CAL-MAINE FOODS INC
Form 11-K
June 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 11-K

(mark one)

Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the annual period ended December 31, 2013

OR

Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________ to ____________

Commission File Number: 000-04892

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

CAL-MAINE FOODS, INC. KSOP

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CAL-MAINE FOODS, INC.

3320 WOODROW WILSON AVENUE

JACKSON, MS 39209

CAL-MAINE FOODS, INC. KSOP

TABLE OF CONTENTS

Report of the Independent Registered Public Accounting Firm

To Participants and the Audit Committee of the

Cal-Maine Foods, Inc. KSOP

Jackson, Mississippi

We have audited the accompanying statements of net assets available for benefits of the Cal-Maine Foods, Inc. KSOP (the "Plan") as of December 31, 2013 and 2012, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2013 and 2012, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at year end) as of December 31, 2013 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of Plan's management. This supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Frost, PLLC

Little Rock, Arkansas

June 26, 2014

2

CAL-MAINE FOODS, INC. KSOP

Statement of Net Assets Available for Benefits

December 31, 2013 and 2012

	2013	2012
Assets		
Investments, at fair value		
Cal-Maine Foods, Inc. common stock	$ 79,527,999	$ 57,524,481
Common collective trust funds	3,912,395	3,015,170
Interest-bearing cash	6,167,006	5,783,224
Money market fund	7	320,007
Mutual funds	20,572,170	14,411,839
Total investments	110,179,577	81,054,721
Receivables		
Employer contributions	70,237	-
Participant contributions	-	4,500
Notes receivable from participants	2,367,681	1,686,290
Total receivables	2,437,918	1,690,790
Total assets	112,617,495	82,745,511
Liabilities		
Excess contributions payable	-	56,583
Net assets available for benefits, at fair value	112,617,495	82,688,928
Adjustment from fair value to contract value for interest in common collective trust funds relating to fully benefit-responsive investment contracts	(1,976)	(7,444)
Net assets available for benefits	$ 112,615,519	$ 82,681,484

The accompanying notes are an integral part of these financial statements.

CAL-MAINE FOODS, INC. KSOP

Statement of Changes in Net Assets Available for Benefits

For the Years Ended December 31, 2013 and 2012

	2013	2012
Additions		
Investment income		
Interest and dividend income		
Interest	$ 4,921	$ 2,804
Dividends	1,785,564	2,316,411
Total interest and dividend income	1,790,485	2,319,215
Net change in fair value of investments		
Cal-Maine Foods, Inc. common stock	27,247,198	5,456,289
Common collective trust funds	791,279	448,129
Mutual funds	2,508,576	595,743
Total change in fair value of investments	30,547,053	6,500,161
Total investment income	32,337,538	8,819,376
Interest income on notes receivable from participants	75,604	47,341
Contributions		
Employer contributions	2,039,816	581,171
Participant contributions	1,712,915	1,016,771
Rollover	1,154,897	93,345
Total contributions	4,907,628	1,691,287
Transfer from the Cal-Maine Foods, Inc. Savings and Retirement Plan	-	18,680,704
Total additions	37,320,770	29,238,708
Deductions		
Benefits paid to participants	7,351,795	3,880,805
Excess contributions	-	56,583
Administrative expenses	34,940	86,765

Total deductions	7,386,735	4,024,153
Net increase in net assets available for benefits	29,934,035	25,214,555
Net assets available for benefits - beginning of year	82,681,484	57,466,929
Net assets available for benefits - end of year	$ 112,615,519	$ 82,681,484

The accompanying notes are an integral part of these financial statements.

4

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

1.Summary of Significant Plan Provisions

The following description of the Cal-Maine Foods, Inc. KSOP (the "Plan") provides only general information. Participants should refer to the Plan documents for a more complete description of the Plan's provisions.

a.General – Prior to April 1, 2012, the Plan was a qualified employee stock ownership plan. Effective April 1, 2012, the Cal-Maine Foods, Inc. Savings and Retirement Plan was merged into the Cal-Maine Foods, Inc. Employee Stock Ownership Plan and the Plan was restated as the Cal-Maine Foods, Inc. KSOP.

The Plan covers substantially all employees of Cal-Maine Foods, Inc. and its subsidiaries (collectively, the "Company"). It is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

b.Eligibility – Each employee, except leased employees, collective bargaining employees, contract employees, and employees of independent contractors shall become eligible to participate in the Plan on the entry date next following or coinciding with the employee attaining 21 years of age and one year of service during which the employee accrues 1,000 hours or more of service. Entry dates are January 1, April 1, July 1 and October 1.

c.Contributions – The Company can make contributions up to the maximum amount deductible under Section 404(a)(3)(A) of the Internal Revenue Code ("IRC"), with the maximum amount allocated to a participant not to exceed the annual addition limitation established annually by the IRC. During the years ended December 31, 2013 and 2012, the Company made safe harbor contributions equal to 3% of eligible compensation. In addition to the 3% required contribution, the Company could make an additional contribution. The Company did not make an additional contribution for the years ended December 31, 2013 or 2012. The Company's contributions may be in cash or common stock. For the years ended December 31, 2013 and 2012, all contributions were made in cash.

Prior to April 1, 2012, participant salary deferral contributions were not allowed. Effective April 1, 2012, participants may contribute salary deferrals to the Plan through payroll deductions. Participants may elect to have compensation deferred up to the maximum allowable by the IRC.

d.Participant accounts – Each participant's account is credited with the participant contributions and an allocation of (a) the Company's contributions, (b) Plan earnings/losses, and is charged with applicable withdrawals and an allocation of administrative expenses. Allocations are based on the participant's compensation, contributions or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

A participant, alternate payee of a participant, or beneficiary of a deceased participant has the immediate right to elect to diversify any publicly traded employer securities held in their Company stock account attributable to participating Company contributions and any publically traded securities held in their safe harbor nonelective contribution Company stock account and reinvest the proceeds in any other investments available under the Plan.

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

1.Summary of Significant Plan Provisions (cont.)

e.Vesting – A participant's interest in Company contributions vests immediately.

f.Investment options – Effective April 1, 2012, participants may direct the investment of their interest in the Plan into the investment options offered under the Plan. Participants may change their investment selections at any time via internet or direct phone access to the SunTrust Benefits Service Center.

g.Notes receivable from participants – Participants may borrow from their accounts a minimum of $1,000 up to a maximum of the lesser of $50,000 or 50% of the vested interest in their account balance. Note terms range from one to five years or up to 15 years for the purchase of a primary residence. The notes are secured by the balance in the participant's account and bear interest at a rate determined by the Plan Administrative Committee equivalent to that charged by major financial institutions in the community. Principal and interest is paid ratably through weekly or biweekly payroll deductions.

h.Payment of benefits – Benefits are generally payable on termination, retirement, death or disability. If the participant's vested balance is $1,000 or less, it will be automatically distributed. In-service withdrawals are allowed from all participant accounts if the participant has attained age 59½, at any time from a participant's rollover account, or once a year from a participant's non-safe harbor Company stock account and non-elective deferral Company Stock Account for participants with five or more years of participation.

Distributions from a participant's Company stock account are made either in cash or Company stock, as elected by the participant. Non-company stock accounts are distributed in lump sum or installments.

i.Voting rights of stock – Each participant shall have the right to direct the committee or trustee as to the manner in which whole and partial shares of the Company's stock allocated to their accounts as of the record date are to be voted in each matter brought before an annual or special shareholders' meeting.

j.Termination of the Plan – Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

2.Summary of Significant Accounting Policies

a. Basis of accounting – The accompanying financial statements are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in investment contracts through common collective trust funds. The common collective trust funds are considered fully benefit-responsive. Contract value for these common collective trust funds is based on earnings and contributions to the funds, less withdrawals from the funds. The statement of net assets available for benefits presents the fair value of the investment in the common collective trust funds, as well as the adjustment of the investment in the common collective trust funds, from fair value to contract value relating to the investment contracts. The statement of changes in net assets available for benefits is prepared on a contract value basis. Certain events limit the ability of the Plan to transact at contract value with the issuer. However, management of the Plan does not believe that such events are probable of occurring.

b. Estimates – 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 certain reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

c.Investment valuation and income recognition – Investments are reported at fair value. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net change in fair value includes the Plan's gains and losses on investments bought and sold, as well as held during the year.

d.Notes receivable from participants – Notes receivable from participants are measured at their unpaid principal balance plus any accrued, but unpaid, interest. Delinquent notes receivable from participants are recorded as a distribution based upon the terms of the Plan documents.

e.Payment of benefits – Benefits are recorded when paid.

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

2.Summary of Significant Accounting Policies (cont.)

f.Administrative expenses – During the years ended December 31, 2013 and 2012, certain administrative expenses of the Plan were voluntarily paid by the Company.

3.Investments

The following presents investments that represent 5% or more of the Plan's net assets available for benefits December 31, 2013 and 2012:

	2013	2012
Cal-Maine Foods, Inc. common stock (1,320,405 and 1,430,246 shares at December 31, 2013 and 2012, respectively)	$ 79,527,999	$ 57,524,481
SunTrust Bank FDIC Insured Account	6,167,006	5,783,224

The Plan invests in various investment securities. As of December 31, 2013 and 2012, a significant portion of the Plan's investments (71% and 70% of total Plan assets as of December 31, 2013 and 2012, respectively) were held in the Company's common stock. Investment securities are exposed to various risks such as interest rate and market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

4.Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is categorized based on a hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

4. Fair Value Measurements (cont.)

Level 1Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 or 2012:

Interest-bearing cash: This investment is valued at historical cost, which approximates fair value.

Money market fund: This investment is valued at the fair value of the underlying investments, which are valued based on quoted market prices at the end of the Plan year. The underlying investments' objective is to achieve a $1 per share value.

Common stock and mutual funds: These investments are valued based on quoted market prices at the end of the Plan year.

Common collective trust funds: These investments are valued based on the net asset value ("NAV") of units held by the Plan at year end, as calculated by the issuer. NAV is calculated based on the fair value of the underlying assets owned by the fund, minus its liabilities, divided by the number of units outstanding.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

4. Fair Value Measurements (cont.)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value.

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Cal-Maine Foods, Inc. common stock	$ 79,527,999	$ -	$ -	$ 79,527,999
Common collective trust funds	-	3,912,395	-	3,912,395
Interest-bearing cash	6,167,006	-	-	6,167,006
Money market fund	-	7	-	7
Mutual funds				
Bond	2,624,830	-	-	2,624,830
Large blend	1,523,967	-	-	1,523,967
Large growth	441,509	-	-	441,509
Large value	5,659,974	-	-	5,659,974
Mid-Cap value	1,237,565	-	-	1,237,565
Small growth	1,413,811	-	-	1,413,811
Target date	7,670,514	-	-	7,670,514
	$ 106,267,175	$ 3,912,402	$ -	$ 110,179,577
December 31, 2012				
Cal-Maine Foods, Inc. common stock	$ 57,524,481	$ -	$ -	$ 57,524,481
Common collective trust funds	-	3,015,170	-	3,015,170
Interest-bearing cash	5,783,224	-	-	5,783,224
Money market fund	-	320,007	-	320,007
Mutual funds				
Bond	2,514,990	-	-	2,514,990
Large blend	1,182,573	-	-	1,182,573
Large growth	300,701	-	-	300,701

Large value	4,355,824	-	-	4,355,824
Mid-Cap blend	893,066	-	-	893,066
Small growth	692,942	-	-	692,942
Target date	4,471,743	-	-	4,471,743
	$ 77,719,544	$ 3,335,177	$ -	$ 81,054,721

10

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

4. Fair Value Measurements (cont.)

The following table summarizes investments measured at fair value based on the NAV per share.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
December 31, 2013				
Common collective trust funds*				
SunTrust Retirement 500 Index Fund	$ 3,229,032	N/A	Daily	None
Capital Preservation Fund	683,363	N/A	Daily	None
December 31, 2012				
Common collective trust funds*				
SunTrust Retirement 500 Index Fund	$ 2,584,785	N/A	Daily	None
Capital Preservation Fund	430,385	N/A	Daily	None

*These categories include funds with an objective of providing investment results and risk characteristics that approximate the overall performance of the common stocks included in the Standard and Poor's Composite Stock Price Index of 500 stocks through investment in a portfolio of stocks. Some of these funds also pursue investment objectives to provide income and capital appreciation opportunities through investment primarily in U.S. and foreign fixed income securities. The stable asset fund has an investment objective to preserve capital while seeking a reasonable stable monthly return and a high degree of liquidity for participant withdrawals. At December 31, 2013, these classes of investments consisted of approximately 81% common stock, 8% guaranteed investment contracts, 6% synthetic investment contracts, 4% short-term investments, and 1% exchanged traded funds. At December 31, 2012, these classes of investments consisted of approximately 85% common stock, 6% guaranteed investment contracts, 5% short-term investments and 4% synthetic investment contracts.

