.

Revenue increased to \$354.4 million in 2009 from \$317.2 million in 2008, an increase of \$37.2 million or 11.7%. See “Item 1 – Description of Business – Medicare,” “The Medicare Modernization Act.”

Our customer months, which are the aggregate number of months of healthcare services we have provided to customers during a period of time, increased to 425,100 in 2009 from 396,400 in 2008, an increase of 7.2%. Our per customer per month (“PCPM”) revenue increased from \$800 in 2008 to \$834 in 2009, an increase of 4.3%. The increase in PCPM revenue in 2009 was reduced by the IPA Agreement entered into as a result of the sale of the HMO. More specifically, while we owned the HMO in 2008, we received 100% of the premium paid by CMS for the HMO’s customers. Since the sale of the HMO, we receive, pursuant to the IPA Agreement, less than 100% of the CMS premium paid to Humana with respect to customers in the HMO’s former counties of operation.

Our PCPM medical expense increased, from \$708 in 2008 to \$738 in 2009, an increase of 4.2%. Our MER increased by one basis point to 88.5% in 2009 as compared to 88.4% in 2008. The reduction in Medicare premiums we received under the IPA Agreement increased our MER in 2009 compared to 2008.

The sale of the HMO enabled us to reduce our operating expenses. In 2009, operating expenses decreased to \$19.2 million compared to \$26.1 million in 2008. Included in 2008 operating expenses is \$1.6 million of stay bonuses and termination costs associated with the sale of the HMO. Excluding these bonuses and termination costs, operating costs in 2008 (which exclude approximately four months of the HMO’s 2008 operations) would have been \$24.5 million, which is \$5.3 million or 21.6% higher than operating costs for 2009.

CMS has announced that in 2010, the premiums paid to Medicare Advantage plans will decrease as a result of a 0.5% decrease in the base rate and a recalibration of risk scores that will decrease the base rate by an additional 4.5%. We believe that the impact on us of the foregoing premium reduction and increased costs will be mitigated by, among other things, reduced benefit offerings, increased customer co-pays and deductibles and improved risk score compliance by us.

See “Item 1A. Risk Factors” for further discussion of the most significant risks that affect our business, financial condition, results of operations and/or cash flows.

Customer Information

The table set forth below provides (i) the total number of customers to whom we were providing healthcare services through the PSN as of December 31, 2009 and 2008 and (ii) the aggregate customer months for the PSN in 2009 and 2008 and the HMO in 2008.

Following the sale of the HMO and contemporaneous execution of the IPA Agreement, the PSN assumed responsibility for providing medical services to the customer base of the HMO.

Customers at December 31	Customer Months In	Percentage Change in Customer Months
--------------------------	--------------------	-----------------------------------------

Edgar Filing: - Form

	2009	2008	2009	2008	Between Years
PSN	35,500	33,000	425,100	338,300	25.7%
HMO	-	-	-	58,100	-100.0%
Total	35,500	33,000	425,100	396,400	7.2%

-33-

The increase in total customer months for 2009 as compared to 2008 is primarily a result of the net effect of new enrollments and disenrollments caused by deaths, customers moving from the covered areas, customers transferring to another physician practice or customers making other insurance selections.

At February 1, 2010, the PSN was providing services to approximately 35,300 customers. This amount will change as customers may enroll and disenroll through March 31, 2010.

Revenue

The following table provides a breakdown of our sources of revenue.

	Year Ended December 31		\$	%
	2009	2008	Increase (Decrease)	Change
PSN revenue from Humana	\$ 352,993,000	\$ 263,268,000	\$ 89,725,000	34.1%
PSN fee-for-service revenue	1,414,000	1,570,000	(156,000)	-9.9%
Total PSN revenue	354,407,000	264,838,000	89,569,000	33.8%
Percentage of total revenue	100.0%	83.5%		
HMO revenue	-	52,374,000	(52,374,000)	-100.0%
Percentage of total revenue	0.0%	16.5%		
Total revenue	\$ 354,407,000	\$ 317,212,000	\$ 37,195,000	11.7%

The PSN's most significant source of revenue during both 2009 and 2008 was the premium revenue generated pursuant to the Humana Agreements (the "Humana Related Revenue"). The Humana Related Revenue increased from \$263.3 million in 2008 to \$353.0 million in 2009, an increase of approximately \$89.7 million or 34.1%.

Approximately \$77.1 million of the increase in the Humana Related Revenue is attributable to the IPA Agreement pursuant to which we began providing services to the customers of the HMO following its sale to the Humana Plan. The balance of the increase is primarily attributable to a 4.3% increase in our PCPM premium in 2009 as compared to 2008 and the increase in our customer base.

The average premium we received per customer per month ("PCPM") for 2009 was approximately \$834 as compared to \$800 for 2008. This PCPM premium increase is primarily a result of a 3.5% increase in the base premium in 2009 as compared to 2008, comprised of an industry-wide increase in the base premium in 2009, as well as a company specific increase in the base premium based upon an increase in the average Medicare risk score of our customers.

Periodically, we receive retroactive adjustments to the premiums paid to us based on the updated MRA scores of our customers. The factors considered in this update include changes in demographic factors, risk adjustment scores, customer information and adjustments required by the risk sharing requirements for prescription drug benefits under Part D of the Medicare program. In addition, the number of customers for whom we receive capitation fees may be retroactively adjusted due to enrollment changes not yet processed or reported. These retroactive adjustments could, in the near term, materially impact the revenue that has been recorded. We record any adjustments to this revenue at the time the information necessary to make the determination of the adjustment is available, the collectibility of the amount is reasonably assured, or the likelihood of repayment is probable.

At December 31, 2009, we recorded a \$1.4 million receivable representing our estimate of the retroactive MRA premium for services provided in 2009 that we expect to receive in the summer of 2010. In 2009, we received the final MRA premium payment for services provided in 2008 in the amount of \$3.0 million. At December 31, 2008, we had recorded a \$3.8 million estimated MRA receivable for services provided in 2008. The difference of \$800,000

Edgar Filing: - Form

reduced revenue in 2009. The final retroactive MRA premium adjustment for services provided in 2007, which was received in 2008, was not materially different than the estimate we recorded at December 31, 2007.

We continue to invest resources in people and processes to assure that our customers are assigned the proper risk scores. These processes include ongoing training of medical staff responsible for coding and routine auditing of patient charts to assure risk-coding compliance. Customers with higher risk codes generally require more healthcare resources than those with lower risk codes. Proper coding helps to assure that we receive premiums consistent with the cost of treating these customers. Our efforts related to coding compliance are ongoing and we continue to commit additional resources to this important discipline.

The payment we receive for providing prescription drug benefits (the "Medicare Part D payment") is subject to adjustment, positive or negative, based upon the application of risk corridors that compare the estimated prescription drug benefit costs (the "Estimated Costs") to actual incurred prescription drug benefit costs (the "Actual Costs"). To the extent the Actual Costs exceed the Estimated Costs by more than the risk corridor, we may receive additional payments. Conversely, to the extent the Estimated Costs exceed the Actual Costs by more than the risk corridor, we may be required to refund a portion of the Medicare Part D payment. The final settlement for the Part D program occurs in the subsequent year.

At December 31, 2009 we recorded a receivable of \$961,000, the amount we estimate 2009 Actual Costs exceeded the revenue received. At December 31, 2008, we estimated that we would be required to refund \$100,000 related to Medicare Part D payments received and recorded a liability for this amount. The 2008 amount settled at the approximate amount that was estimated. In 2008, we determined that the final Part D settlement payable for prescription drug coverage in 2007 was over accrued by approximately \$1 million and we increased revenue in 2008 by this amount.

The fee-for-service revenue represents amounts earned from medical services provided to non-Humana customers in our owned physician practices.

Total Medical Expense

Total medical expense represents the estimated total cost of providing patient care and is comprised of two components, medical claims expense and medical center costs. Medical claims expense is recognized in the period in which services are provided and includes an estimate of our obligations for medical services that have been provided to our customers but for which we have neither received nor processed claims, and for liabilities for physician, hospital and other medical expense disputes. Medical claims expense includes such costs as inpatient and outpatient services, pharmacy benefits and physician services by providers other than the physician practices owned by the PSN (collectively "Non-Affiliated Providers"). Medical center costs represent the operating costs of the physician practices owned by the PSN.

We develop our estimated medical expenses payable by using an actuarial process that is consistently applied. The actuarial process develops a range of estimated medical expenses payable and we record to the amount in the range that is our best estimate of the ultimate liability. Each period, we re-examine previously recorded medical claims payable estimates based on actual claim submissions and other changes in facts and circumstances. As medical expenses recorded in prior periods becomes more exact, we adjust the amount of the estimate, and include the change in medical expense in the period in which the change is identified. In each reporting period, our operating results include a change in medical expense from the effects of more completely developed medical expense payable estimates associated with previously reported periods. While we believe our estimated medical expenses payable is adequate to cover future claims payments required, such estimates are based on our claims experience to date and various management assumptions. Therefore, the actual liability could differ materially from the amount recorded.

Medical expense and MER for 2008 and 2009 are as follows:

Edgar Filing: - Form

	2009 Consolidated	HMO	2008 PSN	Consolidated
Estimated medical expense for the year, excluding prior period claims development (Favorable) unfavorable	\$ 313,532,000	\$ 46,826,000	\$ 234,799,000	\$ 281,625,000
prior period medical claims development in current year based on actual claims submitted	20,000	(780,000)	(373,000)	(1,153,000)
Total reported medical expense for the year	\$ 313,552,000	\$ 46,046,000	\$ 234,426,000	\$ 280,472,000
Medical Expense Ratio for year	88.5%	87.9%	88.5%	88.4%
Medical Expense PCPM	\$ 738	\$ 793	\$ 693	\$ 708

In the table above, favorable adjustments to amounts we recorded in prior periods for estimated claims payable appear in parentheses while unfavorable adjustments do not appear in parentheses. Favorable adjustments reduce total medical expense for the respective applicable period and unfavorable claims development increases total medical expense for the applicable period.

The reported MER is impacted by both revenue and expense. Periodically we receive retroactive adjustments to the premiums paid to us based on the updated MRA score. Retroactive adjustments of prior period's premiums that are recorded in the current period impact the MER of that period. If the retroactive adjustment increases premium revenue then the impact reduces the MER for the period. Conversely, if the retroactive adjustment reduces revenue, then the MER for the period is higher. These retroactive adjustments include, among other things, the mid-year and annual MRA premium adjustments and settlement of Part D program premiums. In addition, actual medical claims expense usually develops differently than estimated during the period. Therefore, the reported MER shown in the above table will likely change as additional claim development occurs. Favorable claims development is a result of actual medical claim cost for prior periods developing lower than the original estimated cost which reduces the reported medical expense and the MER for the current period. Unfavorable claims development is a result of actual medical claim cost for prior periods exceeding the original estimated cost which increases total reported medical expense and the MER for the current period.

A change in either revenue or medical claims expense of approximately \$3.8 million would have impacted the MER by 1% in 2009 while a change in either revenue or medical claims expense of approximately \$3.4 million would have impacted our MER by 1% in 2008.

Because the Humana Agreements provide that the PSN is financially responsible for all medical services provided to the Humana Participating Customers, medical claims expense includes the cost of medical services provided to Humana Participating Customers by Non-Affiliated Providers.

Total medical expense was \$313.6 million and \$280.5 million for the years ended December 31, 2009 and 2008, respectively. The increase in total medical expense in 2009 was primarily due to the increase in the number of customer months and increasing medical costs. Approximately \$299.0 million or 95.4% of our total medical expenses in 2009 are attributable to medical claims expense. In 2008, approximately \$268.0 million or 95.5% of our total medical expenses were attributable to medical claims expense. The balance was the expenses associated with

operating our medical centers.

Medical expense on a PCPM basis was \$708 in 2008 as compared to \$738 in 2009. This increase of 4.2% is primarily a result of increasing medical costs and utilization during 2009.

Our MER increased by one basis point from 88.4% in 2008 to 88.5% in 2009. Prior to the sale of the HMO in August 2008, we received 100% of the premium paid by CMS for the HMO's customers. Following the sale of the HMO and under the related IPA Agreement, we receive a percentage of the CMS premium received by Humana for care for these customers through our PSN. Our MER in 2008 would have been 90.7% if the HMO had been sold on January 1, 2008.

At December 31, 2009, we estimate that claims paid subsequent to December 31, 2008 for services provided prior to that date was not substantially different than the amount that we had estimated and accrued at December 31, 2008. At December 31, 2008, we estimated that claims paid subsequent to December 31, 2007 for services provided prior to that date were \$1.2 million or approximately 0.4% of total medical expense lower than the estimated medical expenses payable recorded at December 31, 2007.

At December 31, 2009, we determined that the range for estimated medical claims payable was between \$25.8 million and \$29.4 million and we recorded a liability of \$27.4 million, the actuarial mid-point of the range. Based on historical results, we believe that the actuarial mid-point of the range continues to be the best estimate within the range of the PSN's ultimate liability.

Medical center costs include the salaries, taxes and benefits of the PSN's employed health professionals and staff providing primary care services, as well as the costs associated with the operations of those practices. Approximately \$14.5 million of our total medical expenses in 2009 related to physician practices we own as compared to \$12.5 million in 2008. Approximately \$1.2 million of the increase in medical center costs is attributable to payroll costs, \$500,000 is related to a medical center that was acquired in July 2008 and \$200,000 is related to increased medical supply costs.

