METROPOLITAN HEALTH NETWORKS INC
Form 10-Q
August 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-32361

METROPOLITAN HEALTH NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Florida	65-0635748
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 Australian Avenue, Suite 400 West Palm Beach, FL (Address of principal executive offices)	33401 (Zip Code)

(561) 805-8500
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

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

Class	Outstanding at July 31, 2007

Common Stock, $.001 par value per share	50,697,864 shares

Metropolitan Health Networks, Inc.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2007	D
	(unaudited)	
CURRENT ASSETS		
Cash and equivalents, including $17.8 million in 2007 and $12.5 million in 2006 statutorily limited to use by the HMO	$ 29,318,477	$
Accounts receivable, net of allowance of $235,000 in 2007 and $601,000 in 2006	854,016	
Due from Humana, net of allowance of $0 in 2007 and $1.6 million in 2006	6,834,210	
Inventory	263,841	
Prepaid expenses	1,025,872	
Deferred income taxes	1,460,000	
Other current assets	868,553	
TOTAL CURRENT ASSETS	40,624,969	
Property and equipment, net of accumulated depreciation and amortization of $2,007,000 in 2007 and $1,561,000 in 2006, respectively	2,237,070	
Investments	688,997	
Goodwill	1,992,133	
Deferred income taxes	4,671,600	
Other assets	614,957	
TOTAL ASSETS	$ 50,829,726	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 594,860	
Accrued payroll and payroll taxes	1,665,804	
Estimated medical expenses payable	5,794,944	
Unearned premiums	4,534,483	
Due to CMS	3,706,579	
Accrued expenses	1,656,480	
TOTAL CURRENT LIABILITIES	17,953,150	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.001 per share; stated value $100 per share; 10,000,000 shares authorized; 5,000 issued and outstanding	500,000	
Common stock, par value $.001 per share; 80,000,000 shares authorized; 50,682,060 in 2007 and 50,268,964 in 2006 issued and outstanding, respectively	50,682	
Additional paid-in capital	42,077,977	
Accumulated deficit	(9,752,083)	
TOTAL STOCKHOLDERS' EQUITY	32,876,576	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 50,829,726	$

The accompanying notes are an integral part of the condensed consolidated financial stateme

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

	Six Months Ended June 30, 2007 (unaudited)	2006 (unaudited)
REVENUE	$ 138,038,090	$ 111,649,144
MEDICAL EXPENSE		
Medicaltclaimsaexpense	115,810,183	95,297,419
Medical center costs	5,479,700	5,144,944
Total Medical Expense	121,289,883	100,442,363
GROSS PROFIT	16,748,207	11,206,781
OPERATING EXPENSES		
Payroll, payroll taxes and benefits	6,703,455	5,003,185
Marketing and advertising	2,031,701	1,995,854
General and administrative	5,693,440	3,549,237
Total Operating Expenses	14,428,596	10,548,276
OPERATING INCOME	2,319,611	658,505
OTHER INCOME (EXPENSE):		
Interest income	707,245	412,138
Other income (expense)	(17,221)	1,201
Total other income (expense)	690,024	413,339
INCOME BEFORE INCOME TAX EXPENSE	3,009,635	1,071,844
INCOME TAX EXPENSE	1,250,400	411,000
NET INCOME	$ 1,759,235	$ 660,844
NET EARNINGS PER COMMON SHARE:		
Basic	$ 0.03	$ 0.01
Diluted	$ 0.03	$ 0.01

The accompanying notes are an integral part of the condensed consolidated financial st

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METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months 2007 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 1,759,235
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:	
Depreciation and amortization	451,185
Stock-based compensation expense	321,016
Shares issued for director fees	65,032
Excess tax benefits from share based compensation	(140,000
Amortization of securities issued for professional services	-
Deferred income taxes	938,400
Other	-
Changes in operating assets and liabilities:	
Accounts receivable	(4,042,696
Inventory	20,936
Prepaid expenses	(319,482
Other current assets	244,802
Other assets	40,375
Accounts payable	(292,314
Accrued payroll and payroll taxes	(144,624
Unearned premiums	4,534,483
Estimated medical expenses payable	1,051,207
Due to CMS	1,003,754
Accrued expenses	888,874
Net cash provided by operating activities	6,380,183
CASH FLOWS FROM INVESTING ACTIVITIES:	
Short-term investments	-
Investments	-
Capital expenditures	(408,778
Net cash used in investing activities	(408,778
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from exercise of stock options	97,030
Excess tax benefits from share based compensation	140,000
Net cash provided by financing activities	237,030
NET INCREASE IN CASH AND EQUIVALENTS	6,208,435
CASH AND EQUIVALENTS - beginning of period	23,110,042
CASH AND EQUIVALENTS - end of period	$ 29,318,477

The accompanying notes are an integral part of the condensed consolidated financial state

METROPOLITAN HEALTH NETWORKS, INC. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 UNAUDITED INTERIM INFORMATION

The accompanying unaudited condensed consolidated financial statements of Metropolitan Health Networks, Inc. and subsidiaries (referred to as "Metropolitan," "the Company," "we," "us," or "our") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, or those normally made in an Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period and three month period ended June 30, 2007 are not necessarily indicative of the results that may be reported for the remainder of the year ending December 31, 2007 or future periods.

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

For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in that report.

NOTE 2 ORGANIZATION AND BUSINESS ACTIVITY

We own and operate provider service networks (the "PSN") through our wholly owned subsidiary, Metcare of Florida, Inc. We also operate a health maintenance organization (the "HMO") through our wholly owned subsidiary, METCARE Health Plans, Inc.

The PSN operates under two agreements (the "Humana Agreements") with Humana, one of the largest participants in the Medicare Advantage program in the United States , to provide medical care to Medicare beneficiaries enrolled under Humana's health plans. To deliver care, we utilize our wholly-owned medical practices and have also contracted directly or indirectly through Humana with third-party medical practices, service providers and hospitals (collectively the "Affiliated Providers"). The PSN operates in South Florida and Central Florida.

Effective July 1, 2005, the HMO became licensed and entered into a contract with the Centers for Medicare and Medicaid Services ("CMS") to begin offering Medicare Advantage plans to Medicare beneficiaries in six Florida counties. The HMO has been operating and marketing its "AdvantageCare" branded plan since July 2005. Beginning January 1, 2007, the HMO began to offer plans in 12 counties in Florida. In July 2007, the HMO was approved to operate in Collier County beginning January 1, 2008. The HMO's agreement with CMS is generally renewable for a one-year term each December 31 unless CMS notifies the HMO of its decision not to renew the agreement by May 1 of the contract year, or the HMO notifies CMS of its decision not to renew by the first Monday in June of the contract year. Neither we nor CMS provided the other party with a non-renewal notice.

We manage the PSN and HMO as separate business segments.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

On January 1, 2007 we adopted the provision of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("Interpretation No. 48"). Previously, we had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, Accounting for Contingencies. As required by Interpretation No. 48, which clarifies SFAS Statement 109, Accounting for Income Taxes, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. As a result of the adoption of Interpretation No. 48, we derecognized certain deferred tax assets of approximately $437,000, which was accounted for as a reduction of retained earnings at January 1, 2007. We have considered the effects of FASB Staff Position ("FSP") amending Interpretation No. 48 and have considered this FSP as if it were adopted at the implementation date of Interpretation No. 48.

We are subject to income taxes in the U.S. federal jurisdiction and the state of Florida. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. We have net operating loss carry forwards related to years prior to 2003. To the extent such net operating losses are utilized, the years from which the losses carryforwards originate are open for examination. Upon adoption of Interpretation No. 48, we evaluated our tax positions with regard to these years. The statute of limitations for the federal and Florida 2003 tax years will expire in the next twelve months. We have recognized tax benefits of $169,000, which would be recognized if the statute of limitations expires without the relevant taxing authority examining the applicable returns.

The Internal Revenue Service is presently examining our 2005 Federal income tax return. We do not expect to recognize a significant change to the total amount of unrecognized tax benefit as a result of the examination.

We recognize interest accrued related to unrecognized tax benefits in interest expense, which is included in other income (expense) in the condensed consolidated statements of income, and penalties in operating expenses for all periods presented. Interest of $25,000 has been accrued in the second quarter of 2007. No penalties have been accrued in any period presented.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value pursuant to generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007. We are currently assessing the potential impact that the adoption of SFAS No. 157 will have on our financial statements.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115 issued in February 2007, allows entities to voluntarily choose to measure many financial assets and financial liabilities at fair value through earnings. Upon initial adoption, SFAS No. 159 provides entities with a one-time chance to elect the fair value option for existing eligible items. The effect of the first measurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings in the year SFAS no. 159 is adopted. SFAS No. 159 is effective as of the beginning of fiscal years starting after November 15, 2007. We are currently assessing the potential impact that the adoption of SFAS No. 157 will have on our financial statements.

NOTE 5 REVENUE

Our Medicare premium revenue is adjusted periodically to give effect to a risk component. Risk adjustment uses health status indicators to improve the accuracy of payments and establish incentives for plans to enroll and treat less healthy Medicare beneficiaries. Under risk adjustment methodology, managed care plans must capture, collect, and submit diagnosis code information to CMS. After reviewing the respective submissions, CMS adjusts the premium payments to Medicare plans generally at the beginning of the calendar year and in the middle of calendar year and then issues a final payment in a subsequent year.

In June 2007, the HMO was notified of a 2007 mid-year retroactive Medicare Risk Adjustment ("MRA") increase from CMS based on the increased medical risk scores of the HMO's membership. This increase is made effective June 30 and is retroactively applied to all premiums paid in the first half of 2007. As a result of this increase, the HMO realized additional revenue of $781,000 in the 2007 second quarter. Premiums for the balance of 2007 will be paid based on the new medical risk scores. The 2006 mid-year MRA increase recorded in the 2006 second quarter was $280,000.