11

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

5.Tax Status

The IRS has determined and informed the Company by a letter dated July 12, 2012 that the amended and restated Plan document is designed in accordance with applicable sections of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that, more likely than not, would not be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that, as of December 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to December 31, 2010.

6.Parties-in-Interest Transactions

A significant portion of the Plan's funds are invested in the Company's common stock. As a result, the Plan's investment in the Company's common stock and investment transactions pertaining to the Company's common stock were with a party-in-interest. The Plan is also invested in common collective trust funds, a money market fund and an interest-bearing cash account with the trustee, SunTrust Bank. During the years ended December 31, 2013 and 2012, the Plan paid SunTrust Bank $56,496 and $86,765, respectively, for its services. Inasmuch as SunTrust Bank serves as a trustee of the Plan's assets, they are by definition a party-in-interest and, as a result, the investments and related investment transactions were with a party-in-interest. The Plan holds notes receivable from participants. As a result, these notes and all related transactions were with parties-in-interest. All of these transactions are exempt from being prohibited transactions under ERISA.

7.Contingencies

The Plan administrator determined that deferrals related to certain eligible compensation were not withheld from participants nor contributed to the Cal-Maine Foods, Inc. Savings and Retirement Plan for Plan years 2003-2012. The Plan administrator corrected this error using the IRS's Employee Plans Compliance Resolution System, as set forth in Revenue Procedure 2008-50. The Plan administrator had estimated the qualified nonelective contribution needed under those provisions (including required earnings adjustments) to be $1,287,155 as of March 31, 2012. This receivable is included in the transfer amount in the accompanying financial statements for the year ended December 31, 2012. The Company funded $608,795 of this receivable in December 2012. As permitted by Revenue Procedure 2008-50, the Plan administrator filed a proposal with the IRS regarding an alternative correction method. This proposal was accepted by the IRS in September 2013. As a result, the qualified nonelective contribution amount was reduced by $678,360.

12

CAL-MAINE FOODS, INC. KSOP

Notes to Financial Statements

December 31, 2013 and 2012

8.Subsequent Events Evaluation Date

Management of the Plan evaluated the events and transactions subsequent to its December 31, 2013 financial statement date and determined there were no significant events necessary for disclosure through June 26, 2014, which is the financial statement issuance date.

CAL-MAINE FOODS, INC. KSOP

Form 5500, Schedule H, Line 4i

Schedule of Assets (Held at End of Year)

December 31, 2013

(a)	(b)	Identity of issue, borrower, lessor or similar party	(c)	Description of investment including maturity date, rate of interest, collateral, par or maturity value	(e) Current value	
		Investments				
		Interest-bearing cash				
*		SunTrust Bank		FDIC Insured Account	$ 6,167,006	
		Money market fund				
		Federated Investors		Prime Obligations Fund	7	
		Common collective trust funds				
		SunTrust Bank		SunTrust Retirement 500 Index Fund	3,229,032	
*		Federated Investors		Capital Preservation Fund	681,387	**
		Total common collective trust funds			3,910,419	
		Mutual funds				
		Blackrock		Inflation Protected Bond	546,887	
		Goldman Sachs		Large-Cap Value A	2,529,014	
		Goldman Sachs		Structured US Equity A	1,523,967	
		MFS Family of Funds		Massachusetts Investors Growth	441,509	

		Stock R3	
	MFS Family of Funds	Research Bond Fund	2,077,943
	MFS Family of Funds	Total Return Fund R3	1,842,502
	Nicholas	Equity Income I	1,237,565
*	SunTrust Bank	Ridgeworth International Equity Fund I	1,288,458
*	SunTrust Bank	Ridgeworth Small-Cap Growth Stock Fund	1,413,811
	T. Rowe Price	Retirement 2010 Fund	297,702
	T. Rowe Price	Retirement 2020 Fund	2,576,792
	T. Rowe Price	Retirement 2030 Fund	3,221,190
	T. Rowe Price	Retirement 2040 Fund	1,496,253
	T. Rowe Price	Retirement 2050 Fund	78,577
	Total mutual funds		20,572,170

* - Party-in-interest

** - Amount represents contract value for this investment.

See independent auditor's report.

CAL-MAINE FOODS, INC. KSOP

Form 5500, Schedule H, Line 4i

Schedule of Assets (Held at End of Year)

December 31, 2013

(a)	(b)	Identity of issue, borrower, lessor or similar party (c)	Description of investment including maturity date, rate of interest, collateral, par or maturity value	Current (e) value
	Investments (cont.)			
		Common stock		
*		Cal-Maine Foods, Inc.	1,320,405 shares of common stock, $.01 par value	$ 79,527,999
*		Participant loans	Interest rates ranging from 3.25% to 8.25% with varying maturity dates	2,367,681
		Total investments		$ 112,545,282

* - Party-in-interest

** - Amount represents contract value for this investment.

See independent auditor's report.

15

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

CAL-MAINE FOODS, INC. KSOP

Date: June 26, 2014 /s/ Allen E. Holland
Allen E. Holland
Director of Human Resources

16

EXHIBIT INDEX

Exhibit Number	Description
23	Consent of Independent Registered Public Accounting Firm

M: #ffffff" width="2%">

Debra A. Finnel

2004

$

250,000

$

125,000

800,000

$

4,333

President & COO

2003

$

250,000

$

160,000

350,000

-

2002

$
250,000
-
-
-

David S. Gartner

2004

$
160,000

$
75,000

150,000

$
4,333

Chief Financial Officer

2003

$
144,000

$
60,000

180,000

-

2002

$
120,000

-

-

-

Roberto L. Palenzuela (2)

2004

$

129,000

$

60,000

250,000

$

1,867

Secretary & General Counsel

---

(1) Mr. Earley became Metropolitan's President and Chief Executive Officer effective March 10, 2003. The 2003 salary figure above is based on an annualized salary of $130,000.

(2) Mr. Palenzuela became Metropolitan's Secretary and General Counsel effective March 8, 2004. The 2004 salary figure above is based on an annualized salary of $160,000.

(3) Each of Mr. Earley, Ms. Finnel and Mr. Gartner were awarded a bonus in the amount of $60,000 on March 19, 2004 for services provided during the 2003 fiscal year. Ms. Finnel received an additional bonus in 2003 in the amount of $100,000. The board has approved bonuses of $125,000 each for Mr. Earley and Ms. Finnel, $75,000 for Mr. Gartner and $60,000 for Mr. Palenzuela for services rendered in 2004. The bonuses will be paid by Metropolitan 65% in cash and 35% in Metropolitan Common Stock, based on the per share closing price of the Common Stock on December 31, 2004. As of the date of this filing, these bonuses have not been paid**.**

(4) Metropolitan's 401(k) Plan was adopted in 2004. The amounts disclosed in this column represent Metropolitan's annual contribution for the fiscal year 2004 to each Named Executive Officer's plan. Metropolitan matched each Named Executive Officer's contribution by 33.3%.

Options granted in the Year Ended December 31, 2004 to Named Executive Officers

Name	**Number of Securities Underlying Options**	**Percent of Total Options Granted to Employees in Fiscal Year (1)**	**Exercise or Base Price ($/Share)**	**Expiration Date**	**Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation For Option Term**	
					5%	**10%**
Michael M. Earley	400,000	17.39%	$ 1.83	11/5/14	$ 460,351	$ 1,166,619
Debra A. Finnel	800,000	34.79%	$ 1.83	11/5/14	$ 920,702	$ 2,333,239
David S. Gartner	150,000	6.52%	$ 1.83	11/5/14	$ 172,632	$ 437,482
Roberto L. Palenzuela	50,000	2.17%	$ 0.67	3/8/10	$ 11,393	$ 25,847
	50,000	2.17%	$ 0.67	3/8/11	$ 13,638	$ 31,782
	50,000	2.17%	$ 0.67	3/8/12	$ 15,995	$ 38,310
	100,000	4.35%	$ 1.83	11/5/14	$ 115,088	$ 291,655

(1) A total of 2,299,800 options were granted to employees of Metropolitan in the fiscal year ended December 31, 2004. Included in this number are 1,200,000 options that were granted to two directors who are also employees of Metropolitan.

Aggregated Options Exercises in Fiscal 2004 and Fiscal Year Ending Option Values

The following table sets forth certain information as to the exercise of stock options during fiscal year 2004 by each of the Named Executive Officers and the value of unexercised stock options held by each of the Named Executive Officers at the end of fiscal year 2004. No Named Executive Officer held outstanding stock appreciation rights during or at the end of fiscal year 2004 .

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options At Fiscal Year-End ($) Exercisable/ Unexercisable (1)
Michael M. Earley	0	$0	298,334/516,666	$700,618/$689,332
Debra A. Finnel	0	$0	800,000/800,000	$1,766,500/$800,000
David S. Gartner	0	$0	180,000/150,000	$446,400/$150,000
Roberto L. Palenzuela	0	$0	0/250,000	$0/$424,000

(1) The closing sale price of the Common Stock on December 31, 2004 as reported by the American Stock Exchange was $2.83 per share. Value is calculated by multiplying (a) the difference between $2.83 and the option exercisable price by (b) the number of shares of Common Stock underlying.

Employment Agreements

Metropolitan is a party to employment agreements with Michael M. Earley, Chairman and Chief Executive Officer, Debra Finnel, President and Chief Operating Officer, David S. Gartner, Chief Financial Officer, and Roberto L. Palenzuela, General Counsel and Secretary.

In 2004, Metropolitan was a party to an employment agreement with Michael M. Earley, Chairman and Executive Officer, which was amended and restated effective January 3, 2005. The initial term of Mr. Earley's current employment agreement is for one year and is automatically renewable for successive one year terms, unless earlier terminated in accordance with the terms of the agreement. The agreement calls for an annual base salary of $300,000 to be reviewed annually. Metropolitan's Board of Directors in its sole discretion may increase Mr. Earley's salary and award bonuses and options to Mr. Earley at any time. The agreement also provides for an automobile allowance in the amount of $800 per month, a telephone allowance in the amount of $250 per month, vacation, participation in all benefit plans offered by Metropolitan to its executives and the reimbursement of reasonable business expenses The agreement also contains non-disclosure, non-solicitation and non-compete restrictions. The non-solicitation and non-compete restrictions survive for a period of two years and one year, respectively, following the date of termination. Either party may terminate the contract at any time.

