METROPOLITAN HEALTH NETWORKS INC
Form 10-Q
November 10, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to________

Commission file number 0-28456

METROPOLITAN HEALTH NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Florida

65-0635748

(State or other jurisdiction of

(I.R.S. Employer

Incorporation or organization)

Identification No.)

250 Australian Avenue/Suite 400, West Palm Beach, Fl.

33401

(Address of principal executive office)

(Zip Code)

(561) 805-8500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant

(1) has filed all Reports required to be filed by

section 13 or 15(d) of the Securities Exchange Act of 1934

during the preceding 12 months (or for such shorter period that the

registrant was required to file such reports), and (2) has been

subject to such filing requirements for the past 90 days.

Yes [X]

No [ ]

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

<u>Class</u>

<u>Outstanding as of September 30, 2003</u>

Common Stock par value $.001

35,491,423

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Metropolitan Health Networks, Inc.

Index

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METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

ASSETS	September 30, 2003 (Unaudited)	December 31, 2002 (Audited)
CURRENT ASSETS		
Cash and equivalents	$ 273,020	$ 399,614
Accounts receivable, net of allowances	1,632,021	1,651,340
Inventory	240,037	158,714
Other current assets	1,023,183	443,896
Assets held for sale	3,536,830	3,303,599
TOTAL CURRENT ASSETS	6,705,091	5,957,163
CERTIFICATES OF DEPOSIT - restricted	950,000	850,000
CERTIFICATES OF DEPOSIT RECEIVABLE - restricted	50,000	150,000
PROPERTY AND EQUIPMENT, net	720,751	883,763
GOODWILL, net	1,992,133	1,992,133
OTHER ASSETS	177,032	325,852
TOTAL ASSETS	$ 10,595,007	$ 10,158,911
LIABILITIES AND DEFICIENCY IN ASSETS		
CURRENT LIABILITIES		
Advances from HMO	$ 263,053	$ 1,666,953
Accounts payable	3,118,795	3,774,778
Accrued expenses	779,412	1,420,977
Current maturities of capital lease obligations	124,993	126,220
Current maturities of long-term debt	4,386,866	2,234,521
Payroll taxes payable	4,069,252	3,805,598
Liabilities related to assets held for sale	1,065,466	755,528
TOTAL CURRENT LIABILITIES	13,807,837	13,784,575
CAPITAL LEASE OBLIGATIONS	13,072	122,416
LONG-TERM DEBT	-	3,120,213
COMMITMENTS AND CONTINGENCIES		
DEFICIENCY IN ASSETS		

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;		
35,491,423 and 31,376,822 issued and outstanding, respectively	35,491	31,376
Additional paid-in capital	30,250,578	29,660,886
Accumulated deficit	(33,803,723)	(36,640,086)
Common stock issued for services to be rendered	(208,248)	(420,469)
TOTAL DEFICIENCY IN ASSETS	(3,225,902)	(6,868,293)
TOTAL LIABILITIES AND DEFICIENCY IN ASSETS	$ 10,595,007	$ 10,158,911

See accompanying notes - unaudited

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	Nine Months Ended September 30		Three Months Ended September 30	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	$ 108,422,050	$ 105,225,484	$ 35,680,129	$ 34,613,150
EXPENSES				
Direct medical costs	91,802,409	91,889,680	29,994,259	30,135,952
Payroll, payroll taxes and benefits	5,516,682	5,827,112	1,803,664	1,832,792
Medical supplies	1,477,089	1,414,464	585,689	643,798
Depreciation and amortization	517,176	753,093	176,549	250,113
Consulting expense	1,053,648	1,904,978	328,813	575,677
General and administrative	2,803,789	3,032,140	839,226	1,107,640
TOTAL EXPENSES	103,170,793	104,821,467	33,728,200	34,545,972

INCOME/(LOSS) BEFORE OTHER INCOME (EXPENSE)	5,251,257	404,017	1,951,929	67,178
OTHER INCOME (EXPENSE):				
Interest and penalty expense	(1,007,173)	(1,664,498)	(279,879)	(387,605)
Other income	61,456	63,482	19,567	8,510
TOTAL OTHER INCOME (EXPENSE)	(945,717)	(1,601,016)	(260,312)	(379,095)
INCOME/(LOSS) FROM CONTINUING OPERATIONS	4,305,540	(1,196,999)	1,691,617	(311,917)
DISCONTINUED OPERATIONS:				
Loss from disposal of discontinued business segments	-	(900,324)	-	(900,324)
Loss from operations of discontinued business segments	(1,469,177)	(1,531,604)	(518,645)	(776,984)
LOSS FROM DISCONTINUED OPERATIONS	(1,469,177)	(2,431,928)	(518,645)	(1,677,308)
NET INCOME/(LOSS)	$ 2,836,363	$ (3,628,927)	$ 1,172,972	$ (1,989,225)
Income/(Loss) from continuing operations:				
Basic	$ 0.13	$ (0.04)	$ 0.05	$ (0.01)
Diluted	$ 0.10	$ (0.04)	$ 0.04	$ (0.01)
Loss from discontinued operations:				
Basic	$ (0.05)	$ (0.08)	$ (0.02)	$ (0.05)
Diluted	$ (0.03)	$ (0.08)	$ (0.01)	$ (0.05)
Net earnings/(loss) per share:				
Basic	$ 0.08	$ (0.12)	$ 0.03	$ (0.06)
Diluted	$ 0.07	$ (0.12)	$ 0.03	$ (0.06)