In July 2007 we received the final MRA increase for 2006 premiums paid by CMS to the HMO of $575,000. This amount is $340,000 higher than our recorded estimate at December 31, 2006 of $235,000. The $340,000 has been recorded in revenue for the three and six month period ended June 30, 2007.

NOTE 6 MEDICAL EXPENSE

Each period, we re-examine previously established medical claims payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimate recorded in prior periods becomes more exact, we adjust the amount of our liability estimate, and include the change in medical expense in the period in which the change is identified. In each reporting period, our operating results include the effects of more completely developed medical expense payable estimates associated with previously reported periods. While we believe our estimated medical expenses payable is adequate to

cover future claims payments required, such estimates are based on claims experience to date and various assumptions. Therefore, the actual liability could differ materially from the amount recorded.

We estimate that, on a consolidated basis, 2006 claims paid in 2007 will exceed the amount originally recorded as estimated medical expenses payable at December 31, 2006 by $1.3 million. This amount increased total medical expense by approximately 1% for the six months ended June 30, 2007. We also estimate that, on a consolidated basis 2005 claims paid in 2006 will exceed the amount originally recorded as estimated medical expenses payable at December 31, 2005 by $1.2 million. This amount increased total medical expense by approximately 1.2% for the six months ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

We estimate that claims paid for the PSN and HMO subsequent to March 31, 2007 for services provided prior to that date will exceed the consolidated estimated medical expenses payable recorded at that date by approximately $450,000. This is less than 1% of consolidated total medical expense recorded for the quarter ended June 30, 2007. We also estimate that claims paid for the PSN and HMO subsequent to March 31, 2006 for services provided prior to that date will exceed the consolidated estimated medical expenses payable recorded at that date by approximately $750,000. This is approximately 1.5% of consolidated total medical expense recorded for the quarter ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

The actuarial process and models develop a range of estimated medical claims payable. Pursuant to FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, when no amount within the range is a better estimate than any other amount, the accrual is recorded at the low end of the range. Through March 31, 2007, we accrued to the low end of the range. During the second quarter of 2007, we determined that, based on historical results, the best estimate for the PSN is the mid-range and for the HMO the best estimate continues to be the low end of the range. We estimate liabilities for physician, hospital and other medical expense disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies.

At June 30, 2007, we determined that the range for estimated medical expenses payable for the PSN was between $12.3 million and $15.0 million and we recorded a liability at the mid-range of $13.4 million. This amount is netted in the due from Humana account in the June 30, 2007 balance sheet. Moving to the mid-range for the PSN increased consolidated total medical expense in the 2007 second quarter by $1.1 million and increased our consolidated Medical Expense Ratio by 1.8% and .9% for the three months and six months ended June 30, 2007, respectively. This change impacted net earnings per common share, basic by $.01 per share.

At June 30, 2007, we estimated that the range for estimated medical claims payable for the HMO was between $5.6 million and $6.3 million and we recorded a liability of $5.6 million. Based on historical results, we believe that the low end of the range continues to be the best estimate within the range for the HMO.

NOTE 7 SEPARATION AND RESTRUCTURING EXPENSES

On April 9, 2007 ("Separation Date"), we entered into a mutually agreeable separation agreement (the "Separation Agreement") with the individual who served as our President and Chief Operating Officer. Under the Separation Agreement, we

agreed, among other things, to provide this individual with her base salary, to allow her to participate in certain of our benefit programs and to provide her with an automobile and mobile phone allowance for twelve months following the separation date. Under the Separation Agreement, this individual has agreed to be bound by restrictive covenants regarding, among other things, non-competition with us for a one-year period, non-solicitation of our employees for a two-year period and confidentiality. In the second quarter of 2007, we accrued approximately $500,000 related to the amount payable under the Separation Agreement and the value of certain options held by this individual that, in accordance with their terms, became fully vested on the separation date and subject to a three month exercise period.

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

In July 2007, we implemented a restructuring plan designed to reduce costs and improve operating efficiency. The restructuring plan, expected to be complete by the end of August 2007, is anticipated to include the closure of two of the HMO's office locations, one PSN medical practice (the "PSN Practice"), and a workforce reduction involving 16 employees. In connection with this plan, we expect to record approximately $600,000 of restructuring costs during the third quarter of 2007 including approximately $150,000 of cash for severance payments, approximately $370,000 of cash for continuing lease obligations on closed locations, and approximately $80,000 for the write-off of certain fixed assets. The severance payments and continuing lease obligations will result in future cash expenditures. We project that the restructuring will enable us to reduce our related operating expenses by approximately $1.2 million per annum, with no or limited impact on the HMO's and PSN's ability to serve their existing members. At June 30, 2007, the PSN Practice being closed served approximately 450 members in South Florida. During the first six months of 2007, this practice generated $2.6 million of revenue and had a loss before allocated overhead and income taxes. Of the $600,000, approximately $400,000 relates to the HMO with the balance of $200,000 associated with the PSN.

NOTE 8 INCOME TAXES

The effective income tax rate was 41.9% for the three months ended June 30, 2007 compared to 38.4% for the three months ended June 30, 2006. For the six months ended June 30, 2007 and 2006, the effective income tax rate was 41.5% and 38.3%, respectively. The increase in the effective income tax rate in 2007 is a result of a decrease in the estimated tax benefit of certain deferred tax assets.

NOTE 9 EARNINGS PER SHARE

Earnings per common share, basic is computed using the weighted average number of common shares outstanding during the period. Earnings per common share, diluted is computed using the weighted average number of common shares outstanding during the period adjusted for incremental shares attributed to outstanding options and warrants and preferred stock convertible into shares of common stock.

For the six months ended June 30, For th
2007 2006

Net income	$ 1,759,000	$ 661,000	$
Less: Preferred stock dividend	(25,000)	(25,000)	
Income available to common shareholders	$1,734,000	$636,000	$
Denominator:			
Weighted average common shares outstanding	50,291,000	49,916,000	
Basic earnings per common share	$ 0.03	$ 0.01	$
Income available to common shareholders	$ 1,734,000	$ 636,000	$
Denominator:			
Weighted average common shares outstanding	50,291,000	49,916,000	
Common share equivalents of outstanding stock:			
Convertible preferred stock	-	-	
Restricted stock	157,000		
Options and warrants	1,215,000	1,356,000	
Weighted average common shares outstanding	51,663,000	51,272,000	
Diluted earnings per common share	$ 0.03	$ 0.01	$
Weighted average of antidilutive stock options	600,100	504,000	

NOTE 10 STOCKHOLDERS' EQUITY

During the three months ended June 30, 2007, options for 253,800 common shares were exercised. For the six month period ended June 30, 2007, we issued 255,800 shares of common stock in connection with the exercise of stock options.

During the three and six month period ended June 30, 2007 we awarded 157,296 shares of restricted stock to the independent members of our Board of Directors. The shares vest over a twelve month period. Compensation expense related to this stock is recognized ratably over the vesting period.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On March 13, 2007, a complaint was filed by Mr. Noel Guillama, who served as our President, Chairman of the Board and Chief Executive Officer from January 1996 through February 2000, in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, naming us as a defendant. The dispute involves 1,500,000 restricted shares of common stock issued to Mr. Guillama in connection with his personal guarantee of a Company line of credit in 1999. We repaid the line of credit and expected, based on documentation signed by Mr. Guillama, the 1,500,000 shares issued as collateral to be returned to us. Mr. Guillama alleges that we have breached an agreement to remove the transfer restrictions from these shares and is seeking damages for breach of contract and specific performance. We believe this lawsuit is without merit and intend to assert an appropriate defense. These shares have not been reflected as issued or outstanding in the year end balance sheet or in the computation of earnings per share.

We are also a party to certain other claims arising in the ordinary course of business. We believe that the outcome of these matters will not have a material adverse effect on our financial position or the results of our operations.

Guarantees

In connection with the sale of the assets of our pharmacy division in 2003, the purchaser of the pharmacy assets agreed to assume our obligation under a lease which ran through 2012. In the event of the purchaser's default, we could be responsible for future lease payments totaling approximately $608,000 at June 30, 2007.

NOTE 12 PHYSICIAN PRACTICES

Effective July 31, 2007, we acquired, in a transaction accounted for as a purchase, certain assets of one of our contracted independent primary care physician practices for approximately $900,000. We are currently in the process of determining the allocation of the purchase price.

In addition to the acquisition, we expect the PSN will open an additional medical center in its Central Florida market during the second half of 2007.

NOTE 13 BUSINESS SEGMENT INFORMATION

We manage the PSN and HMO as separate business segments. We identified our segments in accordance with the aggregation provisions of Statement of Financial Accounting Standards ("FASB") No. 131, Disclosures about Segments of an Enterprise and Related Information, which is consistent with information used by our Chief Executive Officer in managing our business. The segment information aggregates products with similar economic characteristics. These characteristics include the nature of customer groups and the nature of the services and benefits provided. The results of each segment are measured by income before income taxes. We allocate all selling, general and administrative expenses, investment and other income, interest expense, goodwill and certain other assets and liabilities to our segments. Our segments do share overhead costs.

SIX MONTHS ENDED JUNE 30, 2007	PSN	HMO
Revenues from external customers	$ 113,755,000	$ 24,283,000
Segment gain (loss) before allocated overhead and income taxes	13,088,000	(5,550,000)
Allocated corporate overhead	2,199,000	2,329,000
Segment gain (loss) after allocated overhead and before income taxes	10,889,000	(7,879,000)
Segment assets	24,953,000	18,039,000
Goodwill	1,992,000	-

SIX MONTHS ENDED JUNE 30, 2006	PSN	HMO
Revenues from external customers	$ 100,313,000	$ 11,336,000
Segment gain (loss) before allocated overhead and income taxes	8,491,000	(4,170,000)
Allocated corporate overhead	1,818,000	1,431,000
Segment gain (loss) after allocated overhead and before income taxes	6,673,000	(5,601,000)
Segment assets	18,567,000	16,169,000
Goodwill	1,992,000	-

THREE MONTHS ENDED JUNE 30, 2007	PSN	HMO
Revenues from external customers	$ 56,662,000	$ 13,275,000
Segment gain (loss) before allocated overhead and income taxes	6,589,000	(1,683,000)
Allocated corporate overhead	1,200,000	1,070,000
Segment gain (loss) after allocated overhead and before income taxes	5,389,000	(2,753,000)

THREE MONTHS ENDED JUNE 30, 2006	PSN	HMO
Revenues from external customers	$ 50,236,000	$ 6,646,000
Segment gain (loss) before allocated overhead and income taxes	4,537,000	(2,242,000)
Allocated corporate overhead	877,000	762,000
Segment gain (loss) after allocated overhead and before income taxes	3,660,000	(3,004,000)

Segment assets at June 30, 2007 exclude general corporate assets of $7.9 million including deferred tax assets of $6.6 million.