From 2001 through the end of 2004, Metropolitan was a party to an employment agreement with Debra A. Finnel, President and Chief Operating Officer, which was amended and restated effective January 3, 2005. The initial term of Ms. Finnel's current employment agreement is for one year and is automatically renewable for successive one year terms, unless earlier terminated in accordance with the terms of the agreement. The agreement calls for an annual base salary of $300,000 to be reviewed annually. Metropolitan's Board of Directors in its sole discretion may increase Ms. Finnel's salary and award bonuses and options to Ms. Finnel at any time. The agreement also provides for an automobile allowance in the amount of $1,500 per month, a telephone allowance in the amount of $250 per month, vacation, participation in all benefit plans offered by Metropolitan to its executives and the reimbursement of reasonable expenses incurred in the course of the business of Metropolitan. The agreement also contains non-disclosure, non-solicitation and non-compete restrictions. The non-solicitation and non-compete restrictions continue for a period of one year following the date of termination. Either party may terminate the agreement at any time.

In 2004, Metropolitan was a party to an employment agreement with David S. Gartner, Chief Financial Officer, which was amended and restated effective January 3, 2005. The initial term of Mr. Gartner's current employment agreement is for one year and is automatically renewable for successive one year terms, unless terminated in accordance with the terms of the agreement. The agreement calls for an annual base salary of $190,000 to be reviewed annually. Metropolitan's Board of Directors may in its sole discretion increase Mr. Gartner's salary and award bonuses and options to Mr. Gartner at any time. The agreement also provides for an automobile allowance in the amount of $500 per month, a telephone allowance in the amount of $100 per month, vacation, participation in all benefit plans offered by Metropolitan to its executives and the reimbursement of reasonable business expenses The agreement also contains non-disclosure, non-solicitation and non-compete restrictions. The non-solicitation and non-compete restrictions survive for a period of two years and one year, respectively, following the date of termination. Either party may terminate the agreement at any time.

In 2004, Metropolitan was a party to an employment agreement with Roberto L. Palenzuela, General Counsel and Secretary, which was amended and restated effective January 3, 2005. The initial term of Mr. Palenzuela's current employment agreement is for one year and is automatically renewable for successive one year terms, unless earlier terminated in accordance with the terms of the agreement. The agreement calls for an annual base salary of $190,000 to be reviewed annually. Metropolitan's Board of Directors in its sole discretion may increase Mr. Palenzuela's salary and award bonuses and options to Mr. Palenzuela at any time. The agreement also provides for an automobile allowance in the amount of $500 per month, a telephone allowance in the amount of $100 per month, vacation, participation in all benefit plans offered by Metropolitan to its executives and the reimbursement of reasonable expenses incurred in the course of the business of Metropolitan. The agreement also contains non-disclosure, non-solicitation and non-compete restrictions. The non-solicitation and non-compete restrictions survive for a period of two years and one year, respectively, following the date of termination. Either party may terminate the agreement at any time.

In the event that any one of Mr. Earley, Ms. Finnel, Mr. Gartner or Mr. Palenzuela (i) is terminated by Metropolitan without cause, (ii) dies or becomes disabled, (iii) terminates his/her employment because he/she has been assigned duties inconsistent with his/her position or because his/her duties and responsibilities have been diminished or because of a breach of the agreement by Metropolitan or because he/she has been reassigned to a location outside of the area for which he/she was hired, he/she will be entitled to reimbursement of all unreimbursed expenses incurred prior to the date of termination, payment of unused vacation days and payment of his/her then annual base salary and benefits for a period of one year following the termination; *provided, however*, that if Ms. Finnel's employment is terminated because of her death or disability, she will be entitled to payment of her then annual base salary and benefits for an additional one year period for a total of two years after the date of her termination. If there is a change of control of Metropolitan (as such term is defined in the agreements), each of Mr. Earley, Ms. Finnel, Mr. Gartner and Mr. Palenzuela will be entitled to reimbursement of all unreimbursed expenses incurred prior to the date of termination, payment of unused vacation days, a single lump sum payment of an amount equal to his/her then annual base salary plus bonuses payable, the value of annual fringe benefits paid to him/her in the year preceding the year of termination, and the value of the portion of his/her benefits under any deferred compensation plan which are forfeited for reason of the termination.

-39-

Compensation Committee Interlocks and Insider Participation

From January 1, 2004 until September 23, 2004 the following individuals served as members of Metropolitan's Compensation Committee; Dr. Martin Harrison, Dr. Salomon Melgen and Karl Sachs. Effective September 24, 2004 through December 31, 2004, the Compensation Committee consisted of Eric Haskell, Karl Sachs and Dr. Martin Harrison.

Except for Dr. Harrison who served as an advisor to the Board of Directors of Metropolitan from 2000 through March of 2003 and Vitreo Consultants, Inc., a company owned by Dr. Melgen, which served as a provider in the Company's PSN, none of the members of the Compensation Committee are or have served as a consultant to or been employed by Metropolitan. During fiscal year 2004, Metropolitan paid to Vitreo Consultants $295,000 for services rendered as a provider in its PSN.

No executive officer of Metropolitan served as a director or on the compensation committee of any entity of which any member of the Board of Directors or Compensation Committee of Metropolitan is an executive officer during the fiscal year 2004.

Compensation Committee Report on Executive Compensation

Metropolitan's compensation policy with respect to executive officers is to offer a compensation package which includes a competitive salary, competitive benefits, a supportive workplace environment and bonus and stock options awards based upon the achievement of individual and company performance goals established by the Board of Directors annually as an incentive for superior corporate performance. Executive officer salaries are reviewed annually by the Compensation Committee which makes recommendations to the Board of Directors for its approval of the salaries, bonuses, and stock option grants to be awarded to Metropolitan's executive officers.

During the fiscal year 2004, the Compensation Committee engaged an independent firm, Watson Wyatt & Company, to provide consulting services to the Compensation Committee regarding its executive officer compensation policies. The objectives of the study with respect to executive compensation were as follows: assess the competitiveness of pay for executive management team; identify any gaps that may exist; and make recommendations to address gaps that may exist, including designing a more clearly defined bonus plan with measurable payouts.

After reviewing the recommendations of Watson Wyatt & Company, the Board of Directors approved final salaries for fiscal year 2005 and bonuses for fiscal year 2004 payable to Metropolitan's executive officers. Additionally, for fiscal year 2005, the Board of Directors is presently reviewing a Cash Bonus Plan for executive officers, which will clearly define both individual-specific and company-specific performance goals will and award bonuses as a percentage of base salary upon the achievement of the various performance goals throughout the year. Individual-specific performance goals are determined annually by the Board of Directors for the Chief Executive Officer and by the Chief Executive Officer for all other executive officers. For 2005, company-specific performance goals under the proposed Cash Bonus Plan relate to Metropolitan's attainment of a specified level of operating income and the status of its developing HMO business segment.

Committee Report on Chairman and Chief Executive Officer Compensation

The Compensation Committee has previously established that the corporate goals and objectives relevant to Michael M. Earley's, Chairman and Chief Executive Officer, compensation include, among other things, (i) diversification, expansion, and broadening of the Company's core business and new service offerings; (ii) an increase in shareholder value, (iii) fulfillment of customer expectations, (iv) out-performance of the competition, (v) development of an employee-valued culture, and (vi) enhancement of social responsibility.

In reviewing Mr. Earley's proposed compensation package for fiscal year 2004, the independent firm engaged by Metropolitan, Watson & Wyatt Company, reported that the base salary paid by Metropolitan to Mr. Earley was significantly below market and that the short-term and long-term incentives paid to Mr. Earley were below market. Watson & Wyatt Company's report, which included a peer review of 13 companies, recommended that Metropolitan allocate Mr. Earley's bonus in terms of a percent of his base salary based on performance of Metropolitan from both a numbers and objectives standpoint and further recommended that the bonus be paid in a combination of cash, stock and options. The award of stock and options would serve to enhance Mr. Earley's stock ownership and incentivize Mr. Earley with respect to future growth of Metropolitan. In determining Mr. Earley's overall annual compensation for fiscal year 2004, the Compensation Committee considered Mr. Earley's performance as the Chief Executive Officer in 2004, in light of the goals described in the paragraph above, Metropolitan's performance for the fiscal year 2004, and the findings of Watson Wyatt & Company. The Compensation Committee recommended to the Board a 20% increase in Mr. Earley's salary from $250,000 to $300,000 for fiscal year 2005, a bonus in the amount of $125,000 to be paid part in cash and Common Stock (to be valued at the closing price of the Common Stock on December 31, 2004), and 400,000 stock options (the exercise price of which is equal to the closing price of the Common Stock on November 12, 2004). The Compensation Committee believes that, in light of Mr. Earley's satisfaction of certain individual goals and Metropolitan's achievement of performance goals for the fiscal year 2004, the compensation paid to Mr. Earley as Chief Executive Officer for fiscal year 2004, including his base salary, bonus and stock options, is reasonable when compared to the compensation paid to other chief executive officers of public companies competing in the same market as Metropolitan.

COMPENSATION COMMITTEE
Eric Haskell
Martin W. Harrison, M.D.
Karl M. Sachs

-41-

Compensation of Directors

Metropolitan reimburses all Directors for their expenses in connection with their activities as Directors of Metropolitan. Non-Employee Directors make themselves available to consult with Metropolitan's management. Currently, two of the seven Directors of Metropolitan are also employees of Metropolitan and do not receive additional compensation for their services as Directors. In exchange for Board service for a full year in 2004, Metropolitan's non-employee Directors received cash compensation in the amount of $36,000, and 25,000 options to acquire Metropolitan's Common Stock at the market price on the date of grant with a one-year vesting period. Additionally, each non-employee Director was paid $6,000 for the year in Metropolitan's Common Stock for each committee membership and committee chairmanship. Non-employee directors who joined the Board in 2004 received 30,000 shares of Metropolitan's Common Stock upon joining the Board of Directors. During fiscal year 2005, the Board of Directors retained the services of an independent consulting firm to review Metropolitan's compensation package for its non-employee Directors. After reviewing the recommendations of the consulting firm, effective January 1, 2005, the Board's compensation arrangement was amended to provide that Metropolitan's non-employee Directors will receive a retainer of $20,000 for the full year of Board service in 2005. Additionally, the non-employee Directors will receive additional amounts ranging from $500 to $1,500 for attendance at Board and committee meetings. The Chairpersons of the Governance & Nominating Committee, Compensation Committee and Audit & Finance Committee will also receive an additional retainer of $2,000, $4,000 and $6,000, respectively, per year for service in 2005. In addition, each non-employee Director will receive an annual grant of 25,000 options of Metropolitan's Common Stock, issuable at the market price at the date of grant with a one-year vesting period.

Performance Graph

The following graph depicts Metropolitan's cumulative total return for the last five fiscal years relative to the cumulative total returns of the NASDAQ Stock Market Index and a group of peer companies (the “Peer Group”). All indices shown in the graph have been reset to a base of $100 as of December 31, 1999 and assume an investment of $100 on that date and the reinvestment of dividends paid since that date.

-43-

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding Metropolitan's Common Stock beneficially owned at February 28, 2005 (i) by each person who is known by Metropolitan to beneficially own more than 5% of Metropolitan's Common Stock; (ii) by each of Metropolitan's directors and named executive officers; and (iii) by named executive officers and directors as a group.