Other Operating Expenses

	Year Ended December 31			%
	2009	2008	(Decrease) Increase	
Administrative payroll, payroll taxes and benefits	\$ 11,287,000	\$ 12,537,000	\$ (1,250,000)	-10.0%
Percentage of total revenue	3.2%	4.0%		
General and administrative	7,565,000	10,071,000	(2,506,000)	-24.9%
Percentage of total revenue	2.1%	3.2%		
Marketing and advertising	359,000	1,865,000	(1,506,000)	-80.8%
Percentage of total revenue	0.1%	0.6%		
Stay bonuses and termination costs	-	1,598,000	(1,598,000)	-100.0%
Percentage of total revenue	0.0%	0.5%		
Total other operating expenses	\$ 19,211,000	\$ 26,071,000	\$ (6,860,000)	-26.3%

Administrative Payroll, Payroll Taxes and Benefits

Administrative payroll, payroll taxes and benefits include salaries and related costs for our executive, administrative and the sales staff of the HMO in 2008. For 2009, administrative payroll, payroll taxes and benefits were \$11.3 million, compared to the \$12.5 million for 2008, a decrease of \$1.3 million. The decrease is primarily a result of a \$1.8 million decrease in payroll cost associated with the HMO following the sale of the HMO primarily offset by the costs related to the amount expensed under the Amended Employment Agreement of our CEO.

General and Administrative

General and administrative expenses decreased to \$7.6 million in 2009 as compared to \$10.1 million in 2008, a decrease of \$2.5 million, or 24.9%. General and administrative costs associated with the HMO decreased \$3.3 million as a result of the sale of the HMO partially offset by increased costs of the PSN associated with the number of customers cared for under the IPA Agreement.

Marketing and Advertising

Marketing and advertising expense primarily consists of advertising expenses and, in 2008, brokerage commissions paid to independent sales agents of the HMO. Marketing and advertising expense was \$359,000 in 2009 as compared to \$1.9 million in 2008, a decrease of 80.8%. The primary reason for this decrease is the elimination of these costs upon the sale of the HMO as a significant portion of our marketing costs were incurred during the open enrollment period, which occurred in the first and last quarter of the year.

Stay Bonuses and Termination Costs

In connection with the sale of the HMO, we paid certain employees of the HMO stay bonuses and termination payments. We recognized and paid all of these costs, totaling \$1.6 million, in the third quarter of 2008. We incurred no such costs in 2009.

Gain on Sale of HMO Subsidiary

On August 29, 2008, we completed the sale of all of the outstanding capital stock of our HMO to the Humana Plan for a cash purchase price of approximately \$14.6 million. We recognized a gain on the sale of the HMO in the third quarter of 2008 of approximately \$5.9 million.

The gain on sale in 2009 of \$1.3 million includes additional gain from the closing net equity settlement for the HMO and the settlement of certain liabilities of the HMO that we settled in 2009 at amounts lower than the liability recorded at the time of the sale.

Other Income

We realized other income of \$368,000 in 2009 compared to \$78,000 in 2008. We realized investment income in 2009 of \$390,000 as compared to \$108,000 in 2008.

Income taxes

Our effective income tax rate was 38.1% in 2009 and 38.6% in 2008. The decrease in 2009 was a result of an increase in our investment in tax-exempt securities.

Comparison of 2008 and 2007

Summary

Income before income taxes for 2008 was \$16.6 million compared to \$9.4 million in 2007. Income before income taxes in 2008 includes a gain on the sale of the HMO of \$5.9 million and stay bonus and terminations costs associated with the sale of \$1.6 million. The PSN reported a segment gain before income taxes and allocated overhead of \$24.8 million for 2008, compared to \$29.2 million for 2007, a decrease of \$4.4 million or 15.1%. The HMO segment incurred a loss before income taxes and allocated overhead of \$2.2 million for 2008, compared to a loss of \$10.5 million in 2007, a decrease of 79.0%. Allocated overhead was \$10.2 million and \$9.3 million for 2008 and 2007, respectively. The 2008 segment information above excludes the gain on the sale of the HMO and the related stay bonus and termination costs.

Net income for 2008 was \$10.2 million compared to \$5.9 million for 2007. Earnings per share, basic was \$0.21 and earnings per share, diluted was \$0.20 for 2008 compared to earnings per share, basic of \$0.12 and earnings per share, diluted of \$0.11 for 2007. The gain on sale of the HMO, net of the stay bonus and termination costs, of \$4.3 million is equivalent to approximately \$0.06 per share, basic and diluted, of our outstanding common stock.

For 2008, we realized revenue of \$317.2 million compared to \$277.6 million in the prior year, an increase of approximately \$39.6 million or 14.3%. Medical expenses for 2008 were \$280.5 million, an increase of \$39.8 million or 16.5% over 2007.

Our customer months increased to 396,400 in 2008 from 367,200 in 2007, an increase of 8.0%. Our PCPM revenue increased from \$759 in 2007 to \$800 in 2008, an increase of 5.4%. Our PCPM revenue included 100% of the

premium from CMS when we operated the HMO and was reduced under the IPA Agreement upon the sale of the HMO. Our PCPM medical costs also increased, from \$658 in 2007 to \$708 in 2008, an increase of 7.6%. Our MER increased by 1.7% to 86.7% in 2007 as compared to 88.4% in 2008.

Customer Information

The table set forth below provides (i) the total number of customers to whom we were providing healthcare services through the PSN and HMO as of December 31, 2008 and 2007 and (ii) the aggregate customer months for the PSN and the HMO during 2008 and 2007.

Following the sale of the HMO and consummation of the related IPA Agreement, the customer base of the HMO was assumed by the PSN.

	Customers at December 31		Customer Months In		Percentage Change
	2008	2007	2008	2007	in Customer Months Between Years
PSN	33,000	25,400	338,300	302,100	12.0%
HMO	-	6,200	58,100	65,100	-10.8%
Total	33,000	31,600	396,400	367,200	8.0%

The increase in total customer months for 2008 as compared to 2007 is primarily a result of the following:

- growth in the number of HMO customers, resulting primarily from the enrollment of new customers during the enrollment period that commenced November 15, 2007 and ended March 31, 2008;
- the assumption by our PSN, on December 1, 2007, of the management of five South Florida physician practices not previously affiliated with the PSN, which included approximately 1,000 Humana Medicare Advantage customers;
- HMO enrollments during a special enrollment period that occurred in the summer of 2007 for customers of a competing Medicare Advantage plan that had its contract terminated by CMS in July 2007; and
- the net effect of new enrollments and disenrollments, deaths, customers moving from the covered areas, customers transferring to another physician practice or customers making other insurance selections;

The increase was partially offset by a reduction of approximately 450 customers in South Florida from a PSN practice that we closed in August 2007, all of which were moved to other providers outside of the PSN.

Revenue

The following table provides a breakdown of our sources of revenue.

	Year Ended December 31		\$ Increase (Decrease)	% Change
	2008	2007		
PSN revenue from Humana	\$ 263,268,000	\$ 221,255,000	\$ 42,013,000	19.0%
PSN fee-for-service revenue	1,570,000	1,257,000	313,000	24.9%
Total PSN revenue	264,838,000	222,512,000	42,326,000	19.0%
Percentage of total revenue	83.5%	80.2%		
HMO revenue	52,374,000	55,065,000	(2,691,000)	-4.9%
Percentage of total revenue	16.5%	19.8%		
Total revenue	\$ 317,212,000	\$ 277,577,000	\$ 39,635,000	14.3%

The PSN's most significant source of revenue during both 2008 and 2007 was the premium revenue generated pursuant to the Humana Agreements (the "Humana Related Revenue"). The Humana Related Revenue increased from \$221.3 million in 2007 to \$263.3 million in 2008, an increase of approximately \$42.0 million or 19.0%.

Approximately \$21.5 million of the increase in the Humana Related Revenue is attributable to the IPA Agreement pursuant to which we began providing services to the customers of the HMO following its sale to the Humana Plan. The balance of the increase is primarily attributable to a 6.5% increase in the PSN's PCPM premium in 2008 as compared to 2007.

Edgar Filing: - Form

This PCPM premium increase is primarily a result of an increase in the base premium in 2008 and an additional premium as a result of an increase in the average Medicare risk score of our customers.

-39-

At December 31, 2008, we recorded a \$3.8 million receivable representing our estimate of the retroactive MRA premium for 2008 that we expected to receive in the summer of 2009. The final 2007 and 2006 retroactive MRA premium adjustments, which were received in 2008 and 2007, respectively, were not materially different than the estimates we had recorded for those years.

At December 31, 2008, we estimated that we may be required to refund approximately \$100,000 related to Medicare Part D payments received and recorded a liability for this amount. Based upon CMS' final determination of the Actual Costs of the PSN for providing prescription drug benefits in 2007 and 2006, we recorded additional revenue in the third quarter of both 2008 and 2007 of approximately \$1.0 million, representing the amount by which our 2007 and 2006 year-end estimated Part D refund liability exceeded the final amount.

The fee-for-service revenue represents amounts earned from medical services provided to non-Humana customers in our owned physician practices.

Total Medical Expense

Total medical expense represents the estimated total cost of providing patient care and is comprised of two components, medical claims expense and medical center costs. Medical claims expense is recognized in the period in which services are provided and includes an estimate of our obligations for medical services that have been provided to our customers but for which we have neither received nor processed claims, and for liabilities for physician, hospital and other medical expense disputes. Medical claims expense includes such costs as inpatient and outpatient services, pharmacy benefits and physician services by Non-Affiliated Providers. Medical center costs represent the operating costs of the physician practices owned by the PSN.

Medical costs and MER are as follows:

	2008			2007		
	HMO	PSN	Consolidated	HMO	PSN	Consolidated
Estimated medical expense for the year, excluding prior period claims development (Favorable)	\$ 46,826,000	\$ 234,800,000	\$ 281,626,000	\$ 51,813,000	\$ 187,456,000	\$ 239,269,000
unfavorable prior period medical claims development in current year based on actual claims submitted	(780,000)	(373,000)	(1,153,000)	(638,000)	2,065,000	1,427,000
Total reported medical expense for the year	\$ 46,046,000	\$ 234,427,000	\$ 280,473,000	\$ 51,175,000	\$ 189,521,000	\$ 240,696,000

Edgar Filing: - Form

Medical Expense Ratio for year	87.9%	88.5%	88.4%	92.9%	85.2%	86.7%
Medical Expense PCPM	\$ 793	\$ 693	\$ 708	\$ 787	\$ 628	\$ 656

In the table above, favorable adjustments to amounts we recorded in prior periods for estimated claims payable appear in parentheses while unfavorable adjustments do not appear in parentheses. Favorable adjustments reduce total medical expense for the respective applicable period and unfavorable claims development increases total medical expense for the applicable period.

Because the Humana Agreements provide that the PSN is financially responsible for all medical services provided to the Humana Participating Customers, medical claims expense includes the cost of medical services provided to Humana Participating Customers by Non-Affiliated Providers. During 2008, the PSN's medical claims expense increased by approximately \$39.8 million or 16.5%, primarily as a result of the PSN's provision of services to the HMO's customers under the IPA Agreement and higher medical costs associated with our PSN customers' increasing medical needs as reflected in the higher average risk scores of our customers in 2008.

For the PSN, a change in either revenue or medical claims expense of approximately \$2.6 million impacts the PSN's MER by 1% in 2008 and a change of approximately \$2.0 million impacts the PSN's MER by 1% in 2007.

Because the Humana Agreements provide that the PSN is financially responsible for all medical services provided to the Humana Participating Customers, medical claims expense includes the cost of medical services provided to Humana Participating Customers by Non-Affiliated Providers.

Total medical expenses were \$280.5 million and \$240.7 million for the years ended December 31, 2008 and 2007, respectively. Our reported MER increased from 86.7% in 2007 to 88.4% in 2008. Approximately \$268.0 million or 95.5% of our total medical expenses in 2008 are attributable to medical claims expense. In 2007, approximately \$229.4 million or 95.3% of our total medical expenses were attributable to medical claims expense. The balance was the expenses associated with operating our medical centers.

Medical expense on a PCPM basis was \$708 in 2008 as compared to \$658 in 2007. This increase of 7.6% is primarily a result of increasing medical costs and utilization during 2008.

The MER for the PSN increased to 88.5% in 2008 as compared to 85.2% in 2007. During the period subsequent to the sale of the HMO, we did not realize an immediate reduction in medical costs for services provided under the IPA Agreement. This negatively impacted our gross profit and our MER for the period subsequent to the sale since, under the IPA Agreement, we receive a percentage of the CMS premium received by Humana (instead of the entire amount we were receiving when operating the HMO). As a result, we realized less revenue in the last four months following the sale of the HMO than we would have if we had continued to operate the HMO. The combination of these factors increased our MER in 2008 by 0.9%.

Medical center costs include the salaries, taxes and benefits of the PSN's employed health professionals and staff providing primary care services, as well as the costs associated with the operations of those practices. Approximately \$12.5 million of our total medical expenses in 2008 related to physician practices we own as compared to \$11.3 million in 2007.

The MER for the HMO declined to 87.9% in 2008 from 92.9% in 2007. This decline is primarily a result of our ability to renegotiate certain contracts with hospitals and outpatient service providers in 2008, which reduced the amount we paid for services, improvements in our medical management techniques, and higher premiums from CMS attributable to an increase in the 2008 base rate and increased risk scores. Total medical expense for the HMO in 2008 decreased by \$5.1 million over that incurred in 2007 primarily due to the fact that the HMO was sold effective August 29, 2008 and, accordingly, the results of operations for 2008 include only eight months of total medical expense.

The estimated medical expense payable for the PSN at December 31, 2008 was determined to be between \$22.7 million and \$24.5 million and, as is our policy, we recorded a liability of \$23.1 million, which approximates the actuarial mid-point of the range. At December 31, 2007, our estimated medical expenses payable for the PSN was \$14.7 million. Claims paid in 2008 for 2007 totaled \$14.3 million, a favorable variance of \$374,000. This \$374,000 difference decreased the PSN's medical expense in 2008 and decreased the PSN's MER by .2%.

At December 31, 2007, our estimated medical expense payable for the HMO was \$7.0 million. Claims paid in 2008 for 2007 totaled \$6.2 million which was less than the estimated accrual by \$780,000. This difference was recorded as a reduction in claims expense in 2008 and reduced the HMO's MER by 1.5%.