Segment assets at June 30, 2006 exclude general corporate assets of $4.1 million including deferred tax assets of $3.0 million.

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2006, AS WELL AS THE FINANCIAL STATEMENTS AND NOTES THERETO.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The condensed consolidated financial statements of the Company in this document present our financial position, results of operations and cash flows, and should be read in conjunction with the following discussion and analysis. Sections of this Quarterly Report contain statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange

Act"), and we intend that such forward-looking statements be subject to the safe harbors created thereby. Statements in this Report containing the words "estimate," "project," "anticipate," "expect," "intend," "believe," "will," "could," "should," "may," and similar expressions may be deemed to create forward-looking statements. Accordingly, such statements, including without limitation, those relating to our future business, prospects, revenues, working capital, liquidity, capital needs, interest costs and income, wherever they may appear in this document or in other statements attributable to us, involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements.

Specifically, this report contains forward-looking statements, including the following:

- the PSN's ability to renew its agreements with Humana and maintain these agreements on favorable terms;
- our ability to adequately predict and control medical expenses and to make reasonable estimates and maintain adequate accruals for incurred but not reported (" IBNR") claims; and
- the HMO's ability to renew, maintain or to successfully rebid its agreement with CMS.

The forward-looking statements reflect our current view about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The following important factors could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements:

- reductions in government funding of Medicare programs;
- disruptions in the PSN's, the HMO's or Humana's healthcare provider networks;
- failure to receive claims processing, billing services, data collection and other information on a timely basis from Humana or HF Administrative Services, the third party administrative service provider for the HMO;
- failure to receive, on a timely or accurate basis, customer information from CMS;
- future legislation and changes in governmental regulations;
- our ability to grow our HMO customers in our current geographic markets and our ability to expand our HMO into new geographic markets;
- increased operating costs;
- the impact of Medicare Risk Adjustments on payments we receive from CMS or Humana;

- the impact of the Medicare prescription drug plan on our operations;
- loss of significant contracts;
- general economic and business conditions;
- increased competition;
- the relative health of our patients;
- changes in estimates and judgments associated with our critical accounting policies;
- federal and state investigations;
- our ability to successfully recruit and retain key management personnel and qualified medical professionals; and
- impairment charges that could be required in future periods.

Additional information concerning these and other risks and uncertainties is contained in our filings with the Securities and Exchange Commission (the "Commission"), including the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006.

Forward-looking statements should not be relied upon as a prediction of actual results. Subject to any continuing obligations under applicable law or any relevant listing rules, we expressly disclaim any obligation to disseminate, after the date of this Quarterly Report on Form 10-Q, any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances on which any such statements are based.

BACKGROUND

We operate two business segments in Florida, the PSN which provides and arranges for medical care primarily to customers of Humana and the HMO which provides healthcare benefits to Medicare beneficiaries in Florida that have selected our health plan.

Both our PSN and HMO operations primarily focus on individuals covered by Medicare, the national, federally-administered health insurance program that covers the cost of hospitalization, medical care, and some related health services for U.S. citizens aged 65 and older, qualifying disabled persons and persons suffering from end-staged renal disease.

Substantially all of our revenue in 2007 and 2006 was generated by providing services to Medicare beneficiaries through arrangements that require us to assume responsibility to provide and/or manage the care for all of our customers' medical needs in exchange for a monthly fee, also known as a capitated fee or capitation arrangement.

Provider Service Network

The PSN has two network contracts (the "Humana Agreements") with Humana, one of the largest participants in the Medicare Advantage program in the United States. Our PSN provides, on a non-exclusive basis, healthcare services to Medicare beneficiaries in Flagler and Volusia counties ("Central Florida") and Palm Beach, Broward and Miami-Dade counties ("South Florida") who have elected to receive benefits through Humana's Medicare Advantage Plan. As of June 30, 2007, the Humana Agreements covered approximately 19,200 Humana Plan Customers (as defined below) in Central Florida and 6,100 Humana Plan Customers in South

Florida. Approximately 82.0% of our revenue during the first half of 2007 was generated through the Humana Agreements.

Effective as of August 1, 2007, the PSN entered into a Network Agreement (the "CarePlus Agreement") with CarePlus Health Plans, Inc., a Medicare Advantage health plan in Florida. Pursuant to the CarePlus Agreement, the PSN will provide, on a non-exclusive basis, healthcare services to Medicare beneficiaries in the following nine Florida counties - Miami-Dade, Broward, Palm Beach, Orange, Osceola, Seminole, Pasco, Pinellas and Hillsborough counties who have elected to receive benefits through CarePlus' Medicare Advantage plans.

We have built our PSN physician network by contracting with primary care physicians for their services and acquiring and operating our own physician practices. At June 30, 2007, we have contracts in place with twenty-eight independent primary care physician practices (individually an "IPA") and we own and operate eight primary care physician practices and one medical oncology physician practice (collectively with the IPAs, the "PSN Physicians"). In addition, through our Humana Agreements we have established referral relationships with a large number of specialist physicians, ancillary service providers and hospitals throughout South Florida and Central Florida.

Under the CarePlus Agreement, the existing PSN Physicians will not be eligible to participate in the CarePlus Agreement and the PSN will have to develop and/or acquire and operate a unique network of primary care physicians that are not otherwise contracted to Humana.

Effective July 31, 2007, the PSN acquired certain assets of one of our IPAs in the Central Florida market for approximately $900,000. Effective August 1, the PSN closed a wholly-owned primary care physician practice in South Florida. The PSN also plans to open an additional primary care physician practice in the Central Florida market in the latter part of 2007.

Humana directly contracts with CMS and is paid a fixed monthly premium payment for each customer (each a "Humana Plan Customer") enrolled in Humana's Medicare Advantage Plan. The monthly premium varies by patient, county, age and severity of health status. Pursuant to the Humana Agreements, the PSN provides or arranges for the provision of covered medical services to each Humana Plan Customer who selects one of the PSN Physicians as his or her primary care physician (a "Humana Participating Customer"). In return for the provision of these medical services, the PSN receives from Humana a capitated fee for each Humana Participating Customer. The fee rates are established by the Humana Agreements and comprise a substantial portion of the monthly premiums received by Humana from CMS with respect to Humana Participating Customers.

In Central Florida, our PSN assumes full responsibility for the provision of all necessary medical care for each Humana Participating Customer, even for services we do not provide directly. In South Florida, the PSN and Humana share in the cost of inpatient hospital services and the PSN assumes full responsibility for the provision of all other medical care provided to the Humana Participating Customer. To the extent the costs of providing such medical care are less than the related premiums received from Humana, our PSN generates a gross profit. Conversely, if medical expenses exceed the premiums received from Humana, our PSN experiences a gross loss.

CarePlus directly contracts with CMS and is paid a fixed monthly premium payment for each customer (each a "CarePlus Customer") enrolled in CarePlus's Medicare Advantage Plan. The monthly premium varies by patient, county, age and severity of health status. Pursuant to the CarePlus Agreement, the PSN provides or arranges for the provision of covered medical services to each CarePlus Plan

Customer who selects one of the PSN Physicians as his or her primary care physician (a "CarePlus Participating Customer"). In return for the provision of these medical services, the PSN will receive a monthly Network Administration Fee for each CarePlus Participating Customer. Once the number of CarePlus Participating Customers exceeds 500 in a given calendar month (but not later than March 31, 2008), the PSN will then assume full responsibility for the provision of all necessary medical care for each CarePlus Participating Customer, even for services we do not provide directly.

Substantially all of our PSN's revenue comes from the Humana Agreements. We do receive additional revenue in the medical practices we own and operate by providing primary care services to non-Humana Participating Customers on a fee-for-service basis.

Health Maintenance Organization

We operate the HMO through METCARE Health Plans, Inc., our wholly owned subsidiary that was issued a Health Care Provider Certificate ("HCPC") by Florida's Agency for Health Care Administration ("AHCA") on March 16, 2005. The Department of Financial Services, Office of Insurance Regulation ("OIR") approved the HMO's application and a Certificate of Authority to operate a HMO in the State of Florida ("COA") on April 22, 2005. The HMO recorded its first revenue in the third quarter of 2005.

Effective July 1, 2005, the HMO entered into a contract with CMS (the "CMS Contract") to begin offering Medicare Advantage plans to Medicare beneficiaries in six Florida counties - Lee, Charlotte, Sarasota, Martin, St. Lucie and Okeechobee. Beginning January 1, 2007, the HMO began to provide services in Polk, Glades, Manatee, Marion, Lake and Sumter counties. In July 2007, the HMO was approved to operate in Collier County beginning January 1, 2008 The HMO has been marketing its "AdvantageCare" branded plan since July 2005.

The HMO is required to maintain satisfactory minimum net worth in accordance with requirements established by the Florida State Department of Insurance. The HMO is restricted from making dividend payments without appropriate regulatory notifications and approvals or to the extent such dividends would put us out of compliance with statutory capital requirements.

We continue to evaluate expanding our HMO business into other counties within Florida. However, we do not intend to provide HMO services in the geographic markets covered by the Humana Agreements. We view our HMO business as an extension of our existing core competencies.

The HMO's revenue is generated by premiums consisting of monthly payments per customer that are established by the CMS Contract.

