InvenSense Inc
Form DEF 14A
July 29, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

INVENSENSE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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3. Filing Party:

4. Date Filed:

Table of Contents

INVENSENSE, INC.

1745 Technology Drive

San Jose, California 95110

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On September 13, 2013

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of InvenSense, Inc., a Delaware corporation. The meeting will be held on September 13, 2013 at 8:30 a.m. pacific daylight time at the offices of Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California 94306.

Proposals to be considered at the annual meeting:

1. Election of our board s two nominees for Class II directors to serve for the ensuing three years and until their successors are elected.

2. Approval of our Employee Stock Purchase Plan.

3. Ratification of the selection by the audit committee of our board of directors of Deloitte & Touche LLP as our independent registered public accounting firm for our fiscal year ending March 30, 2014.

These items of business are more fully described in the proxy statement accompanying this notice. The record date for the annual meeting is July 17, 2013. Only stockholders of record at the close of business on that date may vote at the meeting or any postponement or adjournment thereof.

We are providing our stockholders with access to the proxy materials over the Internet using the Notice and Access delivery model established by the Securities and Exchange Commission. This permits us to conserve natural resources and reduces our printing costs, while giving our stockholders a convenient and efficient way to access our proxy materials and vote their shares. On or about July 31, 2013, we intend to mail a Notice of Internet Availability of Proxy Materials to our stockholders, informing them that our notice of annual meeting and proxy statement, annual report to stockholders and voting instructions are available on the Internet. As described in more detail in that notice, stockholders may choose to access our materials through the Internet or may request to receive paper copies of the proxy materials.

By Order of the Board of Directors

Alan Krock

Vice President and Chief Financial Officer

Sunnyvale, California

July 29, 2013

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please vote on the matters to be considered as promptly as possible in order to ensure your representation at the meeting. You may vote via the Internet or by requesting a printed copy of the proxy materials and returning the proxy card that will be mailed to you. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

2013 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

TABLE OF CONTENTS

Table of Contents

Table of Contents

1745 Technology Drive

San Jose, California 95110

PROXY STATEMENT

FOR THE 2013 ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

Why did I receive a notice regarding the availability of proxy materials on the Internet?

Under rules adopted by the Securities and Exchange Commission, or SEC, we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials, or the Notice, to our stockholders of record. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or to request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. You will not receive a printed copy of the proxy materials unless you request one in the manner set forth in the Notice. This permits us to conserve natural resources and reduces our printing costs, while giving stockholders a convenient and efficient way to access our proxy materials and vote their shares.

We intend to mail the Notice and, as required, any other printed proxy materials, on or about July 31, 2013 to all stockholders of record entitled to vote at the 2013 annual meeting of stockholders, or annual meeting.

Why are these proxy materials being made available?

We are providing you with these proxy materials because the board of directors of InvenSense, Inc. (which we refer to in this proxy statement as InvenSense, the Company, we, or us) is soliciting your proxy to vote at the annual meeting. You are invited to attend the annual meeting and we request that you vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply vote your shares by proxy via the Internet or, if you receive a paper copy of the proxy statement, by completing, signing and returning a paper proxy card.

How do I attend the annual meeting?

The meeting will be held on September 13, 2013 at 8:30 a.m. pacific daylight time at the offices of Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California 94306.

Who can vote at the annual meeting?

Only stockholders of record at the close of business on July 17, 2013 will be entitled to vote at the annual meeting. On the record date, there were 86,335,017 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If, on July 17, 2013, your shares of InvenSense s common stock were registered directly with Computershare Trust Company, N.A., our transfer agent for our common stock, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to vote your proxy on the matters to be considered as promptly as possible in order to ensure your representation at the meeting. You may vote your proxy via the Internet or by requesting a printed copy of the proxy materials and returning the enclosed proxy card.

Table of Contents

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If, on July 17, 2013, your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and the Notice is being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are three matters scheduled for a vote and for which we are soliciting your proxy:

1. Election of our board s two nominees for Class II directors.

2. Approval of our Employee Stock Purchase Plan.

3. Ratification of the selection by the audit committee of our board of directors of Deloitte & Touche LLP as our independent registered public accounting firm for our fiscal year ending March 30, 2014.