Name of Beneficial Owner	Amount of Beneficial Ownership	Percentage of Class
Martin W. Harrison, M.D. (1)	5,176,169	10.47%
Karl M. Sachs (2)	876,975	1.77
Debra A. Finnel (3)	817,000	1.65
David S. Gartner (4)	280,000	0.57
Michael M. Earley (5)	322,774	0.65
Roberto L. Palenzuela (6)	50,000	0.10
Eric Haskell (7)	30,333	0.06
Barry T. Zeman (8)	33,214	0.07
Douglas R. Carlisle (9)	105,000	0.21
Norman Pessin (10)	2,596,655	5.25
Fundamental Management Corporation (11)	2,530,000	5.12
Directors and Executive Officers as a Group	7,691,465	15.56

(1) 250 Australian Ave., Suite 400, West Palm Beach, FL. 33401. Includes (1) 4,152,169 shares owned directly by Dr. Harrison, (2) 900,000 shares owned by H30, Inc., a corporation for which Dr. Harrison serves as a Director, (3) 40,000 shares issuable upon exercise of options at a price of $0.91, expiring between November 2005 and November 2006, (4) 70,000 shares issuable upon exercise of options at a price of $0.70, expiring December 2008, (5) 7,000 shares issuable upon exercise of options at a price of $6.938, expiring April 2005 and (6) 7,000 shares issuable upon exercise of options at a price of $7.938, expiring April 2005. Does not include 25,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(2) 3675 Coral Way, Miami, Florida 33145. Includes 876,975 shares owned directly by Karl M. Sachs. Does not include 25,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(3) 250 Australian Ave., Suite 400, West Palm Beach, FL. 33401. Includes (1) 17,000 shares owned directly by Debra A. Finnel, (2) 150,000 shares issuable upon the exercise of options at $0.50 per share, expiring between October 2005 and October 2007, (3) 300,000 shares issuable upon the exercise of options at a price of $1.00, expiring between 1/1/07 and 1/1/09, and (4) 350,000 shares issuable upon the exercise of options at a price of $0.35, expiring in September 2008. Does not include 800,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(4) 250 Australian Ave., Suite 400, West Palm Beach, FL. 33401. Includes (1) 100,000 shares owned directly by David S. Gartner and (2) 180,000 shares issuable upon the exercise of options at a price of $0.35, expiring in September 2008. Does not include 150,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(5) 250 Australian Ave., Suite 400, West Palm Beach, FL. 33401. Includes (1) 24,440 shares owned directly by Michael Earley, (2) 40,000 shares issuable upon the exercise of options at a price of $0.30 per share, expiring between June 2005 and June 2006, (3) 25,000 shares issuable upon the exercise of options at a price of $2.00 per share, expiring in September 2005 and (4) 233,334 shares issuable upon the exercise of options at a price of

$0.35 per share, expiring between December 2008 and December 2009. Does not include 116,666 shares issuable upon the exercise of options at a price of $0.35 per share or 400,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(6) 250 Australian Ave., Suite 400, West Palm Beach, FL. 33401. Includes 50,000 shares issuable upon the exercise of options at a price of $0.67, expiring March 2010. Excludes 100,000 shares issuable upon the exercise of options at a price of $0.67 and 100,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(7) 518 Candace Lane, Villanova, PA. 19085. Includes 30,333 shares owned directly by Eric Haskell. Does not include 25,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(8) 26 Beaver Street, New York City, New York 10004. Includes 30,250 shares owned directly by Barry Zeman, 2,264 owned by his spouse and 700 held in his IRA. Does not include 25,000 shares issuable upon the exercise of options at a price of $1.83 that have not yet vested.

(9) 11811 Hazelwood Road, Louisville, KY. 40223. Includes 105,000 shares owned directly by Douglas Carlisle. Does not include 25,000 shares issuable upon the exercise of options at a price of $2.30 that have not yet vested.

(10) 605 Third Avenue, 14th floor, New York, NY, 10158. Includes (1) 50,000 shares owned by Norman H. Pessin, (2) 699,883 shares owned by Sandra F. Pessin and (3) 1,846,772 owned f/b/o Norman H. Pessin SEP IRA.

(11) 8567 Coral Way, #138, Miami, FL 33155. Includes (1) 930,000 shares owned by Active Investors II, Ltd. and (2) 1,600,000 shares owned by Active Investors III, Ltd.

Equity Compensation Plans

The following table provides certain information regarding Metropolitan's existing equity compensation plans as of December 31, 2004:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for issuance under equity compensa-tion plans**
Equity compensation plans approved by security holders (1)	1,308,510	$0.56	0
Equity compensation plans not approved by security holders (2)	3,835,900	$1.17	0
Equity compensation plans not approved by security holders (3)	2,299,800	$1.84	3,700,200
Total	7,444,210		3,700,200

(1) Issued pursuant to Metropolitan's 2001 Stock Option Plan.

(2) Issued pursuant to Metropolitan's Supplemental Stock Option Plan (the "Supplemental Plan").

(3) Issued pursuant to Metropolitan's Omnibus Equity Compensation Plan (the "Omnibus Plan").

Employee Stock Option Plans

Metropolitan has three stock option plans that are administered by the Compensation Committee of the Board of Directors. The Supplemental Plan and the Omnibus Plan have not been approved by Metropolitan's shareholders.

The Supplemental Plan provides for the grant of nonqualified stock options to officers, directors, employees and consultants of Metropolitan. A total of 8,253,242 shares of Metropolitan's common stock were authorized for issuance pursuant to options granted under the Supplemental Plan. As of December 31, 2004, there were 3,835,900 shares of Common Stock underlying outstanding options granted pursuant to Metropolitan's Supplemental Stock Option Plan. The remaining shares authorized for issuance under Metropolitan's Supplemental Plan were retired by the Compensation Committee and the Board of Directors of Metropolitan by formal resolution dated February 21, 2005. The Compensation Committee determines the terms of options granted under the Supplemental Plan, including the number of shares subject to the option, exercise price, term, and exercisability. The exercise price may be equal to, more than or less than 100% of fair market value on the date the option is granted, as determined by the Compensation Committee. Unless otherwise determined by the Compensation Committee, each option shall expire and terminate five years after the subject option grant date. Unless otherwise determined by the Compensation Committee, in the event the holder of an option leaves the employ of the Company or ceases performing services for the Company or any subsidiary of the Company for any reason including, without limitation, termination, resignation, death, disability or otherwise, the unvested portion of any option shall immediately expire. The Board of Directors may amend or suspend the Supplemental Plan or any portion thereof at any time, provided such amendment is made with shareholder approval if such approval is necessary to comply with any tax or regulatory requirement.

The Omnibus Plan provides for the grant of non qualified or incentive stock options and other stock based awards to directors, executives and key employees of Metropolitan, as well as to any other persons if the Compensation Committee determines that it is in the best interests of Metropolitan that such person participate in the Omnibus Plan. A total of 6,000,000 shares of Metropolitan's common stock were authorized for issuance pursuant to awards granted under the Omnibus Plan. As of December 31, 2004 there were 2,299,800 shares of Common Stock underlying outstanding non-qualified stock options granted pursuant to Metropolitan's Omnibus Equity Compensation Plan. The Compensation Committee makes all determinations necessary or advisable for the Omnibus Plan including (a) selecting the participants, (b) making awards thereunder in such amounts and form as the Compensation Committee may determine, (c) imposing such restrictions, terms, and conditions upon such awards as the Compensation Committee may deem appropriate, and (d) correcting any defect or omission, or reconciling any inconsistency, in the Omnibus Plan or any award agreement. The Compensation Committee determines the exercise price and the terms of awards granted under the Omnibus Plan with certain limitations depending on the nature of an award. Generally, if a participant's employment is terminated for any reason other than disability, retirement, or death before an option has vested, such participant's rights to exercise such option terminate immediately. If a participant's employment is terminated by disability, retirement, or death before an option has vested, such option will generally vest to the extent determined by the Compensation Committee. The Compensation Committee has the authority to suspend, terminate or amend the Omnibus Plan, although such actions may require shareholder approval.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Metropolitan during the fiscal year ending December 31, 2004, paid Vitreo Retinal Consultants, a company owned by Dr. Salomon Melgen, a director, $295,000 for services rendered as a provider to Metropolitan's PSN. The fees paid were usual and customary for the services provided. Dr. Melgen resigned as a director of Metropolitan effective January 13, 2005.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table presents fees billed in each of the last two fiscal years for services rendered to Metropolitan by Metropolitan's registered accounting firm, Kaufman, Rossin & Co., P.A.:

Fiscal Year Ended	Audit Fees(1)	Audit-Related Fees(2)	Tax Fees(3)	All Other Fees(4)
December 31, 2004	$ 233,318	$ 22,943	$ 24,810	$ 16,651
December 31, 2003	$ 285,513	$ 31,864	$ 32,780	$ 17,080

(1) "Audit Fees" represents the aggregate fees billed for each of the last two fiscal years for professional services rendered for the audit of Metropolitan's annual financial statements and review of financial statements included in Metropolitan's Form 10-Q and/or services provided by Kaufman, Rossin & Co., P.A. in connection with statutory or regulatory filings or engagements By Metropolitan for those two fiscal years.

(2) "Audit Related Fees" represents the aggregate fees billed for each of the last two fiscal years for assurance and related services reasonably related to the performance of the audit of Metropolitan's annual financial statements for those years. For the two years, the audit-related fees were incurred in connection with SEC registration statement consent procedures.

(3) "Tax Fees" represents the aggregate fees billed for each of the last two fiscal years for professional services related to tax compliance, tax advice and tax planning. The "Tax Fees" also included fees billed for the preparation of federal and state income tax returns on behalf of Metropolitan.

(4) "All Other Fees" represents fees billed for other products and services rendered by Kaufman Rossin & Co., P.A. to Metropolitan for the last two fiscal years. In both 2004 and 2003, these fees consisted primarily of services provided in connection with Metropolitan's investigation by the U.S. Attorneys' Office in Wilmington, Delaware.

Pre-Approval Policies and Procedures of the Audit & Finance Committee

The engagement of Kaufman, Rossin & Co., P.A. was pre-approved by the Audit & Finance Committee. All services performed by Kaufman, Rossin & Co., P.A. on behalf of Metropolitan during fiscal years 2003 and 2004 were pre-approved by the Audit & Finance Committee. In September 2004, the Audit & Finance Committee adopted, and the Board of Directors ratified, Metropolitan's Audit and Non-Audit Services Pre-Approval Policy which sets forth the procedures and the conditions pursuant to which services proposed to be performed by Kaufman, Rossin & Co., P.A., Metropolitan's independent auditor, will be pre-approved by the Audit & Finance Committee. All of the audit and non-audit services performed by Kaufman, Rossin & Co., P.A. during the 2004 and 2003 fiscal years were pre-approved by our Audit & Finance Committee.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Form 10-K:

(1) Financial Statements.

METROPOLITAN HEALTH
NETWORKS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

C O N T E N T S

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Metropolitan Health Networks, Inc. and Subsidiaries
West Palm Beach, Florida

We have audited the accompanying consolidated balance sheets of Metropolitan Health Networks, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity (deficiency in assets), and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Health Networks, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

KAUFMAN, ROSSIN & CO., P.A.

