

Conclusion

It has been nearly a year since Metropolitan Health sold its HMO business to focus on its Provider Service Network, and since that time the Company has grown its membership, improved operating margins to reach record financial results, bolstered its balance sheet, yet still found time to make acquisitions to grow its network and sign new contracts to open up new markets. While healthcare service firms in general and managed care providers in specific have slowly recovered from investor concerns this year as components of the new health care plan emerge, shares of MetCare still trail its peers in terms of many valuation metrics, despite above-average growth. Thus, we are initiating coverage on MDF with a BUY rating and a 12-18 month price target of \$3.25, just 13x estimated earnings of \$0.25 per share for this year.

History/Capitalization

Metropolitan Health Networks (“MetCare” or “Metropolitan”) was incorporated in Florida in January 1996. The Company’s earliest business was as an owner and operator of physician practices and related medical services, including diagnostic imaging. In 1998, the Company began operating as a Provider Service Network (PSN), specializing in managed care risk contracting, with its original Full Risk Agreement with Humana Medical Plan in South Florida (Dade, Broward and Palm Beach Counties). In early 2000, the Company signed an additional Full Risk contract with Humana for Volusia and Flagler counties (Daytona, Florida market). MetCare also started related clinical laboratory and pharmacy service divisions but sold these operations in 2002 and 2003, respectively, to concentrate on its managed care business.

In November 2004, MetCare filed with state and federal regulatory agencies to operate a Medicare HMO in the Florida counties of Martin, St. Lucie and Okeechobee (Treasure Coast), just north of the firm’s West Palm Beach headquarters, as well as in three counties on the Florida Gulf Coast: Charlotte, Lee, and Sarasota. In May 2005 MetCare received approval to operate its HMO and began enrolling members soon after, in July 2005. MetCare later expanded the number of counties where it could operate HMOs to thirteen, including the Central Florida region as well. However, in August 2008 the Company sold its HMO operations to Humana Health Plans of Florida and signed a separate agreement with Humana to provide medical services to its approximately 7,400 former Medicare Advantage members.

MetCare completed a private placement in February 2004 of \$3 million with institutional investors, and the Company has since repaid the entirety of its long-term debt through cash payments and to a lesser extent through the issuance of common stock. MetCare began trading on the American Stock Exchange in November 2004. Since that time, the Company has been profitable and has financed several small acquisitions and a share re-purchase program through operating cash flow.

Medicare Primer

Medicare is the nationwide health insurance program providing health insurance to US citizens aged 65 and older. Medicare also provides benefits to individuals under 65 who are entitled to Social Security disability payments for two years or more, and to individuals with end-stage renal disease. Medicare currently provides benefits to over 40 million Americans, with Medicare Advantage program rates estimated to increase 4.3% this year over 2008 on average nation-wide. The key Medicare components are outlined in the table below and explained more completely in paragraphs following:

<i>Primary Medicare Component</i>	<i>Name</i>	<i>Services Covered</i>
Part A	Fee-for-service	Hospital, Nursing home, hospice
Part B	Supplemental	Doctor visits, lab tests, outpatient, medical imaging
Part C	Medicare Advantage	HMOs, must have 30% more benefits than traditional plans
Part D	Prescription Drug benefit	Drug benefits

- 1) **Part A** - Covers basic, facility-based services including inpatient hospital, nursing home, home health and hospice care. Most patients in the US are automatically enrolled in Part A upon reaching the age of 65.
- 2) **Part B, or Supplemental** – Part B covers more labor-intensive services such as doctor’s visits, lab tests and X-rays, outpatient care and supplies. Part B is optional and is financed primarily by supplemental monthly premiums paid by Medicare enrollees. Part B monthly premiums were \$96.40 per month in 2009, the same as in 2008 but up from \$93.50/month in 2007, with an annual deductible of \$135, after which Medicare will cover 80% of allowable expenses.
- 3) **Part C, or Medicare Advantage** – An alternative to the traditional fee-for-service Medicare program, Medicare Part C offers eligible recipients the option to enroll in a pre-approved HMO, originally called Medicare+Choice but renamed Medicare Advantage following the Medicare Modernization Act of 2003. Medicare Advantage plans contract with the Federal Centers for Medicare and Medicaid Services (CMS) to provide benefits that exceed those offered under the traditional fee for service program by at least 30% (and oftentimes more) in exchange for a fixed monthly premium per member. This premium varies geographically, and is set each year by CMS. In exchange for enhanced benefits, Medicare Advantage enrollees must use only the services and provider networks offered by the HMO plan. An estimated 8.7 million beneficiaries, or less than 20% of the total US eligibles, are enrolled in Medicare Advantage programs currently.
- 4) **Part D, or Prescription Drug** – The newest component of Medicare first became available to beneficiaries in 2006; Part D replaced the previous prescription drug discount program and is optional for beneficiaries. Part D benefits are only offered through pre-approved private plans chosen by Medicare beneficiaries, with the exception of Medicare Advantage enrollees, who are automatically enrolled in drug plans if they are Humana HMO members, for example.