You may either vote For all the nominees to the board of directors or you may Withhold your vote for any nominee(s) you specify. For the proposals regarding approval of our Employee Stock Purchase plan and ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm, you may vote For or Against the proposal or abstain from voting.

How do I vote?

The procedures for voting are as follows:

Voting via the Internet

You can vote your shares via the Internet by following the instructions in the Notice. The Internet voting procedures are designed to authenticate your identity and to allow you to vote your shares and confirm your voting instructions have been properly recorded. If you vote via the Internet, you do not need to mail a proxy card.

Voting by Mail

You can vote your shares by mail by requesting that a printed copy of the proxy materials be sent to your address. When you receive the proxy materials, you may fill out the proxy card enclosed therein and return it per the instructions on the card.

What if I return a proxy card or otherwise complete a ballot or give voting instructions but do not make specific choices?

If you return a signed and dated proxy card or otherwise complete a ballot or voting instructions without marking your selections, your shares will be voted, as applicable, For the election of both nominees for director, For the resolution to approve our Employee Stock Purchase Plan, and For the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for our fiscal year ending March 30, 2014. The board of directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matter is properly presented at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his best judgment.

Who is paying for this proxy solicitation?

We are paying for the entire cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

Table of Contents

What does it mean if I receive more than one Notice?

If you receive more than one Notice, your shares are registered in more than one name or are registered in different accounts. Please follow the voting instructions on the Notice and vote your shares for each name or account to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of four ways:

- You may submit another properly completed proxy card with a later date;
- You may grant a subsequent proxy through our Internet voting site;
- You may send a written notice that you are revoking your proxy to our Corporate Secretary at 1197 Borregas Avenue, Sunnyvale, California 94089; or
- You may attend the annual meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy. Please remember, as mentioned above, if you are a beneficial owner of shares you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker, bank or other agent that holds your shares in street name.

If your shares are held by your broker, bank or another agent as a nominee or agent, you should follow the instructions provided by your broker, bank or other agent.

When are stockholder proposals due for next year s annual meeting?

To be considered for inclusion in next year s proxy materials, your proposal must be submitted in writing between May 17, 2014 and June 16, 2014 to our Corporate Secretary at 1745 Technology Drive, San Jose, California 95110. If you wish to submit a proposal that is not to be included in next year s proxy materials or nominate a director, you must do so by March 28, 2014. You are also advised to review our bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

What are broker non-votes? How do I vote if I hold my shares in street name?

A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner (despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions).

If your shares are held by your broker as your nominee (that is, in street name), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. If you do not give instructions to your broker, your broker can vote your shares with respect to routine discretionary items, but not with respect to non-discretionary items under the rules of the New York Stock Exchange, or NYSE, on which your broker may vote shares held in street name in the absence of your voting instructions. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. Under NYSE rules, elections of directors are considered to be non-routine and, therefore, brokers and other nominees will not be able to vote in the election of directors unless they receive instructions from the beneficial owners of the shares.

Table of Contents

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold votes and any broker non-votes for the election of directors. Broker non-votes will not count for or against any nominees or for any frequency of named executive officer compensation advisory votes.

With respect to the non-binding advisory resolution to approve our named executive officer compensation and the ratification of Deloitte & Touche, the inspector of election will separately count For and Against votes. Abstentions will be counted towards the vote total for the proposal, and will have the same effect as Against votes. Broker non-votes will have no effect and will not be counted towards the vote total for the proposal.

How many votes are needed to approve each of the proposals?

Proposal 1 Election of our two nominees for Class II director. The two nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected.

Proposal 2 Approval of our Employee Stock Purchase Plan. This proposal must receive a For vote from the holders of a majority of the voting power present and entitled to vote either in person or by proxy on the proposal. If you Abstain from voting, your vote will not be counted as a vote cast.