Miami, Florida
February 18, 2005

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
ASSETS	**2004**	**2003**
CURRENT ASSETS		
Cash and equivalents	$ 12,844,113	$ 2,176,204
Accounts receivable, net of allowance of $2,921,156 and $2,539,231, respectively	1,474,438	2,138,690
Inventory	217,630	304,248
Prepaid expenses	422,839	334,686
Reinsurance receivable	559,541	284,591
Deferred income taxes	3,400,000	-
Other current assets	4,450	213,835
TOTAL CURRENT ASSETS	18,923,011	5,452,254
CERTIFICATES OF DEPOSIT - restricted	1,000,000	1,000,000
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $2,643,107 and $2,363,354, respectively	824,003	659,682
GOODWILL	1,992,133	1,992,133
DEFERRED INCOME TAXES	4,881,110	-
OTHER ASSETS	417,006	119,660
TOTAL ASSETS	$ 28,037,263	$ 9,223,729
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIENCY IN ASSETS)		
CURRENT LIABILITIES		
Advances from HMO	$ -	$ 164,536
Accounts payable	840,470	1,756,347
Accrued payroll	1,223,897	897,716
Accrued expenses	184,733	515,479
Current maturities of capital lease obligations	-	104,315
Current maturities of long-term debt	882,000	975,169
Payroll taxes payable	93,533	3,408,736
TOTAL CURRENT LIABILITIES	3,224,633	7,822,298
CAPITAL LEASE OBLIGATIONS	-	3,092
LONG-TERM DEBT	250,000	1,901,000
TOTAL LIABILITIES	3,474,633	9,726,390
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY/(DEFICIENCY IN ASSETS)		
Preferred stock, par value $.001 per share; stated value $100 per share; 10,000,000 shares authorized; 5,000 issued and outstanding	500,000	500,000

Common stock, par value $.001 per share; 80,000,000 shares authorized; 48,004,262 and 38,527,699 issued and outstanding, respectively		48,004		38,527
Additional paid-in capital		37,527,529		31,343,887
Accumulated deficit		(13,415,621)		(32,238,333)
Prepaid expenses		(97,282)		(146,742)
TOTAL STOCKHOLDERS' EQUITY/(DEFICIENCY IN ASSETS)		24,562,630		(502,661)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIENCY IN ASSETS)	$	28,037,263	$	9,223,729

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2004	**2003**	**2002**
REVENUES, net	$ 158,069,791	$ 143,874,488	$ 140,063,566
EXPENSES			
Direct medical costs	129,178,725	121,010,410	133,587,130
Payroll, payroll taxes and benefits	9,268,970	7,846,785	7,698,593
Medical supplies	1,588,447	2,127,009	1,913,446
Depreciation and amortization	369,682	654,942	946,325
Bad debt expense	-	100,000	250,000
Rent and leases	1,202,579	1,016,152	854,349
Consulting expense	678,705	1,351,446	2,663,362
General and administrative	3,842,346	2,556,676	3,048,538
TOTAL EXPENSES	146,129,454	136,663,420	150,961,743
OPERATING INCOME (LOSS)	11,940,337	7,211,068	(10,898,177)
OTHER INCOME (EXPENSE):			
Write down of accounts receivable from closed practices	-	-	(520,000)
Interest and penalty expense	(319,957)	(1,322,878)	(2,443,851)
Interest income	100,506	26,758	22,586
Other	(47,154)	(53,645)	(26,358)
Reserve on note receivable - pharmacy	(200,000)	-	-
TOTAL OTHER INCOME (EXPENSE)	(466,605)	(1,349,765)	(2,967,623)
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	11,473,732	5,861,303	(13,865,800)
BENEFIT FROM INCOME TAXES	7,380,246	-	-
INCOME/(LOSS) FROM CONTINUING OPERATIONS	18,853,978	5,861,303	(13,865,800)
DISCONTINUED OPERATIONS, NET OF TAX:			
Gain (loss) on disposal of business segments	-	289,605	(833,657)
Loss from operations of business segments	(31,266)	(1,749,155)	(2,381,430)
TOTAL DISCONTINUED OPERATIONS, NET OF TAX	(31,266)	(1,459,550)	(3,215,087)
NET INCOME/(LOSS)	$ 18,822,712	$ 4,401,753	$ (17,080,887)
EARNINGS (LOSS) PER COMMON SHARE:			

INCOME/(LOSS) FROM CONTINUING OPERATIONS:						
Basic	$	0.42	$	0.17	$	(0.46)
Diluted	$	0.38	$	0.13	$	(0.46)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX:						
Basic	$	-	$	(0.04)	$	(0.10)
Diluted	$	-	$	(0.03)	$	(0.10)
NET EARNINGS/(LOSS) PER SHARE:						
Basic	$	0.42	$	0.13	$	(0.56)
Diluted	$	0.38	$	0.10	$	(0.56)

See accompanying notes to consolidated financial statements.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(DEFICIENCY IN ASSETS)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Preferred Shares	Preferred Stock	Common Stock Shares	Common Stock	Additional Paid-in Capital	Prepaid Expenses	Accumulated Deficit	Total
BALANCES - DECEMBER 31, 2001	5,000	$ 500,000	27,479,087	$ 27,479	$ 26,044,905	$ (317,364)	$ (19,559,199)	$ 6,695,821
Shares issued in connection with private placement, net								

-

-

200,000

200

199,800

-

-

200,000

Shares issued upon conversion of convertible debt

-

-

1,251,778

1,252

1,010,371

-

-

1,011,623

Shares issued for consulting services and compensation

-

-

1,070,000

1,070

223,897

(221,100

)

-

3,867

Shares issued for commissions, net

-

-

265,500

266

66,801

(50,000

)

-

17,067

Exercise of options and warrants

-

-

67

-

67

-

-

67

Shares issued for directors' fees

-

-

57,274

57

69,943

-

-

70,000

Shares issued for interest expense and late fees

-

-

263,000

263

132,130

(57,778
)

-

74,615

Shares issued in connection with equity line, net

-

-

38,475

38

35,667

-

-

35,705

Shares issued in settlement

-

-

801,641

801

271,650

-

-

272,451

Shares cancelled in connection with previous acquisition

-

-

(50,000
)

(50
)

(66,617
)

-

-

(66,667
)

Cancellation of warrants

-

-

-

-

(72,000
)

-

-

(72,000
)
Issuance of options for services, net

-

-

-

-

523,900

(189,000
)

-

334,900

Shares cancelled in connection with conversion feature

-

-

-

-

1,220,372

-

-

1,220,372

Amortization of prepaid expenses

-

-

-

-

-

414,773

-

414,773

Net loss

-

-

-

-

-

-

(17,080,887
)

(17,080,887
)
BALANCES - DECEMBER 31, 2002

5,000

500,000

31,376,822

31,376

$
29,660,886
(420,469
)
(36,640,086
)
(6,868,293
)
Shares issued upon conversion of convertible debt
-
-
3,670,214
3,670
1,093,834
-
-
1,097,504
Shares issued for consulting services and compensation
-
-
(480,000
)
(480
)
(63,521
)
64,001
-
-
Shares issued for compensation

-

-

100,000

100

18,900

-

-

19,000

Exercise of options and warrants

-

-

110,000

110

34,390

-

-

34,500

Shares issued for directors' fees

-

-

329,760

330

57,170

-

-

57,500

Shares issued for interest expense, late fees and loan extension

-

-

2,865,272

2,865

386,195

(120,000
)

-

269,060

Shares issued in settlement

-

-

555,631

556

156,033

-

-

156,589

Amortization of prepaid expenses

-

-

-

-

-

329,726

-

329,726

Net income

-

-

-

-

-

-

4,401,753

4,401,753

BALANCES - DECEMBER 31, 2003

5,000

500,000

38,527,699

38,527

31,343,887

(146,742
)

(32,238,333
)

(502,661
)
Shares issued in connection with private placement, net of offering costs

-

-

5,004,999

5,005

2,947,995

-

-

2,953,000

Shares issued upon conversion of convertible debt

-

-

1,868,055

1,869

1,013,131

1,015,000

Exercise of options and warrants

-

-

2,269,202

2,269

1,142,972

-

-

1,145,241

Repurchase of warrants

-

-

-

-

(113,250
)

-

-

(113,250
)
Shares issued for directors' fees

-

-

233,292

233

249,651

-

-

249,884

Shares issued for interest expense and late fees

-

-

1,015

1

576

-

-

577

Shares issued in connection with loan extension

-

-

100,000

100

60,567

(60,667

)

-

-

Amortization of prepaid expenses

-

-

-

-

-

110,127

-

110,127

Tax benefit on exercise of options

-

-

-

-

882,000

-

-

882,000

Net income

-

-

-

-

-

-

18,822,712

18,822,712

BALANCES - DECEMBER 31, 2004

5,000

$

500,000

48,004,262

$

48,004

$

37,527,529

$

(97,282

)

$

(13,415,621

)

$

24,562,630

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31, 2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/loss	$ 18,822,712	$ 4,401,753	$ (17,080,887)
Adjustments to reconcile net income/loss to net cash provided by/(used in) operating activities:			
Unfavorable resolution of unsettled medical costs	-	-	6,598,563
Gain on sale of business segment	-	(289,605)	-
Write down of accounts receivable from closed practices	-	-	520,000
Loss on disposal of business segment	-	-	833,657
Depreciation and amortization	341,772	529,228	946,325
Reserve on note receivable - pharmacy	200,000	-	-
Provision for bad debts and direct write downs	-	100,000	550,000
Amortization of discount on notes payable	52,185	201,092	103,798
Interest imputed on beneficial conversion feature	-	-	1,220,372
Stock issued for interest and late fees	577	80,000	-
Stock issued for compensation and services	249,884	288,598	86,800
Warrants and options granted in lieu of compensation	-	-	414,773
Amortization of prepaid expenses	110,127	329,726	313,527
Deferred income taxes	(8,281,110)	-	-
Tax benefit on exercise of stock options	882,000	-	-
Changes in operating assets and liabilities:			
Accounts receivable, net	664,253	(587,350)	756,604
Inventory	86,618	(145,534)	(158,714)
Prepaid expenses	(88,153)	(44,014)	(15,130)
Reinsurance receivable	(274,950)	(284,591)	-
Other current assets	9,385	(60,611)	(51,378)
Net change in operating assets held for sale	-	(262,324)	(2,309,552)
Other assets	(339,581)	42,008	(766,166)
Accounts payable	(915,877)	(1,870,842)	2,248,432
Accrued payroll	326,181	386,235	33,655
Accrued expenses	(350,531)	(295,512)	547,494
Payroll taxes payable	(3,315,203)	(396,862)	1,235,205
Total adjustments	(10,642,423)	(2,280,358)	13,108,265
	8,180,289	2,121,395	(3,972,622)

Net cash provided by/(used in) operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of pharmacy	-	3,100,000	-
Purchase of restricted certificates of deposit	-	(150,000)	(850,000)
Capital expenditures	(444,074)	(140,962)	(194,674)
Net cash (used in)/provided by investing activities	(444,074)	2,809,038	(1,044,674)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on notes payable	282,000	637,137	5,682,315
Repayments on notes payable	(1,063,354)	(2,181,834)	(1,359,326)
Repayments on capital lease obligations	(107,407)	(141,229)	(102,894)
Repurchase of warrants	(113,250)	-	-
Proceeds from exercise of stock options and warrants	1,145,241	34,500	353,075
Net proceeds from issuance of common stock	2,953,000	-	235,772
Advance from/(repayments to) HMO, net	(164,536)	(1,502,417)	214,000
Net cash provided by/(used in) financing activities	2,931,694	(3,153,843)	5,022,942
NET INCREASE IN CASH AND EQUIVALENTS	10,667,909	1,776,590	5,646
CASH AND EQUIVALENTS - BEGINNING	2,176,204	399,614	393,968
CASH AND EQUIVALENTS - ENDING	$ 12,844,113	$ 2,176,204	$ 399,614

See accompanying notes to consolidated financial statements.

	2004	2003	2002
Supplemental Disclosures:			
Interest Paid	$ 306,020	$ 1,383,863	$ 980,475
Income Taxes Paid	$ --	$ --	$ --
Supplemental Disclosure of Non-cash Investing and Financing Activities:			
Fair value of assets received in connection with new medical facility	$ 19,785	$ --	$ --
Capital lease obligations incurred on purchases of equipment	$ --	$ --	$ 45,009
Conversion of debt into common stock	$ 1,015,000	$ 1,083,465	$ 1,342,343
Commitments to purchase restricted certificates of deposit	$ --	$ --	$ 150,000
Common stock issued for extension and interest fees on loans payable	$ 60,667	$ 75,000	$ --
Common stock issued in connection with settlements	$ --	$ 147,589	$ --
Conversion of accrued interest to notes payable	$ --	$ 98,505	$ --

See accompanying notes to consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of Metropolitan Health Networks, Inc. and all subsidiaries. The consolidated group is referred to, collectively, as the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Organization and Business Activity

The Company was incorporated in January 1996, under the laws of the State of Florida for the purpose of acquiring and operating health care related businesses. The Company operates under agreements with a national health maintenance organization, Humana Inc. ("Humana") to provide medical care to Medicare Advantage beneficiaries. The Company's business with Humana commenced in 1999 and utilizes wholly-owned medical practices and contracted non-owned medical practices, service providers and hospitals (see accounts receivable and revenue recognition). The Company operates principally in South and Central Florida.