While the HMO's business has continued to grow, such growth has required and is expected to continue to require a considerable amount of capital. We project that in 2007, the HMO's business will continue to generate a loss before allocated overhead and income taxes. The HMO's actual cash needs and losses for 2007 are expected to be strongly influenced by, among other things, the HMO's membership levels, operating costs and the Medical Expense Ratio as well as the cost and effectiveness of various marketing programs we may undertake. In July 2007, we restructured our HMO operations by closing two office locations and terminating eight employees to better match the current size of the HMO. During the first seven months of 2007, we have transferred $11.0 million to the HMO to fund the operations and growth of the HMO. See - "LIQUIDITY AND CAPITAL RESOURCES" section contained in this Form 10-Q.

To successfully operate the HMO, we believe we will have to continue our development of the following capabilities, among others: sales and marketing, medical management, customer service and regulatory compliance. No assurances can be given that we will be successful in operating this segment of our business despite our allocation of a substantial amount of resources for this purpose. If the HMO does not develop as anticipated or planned, we would likely explore strategic alternatives for the business and/or devote additional managerial and/or capital resources to the HMO, which could limit our ability to manage and/or grow the PSN. There can be no assurances that, if for any reason, we elect to discontinue the HMO business and/or seek to sell such business, we will be able to fully recoup our expenditures to date with respect to the HMO business.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Actual results may ultimately differ materially from those estimates. We believe that the following discussion addresses our most critical accounting policies, including those that are perceived to be the most important to the portrayal of our financial condition and results of operations and that require complex and/or subjective judgments by management.

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

Use of Estimates, Revenue, Expense and Receivables.

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

CMS periodically retroactively adjusts the premiums paid to us based on the updated health status of participants. The factors considered by CMS include changes in demographic factors, risk adjustment scores, customer information and adjustments required by the risk sharing requirements for prescription drug benefits under Part D of the Medicare program. In addition, CMS retroactively adjusts the number of customers enrolled in our HMO or PSN as a result of enrollment changes not yet processed, or not yet reported by Humana or CMS. These retroactive adjustments could, in the near term, materially impact the revenue that has been recorded by us for both our HMO and PSN. We record any adjustments to this revenue at the time the information necessary to make the determination of the adjustment is received from Humana or CMS and the collectibility of the amount is reasonably assured.

Medical expenses for both the PSN and HMO are recognized in the period in which services are provided and include an estimate of our obligations for medical services that have been provided to our customers but for which we have either

not yet received or processed claims, and for liabilities for physician, hospital and other medical expense disputes. We develop estimates for medical expense incurred but not reported using an actuarial process that is consistently applied. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical expense trends. The actuarial process and models develop a range of estimated medical claims payable. In accordance with FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, when no amount within the range is a better estimate than any other amount, the accrual is recorded at the low end of the range. Through March 31, 2007, we accrued to the low end of the range. During the second quarter of 2007, we determined that, based on historical results, the best estimate within the range for the PSN is the mid-range and for the HMO the best estimate continues to be the low end of the range. We estimate liabilities for physician, hospital and other medical expense disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies.

Each period, we re-examine previously established medical claims payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimate recorded in prior periods becomes more exact, we adjust the amount of our liability estimates, and include the changes in medical expense in the period in which the change is identified. In each reporting period, our operating results include the effects of more completely developed medical expense payable estimates associated with previously reported periods. While we believe our estimated medical expenses payable are adequate to cover future claims payments required, such estimates are based on claims experience to date and various assumptions. Therefore, the actual liability could differ materially from the amounts recorded.

Use of Estimates, Deferred Tax Assets.

We have recorded deferred tax assets of approximately $6.1 million at June 30, 2007. Realization of the deferred tax assets is dependent on generating sufficient taxable income in the future. In order to utilize the deferred tax assets, we would have to generate taxable income of approximately $16.1 million. We believe that our current operations will generate sufficient income to fully utilize this asset. The amount of the deferred tax asset considered realizable could change in the near term if estimates of future taxable income are modified and those changes could be material.

In the event we determine that we cannot, on a more-likely-than-not basis, realize all or part of our deferred tax assets in the future, an adjustment to establish a deferred tax asset valuation allowance would be charged to income in the period such determination is made.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006

Summary

During the three months ended June 30, 2007 and 2006 we operated in two financial reporting segments, the PSN business and the HMO business.

For the three months ended June 30, 2007 (the "2007 second quarter"), we realized revenue of $69.9 million compared to $56.9 million of revenue realized for the three months ended June 30, 2006 (the 2006 second quarter), an increase of approximately $13.0 million or 23.0%. Of this increase, approximately $6.4 million related to the PSN and is primarily due to a rate increase of approximately 4% in the premiums from CMS and an increase in the average medicare risk score of customers, offset by a decline in membership. Approximately $6.6 million of the increase is related to the HMO and is

principally the result of the increase in customer months between the first six months of 2007 and the first six months of 2006.

Our Medicare premium revenue is adjusted periodically to give effect to a risk component. Risk adjustment uses health status indicators to improve the accuracy of payments and establish incentives for plans to enroll and treat less healthy Medicare beneficiaries. Under risk adjustment methodology, managed care plans must capture, collect, and submit diagnosis code information to CMS. After reviewing the respective submissions, CMS adjusts the premium payments to Medicare plans generally at the beginning of the calendar year and in the middle of calendar year and then issues a final payment in a subsequent year.

In June 2007, the HMO was notified of a 2007 mid-year retroactive Medicare Risk Adjustment ("MRA") increase from CMS based on the increased medical risk scores of the HMO's membership. This increase is made effective June 30 and is retroactively applied to all premiums paid during the first half of 2007. As a result of this increase, the HMO realized additional revenue of $781,000 in the 2007 second quarter. Premiums for the balance of 2007 will be paid based on the new medicare risk scores. The 2006 mid-year MRA increase recorded in the 2006 second quarter was $280,000.

In July 2007 we received the final MRA increase for 2006 premiums paid by CMS to the HMO of $575,000. This amount is $340,000 higher than our recorded estimate of $235,000. The $340,000 has been recorded in revenue for the three months ended June 30, 2007.

The PSN also realized a mid-year MRA increase, however because of the larger and more established customer base we estimate the amount of future retroactive risk adjustment payments for the PSN on a monthly basis. We adjust the estimated amounts to actual when the final adjustment amount is available. At June 30, 2007, we estimate that the mid-year MRA increase will be approximately $5.9 million. This amount is recorded ratably throughout the six month period. The MRA increase recorded in the first six months of 2006 was $3.5 million.

Total medical expense for the 2007 second quarter was $61.1 million, an increase of $10.2 million over the 2006 second quarter. Our ratio of medical expense to revenue (the "Medical Expense Ratio") decreased to 87.4% in the 2007 second quarter compared to 89.5% in the 2006 second quarter. As discussed below, included in total medical expense for the three month period ended June 30, 2007, is a $1.1 million change in estimate relating to the PSN's estimated medical claims payable (see below). This change increased total medical expense by $1.1 million, increased the Medical Expense Ratio by 1.8% and reduced net income per common share basic and diluted by $.01 for the 2007 second quarter.

We currently estimate that claims paid for the PSN and HMO subsequent to March 31, 2007 for services provided prior to that date will exceed the consolidated estimated medical expenses payable recorded at that date by approximately $450,000. This is less than 1% of consolidated total medical expense recorded for the quarter ended June 30, 2007. We also estimate that claims paid for the PSN and HMO subsequent to March 31, 2006 for services provided prior to that date will exceed the consolidated estimated medical expenses payable recorded at that date by approximately $750,000. This is approximately 1.5% of consolidated total medical expense recorded for the quarter ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

Income before income tax expense for the 2007 second quarter was $2.6 million compared to $656,000 in the 2006 second quarter. Net income for the 2007 second

quarter was $1.5 million compared to $404,000 for the 2006 second quarter. Our results of operations for the 2007 and 2006 second quarters are negatively impacted by the losses related to the operations of our Medicare Advantage HMO.

Net earnings per common share, basic and diluted was $0.03 for the 2007 second quarter and $.01 for the 2006 second quarter.

The PSN reported a segment gain before income taxes and allocated overhead of $6.6 million for the 2007 second quarter, as compared to a gain of $4.5 million in the 2006 second quarter an increase of $2.1 million or 46.7%. The HMO segment incurred a net loss before income taxes and allocated overhead of $1.7 million for the 2007 second quarter, compared to a net loss before income taxes and allocated overhead of $2.2 million in the 2006 second quarter. Allocated overhead was $2.3 million and $1.6 million in the 2007 and 2006 second quarters, respectively.

Customer Information

The table set forth below provides (i) the total number of customers to whom we were providing healthcare services through the PSN and HMO as of June 30, 2007 and June 30, 2006 and (ii) the aggregate customers months of the PSN and the HMO during the second quarter of 2007 and 2006. Customer months refer to the aggregate number of customers to whom we are providing healthcare services for each month during the period.

	June 30, 2007		June 30, 2006	
	Members at End of Period	Member Months For Quarter	Members at End of Period	Member Months for Quarter
PSN	25,300	76,600	25,900	77,600
HMO	5,100	15,200	3,100	8,400
Total	30,400	91,800	29,000	86,000

Revenue

The following table provides a breakdown of our sources of revenue by segment for the 2007 second quarter and the 2006 second quarter:

	Three Months Ended June 30		$
	2007	2006	Increase
PSN revenue from Humana	$ 56,316,000	$ 49,906,000	$ 6,410,000
PSN fee-for-service revenue	346,000	330,000	16,000
Total PSN revenue	56,662,000	50,236,000	6,426,000

Percentage of total revenue	81.0%	88.3%	
HMO revenue	13,275,000	6,646,000	6,629,000
Percentage of total revenue	19.0%	11.7%	
Total revenue	$ 69,937,000	$ 56,882,000	$ 13,055,000

The PSN's most significant source of revenue during both the 2007 and 2006 second quarters was the premium revenue generated pursuant to the Humana Agreements (the "Humana Related Revenue"). The Humana Related Revenue increased from $49.9 million in the 2006 second quarter to $56.3 million in the 2007 second quarter, an increase of approximately 12.8%.