Proposal 3 Ratification of the selection by the audit committee of our board of directors of Deloitte & Touche LLP as the independent registered public accounting firm of InvenSense for our fiscal year ending March 30, 2014. This proposal must receive a For vote from the holders of a majority of the voting power present and entitled to vote either in person or by proxy on the proposal. If you Abstain from voting, it will have the same effect as an Against vote.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at the meeting there are present in person or represented by proxy the holders of outstanding shares of common stock entitled to cast a majority of the votes that could be cast by all outstanding shares of common stock. On the record date, there were 86,335,017 shares of common stock outstanding, all of which are entitled to vote. Thus, holders of shares representing at least 43,167,509 votes must be present in person or represented by proxy at the meeting to have a quorum.

Shares that are voted in person or by proxy are treated as being present at the meeting for purposes of establishing a quorum. Abstentions and broker non-votes will also be counted for purposes of calculating whether a quorum is present at the annual meeting. If there is no quorum, the holders of shares representing a majority of the votes present at the meeting may adjourn the meeting to another date.

How many votes do I have?

On each matter to be voted upon, for holders of our common stock, you have one vote for each share of common stock you owned as of July 17, 2013.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the annual meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

Table of Contents

PROPOSAL ONE

ELECTION OF CLASS II DIRECTORS

Pursuant to our certificate of incorporation, our board of directors is divided into three classes with staggered three-year terms. The total number of authorized directors on our board of directors immediately following the 2013 annual meeting has been fixed at seven by a resolution of our board of directors, and two directors will serve as Class II directors whose terms will expire at the annual meeting of stockholders to be held in 2016.

There are two nominees for Class II director at this annual meeting, R. Douglas Norby and Tim Wilson. Stockholders cannot submit proxies voting for a greater number of persons than the two nominees named in this Proposal One. Each director to be elected will hold office until the annual meeting of stockholders held in 2016 and until his successor is elected or until the director s death, resignation or removal. Each nominee is currently a director of InvenSense and has agreed to serve if elected, and we have no reason to believe that any nominee will be unable to serve.

There are no family relationships between any of our directors, nominees or executive officers. There are also no arrangements or understandings between any director, nominee or executive officer and any other person pursuant to which he or she has been or will be selected as a director and/or executive officer.

Required Vote

The two nominees receiving the highest number of FOR votes shall be elected as Class II directors. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the two nominees named above. If any nominee becomes unavailable for election as a result of an unexpected occurrence, shares that would have been voted for such nominee will instead be voted for the election of a substitute nominee proposed by our board of directors and the nominating and corporate governance committee. Under the rules of the NYSE, brokers are prohibited from giving proxies to vote on elections of directors unless the beneficial owner of such shares has given voting instructions on the matter. This means that if your broker is the record holder of your shares, you must give voting instructions to your broker with respect to the two nominees in this Proposal One if you want your broker to vote your shares on the matter. Otherwise, your shares will be treated as broker non-votes. Broker non-votes will have no effect on the outcome of the vote.

Recommendation

The board of directors recommends a vote FOR each nominee named in Proposal One.

Table of Contents

INFORMATION REGARDING OUR NOMINEES AND DIRECTORS

The following table sets forth information as of July 17, 2013 with respect to the nominees for election as Class II directors of our board.

Class II Director Nominees

Name	Age	Position
R. Douglas Norby	78	Director, Chairman of the Audit Committee, Member of the Nominating and Corporate Governance Committee
Tim Wilson	54	Director and Member of the Audit Committee and Chairman of the Nominating and Corporate Governance Committee

Continuing Directors

Name	Age	Class(1)	Position
Behrooz Abdi	51	III	President and Chief Executive Officer
Jon Olson	60	I	Director and Member of the Audit Committee
Amit Shah	48	I	Chairman of the Board and Chairman of the Compensation Committee
Yunbei Ben Yu, Ph.D.	43	I	Director and Member of the Compensation Committee

(1) The terms of Class III directors will expire at the 2014 annual meeting. The terms of Class I directors will expire at the 2015 annual meeting. We intend to designate one of our current Class I directors as a Class III director prior to the 2014 annual meeting.