Other Operating Expenses

	Year Ended December 31		(Decrease)	%
	2008	2007	Increase	Change
Administrative payroll, payroll taxes and benefits	\$ 12,537,000	\$ 13,108,000	\$ (571,000)	-4.4%
Percentage of total revenue	4.0%	4.7%		
General and administrative	10,071,000	11,158,000	(1,087,000)	-9.7%
Percentage of total revenue	3.2%	4.0%		
Marketing and advertising	1,865,000	3,959,000	(2,094,000)	-52.9%
Percentage of total revenue	0.6%	1.4%		
Stay bonuses and termination costs	1,598,000	-	1,598,000	100.0%
Percentage of total revenue	0.5%	0.0%		
Restructuring expense	-	584,000	(584,000)	-100.0%
Percentage of total revenue	0.0%	0.2%		
Total other operating expenses	\$ 26,071,000	\$ 28,809,000	\$ (2,738,000)	-9.5%

Administrative Payroll, Payroll Taxes and Benefits

Administrative payroll, payroll taxes and benefits include salaries and related costs for our executive, administrative and sales staff. For 2008, administrative payroll, payroll taxes and benefits were \$12.5 million, compared to the \$13.1 million for 2007, a decrease of \$571,000. The decrease is primarily a result of a \$1.9 million decrease in payroll cost associated with the HMO, primarily as a result of the sale of the HMO. The decrease was partially offset primarily by an increase in the PSN's payroll costs, most of which related to the increase in personnel that was needed to manage the increased number of customers serviced under the IPA Agreement.

General and Administrative

General and administrative expenses decreased to \$10.1 million in 2008 as compared to \$11.2 million in 2007, a decrease of \$1.1 million, or 9.7%. General and administrative costs associated with the HMO decreased \$2.2 million in 2008 as compared to 2007, primarily as a result of the sale of the HMO. The decrease was partially offset by an increase in the general and administrative costs of the PSN, most of which related to the increase in the number of customers serviced under the IPA Agreement.

Marketing and Advertising

Marketing and advertising expense, which primarily consists of advertising expenses and brokerage commissions paid to independent sales agents of the HMO, was \$1.9 million in 2008 as compared to \$4.0 million in 2007, a decrease of 52.9%. The primary reason for this decrease is the elimination of these costs upon the sale of the HMO, as a significant portion of our marketing costs were incurred during the open enrollment period, which occurs in the last quarter of the year.

Stay Bonuses and Termination Costs

In connection with the sale of the HMO, we paid the employees of the HMO stay bonuses and termination payments. We recognized and paid all of these costs, totaling \$1.6 million, in the third quarter of 2008.

Restructuring Expense

In July 2007, we implemented a restructuring plan designed to reduce costs and improve operating efficiencies. The restructuring plan, completed by the end of August 2007, resulted in the closure of two of the HMO's office locations, one PSN medical practice, and a workforce reduction involving 16 employees. In connection with this plan, we recorded approximately \$584,000 of restructuring costs during the third quarter of 2007, including approximately \$147,000 for severance payments, approximately \$365,000 for continuing lease obligations on closed locations and approximately \$72,000 for the write-off of certain leasehold improvements and equipment. At the time of its closure on July 31, 2007, the PSN medical practice served approximately 450 customers in South Florida, all of which were moved to other providers outside of the PSN. Prior to its closing on July 31, this PSN medical practice generated approximately \$2.6 million of revenue in 2007 and had a negative gross margin. Of the \$584,000 restructuring charge, approximately \$400,000 related to the HMO with the balance of \$184,000 associated with the PSN.

Gain on Sale of HMO Subsidiary

In 2008, we recognized a gain on the sale of the HMO of approximately \$5.9 million.

Other Income

We realized other income of \$78,000 in 2008 compared to \$1.4 million in 2007. Although we did realize positive investment income in 2008, investment income did decrease by \$1.3 million compared to 2007. This was a result of a significant decline in interest rates and realized and unrealized losses in our investment portfolio of approximately \$811,000 during 2008.

Income taxes

Our effective tax rate was 38.6% in 2008 and 37.4% in 2007. The higher effective income tax rate in 2008 is a result of adjusting deferred tax estimates related to the HMO.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments at December 31, 2009 totaled approximately \$33.8 million as compared to approximately \$36.3 million at December 31, 2008. This reduction is primarily a result of posting \$5.0 million of short-term investments to secure a \$3.0 million line of credit, and classifying this collateral as a non-current asset at December 31, 2009, and the repurchase of shares discussed below.

As of December 31, 2009, we had a working capital surplus of approximately \$27.7 million as compared to a working capital surplus of approximately \$34.5 million as of December 31, 2008, a decrease of approximately \$6.8 million or 19.7%. This decrease in working capital is primarily attributable to the posting of the collateral under the letter of credit agreement discussed above and our repurchase of \$15.9 million of our common stock in 2009, both of which were partially offset by cash flow from operations.

We have an investment policy with respect to the investment of our cash and equivalents. The goal of the investment policy is to obtain the highest yield possible while investing only in highly rated instruments or investments with nominal risk of loss of principal. The investment policy sets forth a list of "Permitted Investments" and provides that any exceptions to the policy must be approved by the Chief Financial Officer or the Chief Executive Officer. We anticipate that we will continue to invest our funds in highly liquid securities.

In December 2009, we entered into a one year commercial line of credit agreement with a bank, which provides for borrowings and issuance of letters of credit of up to \$3.0 million. The line of credit is secured by investments of \$5.0 million. Under this line of credit, as of December 31, 2009, we had a \$3.0 million letter of credit issued in favor of Humana.

At December 31, 2009, we had \$716,000 of debt related to the acquisition of a physician practice.

In October 2008, we announced authorization for the repurchase of up to 10 million shares of our outstanding common stock. On August 3, 2009, the Board of Directors approved a 5 million share increase to the share repurchase program. On February 24, 2010, the Board approved an increase to the share repurchase program of an additional 5 million shares, bringing the total number of shares of common stock authorized for repurchase under the program to 20 million shares. In 2009, we repurchased 7.8 million shares and options exercisable to purchase 684,200 shares of our common stock for an aggregate of \$15.9 million. In 2008, we repurchased 4.2 million shares for an aggregate of \$7.6 million. Between January 1, 2010 and February 25, 2010, we repurchased an additional 1.6 million shares for

\$3.7 million. The number of shares to be repurchased and the timing of the purchases are influenced by a number of factors, including the then prevailing market price of our common stock, other perceived opportunities that may become available to us and regulatory requirements.

Our total stockholders' equity increased approximately \$100,000 or 0.2%, from approximately \$42.8 million at December 31, 2008 to approximately \$42.9 million at December 31, 2009. This increase was primarily a result of our net income reduced primarily offset by the shares acquired under our stock repurchase plan.

Net cash provided by operating activities for 2009 was approximately \$20.4 million. In addition to net income of \$14.4 million our significant sources of cash from operating activities were:

- an increase in due from (to) Humana of \$5.1 million;
- stock based compensation expense of \$1.2 million; and
- non-cash depreciation and amortization expense of \$884,000.

The cash provided by operating activities was partially offset by the following uses of cash:

- the gain on the sale of the HMO of \$1.3 million; and
- a decrease in accrued termination costs related to the HMO administrative services agreement of \$960,000.

Net cash used in investing activities for 2009 was approximately \$472,000. During 2009, we sold short-term investments of \$1.6 million, acquired \$1.1 million of fixed assets and invested \$1.0 million in the purchase of a physician practice.

Net cash used in financing activities for 2009 was approximately \$15.8 million. Approximately \$15.9 million of which was used to repurchase our common stock, in accordance with the stock repurchase program discussed above.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates and market prices. We do not currently have any trading derivatives nor do we expect to have any in the future. We have established policies and internal processes related to the management of market risks, which we use in the normal course of our business operations.

Interest Rate Risk

We monitor the third-party depository institutions that hold our cash, cash equivalents and investments. We diversify our cash, cash equivalents and investments among counterparties and investment positions to minimize exposure to any one of these entities or investments. As of December 31, 2009, other than one of our investment positions which represented 5.5% of our total investment portfolio, none of our other investment positions represented more than 5.0% of our total investment portfolio. Our emphasis is primarily on safety of principal while maximizing yield on those funds. To achieve this objective, we maintain our portfolio of cash equivalents and investments in a variety of securities, including U.S. Treasury securities, municipal bonds and corporate debt. As of December 31, 2009, the fair value of our investment positions was approximately \$27.0 million, over 37.8% of which had a term to maturity of less than two years and a credit rating by a major rating agency of A or higher. Our investments are classified as trading securities. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, the value of our investments and/or our income from investments may decrease in the future.

Intangible Asset Risk

We have intangible assets and perform goodwill impairment tests (apart from the required annual impairment test of goodwill) whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material charges that could be adverse to our operating results and financial position. We evaluate the continuing value of goodwill by using valuation techniques based on multiples

Edgar Filing: - Form

of earnings, revenue and EBITDA (i.e., earnings before interest, taxes, depreciation and amortization), particularly with regard to entities similar to us that have recently been acquired. We also consider the market value of our own stock and those of companies similar to ours. As of December 31, 2009 we believe our intangible assets, including goodwill are recoverable, however, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. We continue to monitor those assumptions and their effect on the estimated recoverability of our intangible assets.

Equity Price Risk

We do not own any equity investments, other than in our subsidiaries. As a result, we do not currently have any direct equity price risk.

Commodity Price Risk

We do not enter into contracts for the purchase or sale of commodities. As a result, we do not currently have any direct commodity price risk.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this Item are set forth in the accompanying audited financial statements.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2009. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

Based on our assessment, management believes that, as of December 31, 2009, the Company's internal control over financial reporting is effective.

Grant Thornton LLP, the registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting.

(c) Attestation Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Metropolitan Health Networks, Inc.

We have audited Metropolitan Health Networks, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years ended December 31, 2009 and our report dated March 2, 2010 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Miami, Florida
March 2, 2010

-47-

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Code of Ethics

As part of our system of corporate governance, our Board of Directors has adopted a code of ethics that is specifically applicable to our Chief Executive Officer and senior financial officers. This Code of Ethics for Senior Financial Officers, as well as our Code of Business Conduct and Ethics, applicable to all directors, officers and employees, are available on our web site at <http://www.metcare.com>. Shareholders may request a free copy of these documents from:

Metropolitan Health Networks, Inc.
Attn: Roberto L. Palenzuela, General Counsel and Secretary
250 South Australian Avenue, Suite 400
West Palm Beach, Florida 33401
(561)805-8500.

If we make substantive amendments to this Code of Business Conduct and Ethics or grant any waiver, including any implicit waiver, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K within four days of such amendment or waiver.

Corporate Governance Guidelines — Certain Committee Charters

We have adopted Corporate Governance Guidelines as well as charters for our Audit, Compensation and Governance and Nominating Committees. These documents are available on our web site at <http://www.metcare.com>. Shareholders may request a free copy of any of these documents from the address and phone number set forth above under "Code of Ethics." The information contained on our web site is not incorporated by reference into this Annual Report on Form 10-K.

The information required by this item about our Executive Officers is included in Part I, "Item 1. Business" of this Annual Report on Form 10-K under the caption "Our Executive Officers." All other information required by this item is incorporated herein by reference from our definitive Proxy Statement for the 2010 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A no later than April 30, 2010 (the "2010 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included in our 2010 Proxy Statement and is incorporated herein by reference.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Edgar Filing: - Form

The information required by this item is included in our 2010 Proxy Statement and is incorporated herein by reference.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is included in our 2010 Proxy Statement and is incorporated herein by reference.

-48-

ITEM 14

PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included in our 2010 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) The following documents are filed as a part of this Form 10-K:
- (1) Consolidated Financial Statements.
- (2) All financial schedules required to be filed by Item 8 of this form, and by Item 15(d) have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

METROPOLITAN HEALTH
NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

CONTENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2
CONSOLIDATED FINANCIAL STATEMENTS	
Balance Sheets	F-3
Statements of Income	F-4
Statements of Changes in Stockholders' Equity	F-5
Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-8

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Metropolitan Health Networks, Inc.

We have audited the accompanying consolidated balance sheets of Metropolitan Health Networks, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Health Networks, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Metropolitan Health Networks, Inc. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2010 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP
Miami, Florida
March 2, 2010

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 6,794,809	\$ 2,701,243
Investments, at fair value	27,036,310	33,641,140
Accounts receivable from patients, net of allowance of \$583,000 and \$490,000 in 2009 and 2008, respectively	517,314	286,003
Due from Humana, net	-	2,823,355
Inventory	216,170	315,811
Prepaid expenses	427,985	570,792
Deferred income taxes	510,816	262,874
Other current assets	211,649	266,007
TOTAL CURRENT ASSETS	35,715,053	40,867,225
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of \$2,809,000 and \$2,324,000 in 2009 and 2008, respectively	1,909,635	1,336,094
RESTRICTED CASH AND INVESTMENTS	6,444,678	1,408,089
DEFERRED INCOME TAXES, net of current portion	1,167,475	980,842
OTHER INTANGIBLE ASSETS, net of accumulated amortization of \$877,000 and \$524,000 in 2009 and 2008, respectively	930,569	1,184,142
GOODWILL	4,362,332	2,587,332
OTHER ASSETS	802,500	780,631
TOTAL ASSETS	\$ 51,332,242	\$ 49,144,355
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 455,306	\$ 483,621
Accrued payroll and payroll taxes	2,959,708	2,288,224
Income taxes payable	2,271,638	1,865,926
Due to Humana, net	1,385,200	-
Accrued termination costs of HMO administrative services agreement	-	1,080,000
Accrued expenses	618,575	621,854
Current portion of long-term debt	318,182	-
TOTAL CURRENT LIABILITIES	8,008,609	6,339,625
LONG-TERM DEBT, net of current portion	397,727	-
TOTAL LIABILITIES	8,406,336	6,339,625
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.001 per share; stated value \$100 per share; 10,000,000 shares authorized; 5,000 issued and outstanding	500,000	500,000
Common stock, par value \$.001 per share; 80,000,000 shares authorized;	40,902	48,251

Edgar Filing: - Form

40,902,391 and 48,251,395 issued and outstanding at December 31, 2009 and 2008, respectively