See accompanying notes - unaudited

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	September 30, 2003 (Unaudited)	September 30, 2002 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ 2,836,363	$ (3,628,927)
Adjustments to reconcile net income/(loss) to net cash		
provided by/(used in) operating activities:		
Provision and medical cost adjustments related to HMO receivables	-	3,786,971
Loss on disposal of discontinued operation	-	900,324
Write-down of goodwill	-	22,209
Depreciation and amortization	595,947	1,087,299
Provision for bad debt	786,576	-
Amortization of discount on notes payable	146,943	-
Interest expense on beneficial conversion feature	-	808,372
Stock issued for interest payment	80,000	-
Stock issued for compensation and services	270,218	264,451
Amortization of securities issued for professional services	161,792	-
Changes in assets and liabilities:		
Accounts receivable, net	(781,468)	(6,713,484)
Inventory	17,587	(579,288)
Other current assets	(620,041)	(48,228)
Other assets	28,960	(640,469)
Accounts payable and accrued expenses	(841,516)	884,588
Payroll taxes payable	263,654	756,006
Total adjustments	108,652	528,751
Net cash provided by/(used in) operating activities	2,945,015	(3,100,176)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of restricted CDs	(100,000)	(600,000)
Capital expenditures	(483,822)	(263,481)
Net cash used in investing activities	(583,822)	(863,481)

CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings on notes payable		637,137		5,026,357
Repayments on notes payable		(1,610,453)		(1,063,014)
Repayments on capital leases		(110,571)		(92,867)
Proceeds from issuance of stock		-		530,105
Proceeds from exercise of options		-		67
Cash paid for stock price guarantee		-		(122,893)
Net repayments on advances from HMO		(1,403,900)		(489,000)
Net cash (used in)/provided by financing activities		(2,487,787)		3,788,755
NET DECREASE IN CASH AND EQUIVALENTS		(126,594)		(174,902)
CASH AND EQUIVALENTS - BEGINNING		399,614		393,968
CASH AND EQUIVALENTS - ENDING	$	273,020	$	219,066

See accompanying notes - unaudited

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

The audited financial statements at December 31, 2002, which are included in the Company s Form 10-K, should be read in conjunction with these condensed consolidated financial statements.

SEGMENT REPORTING

The Company applies Financial Accounting Standards Boards (FASB) statement No. 131, Disclosure about Segments of an Enterprise and Related Information . The Company has considered its operations and has determined that in 2002 it operated in three segments and in 2003 operates in two segments for purposes of presenting financial information and evaluating performance, PSN (managed care and direct medical services) and pharmacy. As such, the accompanying financial statements present information in a format that is consistent with the financial information used by management for internal use.

INCOME TAXES

The Company accounts for income taxes according to Statement of Financial Accounting Standards No. 109, which requires a liability approach to calculating deferred income taxes. Under this method, the Company records deferred taxes based on temporary differences between the tax bases of the Company s assets and liabilities and their financial reporting bases. 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.

The effective tax rate for the nine months ended September 30, 2003 differed from the federal statutory rate due principally to a de crease in the deferred tax asset valuation allowance.

REVENUES

Revenues are recorded when services are rendered or pharmacy products are sold. Revenues from one health maintenance organization (HMO) accounted for approximately 99 % of the Company s total revenues for the quarters and nine months ended September 30 , 200 3 and 200 2.

Contracts with the HMO in the South Florida and Daytona markets renew automatically unless cancelled by either party with 120-day notice. These contracts expired December 31, 2002, however the contracts were renewed for one year effective January 1, 2003. The Company expects the contracts to continue for the foreseeable future.

RECLASSIFICATION

Certain amounts reported in the comparative financial statements have been reclassified to conform with the presentation for the periods ended September 30, 2003.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2003 and December 31, 2002 were as follows:

	September 30, 2003	December 31, 2002
HMO accounts receivable, net	$ 1,219,000	$ 1,063,000
Non-HMO accounts receivable, net	2,275,000	2,436,000
Accounts receivable before reclassification		
of pharmacy accounts receivable	3,494,000	3,499,000
Less: Pharmacy accounts receivable included		
in assets held for sale	(1,862,000)	(1,848,000)
Accounts receivable after reclassification		
of pharmacy accounts receivable	$ 1,632,000	$ 1,651,000

In the health care environment, estimates often change as a result of one or more future confirming events . With regard to revenues, expenses and receivable s arising from agreements with the HMO, the Company estimates amounts it believes will ultimately be realizable through the use of judgments and assumptions about future decisions. It is possible that some or all of these estimates could change in the near term by an amount that could be material to the financial statements.

Direct medical cost s are based in part upon estimates of claims incurred but not reported (IBNR) and estimates of retroactive adjustments or unsettled costs to be applied by the HMO. The IBNR estimates are made by the HMO utilizing actuarial methods and are continually evaluated by management of the Company, based upon its specific claims experience. The estimates of retroactive adjustments or unsettled costs to be applied by the HMO are based upon current agreements and understandings with the HMO to modify certain amounts previously charged to the Company s fund balances. Management believes its estimates of IBNR claims and estimates of retroactive adjustments are reasonable, however, it is possible the Company's estimate of these costs could change in the near term, and those changes may be material.

F rom time to time the Company is charged for certain medical expenses which, under its contracts with the HMO, the Company believes it is not liable. In connection therewith, the Company was contesting certain costs aggregating approximately $ 1.8 million at September 30, 2003 . Management s estimate of recovery on these contestations is determined based upon its judgment and its consideration of several factors including the nature of the contestations, historical recovery rates and other qualitative factors. Accordingly, accounts receivable due from the HMO includes approximately $ 370,000 , which represents estimated recovery of contestations outstanding at September 30, 2003 . It is possible the Company s estimate of these recoveries could change in the near term, and those changes may be material.

Non-HMO accounts receivable, aggregating approximately $ 5.9 million at September 30, 2003 relate principally to prescription sales and medical services provided on a fee for service basis, and are reduced by amounts estimated to be uncollectible (approximately $ 3.6 million). Management s estimate of uncollectible amounts is based upon its analysis of historical collections and other qualitative factors, however it is possible the Company s estimate of uncollectible amounts could change in the near term, and those changes may be material. Non-HMO accounts receivable included approximately $2.9 million from operations discontinued in prior years, which, although the Company continues to pursue collection, is fully reserved.

Non-HMO accounts receivable are typically uncollateralized customer obligations due under normal trade terms requiring payment within 30-90 days from the invoice date. The Company does not charge late fees or penalties on delinquent invoices, however it continually evaluates the need for a valuation allowance .. The a llowance reflects management s best estimate of the amounts that will not be collected. Management reviews all non-current accounts receivable balances on an ongoing basis and , based on it s assessment of current creditworthiness, estimates the portion, if any, that will not be collected. It is reasonably possible that some or all of these estimates could change in the near term by an amount that could be material to the financial statements.