Nominees for Class II Directors

R. Douglas Norby has served on our board of directors since September 2009. From July 2003 to January 2006, Mr. Norby served as Senior Vice President and Chief Financial Officer of Tessera, Inc., a provider of intellectual property for advanced semiconductor packaging. From March 2002 to February 2003, Mr. Norby served as Senior Vice President and Chief Financial Officer of Zambeel, Inc., a data storage systems company. From December 2000 to March 2002, Mr. Norby served as Senior Vice President and Chief Financial Officer of Novalux, Inc., a manufacturer of lasers for optical networks. From 1996 until December 2000, Mr. Norby served as Executive Vice President and Chief Financial Officer of LSI Logic Corporation, a semiconductor company, and he also served as a director of LSI Logic Corporation from 1993 until 2007. From July 1993 until November 1996, he served as Senior Vice President and Chief Financial Officer of Mentor Graphics Corporation, a software company. Mr. Norby served as President of Pharmetrix Corporation, a drug delivery company, from July 1992 to September 1993, and from 1985 to 1992, he was President of Lucasfilm, Ltd., an entertainment company. From 1979 to 1985, Mr. Norby was Senior Vice President and Chief Financial Officer of Syntex Corporation, a pharmaceutical company. Mr. Norby is a director of STATS ChipPAC, Ltd., Alexion Pharmaceuticals, Inc., MagnaChip Semiconductor Corporation and Singulex, Inc. Mr. Norby received a B.A. in Economics from Harvard University and an M.B.A. from Harvard Business School. We believe Mr. Norby s qualifications to sit on our board of directors include his experience as an executive and a board member of various public and private semiconductor and technology companies. Mr. Norby qualifies as independent according to the rules and regulations of the NYSE as determined by our board of directors.

Table of Contents

Tim Wilson has served on our board of directors since April 2004. Mr. Wilson joined Artiman Management in January 2012 as a Managing Director. From 2001 until December 2011, he was a Partner of Partech International, LLC. Mr. Wilson currently serves on the boards of ACCO Semiconductor, Five9, Prysm, LEDEngin, and Kaybus. Between 1998 and 2001, he served as Vice President of Marketing and as Chief Marketing Officer for Digital Island, a Partech portfolio company. From 1996 to 1998, he was a General Manager at Lucent Technology. From 1983 to 1996, he held a variety of senior management positions within AT&T (North America and Australia) and AT&T Bell Labs. Mr. Wilson graduated summa cum laude, Phi Beta Kappa from Bowdoin College receiving his undergraduate degree in Physics. He received his M.B.A. from Duke University s Fuqua School of Business, where he was named a Fuqua Scholar. We believe Mr. Wilson s qualifications to sit on our board of directors include his years of service on our board, his experience with capital markets and his perspective gained in management of and service as a board member of various private companies. Mr. Wilson qualifies as independent according to the rules and regulations of the NYSE as determined by our board of directors.

Continuing Directors

Behrooz Abdi has served on our board of directors since June 2011 and was appointed President and CEO in October 2012. Mr. Abdi served as Executive Vice President and General Manager at NetLogic Microsystems, Inc., a provider of semiconductor solutions, from November 2009 to December 2011. Mr. Abdi served as the President and Chief Executive Officer of RMI Corporation (formerly Raza Microelectronics Inc.), a fabless semiconductor company, from November 2007 to October 2009. He served as Senior Vice President and General Manager of CDMA Technologies (QCT) at Qualcomm, Inc., a provider of wireless technology and services, from March 2004 to November 2007. Prior to joining Qualcomm, he held leadership and engineering positions of increasing responsibility at Motorola, Inc. in its Semiconductor Products Sector (SPS). From September 1999 to March 2003, he served as Vice President and General Manager for Motorola s radio products division, in charge of RF and mixed signal ICs for the wireless mobile market. He currently serves as a director at Tabula, Inc. He also serves as a director at Exar Corporation (Nasdaq: EXAR), a provider of high performance mixed-signal integrated circuits and sub-system solutions for networking and telecommunications, and industrial markets. Mr. Abdi served as the Chairman and director of SMSC Storage, Inc. (Formerly Symwave, Inc.), from September 2009 to November 2010 and as a director of RMI Corporation from November 2007 to November 2009. Mr. Abdi holds a B.S. from Montana State University and an M.S. from the Georgia Institute of Technology, both in Electrical Engineering. We believe Mr. Abdi s qualifications to sit on our board of directors include his over 26 years of experience in the semiconductor industry, his track record of growing profitable businesses and his experience as a board member of various private semiconductor and technology companies.