Additional paid-in capital	23,329,290	37,649,331
Retained earnings	19,055,714	4,607,148
TOTAL STOCKHOLDERS' EQUITY	42,925,906	42,804,730
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 51,332,242	\$ 49,144,355

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

F-3

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2009	2008	2007
REVENUE	\$ 354,407,100	\$ 317,211,727	\$ 277,577,289
MEDICAL EXPENSE			
Medical claims expense	299,039,806	267,983,448	229,420,767
Medical center costs	14,512,051	12,488,679	11,275,599
Total Medical Expense	313,551,857	280,472,127	240,696,366
GROSS PROFIT	40,855,243	36,739,600	36,880,923
OTHER OPERATING EXPENSES			
Administrative payroll, payroll taxes and benefits	11,287,110	12,537,118	13,108,160
General and administrative	7,564,251	10,071,781	11,158,177
Marketing and advertising	359,249	1,864,822	3,959,220
Stay bonuses and termination costs of HMO subsidiary	-	1,597,674	-
Restructuring expense	-	-	583,795
Total Other Operating Expenses	19,210,610	26,071,395	28,809,352
OPERATING INCOME (LOSS) BEFORE GAIN ON SALE OF HMO	21,644,633	10,668,205	8,071,571
Gain on sale of HMO subsidiary	1,336,470	5,872,769	-
OPERATING INCOME	22,981,103	16,540,974	8,071,571
OTHER INCOME (EXPENSE)			
Investment income, net	390,183	108,137	1,396,624
Other income (expense), net	(22,607)	(30,576)	(27,457)
Total other income (expense)	367,576	77,561	1,369,167
INCOME BEFORE INCOME TAXES	23,348,679	16,618,535	9,440,738
INCOME TAX EXPENSE	8,900,113	6,414,068	3,526,740
NET INCOME	\$ 14,448,566	\$ 10,204,467	\$ 5,913,998
EARNINGS PER SHARE:			
Basic	\$ 0.32	\$ 0.21	\$ 0.12
Diluted	\$ 0.31	\$ 0.20	\$ 0.11

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

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	\$0.001 Preferred Shares	\$0.001 Par Value Preferred Stock	Common Stock Shares	\$0.001 Par Value Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
BALANCES - JANUARY 1, 2007	5,000	\$ 500,000	50,268,964	\$ 50,269	\$ 41,453,311	\$ (11,074,317)	\$ 30,929,263
Exercise of options and warrants, net	-	-	915,872	916	506,010	-	506,926
Stock-based compensation expense	-	-	-	-	578,267	-	578,267
Shares issued for directors' fees	-	-	157,296	157	210,859	-	211,016
Shares issued to employees	-	-	214,600	215	37,294	-	37,509
Tax benefit on exercise of options	-	-	-	-	526,000	-	526,000
Cumulative effect of adopting U.S. GAAP	-	-	-	-	-	(437,000)	(437,000)
Net income	-	-	-	-	-	5,913,998	5,913,998
BALANCES - DECEMBER 31, 2007	5,000	500,000	51,556,732	51,557	43,311,741	(5,597,319)	38,265,979
Exercise of options and warrants, net	-	-	541,261	541	322,330	-	322,871
Stock-based compensation expense	-	-	-	-	694,022	-	694,022
Shares issued for directors' fees	-	-	87,000	87	166,962	-	167,049
Shares issued to employees	-	-	258,200	258	534,370	-	534,628
Tax benefit on exercise of options	-	-	-	-	261,000	-	261,000
Stock repurchase	-	-	(4,191,798)	(4,192)	(7,641,094)	-	(7,645,286)
Net income	-	-	-	-	-	10,204,467	10,204,467
BALANCES - DECEMBER 31, 2008	5,000	500,000	48,251,395	48,251	37,649,331	4,607,148	42,804,730
Stock-based compensation expense	-	-	-	-	687,980	-	687,980
Shares issued for directors' fees	-	-	100,974	101	165,372	-	165,473

Edgar Filing: - Form

Shares issued to employees	-	-	366,700	367	501,657	-	502,024
Stock repurchase	-	-	(7,816,678)	(7,817)	(15,873,026)	-	(15,880,843)
Tax benefit of options repurchased	-	-	-	-	197,976	-	197,976
Net income	-	-	-	-	-	14,448,566	14,448,566
BALANCES - DECEMBER 31, 2009	5,000	\$ 500,000	40,902,391	\$ 40,902	\$ 23,329,290	\$ 19,055,714	\$ 42,925,906

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

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 14,448,566	\$ 10,204,467	\$ 5,913,998
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of HMO subsidiary	(1,336,470)	(5,872,769)	-
Unrealized (gains) on short-term investments	(44,222)	(96,000)	-
Depreciation and amortization	884,133	1,098,424	951,900
Bad debt expense	93,000	34,000	549,266
Loss from disposal of property and equipment	572	10,224	110,437
Stock-based compensation expense	1,190,003	1,228,650	615,776
Shares issued for director fees	165,473	167,049	211,016
Deferred income taxes	(236,599)	3,326,121	3,147,163
Excess tax benefits from stock-based compensation	(197,976)	(261,000)	(526,000)
Changes in operating assets and liabilities:			
Accounts receivable from patients	(324,311)	1,277,367	(900,927)
Inventory	99,641	(119,657)	88,623
Prepaid expenses	142,807	133,844	(32,917)
Other current assets	54,358	(744,805)	441,119
Other assets	(42,510)	(28,806)	43,903
Accounts payable	296,685	(740,043)	574,494
Accrued payroll and payroll taxes	671,484	(237,789)	735,867
Income taxes payable	405,712	1,616,849	249,077
Accrued termination costs of HMO administrative services agreement	(960,000)	1,080,000	-
Accrued expenses	(3,279)	(699,760)	(194,763)
Estimated medical expenses payable	-	(1,454,591)	2,272,895
Due to CMS	-	261,636	(7,738)
Due from/(to) Humana	5,100,025	(3,576,821)	1,757,911
	Total adjustments	(3,597,877)	10,087,102
Net cash provided by operating activities	20,407,092	6,606,590	16,001,100
CASH FLOWS (USED IN) INVESTING ACTIVITIES:			
Capital expenditures	(1,084,031)	(396,475)	(745,678)
Restricted cash from sale of HMO subsidiary	-	(1,408,089)	-
Net proceeds from sale of HMO subsidiary	-	78,439	-
Cash paid for physician practice acquisitions	(1,000,000)	(1,475)	(591,204)
Short-term investments	1,612,463	(33,545,140)	-
Net cash (used in) investing activities	(471,568)	(35,272,740)	(1,336,882)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES:			
Repayments on notes payable	(159,091)	(253,378)	(125,000)
Proceeds from exercise of stock options and warrants, net	-	322,871	506,926
Stock repurchases	(15,880,843)	(7,645,286)	-
Excess tax benefits from stock-based compensation	197,976	261,000	526,000

Edgar Filing: - Form

Net cash (used in)/ provided by financing activities	(15,841,958)	(7,314,793)	907,926
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	4,093,566	(35,980,943)	15,572,144
CASH AND EQUIVALENTS - beginning of year	2,701,243	38,682,186	23,110,042
CASH AND EQUIVALENTS - end of year	\$ 6,794,809	\$ 2,701,243	\$ 38,682,186

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

F-6

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Years ended December 31,		
	2009	2008	2007
Supplemental Disclosures:			
Interest paid	\$ 25,859	\$ 26,272	\$ 34,182
Cash paid for income taxes	\$ 8,731,000	\$ 1,471,000	\$ 130,500
Supplemental Disclosure of Non-cash Investing and Financing Activities:			
Issuance of notes payable for physician practice acquisitions	\$ 875,000	\$ -	\$ 375,000
Liabilities assumed in connection with assumption of contracts	\$ -	\$ -	\$ 1,429,000

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

Metropolitan Health Networks, Inc. and Subsidiaries

Year Ended December 31, 2009

Notes to Consolidated Financial Statements

NOTE 1 - ORGANIZATION AND BUSINESS ACTIVITY

Our business is focused on the operation of a provider services network (“PSN”) in the State of Florida through our wholly-owned subsidiary, Metcare of Florida, Inc. Prior to August 29, 2008 (the “Closing Date”), we also owned and operated a health maintenance organization (the “HMO”) through our wholly-owned subsidiary, Metcare Health Plans, Inc. Prior to the sale, we managed the PSN and the HMO as separate business segments. Subsequent to the sale, we operate only the PSN business.

On the Closing Date, we completed the sale of the HMO to Humana Medical Plan, Inc. (the “Humana Plan”). Concurrently with the sale, the PSN entered into a five-year independent practice association participation agreement (the “IPA Agreement”) with Humana to provide or coordinate the provision of healthcare services to the HMO’s customers pursuant to a per customer fee arrangement. Under the IPA Agreement, the PSN, on a non-exclusive basis, provides and arranges for the provision of covered medical services, in all 13 Florida counties previously served by the HMO, to each customer of Humana’s Medicare Advantage health plans who selects one of our PSN’s primary care physicians as his or her primary care physician. The IPA Agreement has a five-year term and will renew automatically for additional one-year periods upon the expiration of the initial term and each renewal term unless terminated upon 90 days notice prior to the end of the applicable term.

Since August 30, 2008, the PSN has operated under the IPA Agreement and two other network contracts (the “Pre-Existing Humana Network Agreements” and, together with the IPA Agreement, the “Humana Agreements”), to provide medical care to Medicare beneficiaries enrolled under Humana’s health plans. To deliver care, we utilize our wholly-owned medical practices and have also contracted directly or indirectly through Humana with medical practices, service providers, pharmacies and hospitals (collectively the “Affiliated Providers”). For the approximately 6,000 Humana Participating Customers covered under the Humana Agreement covering Miami-Dade, Broward and Palm Beach counties, our PSN and Humana share in the cost of inpatient hospital services and the PSN is responsible for the full cost of all other medical care provided to the Humana Participating Customers. For the remaining 29,500 Humana Participating Customers covered under our other two Humana Agreements, our PSN is responsible for the cost of all medical care provided.

At December 31, 2009, pursuant to the Humana Agreements, we have the contractual right to provide services to Humana customers in 30 Florida counties. We currently have operations in 19 of these counties.

The PSN also has a network agreement (the “CarePlus Agreement”) with CarePlus Health Plans, Inc. (“CarePlus”), a Medicare Advantage health plan in Florida, which covered approximately 200 customers at December 31, 2009. CarePlus is a wholly-owned subsidiary of Humana. Pursuant to the CarePlus Agreement the PSN has the right to manage, on a non-exclusive basis, healthcare services to Medicare beneficiaries in 22 Florida counties who have elected to receive benefits through CarePlus’ Medicare Advantage plans (each, a “CarePlus Plan Customer”). Like Humana, CarePlus directly contracts with CMS and is paid a monthly premium payment for each CarePlus Plan Customer. In return for managing these healthcare services, the PSN receives a monthly network administration fee for each CarePlus Participating Customer. Commencing on February 1, 2010, the PSN began to receive a monthly premium payment from CarePlus and assumed full responsibility for the cost of all medical services provided to each CarePlus Participating Customer. The capitation fee represents a substantial portion of the monthly premium CarePlus receives from CMS.

Edgar Filing: - Form

At December 31, 2009, we operated in six of the 22 Florida counties covered by the CarePlus Agreement. Effective January 1, 2010, we began to operate in 6 additional counties and we terminated care in one county.

F-8

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The consolidated financial statements include the accounts of Metropolitan Health Networks, Inc., and subsidiaries that we control, including the HMO through the date of sale. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The areas involving the most significant use of estimates are medical expenses payable, premium revenue, the impact of risk sharing provisions related to our Humana contracts and prior to the sale of the HMO, our Medicare contract, the future benefit of our deferred tax asset and the valuation and related impairment recognition of long-lived assets, including goodwill. These estimates are based on knowledge of current events and anticipated future events. We adjust these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted. Actual results may ultimately differ materially from those estimates.

Revenue

Revenue is primarily derived from risk-based health insurance arrangements in which the premium is paid to us on a monthly basis. We assume the economic risk of funding our customers’ healthcare services and related administrative costs. Premium revenue is recognized in the period in which our customers are entitled to receive healthcare services. Because we have the obligation to fund medical expenses, we recognize gross revenue and medical expenses for these contracts in our consolidated financial statements. We record healthcare premium payments received in advance of the service period as unearned premiums.

Periodically we receive retroactive adjustments to the premiums paid to us based on the updated health status of our customers (known as a Medicare risk adjustment or “MRA” score). The factors considered in this update include changes in demographic factors, risk adjustment scores, customer information and adjustments required by the risk sharing requirements for prescription drug benefits under Part D of the Medicare program. In addition, the number of customers for whom we receive capitation fees may be retroactively adjusted due to enrollment changes not yet processed, or not yet reported. These retroactive adjustments could, in the near term, materially impact the revenue that has been recorded. We record any adjustments to this revenue at the time the information necessary to make the determination of the adjustment is available, the collectibility of the amount is reasonably assured, or the likelihood of repayment is probable.

Our PSN’s wholly owned medical practices also provide medical care to non-Humana customers on a fee-for-service basis. These services are typically billed to patients, Medicare, Medicaid, health maintenance organizations and insurance companies. Fee-for-service revenue, which is less than 1% of total revenue, is recorded at the net amount expected to be collected from the patient or from the insurance company paying the bill. Often this amount is less than the charge that is billed and such discounts reduce the revenue recorded.

Investment income includes realized and unrealized gains and losses on trading securities and is recorded in other income as earned.

Medicare Part D

We provide prescription drug benefits to our Medicare Advantage customers in accordance with the requirements of Medicare Part D. The benefits covered under Medicare Part D are in addition to the benefits covered by the PSN under Medicare Parts A and B. Premium revenue for the provision of Part D insurance coverage is included in our monthly premium payment from Humana.