NET INCOME PER SHARE

The Company applies Statement of Financial Accounting Standards No. 128, Earnings Per Share (FAS 128) which requires dual presentation of net income per share; Basic and Diluted. Basic earnings per share is computed using the weighted average number of common shares outstanding during the period .. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period adjusted for incremental shares attributed to outstanding options and warrants, convertible debt and preferred stock to purchase or convert into shares of common stock ..

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Net Income/(Loss)	$ 2,836,363	$ (3,628,927)	$ 1,172,972	$ (1,989,225)
Less: Preferred stock dividend	(37,500)	-	(12,500)	-
Income/(Loss) available to common shareholders	$ 2,798,863	$ (3,628,927)	$ 1,160,472	$ (1,989,225)
Denominator:				
Weighted average common shares outstanding	33,882,789	30,068,891	34,954,992	31,273,935
Basic earnings/(loss) per common share	$ 0.08	$ (0.12)	$ 0.03	$ (0.06)
Net Income/(Loss)	$ 2,836,363	$ (3,628,927)	$ 1,172,972	$ (1,989,225)
Interest on convertible securities	68,134	-	20,155	-
	$ 2,904,497	$ (3,628,927)	$ 1,193,127	$ (1,989,225)
Denominator:				

Weighted average common shares outstanding	33,882,789	30,068,891	34,954,992	31,273,935
Common share equivalents of outstanding stock:				
Convertible preferred	4,901,963	-	6,962,208	-
Convertible debt	3,739,535	-	3,739,535	-
Weighted average common shares outstanding	42,524,287	30,068,891	45,656,735	31,273,935
Diluted earnings/(loss) per common share	$ 0.07	$ (0.12)	$ 0.03	$ (0.06)

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143 which requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method over its useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Adoption of SFAS No. 143 did not have a material impact on the Company s financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses accounting and reporting for costs associated with exit or disposal activities and nullifies emerging issues Task Force Issue No. 94-3. The statement is effective for exit or disposal costs initiated after December 31, 2002, with early application encouraged. The Company adopted SFAS No. 146 effective January 1, 2003, which did not have a material impact on the Company s financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 amends the disclosure requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (SFAS 123). The Company has elected to continue using Accounting

Principles Board Opinion No. 25, Accounting for Stock Issued to Employees in accounting for employee stock options.

Accordingly, compensation expense for options granted to employees is recorded to the extent the market value of the underlying stock exceeds the exercise price at the date of grant. For the three and nine months ended September 30, 2003 and 2002 no compensation was recorded. If compensation cost had been determined based on the fair value at the grant date for awards in the three months and the nine months ended September 30, 2003 and 2002, consistent with the provisions of SFAS 123, the Company's net loss and loss per share would have been reduced to the pro-forma amounts indicated below:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Net Income/(Loss)	$ 2,836,363	$ (3,628,927)	$ 1,172,972	$ (1,989,225)
Less: Total stock-based employee compensation expense determined using the fair value method, net of related tax	(357,000)	-	(339,000)	-
Adjusted net income/(loss)	2,479,363	(3,628,927)	833,972	(1,989,225)
Earnings per share:				
Basic, as reported	$ 0.08	$ (0.12)	$ 0.03	$ (0.06)
Basic, pro forma	$ 0.07	$ (0.12)	$ 0.02	$ (0.06)
Diluted, as reported	$ 0.07	$ (0.12)	$ 0.03	$ (0.06)
Diluted, pro forma	$ 0.06	$ (0.12)	$ 0.02	$ (0.06)

On January 17, 2003, FIN 46, Consolidation of Variable Interest Entities, an interpretation of ARB 51, was issued. The primary objective of FIN 46 is to provide guidance on the identification and consolidation of variable interest entities, or VIEs, which are entities for which control is achieved through means other than through voting rights. The provision of FIN 46 is required to be adopted by the Company in fiscal 2003. The Company adopted FIN 46 effective January 1, 2003, with no material impact on its financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149, which amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities . The primary focus of this Statement is to amend and clarify financial accounting and reporting for derivative instruments. This Statement is effective for contracts entered into or modified after June 30, 2003. Adoption of SFAS No. 14 9 did not have a material impact on the Company s financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous pronouncements, issuers could account for as equity. The new accounting guidance contained in SFAS No. 150 requires that those instruments be classified as liabilities in the balance sheet. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatory redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type includes put options and forward purchase contracts, which involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this Statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. Most of the provisions of SFAS No. 150 are consistent with the existing definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The remaining provisions of this Statement are consistent with the FASB's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own shares. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003 and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of a non-public entity, as to which the effective date is for fiscal periods beginning after December 15, 2003. Adoption of SFAS No. 1 50 did not have a material impact on the Company s financial statements.

NOTE 2. LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN UNCERTAINTIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. The Company generated positive cash flow from operations for the nine months ended September 30, 2003. Although the Company expects its cash flow from operations to continue to be positive, there can be no assurance that this will occur. In the absence of achieving continuing positive cash flows from operations or obtaining additional debt or equity financing, the Company may have difficulty meeting current and long-term obligations, and may be forced to discontinue operations.

To address these concerns, management has taken measures to continue to reduce overhead and is reviewing its operations for further reductions as well as potential sources of increased revenue in order to accomplish its long-term goals. The Company has agreed in principle to sell the assets and certain liabilities of its pharmacy division for a purchase price of approximately $3.1 million. The Company believes that this sale will result in both improved profitability and cash flows.

During the first quarter of 2003, the Company borrowed an additional $500,000 on a short-term note that was due August 21, 2003. During the third quarter the Company repaid a portion of this note, which now totals $920,000, and negotiated a payout on the balance, with payments due January and April 2004. Also during the first six months of 2003, the Company borrowed $1.3 million from the HMO, of which $1.1 million has been repaid, with the balance payable over the remainder of the year.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company s ability to meet its financial obligations. Management believes that actions presently being taken, as described in the preceding paragraph s , provide the opportunity for the Company to continue as a going concern, however, there is no assurance this will occur.