Jon Olson has served on our board of directors since October 2011. Mr. Olson has been the Senior Vice President, Finance and Chief Financial Officer at Xilinx, Inc., a provider of programmable semiconductor platforms, since August 2006 and joined Xilinx as Vice President, Finance and Chief Financial Officer in June 2005. Prior to joining Xilinx, he served from 1979 to 2005 at Intel Corporation, a semiconductor chip maker, in various senior financial positions, including Vice President, Finance and Enterprise Services, Director of Finance. Mr. Olson holds an M.B.A. in Finance from Santa Clara University and a B.S. in Accounting from Indiana University. We believe Mr. Olson s qualifications to sit on our board of directors include his over 30 years of experience in senior roles of financial responsibility in the semiconductor industry, his track record of growing profitable businesses and his experience at various semiconductor and technology companies. Mr. Olson qualifies as independent according to the rules and regulations of the NYSE as determined by our board of directors.

Amit Shah has served on our board of directors since April 2004. As a Managing Member of Artiman Management since 2000, he serves on the boards of Auryn, Inc., AbsolutelyNew, Inc., Guavus, Inc., Aditazz, Inc., Adama Materials, Inc., CellMax, Ltd., Tonbo Imaging Pte. Ltd., Dyyno, Inc., VuCast Media, Inc. and Motif, Inc. In addition, he previously served on the boards of MYNDnet, Inc., Mastek, Inc., Sierra Design Automation, Inc., Net Devices, Inc., Zyme Solutions, Inc. and Lightwire, Inc. Prior to founding Artiman Management,

Table of Contents

Mr. Shah founded Anthelion I & II, seed stage venture funds, which he has managed since 1996. From 1998 to 2000, he worked as Vice President of New Markets and Technologies for the Business Development and Alliances Group of Cisco Systems, Inc., a consumer electronics company, and he founded and was Chief Executive Officer of PipeLinks, Inc., an optical network company, until its acquisition by Cisco Systems in 1998. Mr. Shah also founded ZeitNet, a networking systems company, which was acquired by Cabletron Systems in 1996. Mr. Shah holds a B.S. in Electrical Engineering from The Maharaja Sayajirao University of Baroda, India and has done graduate work at the University of California, Irvine. We believe Mr. Shah s qualifications to sit on our board of directors include his understanding of our company acquired during his years of service on our board of directors, his experience serving as a director of various technology companies and his perspective gained as a venture capital investor. Mr. Shah qualifies as independent according to the rules and regulations of the NYSE as determined by our board of directors.

Yunbei Ben Yu, Ph.D. has served on our board of directors since March 2008. Dr. Yu also currently serves on the boards of 800App, Applied MicroStructures, Inc., Miox and VeriSilicon Holdings Co., Ltd., and serves as an observer on the board of Novariant, Inc. Dr. Yu has previously served on the boards of AuthenTec, Inc., mSilica, Inc., Multigig, Inc. and SyChip Inc. (acquired by Murata Manufacturing Co., Ltd.), and previously served as an observer on the board of Verari Systems. Dr. Yu has served as a Venture Partner or Managing Director at Sierra Ventures since 2000. Prior to joining Sierra Ventures, he worked from 1997 to 2000 at 3Com Corporation, an electronics manufacturer, where he held a number of engineering and project management positions. He received his B.S. in Engineering from the University of Western Australia and a Ph.D. in Electrical Engineering from Princeton University. We believe Dr. Yu s qualifications to sit on our board of directors include his extensive experience in investment management of and service as a board member of various companies in the semiconductor, communications component and systems industries. Dr. Yu qualifies as independent according to the rules and regulations of the NYSE as determined by our board of directors.