The PSN's average per customer per month premium in the 2007 second quarter was approximately $739, an increase of approximately $92 or 14.2% per customer over the 2006 second quarter per customer per month premium of $647. This increase is due to a rate increase of approximately 4% in the premium payment from CMS and an increase in the average medicare risk score of customers, offset by a decline in membership.

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

HMO revenue for the 2007 second quarter was $13.3 million as compared to $6.6 million in 2006. The HMO was in its early stages of development in the 2006 second quarter. The increase in revenue is primarily attributable to the increase in customer months between the 2007 and 2006 second quarters. Revenue per customer per month for the HMO increased from $787 for the 2006 second quarter to $872 for the 2007 second quarter, an increase of 10.8%. This increase is a combination of a rate increase in the premium payments from CMS of 5.5% and an increase in the average medical risk scores of customers.

In June 2007, the HMO realized a mid-year retroactive Medicare Risk Adjustment ("MRA") increase from CMS based on the increased medical risk scores of the HMO's membership. This increase is made effective June 30 and is retroactively applied to all premiums paid in the first half of the year. As a result of this increase, the HMO realized additional revenue of $781,000 in the 2007 second quarter. Premiums for the balance of 2007 will be paid based on the new medical risk scores. The 2006 mid-year MRA increase recorded in the 2006 second quarter was $280,000.

In July 2007 we received the final MRA increase for 2006 premiums paid by CMS to the HMO of $575,000. This amount is $340,000 higher than our recorded estimate at December 31, 2006 of $235,000. The $340,000 has been recorded in revenue for the three month period ended June 30, 2007.

Medical Expense

	Three Months Ended June 30		Increase
	2007	2006	(Decrease)

PSN medical expense	$ 49,225,000	$ 44,863,000	$ 4,362,
HMO medical expense	11,881,000	6,031,000	5,850,
Consolidated total medical expense	$ 61,106,000	$ 50,894,000	$ 10,212,
PSN Medical Expense Ratio	86.9%	89.3%	
HMO Medical Expense Ratio	89.5%	90.8%	
Consolidated Medical Expense Ratio	87.4%	89.5%	

Total Medical Expense

Total medical expense represents the total cost of providing patient care and is comprised of two components, medical claims expense and medical center costs. Medical claims expense includes such costs as inpatient and outpatient services, pharmacy benefits and physician services by providers other than the PSN's owned affiliated providers ("Non-Affiliated Providers"). Medical center costs represent the operating costs of the physician practices owned by the PSN. Approximately $58.3 million or 95.4% of our total medical expense in the 2007 second quarter and $48.3 million or 95.0% of total medical expense in the 2006 second quarter are attributable to medical claims.

Total medical expense was $61.1 million and $50.9 million for the 2007 and 2006 second quarters, respectively. Our Medical Expense Ratio decreased from 89.5% in the 2006 second quarter to 87.4% in the 2007 second quarter. As discussed below, included in total medical expense for the three month period ended June 30, 2007, is a $1.1 million change in estimate relating to the PSN's estimated medical claims payable (see below). This change increased total medical expense by $1.1 million, increased the Medical Expense Ratio by 1.8% and reduced net income per common share basic and diluted by $.01 for the 2007 second quarter.

We currently estimate that claims paid for the PSN and HMO subsequent to March 31, 2007 for services provided prior to that date will exceed the consolidated estimated medical expenses payable recorded at that date by approximately $450,000. This is less than 1% of consolidated total medical expense recorded for the quarter ended June 30, 2007. We also estimate that claims paid for the PSN and HMO subsequent to March 31, 2006 for services provided prior to that date will exceed the consolidated estimated medical expenses payable recorded at that date by approximately $750,000. This is approximately 1.5% of consolidated total medical expense recorded for the quarter ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

The Humana Agreements provide that the PSN is financially responsible for all medical services provided to the Humana Participating Customers. The PSN's total medical expense in the 2007 second quarter was $49.2 million compared to $44.9 million in the 2006 second quarter, an increase of approximately $4.4 million. The Medical Expense Ratio for the PSN segment improved to 86.9% in the 2007 second quarter as compared to 89.3% in the 2006 second quarter and 88.4% for the year ended December 31, 2006.

During 2006, the PSN implemented various medical management techniques to improve the medical management of our customers. Some of these techniques included chart audits for all PSN Physicians, increased focus on certain elements of our Partners in Quality Program, implementation of an outreach program for our more acutely ill customers in an effort to better manage the

care for these individuals and the development of a comprehensive recovery plan for customers that had serious events, such as hospitalizations or significant procedures.

The actuarial process and models develop a range of estimated medical claims payable. At June 30, 2007, estimated medical claims payable for the PSN was determined to be between $12.3 million and $15.0 million and we recorded a liability of $13.4 million. In accordance with FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, when no amount within the range is a better estimate than any other amount, the accrual is recorded at the low end of the range. Through March 31, 2007, we accrued to the low end of the range. During the second quarter of 2007, we determined that, based on historical results, the best estimate within the range for the PSN is the mid-range. The change from the low-end of the range to the mid-range increased total medical expense in the 2007 second quarter by $1.1 million which increased the PSN's medical expense ratio by approximately 2.2% and its medical expense per customer by approximately $14.00 in the 2007 second quarter.

Included in the PSN's 2007 second quarter's medical expense is a charge of $370,000 reflecting the amount that we currently estimate claims paid for services incurred prior to March 31, 2007 exceeded the estimated medical claims payable at that date. This represents less than 1% of the PSN's total medical expense for the 2007 second quarter. Claims paid by the PSN in the second quarter of 2006 related to services provided prior to March 31, 2006 exceeded the estimated medical claims payable recorded at March 31, 2006 by approximately $420,000, less than 1% of the PSN's total medical expense for the 2006 second quarter. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

On a per customer per month basis, total medical expense for the PSN in the 2007 second quarter was $642 as compared to $578 in the 2006 second quarter. This $64 increase is primarily a result of increased rates paid to hospitals and an increase in the intensity of the health services required by our customers as indicated by the increase in the risk scores of these members.

Approximately $2.8 million of our total medical expense in the 2007 second quarter related to physician practices we own as compared to $2.5 million in the 2006 second quarter.

Total medical expense for the HMO was $11.9 million in the 2007 second quarter compared to $6.0 million in the 2006 second quarter. The increase in the 2007 second quarter of 97.0% is due primarily to the substantial increase in the number of HMO customer months between the 2007 and 2006 second quarters.

The HMO's Medical Expense Ratio in the 2007 second quarter was 89.5% as compared to 90.8% in the 2006 second quarter and 102.4% for the year ended December 31, 2006. Estimated medical claims payable for the HMO at June 30, 2006 will ultimately settle for approximately $700,000 more than originally estimated. Including the impact of this change in estimate in the HMO's 2006 second quarter's total medical expense would increase the HMO's Medical Expense Ratio to 101.5%. There is no significant impact of prior period claims in the 2007 second quarter. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

At June 30, 2007, we determined that the range for estimated medical claims payable for the HMO was between $5.6 million and $6.3 million and we recorded a liability of $5.6 million. Based on historical results, we believe that the low

end of the range continues to be the best estimate within the range for the HMO.

Other Expenses

	Three Months Ended June 30 2007	2006	Increase (Decrease)
Payroll, payroll taxes and benefits	$ 3,376,000	$ 2,555,000	$ 821,
Percentage of total revenue	4.8%	4.5%	
Marketing and advertising	422,000	1,022,000	($600,
Percentage of total revenue	0.6%	1.8%	
General and administrative	2,702,000	1,977,000	$725,
Percentage of total revenue	3.9%	3.5%	
Total operating expenses	$ 6,500,000	$ 5,554,000	$ 946,

Payroll, Payroll Taxes and Benefits

Payroll, payroll taxes and benefits include salaries and related costs for our executive, administrative and sales staff. For the 2007 second quarter, payroll, payroll taxes and benefits were $3.4 million, compared to $2.6 million for the 2006 second quarter, an increase of approximately $821,000. Payroll, payroll taxes and benefit costs associated with the HMO segment and corporate accounted for substantially all of this increase.

As the HMO customer base has grown, we also increased our HMO staff from 49 at December 31, 2005 to 70 at June 30, 2007. These employees were added to meet the operational needs of the of the HMO's growing membership. The increase in full time employees resulted in payroll, payroll taxes and benefits attributable to the HMO increasing to $1.4 million in the 2007 second quarter as compared to $1.0 million in the 2006 second quarter, a 33.1% increase.

Included in corporate salary expense for the second quarter of 2007 is approximately $500,000 of severance benefits payable pursuant to the Separation Agreement we entered in to with our former President and Chief Operating Officer in April 2007.

In July 2007, we communicated to affected employees a restructuring plan designed to reduce costs and improve operating efficiencies. The restructuring plan, expected to be complete by the end of August 2007, is anticipated to include the closure of two of the HMO's office locations, one PSN medical practice and a workforce reduction involving 16 employees. In connection with this plan, we expect to record approximately $600,000 of restructuring costs during the third quarter of 2007, including approximately $150,000 of cash for severance payments.

Marketing and Advertising

Marketing and advertising expense includes advertising expenses and commissions. For the 2007 second quarter, marketing and advertising expense was $422,000 as compared to $1.0 million for the 2006 second quarter, a decrease of 58.7%. In 2006, CMS instituted a limited enrollment period between November and March for

Medicare Advantage plans. This change in the enrollment period results in a more focused marketing effort for the HMO and a disproportionate portion of advertising expenses being incurred in the first and last quarters of the year. In 2006, new members could be enrolled throughout the year and advertising costs were incurred ratably throughout the year.

General and Administrative

General and administrative expenses for the 2007 second quarter totaled $2.7 million, an increase of $725,000, or 36.7% over the 2006 second quarter.