NOTE 3. DEBT

During the first quarter of 2003, the Company borrowed an additional $500,000 on a short-term note that was due August 21, 2003. During the third quarter the Company repaid a portion of this note, which now totals $920,000, and negotiated a payout on the balance, with payments due January and April 2004. Also during the first six months, the Company borrowed $1.3 million from the HMO, of which $1.1 million has been repaid, with the balance payable over the remainder of the year.

During the third quarter the holder of the 12% $1,200,000 Principal Amount Promissory Note agreed to waive a prior default which caused the Note to become a 6% Convertible Debenture. This agreement was effective retroactive to May 1, 2003.

NOTE 4. DEFICIENCY IN ASSETS

During the first nine months of 2003, the Company issued 3,086,608 shares of common stock for services, compensation, loan fees, interest, settlements and extinguishment of accounts payable. In addition, the Company issued 1,027,993 shares of common stock to convert approximately $140,000 of long-term debt to equity.

NOTE 5. COMMITMENTS AND CONTINGENCIES

LITIGATION

In July 2003 a pharmacy services company (the Plaintiff) filed a complaint against the Company and its pharmacy division, Metcare Rx, seeking amounts and damages of up to $2.5 million related to the acquisition of the Maryland pharmacy operation in October 2001. On November 6, 2003 the parties reached a settlement on this complaint in the amount of $500,000, of which the Company has accrued $487,000.

The Company is a party to certain other claims arising in the ordinary course of business. Management believes that the outcome of these matters will not have a material adverse effect on the financial position or the results of operations of the Company.

INVESTIGATION

In June 2003, the Company was informed that the U.S. Attorneys' Office in Wilmington, Delaware is conducting an investigation which focuses on the Company. The inquiry, which is in an early stage, does not appear to be related to Metropolitan's underlying healthcare or pharmacy business practices. The Company is cooperating with the U.S. Attorneys' Office in this investigation.

PAYROLL TAXES PAYABLE

In 2000, the Company negotiated an installment plan with the Internal Revenue Service (IRS) related to unpaid payroll tax liabilities, including accrued interest and penalties. Under the plan the Company was required to make monthly installments of $100,000 on the amount in arrears. Th e agreement expired and the full amount , approximately $4.1 million at September 30, 2003, is deemed due upon demand. The Company has been current on its IRS payroll tax obligations since December 2002 and filed an offer-in-compromise with the IRS in the third quarter of 2003. While management believes it will be successful with its offer, there can be no assurance that the IRS will accept the proposal on these delinquent taxes.

LETTER OF CREDIT

In March 2002, two investors, on behalf of the Company, provided funding for certificates of deposit aggregating $1,000,000 that are used as collateral for a letter of credit in favor of the HMO. The letter of credit was required by the Company s contract with the HMO and enabled the Company to favorably renegotiate certain terms of the contract. Included in certificates of deposit receivable - restricted are certificates of deposit (collateralizing the Letter of Credit) that the Company has purchased from investors. Payments for these certificates of deposit have been converted to a demand note with interest at an effective rate of 24% per annum. At September 30, 2003, $950,000 had been purchased.

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NOTE 6. BUSINESS SEGMENT INFORMATION

The Company operates in two segments during 2003 for purposes of presenting financial information and evaluating performance, PSN (managed care and direct medical services) and pharmacy. During 2002, the Company also operated a third segment, a clinical laboratory.   The Company has allocated corporate overhead to the clinical laboratory during the period the laboratory was operational. However, the overhead allocation is not included in the loss from operations of the discontinued business segments (clinical laboratory and pharmacy) shown in the condensed consolidated statements of operations. The PSN segment also includes all costs incurred in the development of the Company s HMO.

THREE MONTHS ENDED SEPTEMBER 30, 2003	PSN	Pharmacy	Laboratory	Total
Revenues from external customers	$ 35,680,000	$ -	$ -	$ 35,680,000
Expenses	32,761,000	-	-	32,761,000
Revenues from discontinued business segments	-	3,595,000	-	3,595,000
Intersegment revenues from discontinued business segments	-	362,000	-	362,000
Expenses from discontinued business segments	-	4,468,000	-	4,468,000
Segment gain (loss) before allocated overhead	2,916,000	(521,000)	2,000	2,397,000
Allocated corporate overhead	760,000	464,000	-	1,224,000
Segment gain (loss) after allocated overhead	2,156,000	(985,000)	2,000	1,173,000

	PSN	Pharmacy	Laboratory	Total

THREE MONTHS ENDED SEPTEMBER 30, 2002				
Revenues from external customers	$ 34,613,000	$ -	$ -	$ 34,613,000
Expenses	33,126,000	-	-	33,126,000
Revenues from discontinued business segments	-	3,096,000	142,000	3,238,000
Intersegment revenues from discontinued business segments	-	308,000	-	308,000
Expenses from discontinued business segments	-	3,781,000	555,000	4,336,000
Segment gain (loss) before allocated overhead	1,488,000	(364,000)	(1,313,000)	(189,000)
Allocated corporate overhead	1,231,000	569,000	-	1,800,000
Segment gain (loss) after allocated overhead	257,000	(933,000)	(1,313,000)	(1,989,000)

NINE MONTHS ENDED SEPTEMBER 30, 2003	**PSN**	**Pharmacy**	**Laboratory**	**Total**
Revenues from external customers	$ 108,421,000	$ -	$ -	$ 108,421,000
Expenses	99,809,000	-	-	99,809,000
Revenues from discontinued business segments	-	11,338,000	-	11,338,000
Intersegment revenues from discontinued business segments	-	671,000	-	671,000
Expenses from discontinued business segments	-	13,428,000	8,000	13,436,000
Segment gain (loss) before allocated overhead	8,557,000	(1,461,000)	(8,000)	7,088,000
Allocated corporate overhead	2,588,000	1,664,000	-	4,252,000
Segment gain (loss) after allocated overhead	5,969,000	(3,125,000)	(8,000)	2,836,000

