

Member FINRA/SIPC

Toll Free: 866-928-0928 s www.DawsonJames.com s 925 Federal Highway, 6th Floor s Boca Raton, FL 33432

November 3, 2011

Metropolitan Health Networks (ASE/MDF)

Robert M. Wasserman

Director of Research

561-208-2905

rwasserman@dawsonjames.com

BUY **Q3/11 results very strong;**
Raising price target to \$9

Metropolitan Health provides Medicare HMO medical services

Investment Highlights

1) Metropolitan Health reported solid financial results for their Q3/2011 yesterday, earning \$0.14 per share versus \$0.16 in the year ago period on revenues of \$92.7 million, an increase of 2% year-over-year. Our estimates had been revenues of \$96.0 million (representing an increase of 5%) and \$0.16 in earnings per share. Results for the quarter were negatively affected by approximately \$1.2 million on the revenue side for a retroactive adjustment in Medicare reimbursement from 2010 and \$1.3 million (after net tax effect) in acquisition-related costs for the Continucare transaction; without this one-time charge earnings would have come in slightly better than expected, at \$0.17 per share. The better-than-expected Q3/2011 earnings for Metropolitan were driven by improvements in the Medical Expense Ratio (MER), which declined to 80.3% from 81.3% in the prior year quarter. Other overhead expenses also declined for Metropolitan year-over-year, continuing a recent trend. Medicare Advantage customers declined year-over-year from 35,000 to 34,400, but did increase slightly (400+ new members) quarter-over-quarter. During the quarter, operating cash flow for Metropolitan was approximately \$8 million (not including roughly \$8-\$10 million due from Humana (NYSE/HUM/Not Rated) collected in Q3/2011 quarter), allowing the Company to increase cash reserves by \$14 million to \$63.4 million. The Company did not buy back any shares during the third quarter due to the pending Continucare transaction.

2) Company management did not provide financial guidance for the upcoming Q4/2011, except to include detailed information regarding the final parameters of the Continucare financial transaction. Using recent quarterly results for Metropolitan and published financials for the first half of 2011 for Continucare (third quarter results for Continucare will not be reported) we are estimating that revenues for Metropolitan will be \$170 million in Q4/2011 and earnings per share will be \$0.15, based on weighted average shares of 45.0 million. The

Current Price **\$6.99**
Price Target **\$9.00**

Estimates	F2009A	F2010A	F2011E
Sales (\$mil)	\$354.4	\$368.2	\$454.6
1Q	90.4	93.0	94.7 A
2Q	87.1	92.6	97.3 A
3Q	88.1	91.2	92.7 A
4Q	88.8	91.4	170.0 E
Prev. Rev. Estimate (\$ mil.)			\$384.5
EPS(ProForma)	\$0.31	\$0.62	\$0.63
1Q	0.09	0.17	0.19 A
2Q	0.07	0.14	0.14 A
3Q	0.05	0.16	0.14 A
4Q	0.11	0.14	0.15 E
Previous EPS Estimate			\$0.65
P/E (x)	22.2	11.3	11.2
EBITDA/Share	\$0.50	\$1.00	\$1.24
EV/EBITDA (x)	11.3	5.6	4.5
Stock Data			
52-Week Range	\$3.79-\$7.19		
Shares Outstanding (mil.)	45.0		
Market Capitalization (mil.)	\$314.6		
Enterprise Value (mil.)	\$251.2		
Debt to Capital (9/11)	1%		
Book Value/Share (9/11)	\$1.99		
Price/Book	3.5 x		
Average Trading Volume (3-Month)	271,000		
Insider Ownership	23.0%		
Institutional Ownership	53.3%		
Short interest (Million)	1.80		
Dividend / Yield	\$0.00/0.0%		



Price target and ratings changes over the past 3 years:
 Initiated - August 25, 2009 – BUY - Target \$3.25
 Buy - Price Target increased on May 4, 2010 to \$5.00
 Buy - Price Target increased on March 3, 2011 to \$7.00
 Buy - Price Target increased on November 3, 2011 to \$9.00

resulting earnings estimate for the year as a whole is \$0.63 per share, or equal to our prior estimate of \$0.65 when the \$0.02 one-time charge for acquisition-related costs in Q3/11 is excluded. Our estimates for the remainder of 2011 do not include any additional share repurchases, acquisitions, or significant cost savings.