In October 2000, the Company acquired a clinical laboratory, which operated in South Florida. The laboratory ceased operations and was closed in July 2002. In June 2001 the Company opened a pharmacy to service its patient base in Central Florida. Commencing in the third quarter of 2001, the Company expanded its pharmacy division into New York and Maryland. In November 2003 the pharmacy operations were sold.

Segment Reporting

The Company applies Financial Accounting Standards Boards ("FASB") statement No. 131, "Disclosure about Segments of an Enterprise and Related Information". The Company has considered its operations and has determined that in 2002 it operated in three segments and in 2003 and 2004 it operated in two operating segments for purposes of presenting financial information and evaluating performance. As such, the accompanying financial statements present information in a format that is consistent with the financial information used by management for internal use.

Cash and Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. From time to time, the Company maintains cash balances with financial institutions in excess of federally insured limits.

Reinsurance Receivable

Reinsurance premiums are reported as a direct medical cost in the accompanying consolidated statement of operations. Estimated reinsurance recoveries are reported as a reduction of direct medical costs and included on the consolidated balance sheets as reinsurance receivable.

Inventory

Inventory consists principally of prescription drugs that are stated at the lower of cost or market with cost determined by the first-in, first-out method.

Property and Equipment

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

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Depreciation and Amortization

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements and property under capital leases is computed on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the lease. The range of useful lives is as follows:

Machinery and equipment	5 - 7 years
Computer and office equipment, including items under capital lease	5 - 7 years
Furniture and fixtures	5 - 7 years
Auto equipment	5 years
Leasehold improvements	5 years

Use of Estimates

Revenue, Expense and Receivables

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. The most significant area requiring estimates relate to the Company’s arrangement with Humana and such estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results may ultimately differ materially from those estimates.

With regard to revenues, expenses and receivables arising from agreements with Humana, the Company estimates amounts it believes will ultimately be realizable based in part upon estimates of claims incurred but not reported (IBNR) and estimates of retroactive adjustments or unsettled costs to be applied by Humana. The IBNR estimates are made by the HMO utilizing actuarial methods and are continually evaluated by management of the Company based upon its specific claims experience. It is reasonably possible that some or all of these estimates could change in the near term by an amount that could be material to the financial statements.

From time to time, Humana charges the Company for certain medical expenses, which the Company believes are not supported by the underlying agreement between the companies. Management’s estimate of recovery on these contestations is based upon its judgment and its consideration of several factors including the nature of the contestations, historical recovery rates and other qualitative factors.

As discussed above, the nature of the relationship with Humana is, and has been such that certain estimates made by the Company are based upon representations from Humana regarding retroactive adjustments to amounts previously credited or charged to the Company’s fund balance. These estimates are particularly likely to change as policy, and or personnel at Humana changes. For the years ended December 31, 2004 and 2003 there were no material changes to net income as a result of favorable or unfavorable settlements of 2003 or 2002 estimates, respectively. During 2002, Metropolitan recorded additional medical costs of approximately $6.6 million related to amounts that were included in accounts receivable at December 31, 2001. Accordingly, the 2002 income from operations and resulting net income were decreased by approximately $6.6 million due to unfavorable settlements of estimated amounts.

Non-Humana accounts receivable, aggregating approximately $3.3 million and $2.9 million at December 31, 2004 and 2003, respectively, relate principally to medical services provided on a fee for service basis, and are reduced by amounts estimated to be uncollectible (approximately $2.9 million and $2.5 million at December 31, 2004 and 2003, respectively). Management's estimate of uncollectible amounts is based upon its analysis of historical collections and other qualitative factors, however it is possible the company's estimate of uncollectible amounts could change in the near term.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Tax Asset

The Company has recorded a deferred tax asset of approximately $8.3 million at December 31, 2004. Realization of the deferred tax asset is dependent on generating sufficient taxable income in the future. 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 (see Note 6 - Income Taxes).

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" requires that the Company disclose estimated fair values for its financial instruments. The following methods and assumptions were used by the Company in estimating the fair values of each class of financial instruments disclosed herein:

Cash and Certificates of Deposits - The carrying amount approximates fair value because of the short nature of those instruments.

Line of Credit Facilities, Capital Lease Obligations, Long-Term Debt - The fair value of line of credit facilities, capital lease obligations and long-term debt are estimated using discounted cash flows analyses based on the Company's incremental borrowing rates for similar types of borrowing arrangements. At December 31, 2004 and 2003, the fair values approximate the carrying values.

Concentrations

Revenues from Humana accounted for approximately 99% of the Company's total revenues, excluding discontinued segments, for each of the three years in the period ended December 31, 2004 and at December 31, 2004 and 2003, Humana represented approximately 73% and 83% of the total accounts receivable balance, respectively. Direct medical costs relating to revenues from Humana accounted for approximately 82% of the Company's Humana revenues in 2004, 85% in 2003 and 96% in 2002. The loss of the contracts with Humana could significantly impact the operating results of the Company. The Humana agreements may be terminated in the event the Company participates in activities Humana reasonably believes may adversely affect the health or welfare of any member or other material breach, or upon 180-day notice of non-renewal by either party.

Earnings (Loss) Per Share

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

	For the years ended December 31,					
		2004		**2003**		**2002**
Income/(Loss) from continuing operations	$	18,853,978	$	5,861,303	$	(13,865,800)
Less: Preferred stock dividend		(50,000)		(50,000)		(50,000)
		18,803,978		5,811,303		(13,915,800)
Loss from discontinued operations, net of tax		(31,266)		(1,459,550)		(3,215,087)
Income/(Loss) available to common shareholders	$	18,772,712	$	4,351,753	$	(17,130,887)
Denominator:						
Weighted average common shares outstanding		45,123,843		34,750,173		30,374,669
Basic earnings/(loss) per common share	$	0.42	$	0.13	$	(0.56)

Net Income/(Loss)	$	18,822,712	$	4,401,753	$	(17,080,887)
Interest on convertible securities		2,565		81,379		-
	$	18,825,277	$	4,483,132	$	(17,080,887)

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Denominator:			
Weighted average common shares outstanding	45,123,843	34,750,173	30,374,669
Common share equivalents of outstanding stock:			
Convertible preferred	1,301,876	4,901,963	-
Convertible debt	91,081	7,262,703	-
Options and warrants	3,511,503	-	-
Weighted average common shares outstanding	50,028,303	46,914,839	30,374,669
Diluted earnings/(loss) per common share	$ 0.38	$ 0.10	$ (0.56)

Securities that would potentially dilute basic earnings per share in the future were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. The anti-dilutive securities consist of the following:

For the fiscal years 2004 and 2003, the Company had convertible debt in the amount of $67,000, which could have been converted into the common stock of the Company at $2.50 per share.

During the fiscal years 2004, 2003 and 2002, the Company had outstanding warrants to purchase 15,000, 2,924,775 and 3,324,775 shares of common stock, respectively. The exercise prices of the warrants are $1.85 in 2004 and range from $0.32 to $4.00 in 2003 and $0.32 to $6.00 in 2002.

During the fiscal years 2004, 2003 and 2002, the Company had outstanding options to purchase 3,204,800, 7,328,467 and 5,205,717 shares of common stock, respectively. The weighted average exercise price of the options was $2.16 in 2004, $0.94 in 2003 and $1.46 in 2002.

For the fiscal year 2002, the Company had 5,000 Series A preferred shares outstanding. Each share of Series A preferred stock was convertible into shares of common stock at the option of the holder at the lesser of 85% of the average closing bid price of the common stock for the ten trading days immediately preceding the conversion or $6.00.

For the fiscal year 2002, the Company had convertible debt in the amount of $2,997,107, which could have been converted into the common stock of the Company at a range of 75% of market value at the date of conversion to $2.50 per share.

Accounts Receivable and Revenue Recognition

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

The Company is a party to certain managed care contracts with Humana and provides medical care to its patients through owned and non-owned medical practices. Accordingly, the Company receives a monthly fee for each patient that chooses one of the Company’s physicians as their primary care physician in exchange for the Company assuming responsibility for the provision of all necessary medical services, even those it does not provide directly. Fees under these contracts are reported as revenues, and the cost of provider services under these contracts are not included as a deduction to net revenues of the Company, but are reported as an operating expense. In connection with its Humana contracts, the Company is exposed to losses to the extent of its share (100% for Medicare Part B, 100% for Medicare

Part A in its Daytona market and 50% for Medicare Part A in South Florida) of deficits, if any, on its owned and non-owned managed medical practices.

Goodwill

In connection with its acquisitions of physician and ancillary practices, the Company has recorded goodwill of $1,992,133 at December 31, 2004 and 2003, which is the excess of the purchase price over the fair value of the net

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets acquired. The goodwill is attributable to the general reputation of these businesses in the communities they serve, the collective experience of the management and other employees and relationships between the physicians and their patients. Effective January 1, 2002 the Company, through the use of an outside business valuation expert completed a transitional goodwill impairment test and determined that the Company did not have a transitional impairment of goodwill. Subsequent to that analysis, during the quarter ended September 30, 2002, the Company disposed of a segment of its business and charged off net goodwill of approximately $986,000. The Company has performed its annual impairment tests relating to retained business segments effective January 1 of each year and has determined that no impairment exists.

Income Taxes

The Company accounts for income taxes pursuant to Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109), which requires income taxes to be accounted for under the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based upon differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. A valuation allowance is established when it is more likely than not that some or all of the deferred tax assets will not be realized.

Stock Based Compensation

As currently permitted by Statement 123, the Company uses the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” and has elected to continue using Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” in accounting for employee stock options. Compensation expense for options granted to employees is recorded to the extent the market value of the underlying stock exceeds the exercise price at the date of grant. For the years ended December 31, 2004, 2003 and 2002 no compensation was recorded. If compensation cost had been determined based on the fair value at the grant date for awards in the years ended December 31, 2004, 2003 and 2002, consistent with the provisions of SFAS 123, the Company's net income/loss and income/loss per share would have been reduced to the pro-forma amounts indicated below:

	For the years ended December 31, 2004	2003	2002
Net Income/(Loss)	$ 18,822,712	$ 4,401,753	$ (17,080,887)
Less: Total stock-based employee compensation expense determined using the fair value method, net of related tax	(141,398)	(543,283)	-

Adjusted pro forma net income/(loss)	$ 18,681,314	$ 3,858,470	$ (17,080,887)
Earnings per share:			
Basic, as reported	$ 0.42	$ 0.13	$ (0.56)
Basic, pro forma	$ 0.41	$ 0.11	$ (0.56)
Diluted, as reported	$ 0.38	$ 0.10	$ (0.56)
Diluted, pro forma	$ 0.37		

$	0.08
$	(0.56)

F-12

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, which is effective for fiscal periods beginning after June 15, 2005. This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. These items are required to be recognized as current period charges regardless of whether they meet the criterion of "so abnormal". The adoption of SFAS No. 151 is not anticipated to have a material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 153, which is effective for fiscal periods beginning after June 15, 2005. In the past, the net book value of the assets relinquished in a non-monetary transaction was used to measure the value of the assets exchanged. Under SFAS No. 153, assets exchanged in a non-monetary transaction will be at fair value instead of the net book value of the asset relinquished, as long as the transaction has commercial substance and the fair value of the assets exchanged is determinable within reasonable limits. The adoption of SFAS No. 153 is not anticipated to have a material effect on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (Statement 123(R)), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation (Statement 123). Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized at the date of grant in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) is effective at the beginning of the first interim or annual period beginning after June 15, 2005. The impact of adoption of Statement 123(R) cannot be accurately predicated at this time since it will depend on levels of share-based payments in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of the standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in the note above. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options. The Company expects to adopt Statement 123(R) on July 1, 2005.