Provider Service Network (PSN)

MetCare provides healthcare services to approximately 35,300 Medicare Advantage members in nineteen Florida counties under several full-risk contracts with Humana, Inc. (NYSE/HUM), the nation’s second largest Medicare HMO, and its subsidiary CarePlus Health Plans. Under the Humana contracts MetCare receives credit for a significant and pre-determined percentage of the monthly Medicare premiums received by Humana from the US Centers for Medicare and Medicaid Services (CMS). In return, MetCare is obligated to provide all of the healthcare benefits required by Medicare. In order to fulfill its service requirements, MetCare operates a Provider Service Network, which includes nine primary care physician practices and one medical oncology practice owned by the Company, thirty-eight independent primary care physician practices, and other specialists, ancillary service providers and local hospitals throughout the service area. MetCare’s PSN receives a “capitated fee” for each Humana member participating in their Medicare HMO, which is established by set contracts between Humana and MetCare but can vary depending on patient, county, age and severity of health status.

A growing factor in the Company’s PSN business is the Medicare Risk Adjusted (MRA) payment system, under which CMS sets reimbursement payments based on various clinical and demographic factors including, among other things, hospital inpatient diagnoses, additional diagnosis data from ambulatory treatment settings, hospital outpatient department and physician visits, gender, age, and Medicaid eligibility. In 2003, risk adjusted

payments accounted for only 10% of Medicare health plan payments, with the remaining 90% being reimbursed in accordance with the traditional demographic rate book. The portion of risk adjusted payments has increased over time and was set at 100% in 2007 and years thereafter. CMS requires that all managed care companies capture, collect, and submit the necessary diagnosis code information to CMS twice a year for reconciliation with CMS's internal database. Under this system, the risk adjusted portion of the total CMS payment to the Medicare Advantage plans will equal the local rate set forth in the traditional demographic rate book, adjusted to reflect the plan's customers average gender, age, and disability demographics.

MetCare also receives revenue for providing primary care services to a small number of non-Humana patients on a fee-for-service basis in the medical practices it owns and operates.

MetCare provides healthcare services in two primary areas, Central Florida and South Florida. The original Central Florida service area comprised two counties, Volusia and Flagler, and one key city, Daytona Beach, and is primarily a coastal community just northeast of Orlando. In 2000 MetCare secured a contract with Humana to manage all of Humana's Medicare Advantage lives in the Daytona area, and in January 2003, MetCare favorably renegotiated its Daytona contract with Humana, including a higher percentage of Medicare premiums received and the resolution of several old contractual disputes.

In early September 2008, concurrent with the sale of MetCare's AdvantageCare HMO subsidiary to Humana, the Company signed a new Independent practice association participation agreement (or "IPA Agreement") contract agreement with Humana to provide medical services to the 7,200 former Advantage Care members in thirteen additional counties, including the areas of the Treasure Coast (Martin and St. Lucie Counties), Gulf Coast (Charlotte, Collier, Sarasota, Lee and Manatee Counties) and Central Florida (Glades, Lake, Marion, Okeechobee, Polk and Sumter Counties). MetCare also signed a provider-risk agreement for the same thirteen counties with CarePlus. Very shortly after the AdvantageCare subsidiary sale announcement, MetCare signed a further agreement with Humana to provide medical services to Humana Medicare HMO members in nine more counties: Orange, Osceola and Seminole in the Orlando market and Baker, Nassau, Putnam, Clay, St. Johns and Duval in the northeastern Florida corridor which includes the Jacksonville metropolitan area. MetCare's Humana service area now includes 27 counties in Florida. Under its Central Florida contracts, MetCare assumes full responsibility for the provision of all necessary medical care for each Humana Participating Customer, even for services the Company does not provide directly. At June 30th, 2009, MetCare's Central Florida lives under contract for Humana were 29,000, or approximately 82% of total.

MetCare's other primary market is South Florida, comprising Palm Beach, Broward and Miami-Dade counties. MetCare currently has approximately 6,100 lives under contract in the three county area, or 18% of total. The South Florida area is considerably larger and more diversified economically than Daytona, for example, encompassing major metropolitan areas surrounding Miami, Fort Lauderdale, and West Palm Beach. While the competition between HMOs and other health plans is greater in the South Florida area, there is also more room for growth for Humana in terms of attracting new Medicare members. In addition, one of Humana's former chief rivals for Medicare HMO members in the Miami-Dade and increasingly Broward County markets, CarePlus, was acquired by Humana in early 2005. CarePlus provides benefits to almost 50,000 Medicare members in South Florida. Humana also rolled out a new Medicare Advantage PPO plan in South Florida with lower premiums and more flexible referral policies in 2006. During 2007, MetCare closed a wholly-owned primary care physician practice in South Florida and late in the year assumed the responsibility of managing the health care of approximately 1,000 additional Humana Plan customers in the South Florida counties of Broward and Palm Beach. The Humana contract servicing the South Florida market is somewhat different than the Central Florida contract, in that Humana and MetCare share in the cost of inpatient hospital services while the Company assumes full responsibility for the provision of all other medical care provided to the Humana Participating Customer.