Table of Contents

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Board Composition and Leadership Structure

Our board of directors consists of six members, including our President and Chief Executive Officer, Behrooz Abdi, as well as five non-management directors, Messrs. R. Douglas Norby, Jon Olson, Amit Shah and Tim Wilson and Dr. Yunbei Ben Yu, each of whom qualifies as independent according to the rules and regulations of the NYSE as determined by our board of directors.

Our board of directors is divided into three classes with staggered three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following their election. Our directors are divided among the three classes as follows:

- The Class I directors are Mr. Olson, Mr. Shah and Dr. Yu, and their terms will expire at the annual meeting of stockholders to be held in 2015;

- The Class II directors are Messrs. Norby and Wilson, and their terms will expire at the next annual meeting of stockholders to be held on September 13, 2013 as described in this proxy statement; and

- The Class III director is Mr. Abdi and his term will expire at the annual meeting of stockholders to be held in 2014.

We intend to designate one of our current Class I directions as a Class III director prior to the 2014 annual meeting.

Our board highly values independent directors. Currently, all of the members of our board of directors other than our Chief Executive Officer, Mr. Abdi, are independent, as well as all members of the audit committee, the compensation committee and the nomination and corporate governance committee. Our board of directors retains the flexibility to determine on a case-by-case basis whether the Chief Executive Officer, or an independent director, should serve as Chairman. This flexibility permits our board of directors to organize its functions and conduct its business in a manner it deems most effective in then-prevailing circumstances.

The board currently separates the role of Chairman and Chief Executive Officer, with Mr. Abdi serving as Chief Executive Officer and Mr. Shah serving as Chairman. The board believes that separating these two roles promotes balance between the board s independent authority to oversee our business and the Chief Executive Officer and our management team, which manages the business on a day-to-day basis. The current separation of the Chairman and Chief Executive Officer roles allows the Chief Executive Officer to focus his time and energy on operating and managing the Company and leverage the experience and perspectives of the Chairman.

While the board has not appointed a lead independent director, the board maintains effective independent oversight through a number of governance practices, including our strong committee system, open and direct communication with management, input on meeting agendas, annual performance evaluations and regular executive sessions.

In addition, the board has established the following procedures for selecting the presiding director during the executive sessions of the board. The presiding director will be (i) the Chairman of the board, if that person is a non-employee director, or (ii) the lead independent director, if any. The position of presiding director rotates among our independent, non-employee directors depending on the primary focus of matters to be discussed during the executive session.

Contacting the Board of Directors

Any stockholder who desires to contact our board, committees of the board and individual directors may do so by writing to: 1745 Technology Drive, San Jose, California 95110 Attention: Alan Krock, Chief Financial Officer. Mr. Krock will direct such communication to the appropriate persons.

Table of Contents

Role of the Board in Risk Oversight

The board of directors is actively involved the oversight of our risk management process. The board does not have a standing risk management committee, but administers this oversight function directly through the board as a whole, as well as through its standing committees that address risks inherent in their respective areas of oversight. In particular, our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, our compensation committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking, our nominating and corporate governance committee monitors our major legal compliance risk exposures and our program for promoting and monitoring compliance with applicable legal and regulatory requirements and our board is responsible for monitoring and assessing strategic risk exposure and other risks not covered by our committees.

The full board, or the appropriate committee, receives reports on risks facing our company from our Chief Executive Officer or other members of management to enable it to understand our risk identification, risk management and risk mitigation strategies. We believe that our board s leadership structure supports effective risk management because it allows the independent directors on our committees to exercise oversight over management.

Board Meetings

During the fiscal year ended March 31, 2013, the board held four meetings. Each of our incumbent directors attended more than seventy-five percent of the meetings of the board and of the committees on which the director served that were held during the last fiscal year. Board members are expected to regularly attend all meetings of the Board and committees on which they serve. Our independent directors held an executive session in conjunction with each in-person board meeting.