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NINE MONTHS ENDED SEPTEMBER 30, 2002	PSN	Pharmacy	Laboratory	Total
Revenues from external customers	$ 105,226,000	$ -	$ -	$ 105,226,000
Expenses	100,355,000	-	-	100,355,000
Revenues from discontinued business segments	-	9,498,000	1,028,000	10,526,000
Intersegment revenues from discontinued business segments	-	870,000	-	870,000
Expenses from discontinued business segments	-	11,417,000	1,510,000	12,927,000
Segment gain (loss) before allocated overhead	4,875,000	(1,050,000)	(1,382,000)	2,443,000
Allocated corporate overhead	3,743,000	1,907,000	422,000	6,072,000
Segment gain (loss) after allocated overhead	1,132,000	(2,957,000)	(1,804,000)	(3,629,000)

NOTE 7. DISPOSAL OF BUSINESS SEGMENT

On May 9, 2003, and subsequently amended September 24, 2003, the Company entered into a term sheet setting forth in principle to sell the assets and certain liabilities of its pharmacy division to a nonaffiliated entity. The agreement calls for a total cash consideration of approximately $3.1 million. Of the purchase price, approximately $1.4 million is to be used to satisfy certain obligations of the pharmacy.

The closing of this transaction is subject to definitive purchase agreements, a fairness opinion and the satisfactory completion of due diligence by both parties. Although management believes this transaction will be finalized at terms that are similar to those discussed above, there is no assurance the terms will not change by a material amount or that this transaction will be consummated.

NOTE 8. SUBSEQUENT EVENTS

Subsequent to September 30, 2003, approximately $565,000 of long-term debt was repaid through the issuance of 1.7 million shares of commons stock, as provided for in the terms of the Convertible Notes with the investors.

On October 24, 2003, Fred Sternberg, Chairman of the Board of Directors and former Chief Executive Officer of the Company, stepped down as Chairman and announced plans to resign from the Board by year-end 2003. Sternberg had previously stepped down as CEO in March 2003. In addition, the Company and Sternberg reached agreement with respect to the terms and conditions of the settlement of Mr. Sternberg s employment agreement, which ran through December 2004. The agreement provides that Sternberg will receive consideration including $180,000 payable over the twelve months ending June 30, 2004, certain insurance benefits and options to purchase 300,000 of the Company s common stock at $0.46, the current market price at date of grant.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Metropolitan Health Networks, Inc. (the "Company", Metropolitan or "Metcare") was incorporated in the State of Florida in January 1996 with a plan of acquiring physician practices and ancillary services. In 2000, the Company implemented its new strategic plan, operating as a Provider Service Network (PSN), specializing in managed care risk contracting. Through its Network, the Company provides medical care to Medicare+Choice HMO, commercial HMO and fee-for-service patients aligned with various health plans in South and Central Florida.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company s management to make a variety of estimates and assumptions. These estimates and assumptions affect, among other things, the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results can differ from the amounts previously estimated, which were based on the information available at the time the estimates were made.

The critical accounting policies described below are those that the Company believes are important to the portrayal of the Company s financial condition and results, and which require management to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. The Company believes that critical accounting policies include accounts receivable and revenue recognition, use of estimates and goodwill.

Accounts Receivable and Revenue Recognition

The Company is a party to certain managed care contracts and provides medical care to its patients through owned and non-owned medical practices. In connection with its Provider Service Network (PSN) operations, the Company is exposed to losses to the extent of its share of deficits. Accordingly, revenues under these contracts are reported as PSN revenue, and the cost of provider services under these contracts are reported as an operating expense.

The Company recognizes non-PSN revenues, net of contractual allowances, as medical services are provided or pharmaceuticals are sold. These services or goods are typically billed to patients, Medicare, Medicaid, health maintenance organizations, insurance companies and other third parties. The Company provides an allowance for uncollectible amounts and for contractual adjustments relating to the difference between standard charges and agreed upon rates paid by certain third party payers.

Use of Estimates-PSN

In HMO-PSN arrangements, accounts receivable estimates often change as a result of one or more future confirming events. With regard to revenues, expenses and resulting accounts receivable arising from agreements with the HMO, the Company estimates amounts it believes will ultimately be realizable through the use of judgments and assumptions about future decisions. Contractual terms with the HMO are sometimes complex and at times subject to different interpretation by the Company and the HMO. As a result, certain revenue, expense and accounts receivable estimates may change from amounts previously recorded in the financial statements and may require subsequent adjustments. To assist in estimating and collecting amounts due from the HMO, the Company has contracted with several outside consultants that have worked closely with the HMO or other HMOs for extended periods of time. These consultants provide numerous services including, but not limited to, HMO revenue, expense and accounts receivable analysis and monthly claims and contestation analysis. However, it is possible that actual results may differ from the estimates.

Direct HMO medical expenses include costs incurred directly by the Company and costs paid by the HMO on the Company s behalf. These costs also include estimates of claims incurred but not reported (IBNR), estimates of retroactive adjustments to be applied by the HMO and adjustments for charges which the Company believes it is not liable (contestations). The IBNR estimates are made by the HMO utilizing actuarial methods and are continually evaluated and adjusted by management of the Company, based upon its specific claims experience and input from outside consultants. The Company bases its estimates of retroactive adjustments on agreements with the HMO to modify previous charges. Some of these adjustments have been quantified while others involve situations where the HMO has agreed the charges were processed at incorrect rates, but the amount of the correction has not yet been quantified. Contestations involve charges where the Company, with the assistance of its consultants, contest certain expenses charged by the HMO. The estimate of direct medical expense includes an estimated recovery of 20% of outstanding contestations with the HMO. It is possible that estimates of such recoveries could change and the effect of the change could be material.

Accounts receivable from the HMO represents the combined effect of the Company s interpretation of the contract with the HMO and the HMO payment patterns. Collection times on these accounts typically exceed normal collection periods reflecting the need to reconcile the different interpretations and the HMO s cash management practices.