In August 2007, MetCare entered into a network agreement with CarePlus Health Plans, a Medicare Advantage HMO in Florida. CarePlus Health Plans was purchased in 2005 by Humana, and although a wholly-owned

subsidiary, Humana chose to retain the CarePlus brand name and thus its membership remains separate. The nine counties covered by the CarePlus Agreement include the three South Florida counties in which MetCare already provides services to Humana Medicare members (Palm Beach, Broward and Miami-Dade) as well as six additional counties (Orange, Osceola, Seminole, Pasco, Pinellas and Hillsborough) in Central Florida and the Gulf Coast area. Under the newer CarePlus agreement, MetCare is prohibited from using the same network physicians as the Company does for participating Humana members, and thus must sign, acquire or establish new participating physicians. MetCare provided medical services to approximately 200 CarePlus members as of June 30th, 2009.

In October 2008, Humana announced that they had assumed the management of 16,000 Medicare Advantage members previously served by Tampa-based MD Medicare Choice, which had been recently placed into receivership. MetCare management estimates that about one-quarter or 4,000 of the affected Medicare HMO members currently reside in one of eight counties now under contract with Humana, giving the Company an opportunity to expand its business with Humana to these new members as these beneficiaries are integrated into the Humana network. In addition to established MetCare PSN markets in Daytona and South Florida, MD Medicare Choice had members in Northeast Florida and Central Florida around Orlando, markets in which MetCare very recently expanded their service agreement with Humana. In addition, another smaller Florida-based HMO, Citrus Health Care headquartered in Tampa, appears to be in some financial difficulty. In January 2009, CMS ordered Citrus to suspend enrollment of and marketing to Medicare beneficiaries. Citrus had roughly 27,500 members at the end of 2007, primarily in the Tampa and Orlando area.

The table below outlines the major markets for MetCare's PSN business, including the key metropolitan areas within each market, the estimated number of eligible Medicare beneficiaries, the total number of eligibles already in Medicare Advantage HMOs, the resulting penetration, and MetCare's network membership in each:

<i>Market Area</i>	<i>Key Metropolitan Areas</i>	<i>Medicare Eligibles</i>	<i>Medicare HMOs (Penetration %)</i>	<i>MetCare PSN</i>
Daytona	Daytona Beach	130,100	37,000 (29%)	20,000
South Florida	Miami, Ft. Lauderdale, West Palm Beach	850,700	335,900 (39%)	6,100
Treasure Coast	Stuart, Port St. Lucie, Ft. Pierce	92,300	15,100 (16%)	6,300
Gulf Coast	Ft. Myers, Naples, Sarasota, Bradenton	387,400	50,800 (13%)	2,300
Central Florida	Orlando	278,800	47,900 (17%)	600
Northeast Florida	Jacksonville	120,000*	20,000 (20%)	N/A
State of Florida		3,200,000	870,000 (27%)	35,300

Source: CMS, Company records, Dawson James estimates. *Note Medicare eligibles and penetration for the Northeast Florida market is estimated.

Florida has the second largest number of Medicare eligible patients in the US with 3.2 million lives, behind only California's 4.5 million. However, Florida has a relatively low level of penetration of HMO members, 27% to California's 32%, due to the historical strength of managed care in California and the more transient nature of Florida's elderly population, hinting at above average growth for Florida managed care providers in the future. What's more, while Medicare HMO penetration in Florida's larger metropolitan areas (such as Tampa, Orlando and the currently served Miami-Ft. Lauderdale market) is comparatively high, Medicare penetration for the newer, smaller markets entered into originally by MetCare's own HMO and now under contract to Humana is relatively low. Estimated penetration rates for Florida's Treasure Coast is only 16%, for the Gulf Coast counties served by MetCare only 13%, and for the additional Central Florida counties opened up by AdvantageCare only

17%. These counties also more recently have seen higher growth rates for the inflow of new retirees, due in large part to the cheaper land available for new housing.

Competition

MetCare's chief rivals in the PSN business include several Florida-based firms; most notably publicly traded Continucare (ASE/CNU/NR) and privately held MCCI. Continucare, based in Miami, provides services for approximately 40,000 patients in Miami-Dade, Broward (Ft. Lauderdale) and Hillsborough (Tampa) counties, including for Medicare HMO members of Humana, WellCare Group (NYSE/WCG/NR) and privately-held Vista Healthplan. Privately-held, venture-backed MCCI of Miami serves 43,000 managed care members in the South Florida area, focusing on Medicare Advantage enrollees in the large Hispanic market. Other competitors include Primary Care Associates, Inc. WellMed and Island Doctors.