Approximately $585,000 of the increase in general and administrative costs is attributable to the growth of the HMO. The HMO realized increased costs of $300,000 relating to claims processing as the number of customers has grown and increased professional services fees of $255,000 primarily attributable to the 2008 CMS bid process and costs for actuarial reports related to the determination of the quarterly estimated medical claims expense.

Corporate general and administrative costs for the 2007 second quarter were approximately $1.0 million as compared to $866,000 for the 2006 second quarter, an increase of 18.6%. Approximately $150,000 of the increase relates to an increase in professional service costs and $50,000 is a result of an increase in depreciation expense. These increases were offset by a reduction in other expenses.

Under the restructuring plan we implemented in July 2007, we expect that we will incur a charge of approximately $370,000 for continuing lease obligations on closed office locations and approximately $80,000 for the write-off of certain fixed assets and other associated costs in the third quarter of 2007.

Other Income (Expense)

We realized other income of $306,000 in the 2007 second quarter as compared to $223,000 in the 2006 second quarter. The increase was primarily as a result of an increase in investment income as we had more cash to invest and an increase in interest rates as compared to 2006. Cash is invested in highly liquid securities, primarily certificates of deposits with short term maturities and money market fund. We expect to continue to invest our excess cash in this manner for the remainder of 2007.

Income taxes

Our effective tax rate was 41.9%% in the 2007 second quarter and 38.4% in the 2006 second quarter. The increase in the effective income tax rate in 2007 is a result of a decrease in the estimated tax benefit of certain deferred tax assets.

COMPARISON OF RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006

Summary

During the six months ended June 30, 2007 and 2006, we operated in two financial reporting segments, the PSN business and the HMO business.

For the six months ended June 30, 2007, we realized revenue of $138.0 million compared to $111.6 million of revenue realized for the six months ended June 30, 2006, an increase of approximately $26.4 million or 23.6%.

Of this increase, approximately $13.4 million related to the PSN and is primarily due to a rate increase of approximately 4% in the premiums from CMS and an increase in the medicare risk scores of customers, offset by a decline in membership. Approximately $13.0 million of the increase is related to the HMO and is principally the result of the increase in customer months between the first six months of 2007 and the first six months of 2006.

In July 2007 we received the final MRA increase for 2006 premiums paid by CMS to the HMO of $575,000. This amount is $340,000 higher than our recorded estimate of $235,000. The $340,000 has been recorded in revenue for the six month period ended June 30, 2007.

Total medical expense for the first six months of 2007 was $121.3 million, an increase of $20.8 million over the first six months of 2006. Our ratio of total medical expense to revenue (the "Medical Expense Ratio") decreased to 87.9% for the first six months of 2007 compared to 90.0% in 2006. As discussed below, included in total medical expense for the six month period ended June 30, 2007 is a $1.1 million change in estimate relating to the PSN's estimated medical claims payable. This change increased total medical expense by $1.1 million, increased the consolidated medical expense ratio by .9% and reduced net income per common share basic and diluted by $.01 for the six month period ended June 30, 2007.

We currently estimate that, on a consolidated basis, 2006 claims paid in 2007 will exceed the amount originally recorded as estimated medical expenses payable at December 31, 2006 by $1.3 million. This amount increased total medical expense by approximately 1.1% for the six months ended June 30, 2007. We also estimate that, on a consolidated basis 2005 claims paid in 2006 will exceed the amount originally recorded as estimated medical expenses payable at December 31, 2005 by $1.2 million. This amount increased total medical expense by approximately 1.2% for the six months ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

Income before income taxes for the first six months of 2007 was $3.0 million compared to $1.1 million for the first six months of 2006. Net income for the first six months of 2007 was $1.8 million compared to $661,000 for the first six months of 2006. Our results of operations for the first six months of 2007 and 2006 are negatively impacted by the losses related to the operations of our Medicare Advantage HMO.

Net earnings per common share, basic and diluted was $0.03 for the first six months of 2007 and $0.01 for the first six months of 2006.

The PSN reported a segment gain before income taxes and allocated overhead of $13.1 million for the first six months of 2007, as compared to $8.5 million for the first six months of 2006, an increase of $4.6 million or 54.1%. The HMO segment incurred a net loss before income taxes and allocated overhead of $5.6 million for the first six months of 2007, compared to a net loss before income taxes and allocated overhead of $4.2 million in the first six months of 2006. Allocated overhead was $4.5 million and $3.2 million for the first six months of 2007 and 2006, respectively.

Customer Information

The table set forth below provides (i) the total number of customers to whom we were providing healthcare services through the PSN and HMO as of June 30, 2007 and June 30, 2006 and (ii) the aggregate customers months of the PSN and the HMO during the first six months of 2007 and 2006. Customer months refer to the aggregate number of customers to whom we are providing healthcare services for each month during the period.

	June 30, 2007		June 30, 2006	
	Members at End of Period	Member Months YTD	Members at End of Period	Member Months YTD
PSN	25,300	153,400	25,900	155,100
HMO	5,100	28,700	3,100	14,400
Total	30,400	182,100	29,000	169,500

Revenue

The following table provides a breakdown of our sources of revenue by segment for year to date 2007 and 2006:

	Six Months Ended June 2007	2006	$ Increase
PSN revenue from Humana	$ 113,061,000	$ 99,608,000	$ 13,453,000
PSN fee-for-service revenue	694,000	705,000	(11,000)
Total PSN revenue	113,755,000	100,313,000	13,442,000
Percentage of total revenue	82.4%	89.8%	
HMO revenue	24,283,000	11,336,000	12,947,000
Percentage of total revenue	17.6%	10.2%	
Total revenue	$ 138,038,000	$ 111,649,000	$ 26,389,000

The PSN's most significant source of revenue during both the first six months of 2007 and 2006 was the premium revenue generated pursuant to the Humana Agreements (the "Humana Related Revenue"). The Humana Related Revenue increased from $99.6 million in the first six months of 2006 to $113.1 million in the first six months of 2007, an increase of approximately 13.5%.

The PSN's average per customer per month premium in the first six months of 2007 was approximately $742, an increase of approximately $95 or 14.7% per customer over the first six months of 2006 per customer per month revenue of $647. This increase is due to an increase of approximately 4% in the premium payment from CMS and an increase in the average medicare risk score of the PSN's customers, offset by a decline in membership.

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

HMO revenue was $24.3 million for the first six months of 2007 as compared to $11.3 million in the first six months of 2006. The HMO was in its early stages of development in the first six months of 2006. The increase in revenue is primarily attributable to the increase in customer months between the first six months of 2006 and the first six months of 2007. Revenue per customer per month for the HMO increased to $845 in the first six months of 2007 from $789 in the first six months of 2006, an increase of 7.1%. This increase is a combination of a rate increase of approximately 5.5% and an increase in the average medicare risk score.

In July 2007 we received the final MRA increase for 2006 premiums paid by CMS to the HMO of $575,000. This amount is $340,000 higher than our recorded estimate of $235,000. The $340,000 has been recorded in revenue for the six month period ended June 30, 2007.

Medical Expense

	Six Months Ended June 30		$ Increase
	2007	2006	(Decrease)
PSN medical expense	$ 98,853,000	$ 90,144,000	$ 8,709,000
HMO medical expense	22,437,000	10,298,000	12,139,000
Consolidated total medical expense	$ 121,290,000	$ 100,442,000	$ 20,848,000
PSN Medical Expense Ratio	86.9%	89.9%	
HMO Medical Expense Ratio	92.4%	90.9%	
Consolidated Medical Expense Ratio	87.9%	90.0%	

Total Medical Expenses

Total medical expense represents the total costs of providing patient care and is comprised of two components, medical claims expense and medical center costs. Medical claims expense includes such costs as inpatient and outpatient services, pharmacy benefits and physician services by providers other than the PSN's owned affiliated providers ("Non-Affiliated Providers"). The remaining portion of total medical expense, our medical center costs, is attributable to the costs associated with the physician practices owned by the PSN. Approximately $115.8 million or 95.5% and $95.3 million or 94.9% of our total medical expense in the first six months of 2007 and the first six months of 2006, respectively, are attributable to medical claims expense.

Total medical expense was $121.3 million and $100.4 million for the first six months of 2007 and 2006, respectively. Our Medical Expense Ratio decreased from 90.0% in the first six months of 2006 to 87.9% for the first six months of 2007. As discussed below, included in total medical expense for the six month period

ended June 30, 2007 is a $1.1 million change in estimate relating to the PSN's estimated medical claims payable. This change increased total medical expense by $1.1 million, increased the medical expense ratio by .9% and reduced net income per common share basic and diluted by $.01 for the six month period ended June 30, 2007.

We currently estimate that, on a consolidated basis, 2006 claims paid in 2007 will exceed the amount originally recorded as estimated medical expenses payable at December 31, 2006 by $1.3 million. This amount increased total medical expense by approximately 1.1% for the six months ended June 30, 2007. We also estimate that, on a consolidated basis 2005 claims paid in 2006 will exceed the amount originally recorded as estimated medical expenses payable at December 31, 2005 by $1.2 million. This amount increased total medical expense by approximately 1.2% for the six months ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense.

The Humana Agreements provide that the PSN is financially responsible for all medical services provided to the Humana Participating Customers. The Medical Expense Ratio for the PSN segment improved to 86.9% for the first six months of 2007 as compared to 89.9% for the first six months of 2006 and 88.4% for the year ended December 31, 2006. The PSN's total medical expense for the first six months of 2007 was $98.9 million, compared to $90.1 million in the first six months of 2006, an increase of approximately $8.7 million.

During 2006, the PSN implemented various medical management techniques to improve the medical management of our customers. Some of these techniques included chart audits for all PSN Physicians, increased focus on certain elements of our Partners in Quality Program, implementation of an outreach program for our more acutely ill customers in an effort to better manage the care for these individuals and development of a comprehensive recovery plan for customers that had serious events, such as hospitalizations or significant procedures.