F-9

The Part D Payment we receive from Humana is subject to adjustment, positive or negative, based upon the application of risk corridors that compare the estimated prescription drug benefit costs ("Estimated Costs") to actual prescription drug benefit incurred costs (the "Actual Costs"). To the extent the Actual Costs exceed the Estimated Costs by more than the risk corridor, we may receive additional payments. Conversely, to the extent the Estimated Costs exceed the Actual Costs by more than the risk corridor, we may be required to refund a portion of the Part D Payment. We estimate and recognize an adjustment to premium revenue based upon pharmacy claims experience to date as if the contract to provide Part D coverage were to end at the end of each reporting period. Accordingly, this estimate does not take into consideration projected future pharmacy claims experience. It is reasonably possible that this estimate could change in the near term by an amount that could be material. Since these amounts represent additional premium or premium that is to be returned, any adjustment is recorded as an increase or decrease to revenue. The final settlement for the Part D program occurs in the subsequent year.

Medical Expenses and Medical Claims Payable

Medical expenses are recognized in the period in which services are provided and include an estimate of our obligations for medical services that have been provided to our customers but for which we have neither received nor processed claims, and for liabilities for physician, hospital and other medical expense disputes. We develop estimates for medical expenses incurred but not reported using an actuarial process that is consistently applied. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical expense trends. The actuarial process and models develop a range for medical claims payable and we record to the amount in the range that is our best estimate of the ultimate liability. Each period, we re-examine previously established medical claims payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability recorded in prior periods becomes more exact, we adjust the amount of the estimates, and include the changes in medical expense in the period in which the change is identified. In each reporting period, our operating results include the effects of more completely developed medical expense payable estimates associated with previously reported periods. While we believe our medical expenses payable are adequate to cover future claims payments required, such estimates are based on the claims experience to date and various assumptions. Therefore, the actual liability could differ materially from the amounts recorded. Medical expenses payable are included in the due to/from Humana in the accompanying consolidated balance sheets.

Medical expenses also include, among other things, the expense of operating our wholly owned practices, capitated payments made to affiliated primary care physicians and specialists, hospital costs, outpatient costs, pharmaceutical expense and premiums we pay to reinsurers net of the related reinsurance recoveries. Capitation payments represent monthly contractual fees disbursed to physicians and other providers who are responsible for providing medical care to customers. Pharmacy expense is recognized when incurred by the customer, net of rebates from drug manufacturers. Rebates are recognized when the rebates are earned according to the contractual arrangements with the respective vendors.

We assume responsibility for the cost of all medical services provided to the customer. To the extent that customers require more frequent or expensive care than was anticipated, the premium received may be insufficient to cover the costs of care provided. When it is probable that expected future healthcare costs and maintenance costs will exceed the anticipated revenue on the agreement, we would recognize a premium deficiency liability in current operations. Losses recognized as a premium deficiency result in a beneficial effect in subsequent periods as future operating losses under these contracts are charged to the liability previously established. There are no premium deficiency liabilities recorded at December 31, 2009 or 2008 and we do not anticipate recording a premium deficiency liability, except when unanticipated adverse events or changes in circumstances indicate otherwise.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. From time to time, we maintain cash balances with financial institutions in excess of federally insured limits.

Investments

Investment securities at December 31, 2009 consisted of U.S. Treasury securities, municipal bonds and corporate debt. We classify our debt securities as trading and do not classify any securities as available-for-sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are all securities not classified as trading or held to maturity. Cash and cash equivalents that have been set aside to invest in trading securities are classified as investments.

Trading securities are recorded at fair value based on the closing market price of the security. Unrealized holdings gains and losses on trading securities are included in operations.

F-10

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. There is a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2— Include other inputs that are directly or indirectly observable in the marketplace.

Level 3— Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

We measure our investments at fair value. Our investments are in Level 1 because our investments are valued using quoted market prices in active markets.

Dividend and interest income is recognized when earned.

Accounts Receivable from Patients

Accounts receivable from patients represents amounts due for medical services provided to individuals that are not customers of our PSN who are serviced by our owned physician practices. We do not obtain collateral for these amounts. Accounts receivable from patients are shown net of allowances for estimated uncollectible accounts.

The allowance for doubtful accounts is our best estimate of the amount of probable losses in our existing accounts receivable and is based on a number of factors, including collection history and a review of past due balances, with a particular emphasis on past due balances greater than 90 days old. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventory

Inventory consists principally of medical supplies which are stated at the lower of cost or market with cost determined by the first-in, first-out method.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for major improvements and additions are charged to the asset accounts, while replacements, maintenance and repairs, which do not extend the lives of the respective assets, are charged to expense.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. At December 31, 2009, we are not aware of any indicators of impairment.

We calculate depreciation using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the estimated useful lives of the assets or the remaining term of the lease. The range of useful lives is as follows:

Edgar Filing: - Form

Medical equipment	5 - 7 years
Computer and office equipment	3 - 5 years
Furniture and equipment	5 - 7 years
Auto equipment	5 years
Leasehold improvements	3 years or term of lease

F-11

Deferred Tax Asset

Realization of our deferred tax asset is dependent on generating sufficient taxable income prior to the expiration of our various deferred tax items. The amount of the deferred tax asset considered realizable could change in the near term if estimates of future taxable income are modified and such changes could be material.

U.S. GAAP requires the establishment of a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative (including, among others, projections of future taxable income, net operating loss carryforwards and our profitability in recent years), we determined that future realization of our deferred tax assets was more likely than not and, accordingly, we have not recorded a valuation allowance. In the event we determined that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to establish a deferred tax asset valuation allowance would be charged to income in the period such determination is made.

Goodwill and Other Intangible Assets

Goodwill represents the unamortized excess of cost over the fair value of the net tangible and other intangible assets acquired related to the acquisition of certain physician practices by the PSN. U.S. GAAP requires that we not amortize goodwill to earnings, but instead requires that we test at least annually for impairment at a level of reporting referred to as the reporting unit and more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. Goodwill is assigned to the reporting unit that is expected to benefit from a specific acquisition. We believe that all of our operations as of December 31, 2009 are conducted in one reporting unit.

We amortize intangible assets with determinable lives over 1 to 5 years.

U.S. GAAP requires a two-step process to review intangible assets for impairment. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. Impairment tests are performed, at a minimum, in the fourth quarter of each year supported by our long-range business plan, annual planning process, and the market value of our shares and metrics of comparable companies. Goodwill impairment tests completed for 2009, 2008 and 2007 did not result in an impairment loss.

Earnings Per Share

Earnings per share, basic is computed by dividing net income by the weighted average number of common shares outstanding during the period. Earnings per share, diluted reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Stock Based Compensation

We measure and recognize compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values.

We estimate the fair value of stock option awards on the date of grant using an option-pricing model. The value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in the Consolidated Statements of Income.

Edgar Filing: - Form

Because stock-based compensation expense recognized in the Consolidated Statements of Income for fiscal 2009, 2008 and 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures.

Advertising Costs

Advertising expense was approximately \$359,000, \$1,865,000, and \$3,047,000 for the years ended December 31, 2009, 2008 and 2007, respectively and is expensed as incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based upon differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance is established when it is more likely than not that some or all of the deferred tax assets will not be realized.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Reinsurance and Capitation

To mitigate our exposure to high cost medical claims, we have reinsurance arrangements that provide for the reimbursement of certain customer medical expenses. For the PSN the deductibles for 2009 and 2008 were \$40,000 in Miami-Dade, Broward and Palm Beach Counties and \$200,000 for all other counties, with a maximum benefit per customer per policy period of \$1,000,000. Our deductible per customer per year was \$125,000 for the HMO for the first six months of 2008 and \$150,000 during the period between July 1, 2008 and August 29, 2008, with a maximum benefit per customer per policy period of \$1,000,000.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to the short-term nature of these instruments. The carrying amount of our long-term debt approximates fair value based on the debt's interest rate.

Other Comprehensive Income

For all years presented, other than net income we had no comprehensive income items.

New Accounting Pronouncements

Effective January 1, 2009, U.S. GAAP requires the accounting for any entity in a business combination to recognize the full value of the assets acquired and liabilities assumed in the transaction at the acquisition date; the immediate expense recognition of transaction costs; and accounting for restructuring plans separately from the business combination. The acquirer in a business combination is defined as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. U.S. GAAP requires us to recognize intangible assets separately from goodwill. We adopted these requirements on January 1, 2009 and applied them to the business combination that was completed in 2009, and we will apply them to all such transactions in the future.

In addition, on April 1, 2009, U.S. GAAP was amended to require that assets acquired and liabilities assumed in a business combination that arise from contingencies (a "pre-acquisition contingency") be recognized at fair value, if the fair value can be determined during the measurement period. If the fair value of a pre-acquisition contingency cannot be determined during the measurement period, U.S. GAAP requires that the contingency be recognized at the acquisition. This amendment was effective January 1, 2009 and could impact our accounting for future acquisitions.

In May 2009, U.S. GAAP established general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard is based on the same principles that currently exist in the auditing standards. U.S. GAAP requires disclosure for certain nonrecognized subsequent events, the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made. We adopted this provision for the quarter ended June 30, 2009 and the disclosures required by this new standard are included in the accompanying consolidated financial statements.

Edgar Filing: - Form

In June 2009, the FASB issued FASB Statement No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, or SFAS 168. The FASB Accounting Standards Codification™ (“ASC”) is the source of authoritative U.S. GAAP recognized by the FASB and supersedes all existing non-SEC accounting and reporting standards. All ASC content carries the same level of authority and anything outside of the ASC is nonauthoritative. SFAS 168 was effective for us beginning with our third quarter 2009 condensed consolidated financial statements. The adoption of this standard in the third quarter of 2009 only changed the way we reference accounting standards in our disclosures.

F-13

NOTE 3 - SALE OF HMO

On the Closing Date, we completed the sale of all of the outstanding capital stock of our HMO to the Humana Plan pursuant to the terms of the Stock Purchase Agreement, dated as of June 27, 2008, by and between the Humana Plan and us, (the "Stock Purchase Agreement") for a cash purchase price of approximately \$14.6 million (the "Purchase Price"). We recognized a gain on the sale of the HMO of approximately \$5.9 million in 2008.

Approximately ten percent of the Purchase Price has been deposited in escrow for 24 months to secure our payment of any post-closing adjustments, described below, and indemnification obligations. This amount is presented as a component of restricted cash and investments on the consolidated balance sheets. Concurrent with the sale, our PSN and Humana entered into the IPA Agreement.

The Purchase Price is subject to positive or negative post-closing adjustment based upon the difference between the HMO's estimated closing net equity, which was approximately \$5.1 million, and the HMO's actual net equity as of the Closing Date. The settlement period for determining the HMO's actual net equity is December 31, 2009. In addition to this settlement, the Stock Purchase Agreement requires that the Humana Plan reconcile any changes in CMS Part D payments and Medicare payments received by the HMO after the Closing Date for services provided prior to the Closing Date to the amounts recorded for such items as part of the Closing Net Equity determination. The ultimate settlements, if any, will increase or decrease the gain on the sale of the HMO. At December 31, 2009 we have adjusted the net equity settlement for any additional significant adjustments that have been identified subsequent to August 29, 2008 that would impact the recorded gain. These adjustments, which are described below, have been recorded in 2009 as a gain on the sale of HMO subsidiary of \$1.3 million. We expect the final net equity settlement to occur in the first half of 2010

The gain on sale in 2009 of \$1.3 million includes additional gain from the closing net equity settlement for the HMO and the settlement of certain liabilities of the HMO in 2009 at amounts lower than the liability recorded at the time of the sale.

In connection with the sale, we paid certain employees of the HMO stay bonuses and termination payments. We recognized and paid all of these costs, totaling \$1.6 million, in the third quarter of 2008.

NOTE 4 – PHYSICIAN PRACTICE ACQUISITION

Effective July 31, 2009, we acquired certain assets of one of our contracted independent primary care physician practices for approximately \$1.9 million. This transaction has been accounted for under the acquisition method. Approximately \$1.8 million of the purchase price has been allocated to goodwill while approximately \$76,000 has been allocated to the non-compete agreement and \$24,000 has been allocated to patient records. The amount allocated to the non-compete is being amortized over two years and the cost associated with the patient records is being amortized over one year.

NOTE 5 - MAJOR CUSTOMERS

Humana

Our PSN receives a monthly fee from Humana for each Humana Medicare Advantage Plan customer that chooses a physician that the PSN owns or has contracted with as her or his primary care physician. The monthly fee the PSN receives to cover the medical care required of that customer is based on a percentage of the premium received by Humana from CMS. Fees received by the PSN under these Humana Agreements are reported as revenue.

Edgar Filing: - Form

Revenue from Humana accounted for approximately 99.6%, 83.0%, and 79.7% of our total revenue in 2009, 2008 and 2007, respectively.

At December 31, 2009, we recorded a \$1.4 million receivable representing our estimate of the retroactive MRA premium for 2009 that we expect to receive in the summer of 2010. This amount is included in due to/from Humana in the accompanying consolidated balance sheets.

In 2009, we received the final MRA premium increase for services provided in 2008 in the amount of \$3.0 million as compared to the estimated increase of \$3.8 million that had been recorded at December 31, 2008. The difference of \$800,000 reduced revenue in 2009. In August 2008, we were notified of the final retroactive MRA premium adjustment for services provided in 2007 from CMS based on the increased risk scores of its customer base. The amount of the adjustment was not materially different than the estimate we recorded at December 31, 2007.

F-14

Humana may immediately terminate any of the Humana Agreements in the event that, among other things, the PSN and/or any of its Affiliated Provider's continued participation may adversely affect the health, safety or welfare of any Humana customer or bring Humana into disrepute; in the event of one of the PSN's physician's death or incompetence; if the PSN engages in or acquiesces to any act of bankruptcy, receivership or reorganization; or if Humana loses its authority to do business in total or as to any limited segment or business (but only to that segment). The PSN and Humana may also terminate each of the Pre-Existing Humana Agreements upon 90 days' prior written notice (with a 60 day opportunity to cure, if possible) in the event of the other's material breach of the applicable Humana Agreement. The Humana Agreements may also be terminated upon 180-day notice of non-renewal by either party. Failure to maintain the Humana Agreements on favorable terms, for any reason, would adversely affect our results of operations and financial condition. The IPA Agreement, which began on August 30, 2008, has a five-year term and will renew automatically for additional one-year periods upon the expiration of the initial term and each renewal term unless terminated upon 90 days notice prior to the end of the applicable term. After the initial five year term, either party may terminate the agreement without cause by providing to the other party 120 days prior notice.