Goodwill

The Company has made several acquisitions in the past that included a significant amount of goodwill. Under accounting principles generally accepted in the United States of America in effect through December 31, 2001, these assets were amortized over their useful lives and tested periodically to determine if they were recoverable from operating earnings on a discounted basis over their useful lives.

Effective January 1, 2002, goodwill is accounted for under SFAS No. 142, Goodwill and Other Intangible Assets . The new rules eliminate amortization of goodwill but subject these assets to impairment tests. Management is required to make assumptions and estimates, such as the discount factor, in determining fair value. Such estimated fair values might produce significantly different results if other reasonable assumptions and estimates were to be used.

RESULTS OF OPERATIONS

The Company has accounted for the operations of Metcare Rx, its pharmacy business, as a discontinued operation pursuant to its agreement to sell that business described below. Metropolitan generated revenues of $35.7 million for the quarter ended September 30, 2003 compared to $34.6 million in the prior year quarter, an increase of 3.1%. For the 2003 quarter, net income was $1.2 million compared to a loss of $2.0 million in 2002, an improvement of $3.2 million. On a basic per share basis, income was $0.03 for the quarter ended September 30, 2003, compared to a per share loss of $0.06 in the prior year quarter.

For the nine months ended September 30, 2003, the Company reported net income of $2.8 million on revenues of $108.4 million, compared to a loss of $3.6 million on revenues of $105.2 million in the prior year, increases of $6.5 million in net income and $3.2 million in revenue. On a basic per share basis, income was $0.08 for the nine months ended September 30, 2003, compared to a per share loss of $0.12 in the prior year.

The Company operated two business segments in 2003, managed care and direct medical services (PSN) and pharmacy. It operated a third segment in 2002, the clinical laboratory business. The largest of these, the PSN division, reported a profit before allocated overhead of $2.9 million for the 2003 quarter, compared to $1.5 million in the 2002 quarter. For the nine months ended September 30, 2003, the PSN reported a profit before allocated overhead of $8.6 million, compared to $4.9 million in the prior year. Revenues for the same time periods were $35.7 million and $108.4 million, respectively, for the three and nine months ended September 30, 2003 while prior year revenues for the three and nine months were $34.6 million and $105.2 million, respectively. Expenses, which include direct medical costs and supplies, physician salaries and other costs relating to the operations of medical practices, were $32.7 million and $33.1 million for the quarters ended September 30, 2003 and 2002, respectively, while expenses for the nine months were $99.8 million and $100.3 million for 2003 and 2002, respectively.

During 2001 the Company began operations of its pharmacy division, MetcareRx. For the quarter and nine months ended September 30, 2003, MetcareRx reported losses before allocation of corporate overhead of $521,000 and $1.5 million, respectively, compared to losses of $364,000 and $1.1 million in the prior year periods. For those same periods, 2003 quarter and nine-month revenues were $3.6 million and $11.3 million, compared to $3.1 million and $9.5 million in 2002. Expenses for the quarter, which include the costs of pharmaceuticals, salaries and other related expenses, were $4.5 million and $3.8 million for 2003 and 2002, respectively, while nine-month expenses were $13.4 million and $11.4 million for 2003 and 2002, respectively. On May 9, 2003, the Company agreed in principle to sell all of the assets and certain liabilities of its pharmacy division to a newly formed nonaffiliated entity. Accordingly the operations of the pharmacy division are shown as losses from discontinued operations.

In the third quarter of 2002, the Company disposed of its third segment, its clinical laboratory. Accordingly, the quarter and nine months ended September 30, 2002, includes losses on discontinued operations of $1.3 million and $1.8 million, respectively.

Quarter ended September 30, 2003

REVENUES

Revenues for the quarter ended September 30, 2003 increased $1.1 million (3.1%) over the prior year, from $34.6 million to $35.7 million. The Company s South Florida centers reported a revenue increase of $219,000 over the prior year quarter. In the Company s Daytona market, $3.8 million of incremental revenues were generated, the result of funding increases from changes to the Company s contract with the HMO, combined with governmental funding increases of approximately 1.8%. These increases were partially offset by a decline in the number of patients in our Daytona network, resulting in approximately $2.0 million in reduced funding. In addition, as part of the renegotiation of its Daytona HMO contract, the Company is no longer at risk for the HMO s commercial membership effective January 1, 2003, resulting in lost revenue of approximately $763,000, but increased profitability as this line of business had been unprofitable.

EXPENSES

Operating expenses for the quarter ended September 30, 2003 decreased $818,000 (2.4%) over the prior year, from $34.5 million to $33.7 million. With the exception of direct medical costs and medical supplies, which directly correlate to revenue, operating expenses for the quarter decreased 16.4% over the prior year quarter due in part to several cost cutting measures undertaken by the Company since mid-year 2002.

Direct medical costs, the largest component of expense, represent certain costs associated with providing services of the PSN operation including direct medical payments to physician providers, hospitals and ancillaries on a capitated or fee for service basis. Direct medical costs for the 2003 third quarter were $30.0 million compared to $30.1 million for 2002, a decrease of $142,000, despite an increase in related revenues of $1.1 million. Of this reduction, an $888,000 cost improvement resulted from the discontinuation of the risk arrangement on its commercial membership in the Daytona market. This was offset, in part, by $438,0000 in increases recognized in South Florida primarily related to a poorly performing center, which was terminated in August 2003. In addition, expense for the 2003 quarter includes increased Part A (hospital) and related costs due to the loss of a hospital contract in the Company s Daytona network by the HMO in the latter half of 2002.

Salaries and benefits for the quarter decreased 1.6% over 2002, virtually the same as the prior year s total of $1.8 million. Approximately $33,000 in decreases resulted from the closure of two unprofitable medical practices in 2002 while another $212,000 in savings was realized from the termination of the Company s hospitalist program in the first quarter or 2003. Partially offsetting these savings were net increases of $68,000 in the Company s growing Boca Raton medical and Daytona oncology offices and $64,000 related to the Company s Daytona operations.