MetCare relies heavily on Humana's efforts to retain existing and add new Medicare Advantage members in order to increase revenues and earnings, and Humana's primary competitors in the Florida market include United Healthcare (NYSE/UNH/NR), WellCare Group, Coventry Healthcare (NYSE/CVH/NR), Blue Cross, AvMed and HealthSpring (NYSE/HS/NR). In addition, smaller start-up HMOs in a key, self-contained market such as Daytona may have a significant short-term effect on Humana's Medicare HMO membership and adversely impact the Company's revenues. In recent years there has been considerable consolidation in the Florida HMO market, including for Medicare-oriented plans, such as Humana's purchase of CarePlus (2005), HealthSpring's purchase of America's Health Choice (2006) and Coventry's purchase of Vista Healthplan (2007).

Management

Michael Earley has served as Chief Executive Officer of MetCare since March 2003 and Chairman of the Board since September 2004. Mr. Earley was previously a Director between 2000 and 2002. Prior to joining MetCare, Mr. Earley served in senior management positions at diversified holding companies Intermark and Triton Group, and as an executive at Collins Associates, an institutional money management firm. Mr. Earley also was an audit and tax staff member at Ernst & Whinney early in his career.

Robert J. Sabo joined Metropolitan as Chief Financial Officer in November 2006. Prior to joining the Company, Mr. Sabo was CFO of Hospital Partners of America, a privately held healthcare services and hospital partnership company in North Carolina. Mr. Sabo also held positions at Ernst & Young including Partner and head of the Health Science Practice of the Carolinas. Mr. Sabo holds a Bachelor's Degree in Accounting from the University of Miami, Florida and is a CPA.

Roberto Palenzuela was appointed General Counsel and Chief Compliance Officer in 2004. Prior to joining the Company, Mr. Palenzuela was General Counsel and Chief Operating Officer of Community Medical Plan, a Florida-based HMO, and Community Health Plan of the Rockies, an HMO based in Denver. Mr. Palenzuela has also been employed in private legal practice specializing in health care. Mr. Palenzuela earned his Bachelor degree in Business and Juris Doctorate from the University of Miami, Florida.

Jose Guethon, MD, was appointed President and Chief Operating Officer of Metropolitan in September 2008 after having served as President of MetCare's PSN division since January 2006. Dr Guethon also served in a variety of positions at Metropolitan since joining the firm in 2001, including Chief Medical Officer. Prior to joining the firm, in 2001 Dr. Guethon served as Regional Medical Director of JSA Healthcare, a provider

service network located in Tampa, Florida, and as Medical Director of Humana's Orlando market operations from 1998 to 2001. Dr. Guethon is board-certified in family practice.

Key directors include **Dr. Martin Harrison**, a physician based in South Florida, **Karl Sachs**, a CPA practicing in South Florida, **Eric Haskell**, a CPA who has served in financial management positions with several publicly-traded firms, **Barry Zeman**, a former hospital administrator in New York State, **David Florman**, a former manager at managed care firms United Healthcare, WellChoice, and Aetna, and **Robert E. Shields**, formerly with the US Air Force's managed care division and with Humana's TRICARE division.

Recent Results

In early August, MetCare reported positive financial results for their second quarter, including revenues of \$87.1 million, up 6% from the prior year period, and earnings per share of \$0.07 compared with \$0.07 per share in Q2/2008 as well. Results for Q2/2009 included a premium adjustment of \$1.3 million for retroactive Medicare risk adjustments (MRA), the net effect of which was to reduce revenue by that amount, while in Q2/2008 the opposite was the case, with a positive MRA of \$2.9 million in revenues and \$1.8 million in gross profit. Without these adjustments, revenue would have increased 11.3%, while earnings per share would have increased to \$0.07 per share from approximately \$0.05. Because of these mid-year adjustments, it might be more illustrative to compare financial results for MetCare for the first six months of the year: in this case revenues increased by 12.2% while earnings per share increased to \$0.15 versus \$0.06 in the prior year period.

Driving improved financial performance so far this year has been increased membership, due to organic membership growth, an increase in per member per month premiums of \$834 (up 4.4% year-over-year) fueled by higher Medicare reimbursement and improved risk scores, lower overhead costs, and a reduced share count resulting from a successful share buy-back program began last October, offset slightly by an increase in the medical expense ratio, to 88.8% so far in 2009 from 87.7% for the first six months of 2008.

Balance Sheet and Operating Cash Flow

MetCare maintains a solid balance sheet, with \$29.7 million in cash and investments on hand at June 30, 2009 and no long-term debt. The cash balances at June 30th decreased from \$36.3 million at the beginning of the year; however, in August 2009 subsequent to the end of the second quarter the Company received a cash payment of over \$10 million from Humana resulting from a Medicare mid-year risk adjustment premium receivable recorded at June 30th. In addition, the Company maintains a small, \$2 million credit facility.