The actuarial process and models develop a range of projected medical claims payable. At June 30, 2007, estimated medical claims payable for the PSN was determined to be between $12.3 million and $15.0 million and we recorded a liability of $13.4 million. In accordance with FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, when no amount within the range is a better estimate than any other amount, the accrual is recorded at the low end of the range. Through March 31, 2007, we accrued to the low end of the range. During the second quarter of 2007, we determined that, based on historical results, the best estimate within the range for the PSN is the mid-range of the range. The change from the low-end of the range to the mid-range increased the PSN's total medical expense in the first six months of 2007 by $1.1 million which increased the PSN's medical expense ratio for this period by 1.1% and its medical expense per customer by approximately $7.00.

Included in the PSN's medical expense the first six months of 2007 is a charge of $2.0 million reflecting the amount that we currently estimate 2006 claims paid in 2007 will exceed the amount recorded as estimated medical claims payable at December 31, 2006. This represents 2.0% of total medical expense recorded in the first six months of 2007. We estimate that the 2005 claims paid in the first six months of 2006 will exceed the estimated medical claims payable that was recorded at December 31, 2005 by approximately $900,000 or 1% of total medical expense for the six months ended June 30, 2006. The difference between the amount incurred and the estimated medical claims payable that was recorded is primarily a result of unfavorable developments in our medical claims expense.

On a per customer per month basis, total medical expense for the first six months of 2007 for the PSN was $645 as compared to $581 in the first six months of 2006. This $64 increase is primarily a result of increased rates paid to hospitals and for outpatient services and an increase in the intensity of the health services required by our customers as indicated by the increase in the risk score of these members.

Approximately $5.5 million of our total medical expense in the first six months of 2007 related to physician practices we own as compared to $5.1 million in the first six months of 2006.

Total medical expense for the HMO was $22.4 million for the first six months of 2007 as compared to $10.3 million for the first six months of 2006. The increase of $117.9% in the first six months of 2007 is substantially due to the increase in the number of HMO member months between the first six months of 2007 and the first six months of 2006.

The HMO's Medical Expense Ratio for the first six months of 2007 was 92.4% as compared to 90.9% for the first six months of 2006 and 102.4% for the year ended December 31, 2006. Based on subsequent claim payments, we have determined that the estimated medical expenses payable at June 30, 2006 was understated by approximately $1.2 million. The impact of this change in estimate on the first six months of 2006 would have been to increase the HMO's Medical Expense Ratio for the first six months of 2006 to 101.4%. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of unfavorable developments in our medical claims expense. At December 31, 2006, the HMO's estimated medical claims payable was estimated to be $4.6 million. Based on current claims data, we estimate that the estimated medical claims payable will approximate $3.8 million. This $800,000 reduced the HMO's medical claims expense in the first six months of 2007, thereby reducing the HMO's Medical Expense Ratio for the first six months of 2007's by approximately 3.3%. The difference between the amount incurred and the estimated medical claims payable that was recorded was primarily a result of favorable developments in our medical claims expense.

At June 30, 2007, we estimated that the range for estimated medical claims payable for the HMO was between $5.6 million and $6.3 million and we recorded a liability of $5.6 million. Based on historical results, we believe that the low end of the range continues to be the best estimate within the range for the HMO.

Operating Expenses

	Six Months Ended June 30		Increase
	2007	2006	(Decrease)
Payroll, payroll taxes and benefits	$ 6,703,000	$ 5,003,000	$ 1,700,000
Percentage of total revenue	4.9%	4.5%	
Marketing and advertising	2,032,000	1,996,000	$36,000
Percentage of total revenue	1.5%	1.8%	
General and administrative	5,693,000	3,549,000	$ 2,144,000
Percentage of total revenue	4.1%	3.2%	
Total operating expenses	$ 14,428,000	$ 10,548,000	$ 3,880,000

Payroll, Payroll Taxes and Benefits

Payroll, payroll taxes and benefits include salaries and related costs for our executive, administrative and sales staff. For the first six months of 2007, payroll, payroll taxes and benefits were $6.7 million, compared to $5.0 million in the first six months of 2006, an increase of $1.7 million. Approximately $1.1 million of this increase represents the cost for additional people required to accommodate the growth of the HMO. Approximately $500,000 of this increase is a result of severance costs associated with a Separation Agreement with our former President and Chief Operating Officer.

As the HMO's customer base had grown, we increased our HMO staff from 49 at December 31, 2005 to 70 at June 30, 2007. These employees were added to meet the operational needs of the HMO's growing membership. The increase in full time employees resulted in payroll, payroll taxes and benefits attributable to the HMO increasing to $3.0 million for the first six months of 2007 as compared to $1.9 million for the first six months of 2006, a 56.4% increase.

Included in corporate salary expense for the second quarter of 2007 is approximately $500,000 of severance benefits payable pursuant to the Separation Agreement we entered into with our former President and Chief Operating Officer in April 2007.

In July 2007, we communicated to affected employees a restructuring plan designed to reduce costs and improve operating efficiencies. The restructuring plan, expected to be complete by the end of August 2007, is anticipated to include the closure of two of the HMO's office locations, one PSN medical practice and a workforce reduction involving 16 employees. In connection with this plan, we expect to record approximately $600,000 of restructuring costs during the third quarter of 2007, including approximately $150,000 of cash for severance payments.

Marketing and Advertising

Marketing and advertising expense includes advertising expenses and commissions. Marketing and advertising expense was $2.0 million for the first six months of 2007 and for the first six months of 2006.

General and Administrative

General and administrative expenses for the first six months of 2007 totaled $5.7 million, an increase of $2.1 million, or 60.4% over the first six months of 2006.

The HMO incurred general and administrative costs of approximately $2.8 million for the first six months of 2007 as compared to approximately $1.5 million for the first six months of 2006 this is an increase of approximately $1.4 million or 94.6%. This increase is a direct result of the substantial growth in the HMO's membership, as this growth required additional infrastructure.

Corporate general and administrative costs for the first six months of 2007 were $2.4 million as compared to $1.6 million for the first six months of 2006, an increase of 47.8% or $771,000. Approximately $400,000 of this increase relates to an increase in professional service costs. In addition, depreciation expense increased $100,000 and fees paid to our Board of Directors increased $60,000.

Under the restructuring plan we implemented in July 2007, we expect that we will incur a charge of approximately $370,000 for continuing lease obligations on

closed office locations and approximately $80,000 for the write-off of certain fixed assets and other associated costs in the third quarter of 2007.

Other Income (Expense)

We realized other income of $690,000 for the first six months of 2007 as compared to $413,000 for the first six months of 2006. The increase was primarily as a result of an increase in investment income as we had more cash to invest and rates have increased over 2006. Cash is invested in highly liquid securities, primarily certificates of deposits with short term maturities and money market fund. We expect to continue to invest our excess cash in this manner in 2007.

Income taxes

Our effective tax rate was 41.5% for the first six months of 2007 and 38.3% for the first six months of 2006. The increase in the effective income tax rate in 2007 is a result of a decrease in the estimated tax benefit of certain deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Total cash and equivalents at June 30, 2007 was approximately $29.3 million as compared to approximately $23.1 million at December 31, 2006. Of our $29.3 million of cash and equivalents at June 30, 2007, $17.8 million was statutorily limited to use by the HMO.

We had a working capital surplus of approximately $22.7 million as of June 30, 2007 and $19.6 million at December 31, 2006.

In June 2007, the HMO received a July premium payment from CMS of approximately $4.5 million. This amount is reflected as unearned premiums on our balance sheet.

Our total stockholders' equity was approximately $33.0 million and $30.9 million at June 30, 2007 and December 31, 2006, respectively. This following comprised the changes in stockholders' equity during the first six months of 2007:

- Net income of $1.8 million;
- Stock based compensation of $321,000;
- The exercise of stock options totaling , including the related tax benefit of $239,000; and
- The impact of the adoption of Interpretation No. 48 which resulted in a charge of $437,000.

At June 30, 2006, we had no outstanding debt.

During the six months ended June 30, 2007, our cash and equivalents increased $6.2 million over the balance at December 31, 2006. Net cash provided by operating activities provided approximately $6.5 million in cash and equivalents, of which net income accounted for approximately $1.8 million. Other large sources of cash from operating activities were:

- an increase in unearned premiums of $4.5 million;
- an increase in estimated medical expenses payable of $1.1 million;
- an increase in amounts due to CMS of $1.0 million;
- an increase in accrued expenses of $889,000;

- depreciation and amortization expense of $451,000;
- a decrease in deferred income taxes of $938,000; and
- stock based compensation expense of $321,000.

These sources of cash were partially offset by the following uses of cash:

- an increase in accounts receivable of $4.4 million, primarily a result of the mid-year MRA adjustment included in due from Humana;
- the write off of uncollectible accounts of $367,000;
- an increase in prepaid expenses of $319,000; and
- a decrease in accounts payable of $292,000;

Net cash used in investing activities for the quarter ended June 30, 2007 was approximately $409,000 which related to capital expenditures made during the quarter.

Our financing activities for the quarter ended June 30, 2007 provided approximately $97,000 of cash in connection with the issuance of common stock upon the exercise of outstanding options.

We have a line of credit that expires on March 31, 2008. The outstanding balance, if any, bears interest at the bank's prime rate. The credit facility requires us to comply with certain financial covenants, including a minimum liquidity requirement of $2.0 million. The availability under the line of credit secures a $1.0 million letter of credit issued in favor of Humana. We have not utilized this line in the 2007 quarter.

Our HMO has required and continues to require a considerable amount of capital. We contributed approximately $8.5 million to the HMO during 2006 and another $11.0 million through July 2007 to finance the operations and growth of the HMO. We project that in 2007, the HMO's business will continue to generate a loss before allocated overhead and income taxes. We are continuing to commit resources in an effort to increase our HMO customer base. The HMO's actual cash needs and losses for 2007 are expected to be strongly influenced by, among other things, the HMO's membership levels, operating costs and Medical Expense Ratio as well as the scale, cost and effectiveness of various marketing programs we may undertake. In July 2007 we restructured our operations to better match the current size of the HMO. We are still not in a position to meaningfully estimate when, if ever, the HMO's business will become profitable and/or generate cash from operations. We may be required to fund the development and expansion of the HMO business, including any associated losses, for an extended period of time. Nonetheless, we anticipate that the on-going development efforts, reserve requirements and operating costs for our still developing HMO business can be funded by our current resources and projected cash flows from operations until at least December 31, 2007.