CMS

Prior to its sale, the HMO provided services to Medicare beneficiaries pursuant to the Medicare Advantage program. Under our agreement with CMS, the HMO received a capitation payment each month based on the number of customers enrolled in our plan, adjusted for demographic and health risk factors.

Premium revenue for the HMO was approximately 16.5% and 19.8% of our total revenue in 2008 and 2007, respectively.

In 2008 and 2007, we received the final retroactive MRA premium increase for premiums paid by CMS to the HMO for 2007 and 2006, respectively. These amounts were not materially different than the estimates we had recorded for those years.

NOTE 6 - DUE TO/FROM HUMANA

Amounts due to/from Humana consisted of the following:

	December 31,	
	2009	2008
Due from Humana	\$ 39,278,000	\$ 27,951,000
Due to Humana	(40,663,000)	(25,128,000)
Total Due (To)/From Humana	\$ (1,385,000)	\$ 2,823,000

Under our Humana Agreements, we have the right to offset certain sums owed to us by Humana under the applicable agreement against certain sums we owe to Humana under the applicable agreement and Humana has a comparable right. In the event we owe Humana funds after any such offset, we are required to pay Humana upon notification of such deficit and Humana may offset future payments to us under the applicable agreement by such deficit.

NOTE 7 – INVESTMENTS

Investments consist solely of trading securities. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. For trading securities held at December 31, 2009, the amount of unrealized gain was \$44,000. For trading securities held at December 31, 2008, the amount of unrealized gain was \$96,000. In 2009, included in investment income was \$26,000 of net realized gains. In 2008, included in investment income was

\$907,000 of losses on our investments.

In 2008, we began to utilize asset managers to invest our excess funds. Investments that no longer meet the criteria of a cash equivalent are classified as investments on the consolidated balance sheets. These investments include securities with varying maturities issued by federal agencies, states or municipalities.

F-15

NOTE 8 - ESTIMATED MEDICAL EXPENSES PAYABLE

Activity in estimated medical expenses payable is as follows:

	Year Ended December 31,		
	2009	2008	2007
Balance at beginning of year	\$ 23,144,000	\$ 21,709,000	\$ 16,929,000
Incurred related to:			
Current year	264,543,000	229,413,000	191,297,000
Prior years	20,000	(1,153,000)	1,427,000
Total incurred	264,563,000	228,260,000	192,724,000
Paid related to:			
Current year	(237,155,000)	(200,602,000)	(169,736,000)
Prior years	(23,195,000)	(20,352,000)	(18,208,000)
Total paid	(260,350,000)	(220,954,000)	(187,944,000)
HMO IBNR transferred upon Sale	-	(5,871,000)	-
Balance at end of year	\$ 27,357,000	\$ 23,144,000	\$ 21,709,000

Estimated medical expenses payable for the PSN and HMO are as follows:

	December 31,		
	2009	2008	2007
PSN	\$ 27,357,000	\$ 23,144,000	\$ 14,692,000
HMO	-	-	7,017,000
	\$ 27,357,000	\$ 23,144,000	\$ 21,709,000

At December 31, 2009, we determined that the range for estimated medical expenses payable was between \$25.8 million and \$29.4 million and we recorded a liability at the approximate actuarial mid-range of \$27.4 million. This amount is included within the due to/from Humana in the accompanying consolidated balance sheets.

Amounts incurred related to prior years vary from previously estimated liabilities as the claims ultimately are settled. In 2009, amounts paid subsequent to year end for 2008 was substantially the same as what was accrued at December 31, 2008. In 2008, amounts paid subsequent to year end for 2007 were less than the amount of the liability that was recorded at December 31, 2008 by \$1.2 million resulting in favorable claims development. Of this amount, \$374,000 of favorable development related to the PSN and \$780,000 of favorable development related to the HMO. Favorable claims development occurs when claims paid are less than the amount accrued at the end of the year which results in lower claims expense in the following year. In 2008, this favorable development reduced claims expense by .4%.

The estimated medical expenses payable at December 31, 2006 ultimately settled during 2007 for \$1.4 million more than the amounts originally estimated. This represents .5% of medical claim expenses recorded in 2006. The \$1.4 million change in the amount incurred related to years prior to 2006 was a result of unfavorable developments in our medical claims expense.

We maintain stop loss insurance with a commercial insurance company. Included in medical expense for 2009, 2008 and 2007 was stop loss premium expense of \$872,000, \$1.5 million, and \$2.6 million, respectively, and stop loss recoveries of \$332,000, \$1.1 million, and \$1.4 million, respectively.

NOTE 9 - PRESCRIPTION DRUG BENEFITS UNDER MEDICARE PART D

Edgar Filing: - Form

At December 31, 2009, we recorded a receivable of \$961,000 based on the amount we estimate actual 2009 Part D costs will exceed the revenue received. We recorded an estimated Part D refund liability for 2008 of \$100,000. These amounts are included in due to/from Humana in the accompanying consolidated balance sheets. CMS' final determination in 2009 of Part D costs for benefits provided in 2008 was not materially different than the \$100,000 recorded at December 31, 2008. Based upon the final determination of Part D costs incurred by the PSN in 2007 and 2006, we recorded additional revenue in both the third quarter of 2008 and 2007 of approximately \$1.0 million, representing the amount by which our 2007 and 2006 year-end estimated Part D refund liability exceeded the final amount.

F-16

Under the terms of the Stock Purchase Agreement, if the Part D final settlement for the periods we owned the HMO is different than what we estimated at the time of the sale, then we will either receive any additional premiums or pay any amounts that are required to be refunded. Substantially all of the reconciliations are expected to be completed in the first half of 2010 and will be paid to us or Humana, as applicable. The ultimate settlements, if any, will increase or decrease the gain on the sale of the HMO.

NOTE 10 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment consisted of the following:

	December 31,	
	2009	2008
Medical equipment	\$ 131,000	\$ 112,000
Furniture and equipment	456,000	434,000
Leasehold improvements	1,558,000	1,493,000
Computers and office equipment	2,552,000	1,599,000
Other	22,000	22,000
	4,719,000	3,660,000
Less Accumulated Depreciation and Amortization	(2,809,000)	(2,324,000)
	\$ 1,910,000	\$ 1,336,000

Depreciation and amortization of property and equipment totaled approximately \$510,000, \$676,000, and \$843,000 in 2009, 2008, and 2007, respectively.

Intangible assets consisted of:

	December 31,	
	2009	2008
Customer lists	\$ 1,616,000	\$ 1,592,000
Non-compete agreement	192,000	116,000
	1,808,000	1,708,000
Less Accumulated Amortization	(877,000)	(524,000)
	\$ 931,000	\$ 1,184,000

Amortization of intangible assets totaled \$354,000 in 2009, \$425,000 in 2008 and \$99,000 in 2007. Amortization expense will be approximately \$360,000 in 2010, \$308,000 in 2011, \$262,000 in 2012.

NOTE 11 - LINES OF CREDIT

In December 2009, we entered into a one year commercial line of credit agreement with a bank, which provides for borrowings and issuance of letters of credit of up to \$3.0 million. The line of credit is secured by investments of \$5.0 million. The \$5.0 million of investments securing the new line of credit is included in restricted cash in the December 31, 2009 consolidated balance sheet. Under this line of credit, as of December 31, 2009, we had a \$3.0 million letter of credit issued in favor of Humana.

NOTE 12 - RESTRUCTURING EXPENSES AND SEPARATION ARRANGEMENTS

On December 7, 2009, we announced that Michael Earley, our Chairman of the Board and Chief Executive Officer of the Company, announced plans to step down as Chairman and CEO upon the earlier of March 31, 2010 or the

engagement of his successor. We entered into an amended and restated employment agreement with Mr. Earley dated as of December 4, 2009 (the “Amended Employment Agreement”). Under the Amended Employment Agreement, Mr. Earley will receive the various benefits that he would have been entitled to receive under his prior equity compensation awards and employment agreement upon a termination without cause. In addition, the exercise period on all outstanding stock options held by Mr. Earley was extended to the earlier of December 31, 2010 or the option’s stated maturity date assuming he was then employed by us. In the fourth quarter of 2009, we expensed approximately \$500,000 related to the amount payable under the Amended Employment Agreement and the stock-based compensation associated with the increase in the fair value of the stock options held by Mr. Earley that were extended. On March 1, 2010, Mr. Earley agreed to continue to serve as our CEO until the earlier of June 30, 2010 or the employment of his successor.

F-17

In July 2007, we implemented a restructuring plan designed to reduce costs and improve operating efficiencies. The restructuring plan, which was completed by the end of August 2007, resulted in the closure of two of the HMO's office locations, one PSN medical practice (the "PSN Practice"), and a workforce reduction involving 16 employees. In connection with this plan, we recorded approximately \$584,000 of restructuring costs during the third quarter of 2007 including approximately \$147,000 for severance payments, approximately \$365,000 for continuing lease obligations on closed locations and approximately \$72,000 for the write-off of certain leasehold improvements and equipment. During the third quarter of 2007, we made cash payments related to the restructuring of \$191,000. Severance payments associated with the restructuring were substantially paid in 2007. The continuing lease obligations will result in additional future cash expenditures and are expected to be paid over the remaining lease terms. At the time of its closure on July 31, 2007, the PSN Practice served approximately 450 customers in South Florida, all of which were moved to other providers outside of the PSN. Prior to its closing on July 31, the PSN practice generated approximately \$2.6 million of revenue in 2008 and had a negative gross margin. Of the \$584,000 restructuring charge, approximately \$401,000 relates to the HMO with the balance of \$183,000 associated with the PSN. These amounts have all been paid.

On April 9, 2007 ("Separation Date"), we entered into a mutually agreeable separation agreement (the "Separation Agreement") with the individual who served as our President and Chief Operating Officer until the Separation Date. In the second quarter of 2007, we accrued approximately \$500,000 related to the amount payable under the Separation Agreement and the value of certain options held by this individual that, in accordance with their terms, became fully vested on the Separation Date, subject to a three-month exercise period.

On June 26, 2007, we entered into an agreement with this individual to repurchase for \$10,000 options she held to purchase 800,000 shares of our common stock with an exercise price of \$1.83 per share. This amount has been reflected as a reduction of additional paid-in capital.

NOTE 13 - INCOME TAXES

The components of the provision for income taxes are as follows:

	2009	December 31 2008	2007
Current			
Federal	\$ 8,303,000	\$ 2,699,000	\$ 165,000
State	834,000	654,000	-
	9,137,000	3,353,000	165,000
Deferred			
Federal	(217,000)	2,890,000	2,915,000
State	(20,000)	171,000	447,000
	(237,000)	3,061,000	3,362,000
Income Tax Expense	\$ 8,900,000	\$ 6,414,000	\$ 3,527,000

A reconciliation of the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes with our income tax expense is as follows:

	Years ended December 31,		
	2009	2008	2007
Statutory federal tax	\$ 8,172,000	\$ 5,650,000	\$ 3,304,000
State income taxes, net of federal income tax benefit	848,000	545,000	291,000

Edgar Filing: - Form

Permanent differences and other, net	(120,000)	219,000	(68,000)
Income tax expense	\$ 8,900,000	\$ 6,414,000	\$ 3,527,000

F-18

Deferred tax assets are as follows:

	December 31,	
	2009	2008
Allowances for doubtful accounts	\$ 225,000	\$ 238,000
Stock-based compensation expense	929,000	725,000
Accrued expenses	286,000	29,000
Depreciation and amortization	219,000	213,000
Other, net	19,000	39,000
Total deferred tax assets	\$ 1,678,000	\$ 1,244,000
Deferred income taxes - current	\$ 511,000	\$ 263,000
Deferred income taxes - noncurrent	1,167,000	981,000
	\$ 1,678,000	\$ 1,244,000

In 2007 we derecognized certain deferred tax assets totaling approximately \$437,000, which were accounted for as an addition to the accumulated deficit at January 1, 2007. In 2008 and 2007, we recognized tax benefits of \$260,000 and \$177,000, which reduced our income tax expense, upon the expiration of the statute of limitations applicable to the tax years during which the benefits were generated.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31 2008	December 31 2007
Balance at beginning of year	\$ 260,000	\$ 437,000
Reductions as a result of lapse of applicable statute of limitations	(260,000)	(177,000)
Balance at end of year	\$ -	\$ 260,000

There are no unrecognized tax benefits at December 31, 2009.

We are subject to income taxes in the U.S. federal jurisdiction and the state of Florida. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. We have utilized all of our available net operating loss carryforwards, including net operating loss carryforwards related to years prior to 2003. These net operating losses are open for examination by the relevant taxing authorities.

The statute of limitations for the federal and Florida 2006 tax years will expire in the next twelve months.

The Internal Revenue Service concluded its examination of our 2005 Federal income tax return during 2009. We did not recognize a change to the total amount of unrecognized tax benefit as a result of the examination. Tax years subsequent to 2004 remain subject to federal and state examination.

We recognize interest related to unrecognized tax benefits in interest expense, which is included in other income in the condensed consolidated statements of operations, and penalties in operating expenses for all periods presented. Interest expense of \$25,000 was accrued in the first nine months of 2007 and was reversed in 2008 when the statute of limitations expired.

In 2009, we recorded directly to equity \$198,000 of tax benefits as a result of the repurchase of non-qualified stock options. In 2008 and 2007, tax benefits of \$261,000, and \$526,000, respectively, were recorded directly to equity as a result of the exercise of non-qualified stock options.