3) Earlier this year in its regular quarterly earnings calls Metropolitan Health management has provided details on several growth initiatives for the Company. These include:

- New expansion into Escambia and Santa Rosa counties in the Florida Panhandle region (primarily the Pensacola metropolitan area) for Humana's Medicare customers;
- A pending new office opening for Port St. Lucie in the Treasure Coast region of Florida north of Palm Beach; and
- The recent addition of 425 new Medicare Advantage customers managed for Humana, primarily in the Central Florida market.

With the integration of the Continucare operations now underway, Metropolitan will inherit two new revenue-generating programs, including Medicaid-eligible patient networks and Sleep Diagnostic Centers, which could provide growth vehicles going forward either for de novo openings or acquisitions. Likewise, Metropolitan also plans to continue its physician acquisition program, now with considerably more geographic coverage within which to search.

Conclusion

Metropolitan Health shares have continued their steady rise this year and nearly met our previous price target of \$7 per share, fueled by strong earnings and cash flow, yet we believe the Company still retains a number of enviable investment attributes to warrant investor enthusiasm and potential share appreciation, including strong cash flow, a solid balance sheet, and an even larger market share position after consolidation. Thus, we are maintaining our BUY rating on MDF shares and raising our 12-18 month price target to \$9.00, approximately 14X estimated earnings of \$0.63 per share for 2011.

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 (NYSE/UNH/Not Rated), WellCare (NYSE/WCG/Not Rated), Coventry Health (NYSE/CVH/Not Rated); other larger HMOs including WellPoint (NYSE/WLP/NR), Healthnet (NYSE/HNT/NR) and HealthSpring (NYSE/HS/NR); 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 Continucare (ASE/CNU/NR). Although a small sampling size, simply taking the average price/earnings multiple based on 2011 estimated earnings for key Florida managed care providers Humana and Continucare (prior to acquisition-related gains) of over 14X (multiples for investor favorite HMS Holding, for example, are much higher), brings us to our current price target valuation of \$9.00 for Metropolitan Health.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by Metropolitan Health Networks with other companies in the industry, we believe risks to our price target include the following:

- **Concentration of revenues** – With the 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 agreements with new subsidiary CarePlus, the recently divested former AdvantageCare members, and in new geographic areas in Florida to help with Humana’s 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. However, there can be no assurance that Humana will continue its positive relationship with the Company in the future.
- **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 rose steadily for several years, recent decreases in federal spending for Medicare programs of 2%-5% per year have squeezed 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 difficult to predict on a quarterly basis (leading to quarterly EPS fluctuations) and this program is scheduled to be phased out in 2011.
- **Availability of acquisitions** – In recent years, Metropolitan has been active on the acquisition front, purchasing physician practices specializing in Medicare HMO medical services located in geographic areas within the Company’s long-established service area. The most recent acquisitions, which are expected to contribute to earnings and add to revenue growth in 2012, are slated to be completed by the end of this year. There can be no assurance that similar-type acquisitions will be available (and at reasonable purchase prices) in the future.
- **Competition** – The Company competes in its service area not only with other, similar network service providers but also with other non-Humana HMOs, both large ones that have entered the Florida market through acquisitions but also smaller HMOs, focusing on markets as small as one city or county, in many cases founded and managed by a well-known, local physician or medical group. While reimbursement decreases in recent years have narrowed the number of competitors in Florida, a strengthening in the economy and/or government health care funding could allow more competitors to arise in Florida, thus jeopardizing the Company’s long-term growth potential.
- **Reliance on healthy patients** – Metropolitan’s operating margins are dependent to some extent on the health of their patient population, which could be negatively affected by an unexpected rise in illnesses in the Florida area such as flu, winter colds, viruses or other ailments. Through its Patient-Centered Medical Home model Metropolitan is focusing on health care risk management and long-term cost containment, and but there can be no assurance that this new healthcare paradigm will be effective over a large portion of the Company’s patient population or over a long-period of time.