Medical supplies were $586,000 for the 2003 quarter, compared to $644,000 in 2002. Medical supply costs are incurred in all the Company s medical offices, but most prominently in the Company s Daytona oncology offices, accounting for 97.8% of the 2003 expense.

Depreciation and amortization for the quarter ended September 30, 2003 totaled $177,000, a 29.4% decrease over the prior year total of $250,000. The prior year quarter included $101,000 in amortization and write-offs of financing costs.

Consulting expense for the quarter decreased approximately $247,000 (42.9%), from $576,000 in 2002 to $329,000 in 2003. These savings were achieved through the discontinued use of medical consultants in the Company s hospitalist program in the first quarter amounting to $162,000 and a $140,000 reduction in marketing consultants. These reductions were partially offset by $82,000 in increases related to the development of the Company s oncology practice.

General and administrative expenses for the 2003 third quarter decreased $268,000 from the $1.1 million reported in the quarter ended September 30, 2002. Decreases were recognized in a number of expense categories including legal and accounting ($23,000), director fees ($32,000) and telephone expense ($45,000). In addition, the third quarter of 2003 included gains on settlements of debt, accounting for an incremental $109,000 of general and administrative expense savings in the 2003 quarter. These reductions were partly offset by a decrease in insurance costs amounting to $39,000.

Other income and expenses for the quarter included a decrease in interest expense of $108,000 from the prior year due to the decreased average amount of debt carried by the Company in the 2003 quarter as compared to the prior year.

Loss from discontinued operations for the quarter, which includes the Company s pharmacy division in 2003 and both the pharmacy and clinical laboratory in 2002, was $519,000 in 2003 as compared to $777,000 in 2002. The 2002 quarter also included a $900,000 loss on the disposal of the clinical laboratory.

Nine months ended September 30, 2003

REVENUES

Revenues for the nine months ended September 30, 2003 increased $3.2 million (3.0%) over the prior year, from $105.2 million to $108.4 million. PSN revenues from the HMO increased 3.1%, from $104.0 million to $107.3 million. The Company s South Florida centers reported an increase of $2.4 million over the prior year period, with $1.7 million of increase from a new center in Broward County, which the Company assumed management of in October 2002, and $1.7 million due to increased membership at its Boca Raton medical office. Effective August 1, 2003 the Company cancelled its risk arrangement with the Broward County center due to noncompliance with the Company s policies and procedures, resulting in continuing deficits. These revenue increases were partially offset by $1.0 million in decreases due to net decreased membership in the Company s other South Florida medical centers. In addition, approximately $9.5 million of incremental revenues were generated by funding increases resulting from changes to the Company s contract with the HMO in the Daytona market, combined with governmental funding increases of approximately 1.8%. These increases were partially offset by a decline in the number of patients in our Daytona network, resulting in approximately $5.6 million in reduced funding. Additionally, as part of its renegotiation of its Daytona HMO contract, the Company is no longer at risk for the HMO s commercial membership effective January 1, 2003, resulting in lost revenue of approximately $2.8 million for the nine months, but increased profitability as this line of business had been unprofitable.

EXPENSES

Operating expenses for the nine months ended September 30, 2003 decreased more than $1.6 million (1.6%) over the prior year, from $104.8 million to $103.2 million. With the exception of direct medical costs and medical supplies, which directly correlate to revenue, operating expenses for the quarter decreased 14.1% over the prior year due to in part to several cost cutting measures undertaken by the Company since mid-year 2002.

Direct medical costs, the largest component of expense, represent certain costs associated with providing services of the PSN operation including direct medical payments to physician providers, hospitals and ancillaries on a capitated or fee for service basis. Direct medical costs for the first nine months of 2003 were virtually the same as in 2002, $91.8 million, despite a $3.2 million increase in HMO revenues. A savings of $2.7 million in expenses due to no longer being at risk for commercial membership in conjunction with the Company s renegotiated HMO contract was offset by increased expenses incurred by the aforementioned center in Broward County and through the increased membership at its Boca Raton medical office, which combined to total $2.9 million in incremental increases. Additionally, the 2002 period included a $1.5 million reserve on the HMO accounts receivable which was offset in 2003 by increased Part A (hospital) and related costs due to the loss of a hospital contract in the Company s Daytona network by the HMO in the latter half of 2002.

Salaries and benefits for the nine months decreased 5.3% over 2002, from $5.8 million to $5.5 million. Approximately $139,000 in decreases resulted from the closure of two unprofitable medical practices in 2002 while another $471,000 in savings was realized from the termination of the Company s hospitalist program in the first quarter. Partially offsetting these savings were net increases of $222,000 in the Company s Boca Raton medical and Daytona oncology offices, resulting from the growth both achieved in the past year, and $76,000 related to the Company s Daytona operations.

Medical supplies were $1.5 million for the first nine months of 2003, compared to $1.4 million in 2002, as the 2002 expense only represents seven months of operations. Medical supply costs are incurred in all the Company s medical offices, but most prominently in the Company s Daytona oncology offices, accounting for 97.0% of the 2003 expense.

Depreciation and amortization for the nine months ended September 30, 2003 totaled $517,000, a 31.3% decrease over the prior year total of $753,000. The prior year included $361,000 in amortization and write-offs of financing costs, compared to $106,000 in the current year.

Consulting expense for the nine months decreased approximately $851,000 (44.7%), from $1.9 million in 2002 to $1.1 million in 2003. These savings resulted in part from a combined $238,000 in reductions of consulting services connected with the Company s pharmacy and HMO development. Further savings were achieved through the discontinued use of medical consultants in the Company s hospitalist program in the first quarter amounting to $628,000, a $225,000 reduction in marketing consultants and $82,000 in savings due to a closed medical practice in July 2002. These reductions were partially offset by $287,000 in increases related to the development of the Company s oncology practice.

General and administrative expenses for the nine months decreased $228,000 (7.5%) from the $3.0 million reported in the nine months ended September 30, 2002. Decreases were recognized in a number of expense categories, most significantly in legal and accounting ($83,000), director fees ($136,000) and telephone expense ($59,000). These reductions were partly offset by a decrease in insurance costs amounting to $115,000.