Operating cash flow for the first six months of the year was approximately \$8.2 million versus \$4.6 million for the first half of last year. The Company has spent almost \$12.5 million in cash since October 2008 to purchase 7.2 million shares, including about 3 million shares this year, and has continued to buy more shares during the third quarter, with over 7 million shares remaining on the most recent board authorization. Subsequent to quarter end, MetCare completed two acquisitions of physician groups for approximately \$2.5 million in cash. The Company last completed an acquisition in 2007.

We forecast that MetCare will continue to be profitable and maintain positive operating cash flow for the remainder of this year and next, and be able to continue its share re-purchase program and complete additional acquisitions without dipping into existing cash balances.

Outlook/Growth Drivers

MetCare management has not provided detailed financial guidance for the rest of the year or next, however, except to the extent that results for the second half of 2009 will be similar to those for the first half. We are estimating that MetCare will show 11% average year-over-year revenue growth for Q3/2009 and Q4/2009, similar to the rate of the first half, with earnings of \$0.05 per share for both Q3 and Q4, due to higher seasonal medical costs typically occurring in the latter part of the year as well as added amortization and overhead costs obtained from the two recent small acquisitions. These estimates compare with \$0.04 and \$0.05 per share in earnings for the prior year Q3 and Q4, before one-time gains from the sale last August of the HMO to Humana. We are assuming that PSN membership ends the year at 35,500, a slight increase from 35,300 at the end of June.

For 2010, we are estimating that revenue growth will be 6.5% for MetCare, led by membership growth and improved risk scores, offset by an estimated 4%-5% drop in average Medicare reimbursement. We are also estimating that the medical expense ratio will increase slightly next year versus this year, to 85.9% from 85.3%, reflecting expected medical cost inflation, offset by continuing efficiencies accomplished by MetCare in providing care for its members. Another possible positive factor for next year could come from reduction in costs related to reduced benefits offered by Humana as HMOs respond to lower reimbursement. We are also assuming level overhead costs (2.1% of revenues), level interest income, and similar share counts, although these variables could improve next year due to higher cash balances from operating cash flow or further share buybacks. We are also assuming a solid increase in membership to 37,500 by the end of the year, driven by a pick-up in market share by Humana and population growth in new, smaller counties. All-in-all we are estimating that earnings per share for MetCare for 2010 will be \$0.25, the same as 2009 forecasts, but these earnings could improve through a variety of factors, such as more acquisitions, share re-purchases, or give-backs in Medicare reimbursement or risk scores as 2010 progresses if the federal budget allows.

MetCare's three-prong strategy for growth as implemented following last year's sale of the HMO division involves:

1) Growing existing PSN markets – Favorable reimbursement rates several years ago spawned a number of smaller, HMOs in Florida, but recent trends have seen MetCare's partner Humana take over membership of one Florida HMO, MD Medicare Choice, while at least one other smaller HMO is on administrative watch and others may be headed toward difficulties next year when reimbursement rates are reduced. This industry trend will benefit larger HMOs such as Humana and its partners such as MetCare.

2) Growing new PSN markets - As recently as a few years ago, Metropolitan served only two markets for Humana, but in the past 1-2 years the Company has added the new CarePlus subsidiary to its service area, added the three large and under-penetrated former AdvantageCare markets (Treasure Coast, Gulf Coast, and Central Florida) to its Humana and CarePlus service area, and expanded its geographic area under contract with Humana to include new markets surrounding Orlando and Jacksonville. While it has taken some time to build networks in these communities, the Company has plenty of options should growth opportunities spring up in the near future.

3) Acquisitions – MetCare has plenty of cash on its balance sheet and no long-term debt available to make additional acquisitions, and indeed has completed two physician practice purchases already (3/09) this quarter, one in South Florida and one in Central Florida. Potential industry turmoil next year could open up more acquisitions, especially in the Medicare services market, allowing an acceleration of this activity in 2010.

Stock Valuation/Comparables

Metropolitan Health can be compared with a large group of other managed care companies, including some large national and some smaller regional players. These include large national HMOs with some operations in Florida such as Humana, United Healthcare, WellCare, Coventry Health; other larger HMOs including WellPoint (NYSE/WLP/NR), Healthnet (NYSE/HNT/NR) and HealthSpring; Medicaid-oriented HMOs such as Amerigroup (NYSE/AGP/NR), Centene (NYSE/CNC/NR), and Molina Healthcare (NYSE/MOH/NR); and several other managed care service providers including CorVel (Nasdaq/CRVL/NR), HMS Holding (Nasdaq/HMSY/NR) and the previously mentioned Continucare. Perhaps due to its smaller size or recent divestiture, MetCare's shares currently trade at a discount to our list of thirteen comparable managed care firms, ranging from 13% to 53%, based on price/earnings ratios for 2008 actual and 2009 estimated and price/revenues ratio for 2009 estimated, despite have a higher than average earnings growth rate for this year. (See Table 1 below). What's more, average valuation multiples for those firms which do not contract directly with State and Federal programs but rather with private HMOs such as CorVel, HMS Holding and Continucare, are generally much higher than those of the larger, more mature HMOs. Thus, we are recommending that investors BUY MDF shares with a 12-18 month price target of \$3.25, just 13X this year's estimated earnings of \$0.25 per share, or approximately 40% above current levels.