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

Robert M. Wasserman

Calendar Year	2004	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11E	2011E
							(March)	(June)	(Sept)	(Dec)		(March)	(June)	(Sept)	(Dec)	
Revenues	158,070	183,765	228,216	277,577	317,212	354,407	93,042	92,567	91,163	91,414	368,186	94,666	97,320	92,664	170,000	454,650
Operating expenses:																
Medical claims expense	129,179	154,784	194,839	229,427	267,983	299,040	72,048	73,678	70,237	70,640	286,602	71,130	76,083	69,418	127,500	344,131
Medical practice costs	8,577	10,346	10,601	11,269	12,807	14,512	3,984	3,932	3,893	4,016	15,826	4,355	4,646	4,947	5,100	19,048
Admin payroll	4,394	6,867	11,511	13,068	12,537	11,287	3,779	3,587	3,862	4,192	15,419	4,102	3,858	4,078	10,200	22,238
Marketing and advertising	139	2,754	3,710	3,959	1,865	359	137	26	106	116	385	68	52	336	600	1,056
General and admin	4,112	5,781	7,789	11,199	9,754	7,564	1,959	2,038	2,260	2,474	8,731	2,236	3,316	2,144	7,650	15,346
Total	146,402	180,533	228,449	268,922	304,946	332,761	81,906	83,262	80,358	81,438	326,964	81,892	87,955	80,923	151,050	401,820
Income before other	11,668	3,232	(233)	8,655	12,266	21,646	11,136	9,305	10,805	9,975	41,222	12,774	9,365	11,741	18,950	52,830
Other income (expense)	(183)	617	1,058	1,369	78	367	193	43	135	(71)	301	178	271	86	(7,800)	(7,265)
Disc Oper & restructuring	(42)	1	0	(583)	4,275	1,336	62	0	0	0	62	0	0	(2,064)	0	(2,064)
Pre-tax income	11,442	3,850	826	9,441	16,619	23,349	11,391	9,349	10,940	9,905	41,585	12,952	9,636	9,763	11,150	43,501
Income taxes	(7,380)	1,468	353	3,527	6,414	8,900	4,262	3,587	4,150	3,885	15,884	4,987	3,710	3,767	4,290	16,754
Net income	18,823	2,382	473	5,914	10,205	14,449	7,129	5,762	6,789	6,020	25,700	7,965	5,926	5,996	6,860	26,747
EPS	\$0.42	\$0.05	\$0.01	\$0.11	\$0.20	\$0.31	\$0.17	\$0.14	\$0.16	\$0.14	\$0.62	\$0.19	\$0.14	\$0.14	\$0.15	\$0.63
Shares outstanding	44,919	51,007	51,696	52,127	51,587	45,954	40,800	41,100	41,448	42,500	41,462	41,961	42,000	42,200	45,000	42,790
Key Ratios:																
Sales growth	9.9%	16.3%	24.2%	21.6%	14.3%	11.7%	2.9%	6.3%	3.4%	3.0%	3.9%	1.7%	5.1%	1.6%	86.0%	23.5%
Direct medical/revenues	81.7%	84.2%	85.4%	82.7%	84.5%	84.4%	77.4%	79.6%	77.0%	77.3%	77.8%	75.1%	78.2%	74.9%	75.0%	75.7%
Other medical/revenues	5.4%	5.6%	4.6%	4.1%	4.0%	4.1%	4.3%	4.2%	4.3%	4.4%	4.3%	4.6%	4.8%	5.3%	3.0%	4.2%
Admin payroll/revenues	2.8%	3.7%	5.0%	4.7%	4.0%	3.2%	4.1%	3.9%	4.2%	4.6%	4.2%	4.3%	4.0%	4.4%	6.0%	4.9%
Gen & admin/revenues	2.6%	3.1%	3.4%	4.0%	3.1%	2.1%	2.1%	2.2%	2.5%	2.7%	2.4%	2.4%	3.4%	2.3%	4.5%	3.4%
Tax Rate	0.0%	38.1%	42.8%	37.4%	38.6%	38.1%	37.4%	38.4%	37.9%	39.2%	38.2%	38.5%	38.5%	38.6%	38.5%	38.5%
Cash Flow/Share	\$0.26	\$0.05	\$0.01	\$0.13	\$0.15	\$0.31	\$0.18	\$0.15	\$0.17	\$0.15	\$0.65	\$0.21	\$0.16	\$0.21	\$0.17	\$0.75
EBITDA/Share	\$0.59	\$0.08	\$0.02	\$0.17	\$0.25	\$0.50	\$0.28	\$0.23	\$0.27	\$0.24	\$1.00	\$0.32	\$0.24	\$0.29	\$0.44	\$1.24

Balance Sheets
(in \$000s)