Reclassifications

Certain amounts in the 2003 and 2002 financial statements have been reclassified to conform to the 2004 presentation.

NOTE 2. ACQUISITIONS AND DISPOSALS

In the third quarter of 2002 the Company disposed of its clinical laboratory. For the year ended December 31, 2002, the Company recognized an $834,000 loss on the disposal of laboratory operations.

In November 2003, the Company sold the operations of its pharmacy division for a cash price of $3.1 million, a note receivable of $200,000, and the assumption of approximately $1.1 million in liabilities. For the year ended December 31, 2003, the Company recognized a gain of $290,000 on the disposal of pharmacy operations. During 2004 the Company was unable to collect the balance due on the note and recorded a provision, which is included in other expense in the consolidated statements of operations.

Revenues from operations of discontinued business segments totaled $12,906,000 and $13,761,000 for the years ended December 31, 2003 and 2002, respectively. Losses from operations of discontinued business segments were $31,000, $1,700,000 and $2,400,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2004		December 31, 2003	
Equipment under capital lease	$	-	$	674,633
Machinery and medical equipment		282,441		249,881
Furniture and fixtures		881,880		382,451
Leasehold improvements		895,481		692,297
Computer and office equipment		1,345,928		962,394
Automobile equipment		61,380		61,380
		3,467,110		3,023,036
Less: accumulated depreciation and amortization		(2,643,107)		(2,363,354)
	$	824,003	$	659,682

Accumulated amortization of equipment under capital leases was $534,000 at December 31, 2003.

Depreciation and amortization of property and equipment totaled approximately $280,000, $365,000 and $433,00 for the years ended December 31, 2004, 2003 and 2002, respectively.

NOTE 4. LONG-TERM DEBT

Long-term debt consisted of the following:	December 31, 2004		December 31, 2003	
Promissory Note payable to a venture capital group; unsecured, with interest payable quarterly at a rate of 12%. Principal originally due May 24, 2004. In March 2004, the Company renegotiated an extension, with payments due over twenty-four months. This note was repaid in full January 2005.	$	850,000	$	1,182,909
Promissory Notes payable to Humana; unsecured, with no interest payable. Payable in twelve equal installments with final payments due December 1, 2005. The principal sum of these notes may be used for improvements to three of Humana's owned physician offices, reducing the Promissory Notes in direct proportion to the amounts spent on such improvements.		282,000		--
Convertible debentures payable to a venture capital group; unsecured, with interest payable quarterly at a rate of 6%, increasing to 13% on default. The debenture has 150,000 attached warrants to purchase common stock of the Company at $0.68. Approximately $60,000 of the funds received was assigned to the warrants and this amount, along with a $79,000 discount, was amortized and charged to interest expense. After the effect of the value assigned to the warrants, the effective rate on the note was 11%. During 2003, $865,000 of the note balance was converted		--		679,906

into common stock of the Company. In January 2004, the balance of the note was converted into common stock.				
Promissory note payable to an investment limited partnership; secured by common stock of the Company, with interest payable monthly at 24%. This note was repaid in full March 2004.		--		620,000
Convertible debentures payable to a shareholder; unsecured, with interest payable quarterly at a rate of 6%. In March 2004, this note was converted into common stock of the Company at $0.43 per share.		--		168,000
Promissory note payable to a shareholder; unsecured, with interest payable quarterly at a rate of 12%. In March 2004, this note was converted into common stock of the Company.		--		132,000
Promissory note payable to a shareholder of the Company, interest at 8% due and payable on March 30, 2004, or as otherwise agreed to by the parties. The note has 16,667 attached warrants at prices ranging from $2.50 to $4.00, also expiring March 30, 2004. This note was paid in full March 2004.		--		67,000
Note payable to Humana; interest at 5%. This note was paid in full April 2004.		--		26,354
		1,132,000		2,876,169
Less current maturities		882,000		975,169
Long-term debt	$	250,000	$	1,901,000

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Aggregate maturities of long-term debt for years subsequent to December 31, 2004, are as follows:

2005	882,000
2006	250,000
	$ 1,132,000

NOTE 5. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2004, 2003 and 2002, the Company paid $295,000, $398,000 and $76,000, respectively, to a company owned by a shareholder and director for services rendered as a physician in the Company's provider network. The director resigned from the Company's board effective January 13, 2005.

NOTE 6. INCOME TAXES

The components of income taxes from continuing operations were as follows:

	December 31,		
	2004	2003	2002
Provision (Benefit) for Income Taxes			
Current			
Federal	$ --	$ --	$ --
State	--	--	--
Deferred			
Federal	3,696,000	1,236,000	(5,777,000)
State	629,000	213,000	(612,000)
Change in Valuation Allowance	(11,705,000)	(1,449,000)	6,389,000
Income Tax Benefit	$ (7,380,000)	$ --	$ --

A reconciliation of the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes with the Company's income tax benefits for the years ended December 31, 2004, 2003 and 2002 is as follows:

	For the years ended December 31,		
	2004	2003	2002
Statutory federal tax	$ 3,901,000	$ 1,497,000	$ (5,808,000)
State income taxes, net of federal income tax benefit	417,000	159,000	(612,000)
Permanent differences and other	7,000	(207,000)	31,000
Change in valuation allowance	(11,705,000)	(1,449,000)	6,389,000
Other			
Income tax benefit	$ (7,380,000)	$ -	$ -

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The approximate deferred tax assets and liabilities were as follows:

DEFERRED TAX ASSETS:

	As of December 31, 2004	2003
Allowances for doubtful accounts	$ 1,099,000	$ 956,000
Net operating loss carryforward	6,952,000	10,585,000
Reserve on note receivable - pharmacy	75,000	--
Charitable contributions carryover	38,000	--
Amortization	134,000	162,000
Depreciation	--	2,000
Total deferred tax assets	8,298,000	11,705,000

DEFERRED TAX LIABILITIES:

	As of December 31, 2004	2003
Depreciation	17,000	--
Total deferred tax liabilities	17,000	--
Net deferred tax asset	8,281,000	11,705,000
Less valuation allowance	--	(11,705,000)
	$ 8,281,000	$ -

SFAS No. 109, Accounting for Income Taxes, requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative (including, among others, projections of future taxable income, current year net operating loss carryforward utilization and the Company's profitability in recent years), the Company determined that future realization of its deferred tax assets was more likely than not and, accordingly, has eliminated the valuation allowance against its deferred tax assets as of December 31, 2004. In the event it is determined that the Company would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to record a deferred tax asset valuation allowance would be charged to income in the period such determination would be made. Changes in deferred tax assets are reflected in the tax expense (benefit) line of the consolidated statements of operations.

In 2004, a net tax benefit of $882,000 was recorded directly to equity as a result of the exercise of non-qualified options.

At December 31, 2004, the Company had net operating loss carryforwards of approximately $18,500,000 expiring in various years through 2022.

NOTE 7. STOCKHOLDERS' EQUITY

As of December 31, 2004, the Company has designated 10,000,000 preferred shares as Series A preferred stock, par value $.001, of which 5,000 were issued and outstanding. Each share of Series A preferred stock has a stated value of $100 and pays dividends equal to 10% of the stated value per annum. At December 31, 2004 and 2003, the aggregate and per share amounts of cumulative dividend arrearages were approximately $366,667 ($73 per share) and $316,667 ($63 per share), respectively. Each share of Series A preferred stock is convertible into shares of common stock at the option of the holder at the lesser of 85% of the average closing bid price of the common stock for the ten trading days immediately preceding the conversion or $6.00. The Company has the right to deny conversion of the Series A preferred stock, at which time the holder shall be entitled to receive and the Company shall pay additional cumulative dividends at 5% per annum, together with the initial dividend rate to equal 15% per annum. In the event of any liquidation, dissolution or winding up of the Company, holders of the Series A preferred stock shall be entitled to receive a liquidating distribution before any distribution may be made to holders of common stock of the Company.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has also designated 7,000 shares of preferred stock as Series B preferred stock, with a stated value of $1,000 per share. At December 31, 2004 and 2003, there were no shares of series B preferred stock issued and outstanding.

At December 31, 2004 and 2003, the Company had outstanding warrants to purchase 62,500 and 2,924,775 shares of common stock, respectively. The warrants are exercisable upon issuance with expiration dates ranging from two to three years and exercise prices ranging from $0.68 to $1.85 in 2004 and $0.32 to $4.00 in 2003.

In February 2004, the Company issued an aggregate of 5,004,999 shares of common stock (the "Private Placement Shares") at a price of $0.60 per share to 24 accredited investors and 1 non-accredited investor. The Company received $2,953,000 in proceeds, net of offering costs of approximately $50,000, from the sale of these Private Placement Shares.

NOTE 8. STOCK OPTIONS

As of December 31, 2004, the Company had three nonqualified stock option plans, which were administered by the Compensation Committee of the Board of Directors, the 2001 Stock Option Plan, the Supplemental Stock Option Plan, and the Omnibus Equity Compensation Plan. A total of 6,000,000 shares of the Company's common stock are authorized for issuance pursuant to awards granted under the Omnibus Equity Compensation Plan. Under the terms of the Omnibus Equity Compensation Plan, the options generally expire 10 years after the date of the grant.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") in 1997. The Company has elected to continue using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for employee stock options. Accordingly, compensation expense has been recorded to the extent that the market value of the underlying stock exceeded the exercise price at the date of grant. For the years ended December 31, 2004, 2003 and 2002, compensation costs and professional services related to stock options amounted to approximately $-0-, $-0- and $16,800, respectively.

Stock option activity for the three years ended December 31 was as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2001	5,736,250	$ 1.81
Granted during the year	200,000	$ 0.40
Exercised and returned during the year	(67)	$ 1.00
Forfeited during the year	(730,466)	$ 2.11
Balance, December 31, 2002	5,205,717	$ 1.46
Granted during the year	2,710,400	$ 0.38
Exercised and returned during the year	(110,000)	$ 0.31
Forfeited during the year	(477,650)	$ 3.67
Balance, December 31, 2003	7,328,467	$ 0.94
Granted during the year	2,449,800	$ 1.76
Exercised and returned during the year	(1,339,957)	$ 0.39
Forfeited during the year	(994,100)	$ 1.25
Balance, December 31, 2004	7,444,210	$ 1.27
Exercisable, December 31, 2002	4,381,946	$ 1.46

Exercisable, December 31, 2003	6,840,134	$	0.97
Exercisable, December 31, 2004	4,877,678	$	1.04

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding		Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Remaining Contractual Life (Years)
$0.250 - $1.000	4,149,410	3.19	3,882,678	2.98
$1.140 - $2.000	2,819,800	8.19	545,000	1.28
$2.020 - $3.000	200,000	2.52	175,000	1.46
$3.250 - $5.000	125,000	1.27	125,000	1.27
$5.500 - $8.000	150,000	2.34	150,000	2.34
	7,444,210		4,877,678	

The weighted average fair value per option as of grant date was $0.90 for stock options granted during the year ended December 31, 2004. The determination of the fair value of all stock options granted during the year ended December 31, 2004 was based on (i) risk-free interest rate ranging from 1.81% to 3.39%, (ii) expected option lives ranging from two to four and one-half years, depending on the vesting provisions of each option, (iii) expected volatility in the market price of the Company's common stock of 75%, and (iv) no expected dividends on the underlying stock.