Risk Factors

We believe an investment in Metropolitan Health Networks involves the following risks:

- **Concentration of revenues** – With last year's sale of its HMO division, Metropolitan now derives nearly all of its revenues from Humana. Metropolitan has a long-standing relationship with Humana, however, and recently signed a number of new service agreements with the Florida division of the Louisville-based firm. These include ones with new subsidiary CarePlus, the recently divested former AdvantageCare members, and new geographic areas in Florida to help with Humana's new MD Medicare Choice members, among other purposes. Therefore, we believe that Humana is more likely to expand its relationship with the Company in the future than to decrease it, thus ensuring continuing growth for Metropolitan.
- **Reliance on government funding** — Metropolitan derives a majority of its revenues from Federal (CMS) reimbursement of the costs of providing services to Humana's HMO membership. While Federal Medicare reimbursement for HMO members has been steadily rising in recent years, anticipated decreases in federal spending for Medicare programs next year could squeeze margins for medical service providers such as Metropolitan. In recent years, payments under the Medicare Risk Adjustment (MRA) system have become increasingly important to earnings growth, and these are somewhat difficult to predict on a quarterly basis (leading to quarterly earnings fluctuations) and this program is scheduled to be phased out in 2011.

Metropolitan Health Networks
Consolidated Statements of Operations
 (in \$000, except EPS)

Robert M. Wasserman

Calendar Year	2002	2003	2004	2005	2006	2007	1Q08 (March)	2Q08 (June)	3Q08 (Sept)	4Q08 (Dec)	2008	1Q09 (March)	2Q09 (June)	3Q09E (Sept)	4Q09E (Dec)	2009E	2010E
Revenues	140,064	143,874	158,070	183,765	228,216	277,577	76,014	82,211	78,950	80,036	317,212	90,441	87,076	88,000	89,000	354,517	377,600
Operating expenses:																	
Medical claims expense	133,587	121,010	129,179	154,784	194,839	229,427	65,237	67,213	68,073	67,461	267,983	75,921	74,625	75,700	76,100	302,346	324,400
Payroll expenses	7,699	7,847															
Medical center costs	1,913	2,127															
Other medical costs			8,577	10,346	10,601	11,269	3,152	3,238	3,176	3,241	12,807	3,585	3,554	3,610	3,650	14,398	14,730
Depreciation and amort	946	655															
Admin payroll			4,394	6,867	11,511	13,068	3,752	3,262	2,897	2,626	12,537	2,709	2,452	2,640	3,120	10,921	11,330
Marketing and advertising			139	2,754	3,710	3,959	1,368	232	139	125	1,865	39	45	100	100	284	300
General and admin	6,816	5,024	4,112	5,781	7,789	11,199	3,131	2,452	2,406	1,765	9,754	1,826	1,742	1,940	2,050	7,558	7,930
Total	150,962	136,663	146,402	180,533	228,449	268,922	76,640	76,397	76,690	75,218	304,946	84,080	82,417	83,990	85,020	335,507	358,690
Income before other	(10,898)	7,211	11,668	3,232	(233)	8,655	(626)	5,814	2,260	4,818	12,266	6,361	4,659	4,010	3,980	19,009	18,910
Other income (expense)	(2,968)	(1,350)	(183)	617	1,058	1,369	84	136	18	(160)	78	235	30	80	130	475	500
Disc Oper & restructuring	(3,215)	(1,460)	(42)	1	0	(583)	0	0	4,200	75	4,275	0	445	0	0	445	0
Pre-tax income	(17,081)	4,402	11,442	3,850	826	9,441	(542)	5,949	6,478	4,733	16,619	6,596	5,134	4,090	4,110	19,929	19,410
Income taxes	0	0	(7,380)	1,468	353	3,527	(204)	2,245	2,210	2,163	6,414	2,561	1,982	1,600	1,600	7,743	7,470
Net income	(17,081)	4,402	18,823	2,382	473	5,914	(338)	3,705	4,268	2,570	10,205	4,034	3,152	2,490	2,510	12,186	11,940
EPS	(\$0.56)	\$0.13	\$0.42	\$0.05	\$0.01	\$0.11	(\$0.01)	\$0.07	\$0.08	\$0.05	\$0.20	\$0.09	\$0.07	\$0.05	\$0.05	\$0.25	\$0.25
Shares outstanding	30,375	34,750	44,919	51,007	51,696	52,127	51,846	51,950	52,050	50,500	51,587	47,116	47,600	48,100	48,600	47,854	48,000
Key Ratios:																	
Sales growth	9.3%	2.7%	9.9%	16.3%	24.2%	21.6%	11.6%	17.6%	13.4%	14.5%	14.3%	19.0%	5.9%	11.5%	11.2%	11.8%	6.5%
Direct medical/revenues	95.4%	84.1%	81.7%	84.2%	85.4%	82.7%	85.8%	81.8%	86.2%	84.3%	84.5%	83.9%	85.7%	86.0%	85.5%	85.3%	85.9%
Other medical/revenues			5.4%	5.6%	4.6%	4.1%	4.1%	3.9%	4.0%	4.0%	4.0%	4.0%	4.1%	4.1%	4.1%	4.1%	3.9%
Admin payroll/revenues			2.8%	3.7%	5.0%	4.7%	4.9%	4.0%	3.7%	3.3%	4.0%	3.0%	2.8%	3.0%	3.5%	3.1%	3.0%
Gen & admin/revenues	4.9%	3.5%	2.6%	3.1%	3.4%	4.0%	4.1%	3.0%	3.0%	2.2%	3.1%	2.0%	2.0%	2.2%	2.3%	2.1%	2.1%
Tax Rate	0.0%	0.0%	0.0%	38.1%	42.8%	37.4%	N/A	37.7%	34.1%	45.7%	38.6%	38.8%	38.6%	39.0%	39.0%	38.9%	38.5%
Cash Flow/Share	-\$0.43	\$0.19	\$0.26	\$0.05	\$0.01	\$0.13	\$0.00	\$0.07	\$0.03	\$0.05	\$0.15	\$0.09	\$0.06	\$0.06	\$0.06	\$0.27	\$0.27
EBITDA/Share	-\$0.33	\$0.23	\$0.59	\$0.08	\$0.02	\$0.17	-\$0.01	\$0.11	\$0.05	\$0.10	\$0.25	\$0.14	\$0.10	\$0.09	\$0.09	\$0.42	\$0.41