We have adopted an investment policy with respect to the investment of its cash and equivalents. The investment policy goal is to obtain the highest yield possible while investing only in highly rated instruments or investments with nominal risk of loss of principal. The investment policy sets forth a list of "Permitted Investments" and provides that the Chief Financial Officer or the Chief Executive Officer must approve any exceptions to the policy.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any Off-Balance Sheet Arrangements that have or are reasonably likely to have a current or future effect our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

SUBSEQUENT EVENT

In July 2007, we implemented a restructuring plan designed to reduce costs and improve operating efficiencies. The restructuring plan, expected to be complete by the end of August 2007, is anticipated to include the closure of two of the HMO's office locations, one PSN medical practice (the "PSN Practice"), and a workforce reduction involving 16 employees. In connection with this plan, we expect to record approximately $600,000 of restructuring costs during the third quarter of 2007, including approximately $150,000 of cash for severance payments, approximately $370,000 of cash for continuing lease obligations on closed office locations, and approximately $80,000 for the write-off of certain fixed assets and other associated costs. We project that the restructuring will enable us to reduce our related operating expenses by approximately $1.2 million per annum, with no or limited impact on the HMO's and PSN's ability to serve their existing members, respectively. At June 30, 2007, the PSN Practice being closed served approximately 450 members in South Florida. For the six months of 2007, this practice generated $2.6 million of revenue and negatively impacted the PSN's segment profit before allocated overhead and income taxes.

The restructuring costs will be accrued in the third quarter. Of the total amount, approximately $400,000 relates to the HMO with the balance of $200,000 associated with the PSN.

ITEM 3A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Intangible Asset Risk

We have intangible assets and perform goodwill impairment tests whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material charges that could be adverse to our operating results and financial position. We evaluate the continuing value of goodwill by using valuation techniques based on multiples of earnings, revenue, EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) particularly with regard to entities similar to us that have recently been acquired. We also consider the market value of our own stock and those of companies similar to ours. As of June 30, 2007 we believe our intangible assets are recoverable, however, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. We continue to monitor those assumptions and their effect on the estimated recoverability of our intangible assets.

Equity Price Risk

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

Commodity Price Risk

We do not enter into contracts for the purchase or sale of commodities. As a

result, we do not currently have any direct commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures for the period ended June 30, 2007.

Based on our evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There have been no significant changes in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 other than as set forth below.

The following text supplements the risk factors described in out Form 10-K for the fiscal year ended December 31, 2006 under the heading "Risk Factors - There Can be No Assurance that We Will be Successful in Our Operation of the HMO".

There Can be No Assurance that We Will be Successful in Our Operation of the HMO.

To successfully operate the HMO, we believe we will need to reduce its medical expenses and other operating costs as a percentage of revenue and continue to develop the following capabilities, among others: sales and marketing, medical management, customer service and regulatory compliance. No assurances can be given that we will be successful in such endeavors or in operating this segment of our business despite our allocation of a substantial amount of resources for this purpose.

The HMO's actual cash needs and losses for 2007 are expected to be strongly influenced by, among other things, the HMO's membership levels, operating costs and Medical Expense Ratio as well as the scale, cost and effectiveness of various marketing programs we may undertake.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In June 2007, we repurchased from Debra A. Finnel, who served as our President and Chief Operating Officer until April 9, 2007, options she held to purchase 800,000 shares of our Common Stock with an exercise price of $1.83 at an aggregate repurchase price of $10,000, as summarized in the table below.

Period	Total Number of Shares (or Units) Purchased*	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Nu App Doll of S Uni Ma Pu Un Pl P
June 26, 2007	Options to purchase 800,000 shares of our Common Stock	$0.0125 per share underlying the Option	0	

* As discussed above, these options were not repurchased through a publicly announced plan or program.

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

The Annual Meeting of Shareholders (the "Annual Meeting") was held at the Marriott Hotel, 1001 Okeechobee Blvd., West Palm Beach, Florida, on June 7, 2007 for the following purposes:

- To elect seven members to our Board of Directors to hold office until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified; and

- To consider and vote upon a proposal to approve of and ratify the selection of Grant Thornton LLP. as our independent auditors for the fiscal year ending December 31, 2007.

The number of outstanding shares of our Common Stock as of April 13, 2007, the record date for the Annual Meeting, was 50,270,964 shares. 42,551,565 shares of Common Stock were represented in person or by proxy at the Annual Meeting.

Pursuant to our Articles of Incorporation, shareholders are entitled to one vote for each share of Common Stock.

The following directors were elected at the Annual Meeting: (i) Michael M. Earley, (ii) Martin W. Harrison, M.D., (iii) Barry T. Zeman, (iv) Karl M. Sachs, (v) Eric Haskell, (vi) Robert E. Shields and (vii) David A. Florman.

The following table sets forth the number of votes cast for, against, or withheld for each director nominee, as well as the number of abstentions and broker non-votes as to each such director nominee:

Director Nominee	Votes Cast For	Votes Cast Against	Votes Withheld	Abstentions	Broker Non-Votes

Michael M. Earley	42,369,045	-	182,520	-	-
Martin W. Harrison	41,125,808	-	1,425,757	-	-
Barry T. Zeman	41,659,433	-	892,132	-	-
Karl M. Sachs	41,162,908	-	1,388,657	-	-
Eric Haskell	41,635,229	-	916,336	-	-
Robert E. Shields	42,424,645	-	126,920	-	-
David A. Florman	42,425,645	-	125,920	-	-

With respect to the proposal to approve of and ratify the selection of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007: (i) 42,491,279 votes were cast for such proposal, (ii) 35,097 votes were cast against such proposal and (iii) 25,188 shares abstained from voting on such proposal. No votes were withheld nor were there any broker non-votes with respect to such proposal. Accordingly, the proposal to approve of and ratify Grant Thornton LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007 was approved by the shareholders.

ITEM 6. EXHIBITS

3.1. Articles of Incorporation, as amended (1) 3.2 Amended and Restated Bylaws (2)

10.1 Physician Practice Management Participation Agreement, dated August 2, 2001, between Metropolitan of Florida, Inc. and Humana, Inc. (3)

10.2. Letter of Agreement, dated February 2003, between Metropolitan of Florida, Inc. and Humana, Inc. (4)

10.3. Physician Practice Management Participation Agreement, dated December 1, 1998, between Metcare of Florida, Inc. and Humana, Inc.(5)

10.4. Supplemental Stock Option Plan (6)

10.5. Omnibus Equity Compensation Plan (7)

10.6. Amended and Restated Employment Agreement between Metropolitan and Michael M. Earley dated January 3, 2005 (9)

10.7. Amended and Restated Employment Agreement between Metropolitan and Robert J. Sabo dated November 9, 2006 (10)

10.8. Amended and Restated Employment Agreement between Metropolitan and Roberto L. Palenzuela dated January 3, 2005 (9)

10.9 Employment Agreement between Metcare of Florida, Inc. and Jose A. Guethon, M.D. (5)

10.10. Form of Option Award Agreement for Option Grants to Directors pursuant to the Omnibus Compensation Plan (5)

10.11. Form of Option Award Agreement for Option Grants to Key Employees pursuant to the Omnibus Compensation Plan (5)

10.12. Form of Option Award Agreement for Option Grants to Employees pursuant to the Omnibus Compensation Plan (5)

10.13. Agreement between Metcare of Florida, Inc. and the Centers for Medicare

and Medicaid Services (5)

10.14. Transition and Severance Agreement between Metropolitan and David S. Gartner, dated August 18, 2006. (11)

10.15 Transition and Severance Agreement between Metropolitan and Debra A. Finnel, dated April 9, 2007 (12)

10.16 Summary of 2007 Director Compensation Plan*

31.1. Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

31.2. Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

32.1. Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

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* filed herewith
** furnished herewith

(1) Incorporated by reference to Metropolitan's Registration Statement on Form 8-A12B filed with the Commission on November 19, 2004 (No. 001-32361).

(2) Incorporated by reference to Metropolitan's Current Report on Form 8-K filed with the Commission on September 30, 2004.

(3) Incorporated by reference to Metropolitan's Amendment to Registration Statement on Form SB-2/A filed with the Commission on August 2,. 2001 (No. 333-61566). Portions of this document were omitted and were filed separately with the SEC on or about August 2, 2001 pursuant to a request for confidential treatment.

(4) Incorporated by reference to Metropolitan's Amendment to Annual Report for the year ended December 31, 2003 on Form 10-K/A filed with the Commission on July 28, 2004. Portions of this document have been omitted and were filed separately with the SEC on July 28, 2004 pursuant to a request for confidential treatment.

(5) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 16, 2006.

(6) Incorporated by reference to Metropolitan's Amendment to Annual Report for the year ended December 31, 2003 on Form 10-K/A filed with the Commission on July 28, 2004.

(7) Incorporated by reference to Metropolitan's Registration Statement on Form S-8 filed with the Commission on February 24, 2005 (No. 333-122976).

(8) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 22, 2004.

(9) Incorporated (by reference to our Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 22, 2005.

(10) Incorporated by reference to Metropolitan's Current Report on Form 8-K filed with the Commission on October 20, 2006.

(11) Incorporated by reference to Metropolitan's Current Report on Form 8-K filed with the Commission on August 18, 2006.

(12) Incorporated by reference to Metropolitan's Current Report on Form 8-K filed with the Commission on April 9, 2007.

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: August 6, 2007

/s/ Michael M. Earley

Michael M. Earley
Chairman, Chief Executive Officer

/s/ Robert J. Sabo
Robert J. Sabo
Chief Financial Officer