NOTE 14 - STOCKHOLDERS' EQUITY

As of December 31, 2009 and 2008, we had designated 10,000,000 preferred shares as Series A Preferred Stock, par value \$.001, of which 5,000 were issued and outstanding. Each share of Series A Preferred Stock has a stated value of \$100 and pays dividends equal to 10% of the stated value per annum. At December 31, 2009 and 2008, the aggregate and per share amounts of cumulative dividend arrearages were approximately \$616,667 (\$123 per share) and \$566,667 (\$113 per share), respectively. Each share of Series A Preferred Stock is convertible into shares of common stock at the option of the holder at the lesser of 85% of the average closing bid price of the common stock for the ten trading days immediately preceding the conversion or \$6.00. We have the right to deny conversion of the Series A Preferred Stock at which time the holder shall be entitled to receive, and we shall pay, additional cumulative dividends at 5% per annum together with the initial dividend rate to equal 15% per annum. In the event of any liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Stock shall be entitled to receive a liquidating distribution before any distribution may be made to holders of our common stock. We have the right to redeem the Series A Preferred Stock at a price equal to 105% of the price paid for the shares. The Series A Preferred Stock has no voting rights. Through December 31, 2009, none of the holders of our Series A Preferred Stock have converted any shares to common stock.

We have also designated 7,000 shares of preferred stock as Series B Preferred Stock, with a stated value of \$1,000 per share. No shares of series B preferred stock have been issued.

In February 2010, the Board of Directors approved the issuance to employees of 592,000 restricted shares of common stock and options to purchase 879,000 shares of common stock. The restricted shares and stock options vest in equal annual installments over a four year period from the date of grant. The stock options have an exercise price equal to the closing price of our common stock on the grant date. Compensation expense related to the restricted stock and options will be recognized ratably over the vesting period.

During 2009, we issued a total of 101,000 restricted shares of common stock and options to purchase 50,000 shares of common stock to the non-management members of our Board of Directors. The restricted shares and stock options vest one year from date of grant. The stock options have an exercise price equal to the closing price of our common stock on the grant date. Compensation expense related to the restricted stock and options is recognized ratably over the vesting period.

During 2009, we issued to our employees 367,000 restricted shares of common stock and options to purchase 1.4 million shares of common stock. The restricted shares and stock options vest in equal annual installments over a four year period from the date of grant. The stock options have an exercise price equal to the closing price of our common stock on the grant date. Compensation expense related to the restricted stock and options is recognized ratably over the vesting period.

During 2008, we issued 87,000 restricted shares of common stock and options to purchase 43,500 shares of common stock to the non-management members of our Board of Directors. The options have an exercise price equal to the closing price of our common stock on the day preceding the grant date. These restricted shares and stock options are vest one year from the date of grant. Compensation expense related to the restricted shares and stock options is recognized ratably over the vesting period.

During 2008, we issued 268,200 restricted shares and options to purchase 982,000 shares of common stock to employees. The restricted shares and stock options vest in equal annual installments over a four year period from the date of grant. The options, which vest in equal annual installments over a four year period from the date of grant. The stock options have an exercise price equal to the closing price of our common stock on the grant date. Compensation expense related to the restricted stock and options is recognized ratably over the vesting period.

During 2007, we also issued options to a consultant to purchase 100,000 shares of our common stock. These options, which fully vested on December 31, 2007 and originally expired on June 30, 2008, have an exercise price equal to the closing price of our common stock on the day preceding the grant date. During the first quarter of 2008, we extended the expiration date from June 30, 2008 to September 30, 2008 for the options issued to the consultant. In accordance with U.S. GAAP, we revalued the options and accounted for the increase in value as additional expense which was immediately expensed.

Restricted shares of common stock are reflected as issued and outstanding from the date of issuance for purposes of the consolidated statements of changes in stockholders' equity.

Shares reserved for future issuance at December 31, 2009 are as follows:

	Number of Shares
Shares Issuable Upon the Exercise of Outstanding Stock Options	4,202,000
Shares Issuable Upon the conversion of Preferred Stock	881,000
Total	5,083,000

In October 2008, we announced that the Board of Directors authorized the repurchase of up to 10 million shares of our outstanding common stock. On August 3, 2009, the Board of Directors approved a 5 million share increase to the share repurchase program. On February 24, 2010, the Board of Directors approved an increase to the share repurchase program of an additional 5 million shares, bringing the total number of shares of common stock authorized for repurchase under the program to 20 million shares. During 2009, we repurchased 7.8 million shares and options exercisable to purchase 684,200 shares of our common stock for an aggregate of \$15.9 million. From October 6, 2008 (the date of our first repurchases under the plan) through December 31, 2008, we repurchased 4.2 million shares for \$7.6 million. Between January 1, 2010 and February 25, 2010, we repurchased 1.6 shares of common stock for \$3.7 million. We cancel the common stock that has been repurchased and reduce common stock and additional paid-in capital for the acquisition price of the stock. The number of shares to be repurchased and the timing of the purchases are influenced by a number of factors, including the then prevailing market price of our common stock, other perceived opportunities that may become available to us and regulatory requirements.

On September 10, 2009 (the “Repurchase Closing Date”), we repurchased 500,000 shares of our common stock from certain of our directors and executive officers for approximately \$1.1 million. The shares were repurchased at a per share price of \$2.1462, which was 2% below the closing price of our common stock on September 8, 2009, the date we entered into definitive repurchase agreements with such officers and directors. In addition, on the Repurchase Closing Date, we repurchased options exercisable for an aggregate of 567,500 shares of our common stock from certain of our executive officers for approximately \$332,000, which represents the difference between the exercise price of the options and \$2.1462. The shares underlying the options repurchased are also included in the number of shares repurchased during the third quarter of 2009 and deplete the repurchase authority granted by our Board.

On December 8, 2009, we repurchased options exercisable for an aggregate of 116,700 shares of our common stock from certain of our executive officers for approximately \$222,000, which represents the difference between the exercise price of the options and \$1.9012, which was 2% below the closing price of our common stock on December 8, 2009, the date we entered into the definitive repurchase agreement. The shares underlying the options repurchased are included in the number of shares repurchased and deplete the repurchase authority granted by our Board.

NOTE 15 - STOCK -BASED COMPENSATION

As of December 31, 2009, we had three nonqualified stock option plans, the 2001 Stock Option Plan, the Supplemental Stock Option Plan, and the Omnibus Equity Compensation Plan (together the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. A total of 9,000,000 shares of our common stock are authorized for issuance pursuant to awards granted under the Omnibus Equity Compensation Plan. Total compensation cost that has been charged against income in 2009, 2008 and 2007 for nonqualified stock options under the Plans was \$602,000 (excluding employee termination costs), \$602,000 (excluding termination costs on sale of the HMO), and \$588,000, respectively.

Stock Options

Option awards are generally granted with an exercise price equal to the closing market price of our common stock on the grant date, generally vest ratably over 4 years of continuous service and generally expire 10 years after the date of the grant. The options provide for accelerated vesting if there is a change in control as defined by the Plans.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model using the assumptions noted in the table below. Because this option valuation model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are primarily based on implied volatilities from the historical volatility of our stock. We use historical data to estimate option exercise and employee termination within the valuation model. The expected terms of the options granted represent the period of time that option grants are expected to be outstanding based on historical data. The range given below results from certain groups of employees exhibiting different behavior. The risk free rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Year Ended December 31,		
	2009	2008	2007
Risk Free Interest Rate	.90%-1.83%	1.98%-3.13%	4.53% - 4.92%
Expected Option Life (in years)	2-4.5	2-4.5	1 - 4.5
Expected Volatility	50%	50%	50%
Dividends to be Paid	None	None	None

A summary of option activity under the Plans and the changes during the year ended December 31, 2009 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	3,500,681	\$ 1.84	6.86	\$ 431,166
Granted during 2009	1,406,184	\$ 1.65		
Repurchased by Company	(684,167)	\$ 1.35		
Forfeited	(17,500)	\$ 2.00		
Expired	(3,100)	\$ 1.83		
Outstanding at December 31, 2009	4,202,098	\$ 1.85	7.29	\$ 939,152
Vested or expected to vest at December 31, 2009	3,858,818	\$ 1.85	7.17	\$ 858,845
Exercisable at December 31, 2009	1,913,564	\$ 1.86	5.66	\$ 403,773

The weighted average per share grant date fair value of option grants during the years 2009, 2008 and 2007 was \$0.59, \$0.84, and \$0.60, respectively. The fair value of non vested options is determined based on the opening trading price of our shares at grant date. The aggregate intrinsic value of options exercised in 2008 and 2007 was approximately \$745,000 and \$1.4 million, respectively, and is based on the difference between the exercise price and quoted market value at the end of each period. The intrinsic value of options repurchased by us in 2009 was \$513,000.

A summary of the status of our non vested options as of December 31, 2009 and changes during the year then ended is presented below:

Non Vested Options	Shares	Weighted Average Grant Date Fair Value
Non vested at January 1, 2009	1,379,850	\$ 0.82
Granted	1,406,184	\$ 0.59
Vested	(480,000)	\$ 0.72
Forfeited	(17,500)	\$ 0.76
Non vested at December 31, 2009	2,288,534	\$ 0.70

As of December 31, 2009, there was \$1,164,000 of total unrecognized compensation cost related to non-vested nonqualified stock options granted under the Plans. That cost is expected to be recognized over a weighted average period of 2.0 years. The total fair value of options vested during 2009, 2008 and 2007 was \$346,000, \$695,000 and \$910,000, respectively.

Cash received from option exercises under all share based payment arrangements for the years ended December 31, 2008 and 2007 was \$323,000, and \$507,000, respectively. A tax benefit of \$198,000 was realized from the repurchase of options in 2009. A tax benefit of \$261,000, and \$526,000 was realized from option exercises in 2008 and 2007 respectively. It is our policy to issue new shares to satisfy share option purchases.

Restricted Stock Awards

Restricted stock awards are granted with a fair value equal to the market price of our common stock on the date of grant. Compensation expense is recorded straight-line over the vesting period, generally four years from the date of grant.

The weighted average per share grant date fair value of our restricted stock awards was \$1.68, \$2.15, and \$1.78 for the years ended December 31, 2009, 2008, and 2007, respectively. Activity for our restricted stock awards was as follows for the year ended December 31, 2009:

	Shares	Weighted Average Grant Date Fair Value
Non vested restricted stock at December 31, 2008	435,000	\$ 2.01
Granted	468,000	\$ 1.68
Vested	(184,000)	\$ 1.87
Forfeited	-	\$ -
Non vested restricted stock at December 31, 2009	719,000	\$ 1.84

The fair value of restricted shares vested during the years ended December 31, 2009, 2008, and 2007 was \$367,000, \$574,000, and \$117,000, respectively. Total compensation expense not yet recognized related to non vested restricted stock awards was \$546,000 at December 31, 2009. We expect to recognize this compensation expense over a weighted-average period of approximately 1.68 years. There are no other contractual terms covering restricted stock awards once vested.

NOTE 16 - EARNINGS PER SHARE

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

	Year Ended December 31,		
	2009	2008	2007
Net Income	\$ 14,449,000	\$ 10,204,000	\$ 5,914,000
Less: Preferred stock dividend	(50,000)	(50,000)	(50,000)
Income available to common shareholders	\$ 14,399,000	\$ 10,154,000	\$ 5,864,000
Denominator:			
Weighted average common shares outstanding	44,496,000	49,093,000	50,573,000
Basic earnings per common share	\$ 0.32	\$ 0.21	\$ 0.12
Income available to common shareholders	\$ 14,399,000	\$ 10,154,000	\$ 5,864,000
Add: Preferred stock dividend	50,000	50,000	-
	\$ 14,449,000	\$ 10,204,000	\$ 5,864,000
Denominator:			
Weighted average common shares outstanding	44,496,000	49,093,000	50,573,000
Common share equivalents of outstanding stock:			
Convertible preferred stock	881,000	518,000	-
Nonvested common stock	270,000	170,000	172,000
Options and warrants	294,000	573,000	1,051,000
Weighted average common shares outstanding	45,941,000	50,354,000	51,796,000
Diluted earnings per common share	\$ 0.31	\$ 0.20	\$ 0.11

The following securities were not included in the computation of diluted earnings per share for the years ended December 31, 2009, 2008 and 2007, as their effect would be anti-dilutive:

Security Excluded From Computation	2009	2008	2007
Stock options	2,912,000	1,688,000	636,000
Restricted stock	89,000	-	-
Convertible preferred stock	-	-	355,000

NOTE 17 - EMPLOYEE BENEFIT PLAN

We have adopted a tax qualified employee savings and retirement plan covering our eligible employees, the Metropolitan Health Networks 401(k) Plan (the "401(k) Plan"). The 401(k) Plan is intended to qualify under Section 401 of the Internal Revenue Code (the "Code") and contains a feature described in Code Section 401(k) under which a participant may elect to reduce their taxable compensation by the statutorily prescribed annual limit of \$16,500 for 2009. Under the 401(k) Plan, new employees are eligible to participate after three consecutive months of service. At our discretion, we may make a matching contribution and a non-elective contribution to the 401(k) Plan. We expensed approximately \$221,000, \$243,000, and \$100,000 for purposes of making matching contributions for the 2009, 2008, and 2007 plan years, respectively. The rights of the participants in the 401(k) Plan to our contributions do not fully vest until such time as the participant has been employed by us for three years.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Leases

We lease office and medical facilities under various non-cancelable operating leases. Approximate future minimum payments under these leases for the years subsequent to December 31, 2009 are as follows:

F-24

	Buildings	Equipment	Less Sublease Amount	Net Minimum Payment
2010	\$ 1,069,000	\$ 213,000	\$ 117,000	\$ 1,165,000
2011	905,000	174,000	120,000	959,000
2012	652,000	98,000	93,000	657,000
2013	613,000	-	-	613,000
2014	563,000	-	-	563,000
Thereafter	1,077,000	-	-	1,077,000
Total	\$ 4,879,000	\$ 485,000	\$ 330,000	\$ 5,034,000

The renewal options on the leases range from 3 to 5 years and contain escalation clauses of up to 5%. Rental expense for 2009, 2008, and 2007 was \$1.6 million in 2009 and \$1.9 million in 2008 and 2007.

We utilized vendors during the year to assist us in the ongoing implementation of an electronic medical records system as well as attaining other operational objectives. Payments under these service contracts for the years subsequent to December 31, 2009 are approximately \$987,000, \$305,000 and \$151,000 in the years 2010, 2011 and 2012, respectively. Some contracts will renew automatically unless written notice is provided to the vendor within a stated period of time prior to the end of the contract period.