Quarterly Comparisons

	Balance Sheets		Quarterly Comparisons					
	(in \$000s)		(March)	June	(Sept)	(Dec)	Total	
Assets:	12/31/08	6/30/09	Revenues (in \$Millions)					
Cash and investments	\$36,342	\$29,702	2002	\$34.4	\$36.2	\$34.6	\$34.8	\$140.1
Accounts receivable	3,109	9,839	2003	36.9	35.9	35.7	35.5	143.9
Inventory	316	176	2004	38.5	38.6	40.1	40.9	158.1
Other current	1,100	2,006	2005	45.5	46.2	45.0	47.1	183.8
Total current	40,867	41,722	2006	54.8	56.9	60.8	55.7	228.2
Property & equip, net	1,336	1,249	2007	68.1	69.9	69.6	69.9	277.6
Restricted cash	1,408	1,413	2008	76.0	82.2	78.9	80.0	317.2
Goodwill & other	5,533	5,483	2009E	90.4	87.1	88.0	89.0	354.5
TOTAL ASSETS	49,144	49,868	Earnings per Share					
Liabilities:			2002	\$0.01	(\$0.07)	(\$0.06)	(\$0.43)	(\$0.56)
Accounts payable	484	337	2003	0.02	0.03	0.03	0.04	0.13
Accrued expenses	5,856	3,804	2004	0.03	0.08	0.08	0.21	0.42
Other current	0	0	2005	0.02	0.03	0.01	(0.01)	0.05
Current portion of LTD	0	0	2006	0.01	0.01	0.05	(0.05)	0.01
Total current	6,340	4,141	2007	0.00	0.03	0.03	0.05	0.11
Long-term debt	0	0	2008	(0.01)	0.07	0.08	0.05	0.20
Stockholders' equity	42,805	45,727	2009E	0.09	0.07	0.05	0.05	0.25
TOTAL LIAB. & EQ	49,144	49,868						

Revenues by Segment	2002	2003	2004	2005	2006	2007	2008	2009E
Revenues by Segment								
Provider Service Network	\$140.1	\$143.9	\$158.1	\$180.9	\$198.3	\$222.5	\$240.0	\$260.0
PSN membership (year-end)				26,200	25,600	25,400	33,000	35,500
HMO/New Humana	0.0	0.0	0.0	2.9	29.9	55.1	78.2	94.5
HMO membership (year-end)				1,400	3,800	6,200	0	0
Laboratory	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	\$141.0	\$143.9	\$158.1	\$183.8	\$228.2	\$277.6	\$318.2	\$354.5