	12/31/10	9/30/11
Assets:		
Cash and investments	\$49,545	\$63,372
Prepaid taxes		
Deferred taxes	517	702
Due from Humana	9,067	12,818
Other current	1,845	2,999
Total current	60,975	79,891
Property & equip, net	1,973	4,379
Restricted cash	4,385	3,000
Goodwill & other	7,391	10,471
TOTAL ASSETS	74,724	97,741
Liabilities:		
Accounts payable	436	1,266
Accrued expenses	902	3,115
Accrued payroll/taxes	5,158	2,950
Current portion of LTD	318	612
Total current	6,815	7,943
Long-term debt	159	117
Stockholders' equity	67,750	89,681
TOTAL LIAB. & EQ	74,724	97,741

Quarterly Comparisons

	(March)	June	(Sept)	(Dec)	Total
Revenues (in \$millions)					
2002	\$34.4	\$36.2	\$34.6	\$34.8	\$140.1
2003	36.9	35.9	35.7	35.5	143.9
2004	38.5	38.6	40.1	40.9	158.1
2005	45.5	46.2	45.0	47.1	183.8
2006	54.8	56.9	60.8	55.7	228.2
2007	68.1	69.9	69.6	69.9	277.6
2008	76.0	82.2	78.9	80.0	317.2
2009	90.4	87.1	88.1	88.8	354.4
2010	93.0	92.6	91.2	91.4	368.2
2011E	94.7	97.3	92.7	170.0	454.6
Earnings per Share					
2002	\$0.01	(\$0.07)	(\$0.06)	(\$0.43)	(\$0.56)
2003	0.02	0.03	0.03	0.04	0.13
2004	0.03	0.08	0.08	0.21	0.42
2005	0.02	0.03	0.01	(0.01)	0.05
2006	0.01	0.01	0.05	(0.05)	0.01
2007	0.00	0.03	0.03	0.05	0.11
2008	(0.01)	0.07	0.08	0.05	0.20
2009	0.09	0.07	0.05	0.11	0.31
2010	0.17	0.14	0.16	0.14	0.62
2011E	0.19	0.14	0.14	0.15	0.63

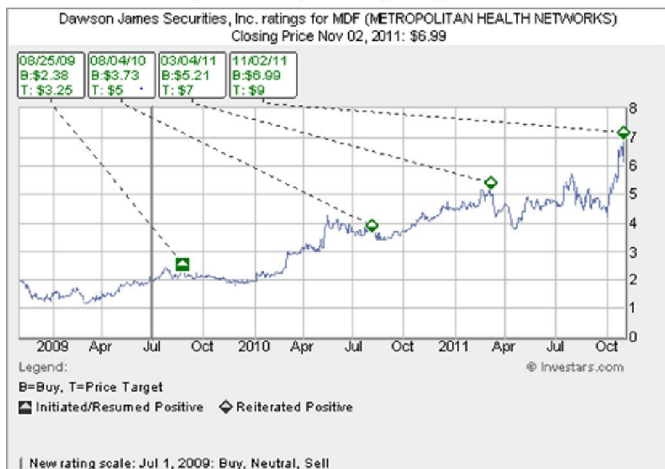
Revenues by Segment

(In \$millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011E
Revenues by Segment									
Provider Service Network	\$143.9	\$158.1	\$180.9	\$198.3	\$222.5	\$240.0	\$260.0	\$272.2	\$277.0
PSN membership (year-end)			26,200	25,600	25,400	33,000	35,500	34,800	72,000
HMO/New Humana	0.0	0.0	2.9	29.9	55.1	78.2	94.4	96.0	101.6
HMO membership (year-end)			1,400	3,800	6,200	0	0	0	0
CNU/New	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	76.0
Total	\$143.9	\$158.1	\$183.8	\$228.2	\$277.6	\$318.2	\$354.4	\$368.2	\$454.6

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

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated - August 25, 2009 – Buy - Target \$3.25
 Price target increased to \$5 – Buy - May 4, 2010
 Price target increased to \$7 – Buy - March 3, 2011
 Price target increased to \$9 – Buy – November 3, 2011

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 but may actively seek 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, but the Firm as a whole does not beneficially own 1% or more of any class of common equity securities of the subject company.

Ratings definitions: **1) Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	27	84%	8	30%
Neutral	4	13%	3	75%
Sell	1	3%	0	0%
Total	32	100%	11	34%

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.