In connection with the sale of the pharmacy division in 2004, we have subleased pharmacy facilities to the purchaser of the pharmacy division. In the event of such purchaser's default, we could potentially be responsible to fulfill these lease commitments. At December 31, 2009, the total lease payments remaining totaled \$330,000. At March 2, 2010, we are not aware of any default by the purchaser.

Litigation

We are a party to various legal proceedings which are either immaterial in amount to us or involve ordinary routine litigation incidental to our business and the business of our subsidiaries. There are no material pending legal proceedings, other than routine litigation incidental to our business to which we are a party or of which any of our property is the subject.

NOTE 19 - SEGMENTS

Prior to the sale of the HMO, we managed the PSN and HMO as separate business segments. We identified our segments in accordance with U.S. GAAP, which is consistent with information used by our Chief Executive Officer in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of customer groups and the nature of the services and benefits provided. The results of each segment are measured by income before income taxes. We allocate all selling, general and administrative expenses, investment and other income, interest expense, goodwill and certain other assets and liabilities to our segments. Our segments do share overhead costs.

Effective with the HMO's sale, we operate only the PSN segment. The 2008 results of operations for the HMO segment are for the period from January 1, 2008 through August 28, 2008, the date of the sale.

YEAR ENDED DECEMBER 31, 2008	PSN	HMO	Total
Revenue from external customers	\$ 264,838,000	\$ 52,374,000	\$ 317,212,000
Investment income	-	146,000	146,000
Depreciation and amortization	672,000	137,000	809,000
Segment profit (loss) before allocated overhead excluding gain on sale of HMO, related stay bonuses and termination costs and income taxes	24,748,000	(1,859,000)	22,889,000
Allocated corporate overhead	6,875,000	3,298,000	10,173,000
Segment profit (loss) after allocated overhead excluding gain on sale of HMO, related stay bonuses and termination costs and income taxes	17,876,000	(5,533,000)	12,343,000
Segment assets	46,832,000	-	46,832,000

Included in allocated corporate overhead in 2008 is \$35,000 of investment losses and depreciation and amortization of approximately \$290,000. To allow for comparison between periods, the gain on the sale of the HMO of \$5.9 million and the related stay bonuses and termination costs of \$1.6 million have been excluded from the above segment information. Corporate assets were approximately \$2,312,000 at December 31, 2008. All goodwill resides within the PSN segment.

YEAR ENDED DECEMBER 31, 2007	PSN	HMO	Total
Revenue from external customers	\$ 222,512,000	\$ 55,065,000	\$ 277,577,000
Investment income	-	651,000	651,000
Depreciation and amortization	319,000	315,000	634,000
Segment profit (loss) before allocated overhead and income taxes	29,228,000	(10,463,000)	18,765,000
Allocated corporate overhead	4,668,000	4,657,000	9,325,000
Segment profit (loss) after allocated overhead and before income taxes	24,560,000	(15,120,000)	9,440,000
Segment assets	31,193,000	17,022,000	48,215,000

Included in allocated corporate overhead in 2007 is \$745,000 of investment income and depreciation and amortization of approximately \$318,000. Corporate assets were approximately \$5,596,000 at December 31, 2007. All goodwill resides within the PSN segment.

NOTE 20 - VALUATION AND QUALIFYING ACCOUNTS

Activity in our Valuation and Qualifying Accounts consists of the following:

	Year Ended December 31,		
	2009	2008	2007
Allowance for doubtful trade accounts - continuing operations:			
Balance at beginning of period	\$ 490,000	\$ 614,000	\$ 601,000
Charged to costs and expenses	93,000	-	282,000
Increase (Deductions - accounts written off)	-	(124,000)	(269,000)
Balance at end of period	\$ 583,000	\$ 490,000	\$ 614,000
Allowance for note receivable:			
Balance at beginning of period	\$ 177,000	\$ 143,000	\$ 143,000
Charged to costs and expenses		34,000	-
Increase (Deductions - accounts written off)	(177,000)	-	-
Balance at end of period	\$ -	\$ 177,000	\$ 143,000
Allowance for AICD receivable:			
Balance at beginning of period	\$ -	\$ -	\$ 1,621,000
Charged to costs and expenses	-	-	267,000
Increase (Deductions - accounts written off)	-	-	(1,888,000)
Balance at end of period	\$ -	\$ -	\$ -

NOTE 21 - SELECTED QUARTERLY FINANCIAL DATA (unaudited)

	For the Quarter Ended			
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue	\$ 88,752,000	\$ 88,138,000	\$ 87,076,000	\$ 90,441,000
Gross profit	\$ 13,396,000	\$ 7,627,000	\$ 8,897,000	\$ 10,935,000
Net income	\$ 4,837,000	\$ 2,426,000	\$ 3,152,000	\$ 4,034,000
Net income per share - basic	\$ 0.12	\$ 0.05	\$ 0.07	\$ 0.09
Net income per share - diluted	\$ 0.11	\$ 0.05	\$ 0.07	\$ 0.08

	For the Quarter Ended			
	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Revenue	\$ 80,036,000	\$ 78,950,000	\$ 82,211,000	\$ 76,014,000
Gross profit	\$ 9,335,000	\$ 7,701,000	\$ 11,930,000	\$ 7,773,000
Net income	\$ 2,570,000	\$ 4,268,000	\$ 3,705,000	\$ (338,000)
Net income per share - basic	\$ 0.05	\$ 0.08	\$ 0.07	\$ (0.01)
Net income per share - diluted	\$ 0.05	\$ 0.08	\$ 0.07	\$ (0.01)

Gross profit in the above chart for the first and second quarters of 2008 differ from the gross profit reported in the 10Qs for those quarters by approximately \$147,000 and \$170,000, respectively. These differences resulted from the reclassification of certain expenses that did not relate to the costs associated with operating a physician practice; primarily amortization related to intangible assets of acquired practices.

Significant Fourth Quarter Adjustments

As a result of new information that became available in the fourth quarter of 2009 and 2008, we recorded a \$1.4 million and \$3.8 million adjustment, respectively, for the estimated retroactive premium that we expect to receive in the summer of the subsequent year related to the final MRA premium adjustment for the prior year. These amounts increased revenue and gross profit for these quarters. Of this amount, \$1.1 and \$3 million relates to premium revenue recorded in the first three quarters of 2009 and 2008, respectively.

In the fourth quarter of 2009, we realized a reinsurance reimbursement related to high cost pharmacy claims paid during the first three quarters of 2009 in the amount of \$1.9 million, which reduced medical costs and increased gross profit in this quarter.

During the fourth quarter of 2009, estimated medical claims expense related to dates of service prior to this quarter were less than the amount recorded at September 30, 2009 by approximately \$1.9 million (favorable variance). This reduction was a result of actual utilization and settlement amounts being less than those used in our original estimate of medical expenses payable at the end of the third quarter of 2009. The \$1.9 million was recorded as a decrease in medical claims expense in the fourth quarter of 2009 and increased gross profit in the quarter.

During the fourth quarter of 2008, estimated medical claims expense related to dates of service prior to this quarter were greater than the amount recorded at September 30, 2008 by approximately \$452,000 (unfavorable variance). This increase was a result of actual utilization and settlement amounts being greater than those used in our original estimate of medical expenses payable at the end of the third quarter of 2008. The \$452,000 was recorded as an increase in medical claims expense in the fourth quarter of 2008 and decreased gross profit for the quarter.

F-28

During the fourth quarter of 2009, we recorded expense of approximately \$500,000 related to the amount payable under the Amended Employment Agreement of Mr. Michael Earley and the additional expense associated with the increase in the fair value of the stock options held by Mr. Earley that were extended.

In the fourth quarter of 2009, we increased the gain on the sale of the HMO by \$525,000 as a result of additional information relating to the final net equity settlement.

During the fourth quarter of 2008, we determined that our effective tax rate for 2008 would be approximately 1% higher in 2008 than we had estimated. As a result, we increased income tax expense by \$337,000 in the fourth quarter, which reduced net income.

In the fourth quarter of 2008, we determined that, based on our continued review of actual pharmacy costs in 2008, our accrual for the Part D liability for 2008 was too high. Accordingly, we reduced the estimated liability and increased premium revenue by approximately \$1.5 million to reduce the liability that had been accrued over the first three quarters.

METROPOLITAN HEALTH NETWORKS, INC.

EXHIBIT INDEX

Year Ended December 31, 2009

(3) Exhibits

- 2.1 Stock Purchase Agreement, dated as of June 27, 2008, by and between Humana Medical Plans, Inc. and Metropolitan Health Networks, Inc. (1)
- 3.1. Articles of Incorporation, as amended (2)
- 3.2 Amended and Restated Bylaws (3)
- 10.1 Physician Practice Management Participation Agreement, dated August 2, 2001, between Metropolitan of Florida, Inc. and Humana, Inc. (4)
- 10.2. Letter of Agreement, dated February 2003, between Metropolitan of Florida, Inc. and Humana, Inc. (5)
- 10.3. Physician Practice Management Participation Agreement, dated December 1, 1998, between Metcare of Florida, Inc. and Humana, Inc. (5)
- 10.4. Omnibus Equity Compensation Plan, as amended and restated (6)
- 10.6. Amended and Restated Employment Agreement between Metropolitan and Michael M. Earley dated March 1, 2010 (7)
- 10.7. Amended and Restated Employment Agreement between Metropolitan and Robert J. Sabo dated November 9, 2007 (8)
- 10.8. Amended and Restated Employment Agreement between Metropolitan and Roberto L. Palenzuela dated January 3, 2006 (9)
- 10.9 Employment Agreement between Metcare of Florida, Inc. and Jose A. Guethon, M.D. (10)
- 10.10. Form of Option Award Agreement for Option Grants to Directors pursuant to the Omnibus Compensation Plan *
- 10.11. Form of Option Award Agreement for Option Grants to Key Employees pursuant to the Omnibus Compensation Plan*
- 10.12 Summary of 2009 Annual Bonus Plan for Executive Officers and certain key management employees (11)
- 10.13 Summary of Director Compensation Plan (15)
- 10.14 Form of Restricted Stock Award Agreement for Restricted Stock Grants to Directors pursuant to the Omnibus Compensation Plan*

Edgar Filing: - Form

- 10.15 Form of Restricted Stock Award Agreement for Restricted Stock Grants to Management pursuant to the Omnibus Compensation Plan*
- 10.16 Amendment to Employment Agreement, dated as of December 22, 2008, by and between Metropolitan and Jose A. Guethon, M.D. (12)
- 10.17 Amendment to Employment Agreement, dated as of December 22, 2008, by and between Metropolitan and Robert J. Sabo (12)

-50-

Edgar Filing: - Form

- 10.18 Amendment to Employment Agreement, dated as of December 22, 2008, by and between Metropolitan and Roberto L. Palenzuela (12)
- 10.19 Independent Practice Association Agreement, dated as of August 29, 2009, by and between Metcare of Florida, Inc. and Humana, Inc (13)
- 10.20 Physician Practice Management Participation Amendment, dated as of September 4, 2009, by and between Metcare of Florida, Inc. and Humana Medical Plan, Inc. and Humana Health Insurance Company of Florida, Inc. and Humana Insurance Company, Employers Health Insurance Company and their affiliates who underwrite or administer health plans (14)
- 21.1 List of Subsidiaries*
- 23.1 Consent of Independent Registered Public Accounting Firm*
- 31.1. Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 31.2. Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 32.1. Certification of the Chief Executive Officer and pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
- 32.2. Certification of the Chief Financial Officer and pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

* filed herewith
** furnished herewith

- (1) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on July 1, 2008.
- (2) Incorporated by reference to our Registration Statement on Form 8-A12B filed with the Commission on November 19, 2004 (No. 001-32361).
- (3) Incorporated by reference our Current Report on Form 8-K filed with the Commission on September 30, 2004.
- (4) Incorporated by reference to the Amendment to our Registration Statement on Form SB-2/A filed with the Commission on August 2, 2001 (No. 333-61566). Portions of this document were omitted and were filed separately with the SEC on or about August 2, 2001 pursuant to a request for confidential treatment.
- (5) Incorporated by reference to the Amendment to our Annual Report for the year ended December 31, 2003 on Form 10-K/A filed with the Commission on July 28, 2004. Portions of this document have been omitted and were filed separately with the SEC on July 28, 2004 pursuant to a request for confidential treatment.
- (6) Incorporated by reference on our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the Commission on August 5, 2009.
- (7) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on March 2, 2010.

Edgar Filing: - Form

- (8) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on October 20, 2006.
- (9) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 22, 2005.
- (10) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 16, 2006.
- (11) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on February 11, 2009.

Edgar Filing: - Form

- (12) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on December 23, 2008.
- (13) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on September 2, 2008. Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions were filed separately with the Commission on September 2, 2008.
- (14) Incorporated by reference to our Current Report on Form 8-K filed with the Commission on September 9, 2008. Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions were filed separately with the Commission on September 9, 2008.
- (15) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Commission on March 8, 2008.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 2nd day of March 2010.

METROPOLITAN HEALTH NETWORKS, INC.

By: /s/ MICHAEL M. EARLEY

Michael M. Earley
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated.

March 2, 2010 /s/ MICHAEL M. EARLEY
Michael M. Earley
Chief Executive Officer

March 2, 2010 /s/ ROBERT J. SABO
Robert J. Sabo
Chief Financial Officer

March 2, 2010 /s/ ERIC HASKELL
Eric Haskell
Chairman of the Board

March 2, 2010 /s/ MARTIN W. HARRISON
Martin W. Harrison
Director

March 2, 2010 /s/ KARL M. SACHS
Karl M. Sachs
Director

March 2, 2010 /s/ BARRY T. ZEMAN
Barry T. Zeman
Director

March 2, 2010 /s/ DAVID A. FLORMAN
David A. Florman
Director

March 2, 2010 /s/ ROBERT E. SHIELDS
Robert E. Shields
Director