Source: Dawson James Securities, Inc. estimates; Company documents

Table 1. Managed Care Industry Comparable Company Analysis

Company	Symbol	Price	Shares		Market Cap		Revenues			Calendar Year		Price/Revs		Earnings	
			(millions)	(\$Millions)	EPS '08A	EPS '09E	2009E	P/E '08A	P/E '09E	2009E	Growth	Notes			
Amerigroup	AGP	\$24.38	52.5	\$1,280.0	\$2.77	\$2.50	\$ 5,170	8.8	9.8	0.25	-9.7%	Medicaid-focused			
Centene	CNC	\$18.28	54.4	994.4	1.99	1.94	4,000	9.2	9.4	0.25	-2.5%	Medicaid-focused mostly in Midwest			
Continuicare	CNU	\$2.85	59.4	169.3	0.18	0.25	295	15.8	11.4	0.57	38.9%	PSN based in Miami, also Tampa area			
CorVel	CRVL	\$28.08	12.9	362.2	1.53	1.55	320	18.4	18.1	1.13	1.3%	Medical cost-containment			
Coventry Health Care	CVH	\$22.88	149.6	3,422.8	2.69	1.92	14,060	8.5	11.9	0.24	-28.6%	Operates First Health provider network			
Healthnet	HNT	\$15.22	103.9	1,581.4	1.85	2.19	15,910	8.2	6.9	0.10	18.4%	Large HMO, primarily Western US			
Healthspring	HS	\$14.30	58.5	836.6	2.12	2.17	2,650	6.7	6.6	0.32	2.4%	Commercial & Medicare HMO, new IPO			
HMS Holding	HMSY	\$38.00	26.2	995.6	0.80	1.06	224	47.5	35.8	4.44	32.5%	HMO services, 2005 IPO			
Humana	HUM	\$36.93	170.0	6,278.1	4.27	6.15	31,240	8.6	6.0	0.20	44.0%	Assumed MD Medicare Choice membership			
Molina Healthcare	MOH	\$19.98	25.5	509.5	2.25	2.04	3,650	8.9	9.8	0.14	-9.3%	Medicaid-focused, acquired Florida NetPass			
United Healthcare	UNH	\$29.69	1,160.0	34,440.4	2.95	3.09	86,870	10.1	9.6	0.40	4.7%	Large HMO			
Wellcare Health Plans	WCG	\$26.21	42.2	1,106.1	N/A	2.91	6,860	N/A	9.0	0.16	N/A	Florida-based, Medicare/Medicaid HMOs			
Wellpoint	WLP	\$54.76	475.1	26,016.5	4.76	5.63	60,700	11.5	9.7	0.43	18.3%	Large HMO, merged with Anthem recently			
Average								13.5	11.9	0.66	9.2%				

Source: Dawson James Securities, Capital IQ

Metropolitan Health	MDF	\$2.34	47.6	111.4	0.20	0.25	355	11.8	9.2	0.31	28.7%	Sold Florida HMO to Humana in August 2008
---------------------	-----	--------	------	-------	------	------	-----	------	-----	------	-------	---

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated - August 25, 2009 – Target \$3.25

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Dawson James has not received investment banking compensation from the company mentioned in this report and is not actively seeking compensation for investment banking services in the future. Dawson James does not make a market in this security. Neither the research analyst whose name appears on this report nor any member of his household is an officer, director or advisory board member of the company. Dawson James did not receive any other compensation from the company in the previous 12 months. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future.

Ratings definitions: 1) **Speculative Buy:** the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months but **the volatility and investment risk is substantially higher** than our "Strong Buy" recommendation; 2) **Strong Buy:** the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months; 3) **Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; 4) **Neutral:** the stock is fairly valued for the next 12-18 months; 5) **Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold; 6) **Sell Short:** the stock is expected to decline at least 30% over next 12-18 months and should be sold short, however **the volatility and investment risk is substantially higher** than our "Sell" recommendation; 7) **Under Review:** the previous rating and/or price target is suspended due to a significant event which now requires additional analysis and the previous rating and/or price target cannot be relied upon; and 8) **Restricted:** coverage cannot be initiated or has been temporarily suspended to comply with applicable regulations and/or firm policies in certain circumstances such as investment banking or an advisory capacity involving the company.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	6	43%	5	83%
Strong Buy	1	7%	0	0%
Buy	5	36%	1	20%
Neutral	2	14%	2	100%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	14	100%	8	57%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

DAWSON JAMES SECURITIES, INC., Member SIPC, FINRA, (the "Firm") does not make a market in these securities. The Firm may perform or seek to perform investment banking services for these companies in the future. Analysts receive no direct compensation in connection with the firm's investment banking business. All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report. The Firm, its officers, directors, analysts or employees may effect transactions in and have long or short positions in the securities (or options or warrants with respect thereto) mentioned herein. Although the statements of fact in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice. The Firm may effect transactions as principal or agent in the securities mentioned herein. The securities discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.