Other income and expenses for the nine months included a decrease in interest expense of $657,000 from the prior year, as the 2002 period included $808,000 in imputed interest due to a beneficial conversion feature on a convertible note. The difference of $151,000 is due to the increased average amount of debt carried by the Company in 2003 as compared to the prior year.

Loss from discontinued operations for the nine months, which includes the Company s pharmacy division in 2003 and both the pharmacy and clinical laboratory in 2002, decreased slightly over the $1.5 million reported in 2002. The 2002 quarter also included a $900,000 loss on the disposal of the clinical laboratory.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 30, 2003 the Company reported a profit of $2.8 million with $2.9 million in positive cash flows from operations, significant improvements over the prior year results. However, the Company has historically sustained negative cash flows from operations, in part as a result of the Company s diversification efforts, including the pharmacy and clinical laboratory operations. The Company has determined to focus on its core managed care business. Although the Company expects its cash flow from operations to continue to be positive, there can be no assurance that this will occur. In the absence of continuing positive cash flows from operations or obtaining additional debt or equity financing, the Company may have difficulty meeting current and long-term obligations. The auditor s report on the Company s financial statements for the year ended December 31, 2002 states that certain matters raise substantial doubt about the Company s ability to continue as a going concern.

To address these concerns, management has taken measures to continue to reduce overhead and is reviewing its operations for further reductions as well as potential sources of increased revenue in order to accomplish its long-term goals. The Company has agreed in principle to sell the assets and certain liabilities of its pharmacy division for a purchase price of $3.1 million. The Company believes that this sale will result in both improved profitability and cash flows.

During the first quarter of 2003, the Company borrowed an additional $500,000 on a short-term note that was due August 21, 2003. During the third quarter the Company repaid a portion of this note, which now totals $920,000, and negotiated a payout on the balance, with payments due January and April 2004. Also during the first six months, the Company borrowed $1.3 million from the HMO, of which $1.1 million has been repaid, with the balance payable over the remainder of the year.

In the fourth quarter of 2002 the Company incurred significant increases in Part A (hospital) and related costs due to the loss of a hospital contract in the Company s Daytona network by the HMO. In response to the increased costs, management approached the HMO seeking to renegotiate its contract. The Company successfully completed an amendment, which it believes will offset the cost increases, allowing the Daytona market to be financially viable. The amendment was effective January 1, 2003 and provides for increased funding in addition to other financial concessions on the part of the HMO. The 2003 results reflect the effects of the contract revision.

At September 30, 2003 the Company had a recorded liability for unpaid payroll taxes of approximately $4.1 million, including accrued interest and penalties of $1.5 million. The Company previously negotiated an installment plan with the Internal Revenue Service (IRS) whereby it was required to make monthly installments of $100,000 on the amount in arrears. The Company has been current on its IRS payroll tax obligations since December 2002 and filed an offer-in-compromise with the IRS in the third quarter of 2003.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company s ability to meet its financial obligations. Management believes that actions presently being taken, as described in the preceding paragraph s , provide the opportunity for the Company to continue as a going concern, however, there is no assurance this will occur.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None

ITEM 4. CONTROLS AND PROCEDURES

Our Management, which includes our CEO and our CFO, have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of the end of the fiscal quarter covered by this report. Based upon that evaluation, our management has concluded that our disclosure controls and procedures are effective for timely gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended. There have been no significant changes made in our internal controls or in other factors that could significantly affect our internal controls during the fiscal quarter covered by this report.

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PART II OTHER INFORMATION

ITEM 1. SUMMARY OF LEGAL PROCEEDINGS

NONE

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

NONE

ITEM 3. DEFAULT UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

No. 31 Section 302 Certifications

No. 32 Section 906 Certifications

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Except for historical information contained herein, the matters discussed in this report are forward-looking statements made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. These forward-looking statements are based largely on the Company s expectation and are subject to a number of risks and uncertainties, including but not limited to economic, competitive and other factors affecting the Company s operations, ability of the Company to obtain competent medical personnel, the cost of services provided versus payment received for capitated and full-risk managed care contracts, negative effects of prospective healthcare reforms, the Company s ability to obtain medical malpractice coverage and the cost associated with malpractice, access to borrowed or equity capital on favorable terms, the fluctuation of the Company s common stock price, and other factors discussed elsewhere in this report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Many of these factors are beyond the Company s control. Actual results could differ materially from the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this report will, in fact, occur.

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SIGNATURES

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

METROPOLITAN HEALTH NETWORKS, INC.

Registrant

Date: November 10, 2003

/s/ Michael M. Earley

Michael M. Earley

President and

Chief Executive Officer

Date: November 10, 2003

/s/ David S. Gartner

David S. Gartner

Chief Financial Officer

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Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Michael M. Earley, Chief Executive Officer of Metropolitan Health Networks, Inc., certify that:

1.

I have reviewed this Quarterly Report on Form 10-Q of Metropolitan Health Networks, Inc. (the Registrant);

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c)

Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5.

The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditor and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 10, 2003

/s/ Michael M. Earley

Michael M. Earley

President and Chief Executive Officer

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Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, David S. Gartner, Chief Financial Officer of Metropolitan Health Networks, Inc., certify that:

1.

I have reviewed this Quarterly Report on Form 10-Q of Metropolitan Health Networks, Inc. (the Registrant);

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c)

Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5.

The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditor and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 10, 2003

/s/ David S. Gartner

David S. Gartner

Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATIONS

CERTIFICATION PURSUANT TO\

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Metropolitan Health Networks, Inc. (the Company) on Form 10-Q for the period ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Michael M. Earley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

1.

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2003

/s/ Michael M. Earley

Michael M. Earley

President and Chief Executive Officer

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Exhibit 32.2

SECTION 1350 CERTIFICATIONS

CERTIFICATION PURSUANT TO\

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Metropolitan Health Networks, Inc. (the Company) on Form 10-Q for the period ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David S. Gartner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

1.

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2.

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2003

/s/ David S. Gartner

David S. Gartner

Chief Financial Officer

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