The weighted average fair value per option as of grant date was $0.21 for stock options granted during the year ended December 31, 2003. The determination of the fair value of all stock options granted during the year ended December 31, 2003 was based on (i) risk-free interest rate of 2.28%, (ii) expected option lives of three years, depending on the vesting provisions of each option, (iii) expected volatility in the market price of the Company's common stock of 100%, and (iv) no expected dividends on the underlying stock.

The weighted average fair value per option as of grant date was $0.58 for stock options granted during the year ended December 31, 2002. The determination of the fair value of all stock options granted during the year ended December 31, 2002 was based on (i) risk-free interest rate of 5.01%, (ii) expected option lives ranging from 1 to 4 years, depending on the vesting provisions of each option, (iii) expected volatility in the market price of the Company's common stock of 100%, and (iv) no expected dividends on the underlying stock.

NOTE 9. EMPLOYEE BENEFIT PLAN

As of July 1, 2004, the Company adopted a tax qualified employee savings and retirement plan covering the Company's eligible employees, the Metropolitan Health Network 401(k) Plan (the "401(k) Plan"). The 401(k) Plan is intended to qualify under Section 401 of the Internal Revenue Code (the "Code") and contains a feature described in Code Section 401(k) under which a participant may elect to reduce their compensation by the statutorily prescribed annual limit of $13,000 (for calendar year ending December 31, 2004) and have the reduced amount contributed to the 401(k) Plan. Under the 401(k) Plan, new employees are eligible to participate in the earlier of three consecutive months of service or one year. The Company may, at its discretion, make a matching contribution and a non-elective contribution to the 401(k) Plan. The Company has accrued $75,000 as its matching contributions for the year ending December 31, 2004. Participants in the 401(k) Plan do not fully vest in the employer contribution until the end of three years of service.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office and medical facilities under various non-cancelable operating leases. Approximate future minimum payments under these leases for the years subsequent to December 31, 2004 are as follows:

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Annual Amount	Sublease Amount	Net Minimum Payment
2005	$ 862,000	$ 207,000	$ 655,000
2006	708,000	126,000	582,000
2007	560,000	129,000	431,000
2008	299,000	129,000	170,000
2009	200,000	133,000	67,000
Thereafter	401,000	401,000	-
Total	$ 3,030,000	$ 1,125,000	$ 1,905,000

In connection with the sale of the pharmacy division, the Company has subleased pharmacy facilities to the buyer. In the event of the buyers default, the Company potentially could be responsible to fulfill these lease commitments.

The Company leases various office and medical equipment under non-cancelable operating leases. Approximate future minimum payments under these leases for the years subsequent to December 31, 2004 are as follows:

2005	$ 253,000
2006	200,000
2007	128,000
2008	110,000
2009	91,000
Total	$ 782,000

Employment Contracts

The Company has employment contracts with certain executives, physicians and other clinical and administrative employees. Future annual minimum payments under these employment agreements for the years subsequent to December 31, 2004 are as follows:

2005	$ 2,215,000
2006	323,000
	$ 2,538,000

Litigation

In July 2003 a pharmacy services company (the "Plaintiff") filed a complaint against the Company and its pharmacy division, Metropolitan Rx, seeking amounts and damages of up to $2.5 million related to the acquisition of the Maryland pharmacy operation in October 2001. On November 6, 2003 the parties reached a settlement on this complaint in the amount of $500,000, of which the Company had previously accrued $487,000. Pursuant to the settlement, the Company paid $285,000 in 2003, with the balance plus accrued interest at 10% payable in monthly installments of $35,000 until paid in full. This amount was included in accounts payable at December 31, 2003 and paid in full in 2004.

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

F-19

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investigation

In June 2003, the Company was informed that the U.S. Attorneys' Office in Wilmington, Delaware was conducting an investigation of the Company. The Company fully cooperated with the U.S. Attorneys' Office and on February 9, 2004 the investigation was terminated.

Payroll Taxes Payable

In February 2004, the Company was successful in negotiating a settlement with the IRS on its outstanding payroll tax liabilities for an amount totaling approximately $3.4 million, which was accrued for at December 31, 2003. This amount was paid in full.

NOTE 11. SEGMENTS

In 2004, the Company operated in two segments for purposes of presenting financial information and evaluating performance, the Provider Service Network (the "PSN") (managed care and direct medical services) and the HMO. The HMO division is in the development stage. During 2003, the Company also operated in two segments, the PSN and the pharmacy. During 2002, the Company also operated a third segment, a clinical laboratory. The Company allocated corporate overhead to the pharmacy and clinical laboratory during the periods they were operational. However, the overhead allocation is not included in the losses from operations of the discontinued business segments shown in the consolidated statements of operations.

The Company has filed all required state and federal regulatory applications to be licensed and contracted as a Medicare Advantage HMO in the State of Florida. The requisite applications are presently under review. It is anticipated that the HMO will be licensed and operational in 2005, however no assurances can be given that the Company will be approved as a Medicare Advantage HMO.

YEAR ENDED DECEMBER 31, 2004	PSN	Pharmacy	HMO	Total
Revenues from external customers	$ 158,070,000	$ -	$ -	$ 158,070,000
Interest (expense) income	(24,000)	13,000	27,000	16,000
Depreciation and amortization	108,000	-	-	108,000
Segment gain (loss) before allocated overhead	17,242,000	(31,000)	(433,000)	16,778,000
Allocated corporate overhead	5,133,000	-	203,000	5,336,000
Segment assets	16,277,000	1,000	2,727,000	19,005,000
Segment gain (loss) after allocated overhead and before income taxes	12,109,000	(31,000)	(636,000)	11,442,000

Included in allocated corporate overhead in 2004 were expenses of $4,927,000, inclusive of depreciation and amortization of $262,000. In addition, interest revenue was $73,000, interest expense was $296,000, and corporate assets were $9,032,000,
inclusive of a deferred tax asset of $8,281,000.

YEAR ENDED DECEMBER 31, 2003	PSN	Pharmacy	Laboratory	Total
Revenues from external customers	$ 143,874,000	$ -	$ -	$ 143,874,000
	-	1,216,000	-	1,216,000

Intersegment revenues from discontinued business segments				
Interest expense and penalties	107,000	174,000	-	281,000
Depreciation and amortization	149,000	85,000	-	234,000
Revenues from discontinued business segments	-	12,906,000	-	12,906,000
Segment gain (loss) before allocated overhead	11,522,000	(1,488,000)	-	10,034,000
Allocated corporate overhead	3,686,000	1,946,000	-	5,632,000
Segment assets	8,214,000	83,000	-	8,297,000
Segment gain (loss) after allocated overhead	7,836,000	(3,434,000)	-	4,402,000

Included in allocated corporate overhead in 2003 were expenses of $4,419,000, inclusive of depreciation and amortization of $506,000.
In addition, interest revenue was $27,000, interest expense was $1,216,000 and corporate assets were $927,000.

METROPOLITAN HEALTH NETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED DECEMBER 31, 2002	PSN	Pharmacy	Laboratory	Total
Revenues from external customers	$ 140,064,000	$ -	$ -	$ 140,064,000
Intersegment revenues from discontinued business segments	-	1,174,000	-	1,174,000
Interest expense and penalties	16,000	24,000	-	40,000
Depreciation and amortization	397,000	95,000	10,000	502,000
Revenues from discontinued business segments	-	12,875,000	886,000	13,761,000
Segment gain (loss) before allocated overhead	(4,996,000)	(1,767,000)	(1,448,000)	(8,211,000)
Allocated corporate overhead	5,446,000	2,970,000	454,000	8,870,000
Segment assets	5,662,000	3,419,000	-	9,081,000
Segment gain (loss) after allocated overhead	(10,442,000)	(4,737,000)	(1,902,000)	(17,081,000)

Included in allocated corporate overhead in 2002 were expenses of $3,788,000, inclusive of depreciation and amortization of $549,000.
In addition, interest revenue was $23,000, interest expense was $2,405,000 and corporate assets were $1,078,000.

NOTE 12. SUBSEQUENT EVENTS

In January 2005 the Company repaid the remaining balance of $850,000 on a Promissory Note payable to a venture capital group. Under the terms of the terms of the Note, the Company had been required to make monthly payments of $50,000 plus interest at 12%.

NOTE 13. VALUATION AND QUALIFYING ACCOUNTS

Activity in the Company's Valuation and Qualifying Accounts consists of the following:

	Year Ended December 31, 2004	2003	2002
Allowance for doubtful trade accounts-continuing operations:			
Balance at beginning of period	$ 2,539,000	$ 4,648,000	$ 4,734,000
Charged to costs and expenses	--	100,000	770,000
Increases (Deductions)	382,000	(2,209,000)	(856,000)
Balance at end of period	$ 2,921,000	$ 2,539,000	$ 4,648,000
Allowance for doubtful accounts-discontinued operations:			
Balance at beginning of period	$ --	$ 314,756	$ 13,925
Charged to costs and expenses	--	786,576	300,831
Deductions	--	(1,101,332)	--
Balance at end of period	$ --	$ --	$ 314,756

Allowance for note receivable:						
Balance at beginning of period	$	--	$	--	$	--
Charged to costs and expenses		200,000		--		--
Increases (Deductions)		--		--		--
Balance at end of period	$	200,000	$	--	$	--
Deferred tax asset valuation allowance:						
Balance at beginning of period	$	11,705,000	$	13,154,000	$	6,765,000
Additions		--		--		6,389,000
Deductions		(11,705,000)		(1,449,000)		--
Balance at end of period	$	--	$	11,705,000	$	13,154,000

(2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

(3) Exhibits

Certain exhibits have been previously filed with the Commission and are incorporated herein by reference.

METROPOLITAN HEALTH NETWORKS, INC.
EXHIBIT INDEX
Year Ended December 31, 2004

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	Supplemental Stock Option Plan (5)
10.4	Omnibus Equity Compensation Plan (6)
10.5	Amended and Restated Employment Agreement between Metropolitan and Michael M. Earley dated January 3, 2005*
10.6	Amended and Restated Employment Agreement between Metropolitan and David S. Gartner dated January 3, 2005*
10.7	Amended and Restated Employment Agreement between Metropolitan and Roberto L. Palenzuela dated January 3, 2005*
10.8	Amended and Restated Employment Agreement between Metropolitan and Debra A. Finnel dated January 3, 2005*
10.9	Description of Non-Employee Director Compensation Arrangement for 2005*
21.1	List of Subsidiaries (7)
23.1	Consent of Independent Auditors*
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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

---

* filed 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 fiscal 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 Metropolitan's Amendment to Annual Report for the fiscal year ended December 31, 2003 on Form 10-K/A filed with the Commission on July 28, 2004.

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 22nd day of March 2005.

METROPOLITAN HEALTH NETWORKS, INC.

By: /s/ MICHAEL M. EARLEY

Michael M. Earley
Chairman and Chief Executive Officer

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

Date: March 22, 2005

By: /s/ MICHAEL M. EARLEY

Michael M. Earley
Chairman and Chief Executive Officer

Date: March 22, 2005

By: /s/ DAVID S. GARTNER

David S. Gartner
Chief Financial Officer

Date: March 22, 2005

By: /s/ DEBRA A. FINNEL

Debra A. Finnel
President, Chief Operating Officer and Director

Date: March 22, 2005

By: /s/ KARL M. SACHS

Karl M. Sachs
Director

Date: March 22, 2005

By: /s/ MARTIN W. HARRISON

Martin W. Harrison
Director

Date: March 22, 2005	By: /s/ ERIC HASKELL Eric Haskell Director
Date: March 22, 2005	By: /s/ BARRY T. ZEMAN Barry T. Zeman Director
Date: March 22, 2005	By: /s/ DOUGLAS R. CARLISLE Douglas R. Carlisle Director