Committees of the Board

In fiscal year 2013, our board of directors had three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. The following table provides membership and meeting information for each of the board committees in fiscal year 2013:

Member of our board of directors in fiscal year 2013	Audit	Compensation	Nominating and Corporate Governance
Behrooz Abdi(1)			
R. Douglas Norby(2)			
Jon Olson			
Amit Shah			
Tim Wilson			
Yunbei Ben Yu, Ph.D.			
Total meetings in fiscal year 2013	6	2	1

= Member = Chair

(1) Mr. Abdi served on the Nominating and Corporate Governance Committee until his election to the position of Chief Executive Officer in October 2012.

(2) Mr. Norby joined the Nominating and Corporate Governance Committee in April of 2013.

Below is a description of each committee of the board of directors. Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The board of directors concluded that each of the board members serving on a committee was independent as defined in the rules and regulations of the NYSE.

Audit Committee

Our audit committee is comprised of Messrs. Norby, Olson and Wilson, each of whom is a non-employee member of our board of directors. Mr. Norby is our audit committee chairman and our audit committee financial expert, as currently defined under the SEC rules. Our board of directors has determined that each of Messrs. Norby, Olson and Wilson is independent within the meaning of the applicable SEC rules and regulations of the NYSE.

Our audit committee oversees our corporate accounting and financial reporting process. Among other matters, the audit committee evaluates the independent registered public accounting firm s qualifications, independence and performance; determines the engagement of the independent registered public accounting firm; reviews and approves the scope of the annual audit and the audit fee; discusses with management and the independent registered public accounting firm the results of the annual audit and the review of our quarterly consolidated financial statements; approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent registered public accounting firm on our engagement team as required by law; reviews our critical accounting policies and estimates; and will annually review the audit committee charter and the committee s performance. The audit committee met six times during fiscal year 2013, including meetings with our independent registered public accounting firm to review our quarterly and annual financial statements and their review or audit of such statements. Our audit committee operates under a written charter adopted by the board that satisfies the applicable standards of the NYSE that is posted on our website at ir.invensense.com under the heading Corporate Governance.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is comprised of Messrs. Wilson and Norby, each of whom is a non-employee member of our board of directors. Mr. Wilson is our nominating and corporate governance committee chairman. Our nominating and corporate governance committee is responsible for making recommendations regarding candidates for directorships and the size and the composition of our board of directors. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance principles and making recommendations concerning governance matters. Our nominating and corporate governance committee operates under a written charter adopted by the board that satisfies the applicable standards of the NYSE that is posted on our website at ir.invensense.com under the heading Corporate Governance. The nominating and corporate governance committee met once during fiscal year 2013.

The nominating and corporate governance committee will consider director candidates recommended by stockholders. The nominating and corporate governance committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder. Stockholders who wish to recommend individuals for consideration by the nominating and corporate governance committee to become nominees for election to the board for next year s annual meeting of stockholders may do so by delivering a written recommendation to the nominating and corporate governance committee at the following address: Chair of the nominating and corporate governance committee c/o Corporate Secretary of InvenSense at 1745 Technology Drive, San Jose, California 95110, by March 28, 2014. Submissions must include the full name of the proposed nominee, a description of the proposed nominee s business experience for at least the previous five years, complete biographical information, a description of the proposed nominee s qualifications as a director and a representation that the nominating stockholder is a beneficial or record owner of our common stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected.

Table of Contents

Compensation Committee

Our compensation committee is comprised of Mr. Shah and Dr. Yu, each of whom is a non-employee member of our board of directors. Mr. Shah is our compensation committee chairman.

Our compensation committee reviews and recommends policies relating to the compensation and benefits of our officers and employees. The compensation committee reviews and approves corporate goals and objectives relevant to the compensation of our chief executive officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives, and sets the compensation of these officers based on such evaluations. The compensation committee administers the issuance of stock options and other awards under our stock plans. The compensation committee will review and evaluate, at least annually, the performance of the compensation committee and its members. Our compensation committee operates under a written charter adopted by the board that satisfies the applicable standards of the NYSE that is posted on our website at ir.invensense.com under the heading *Corporate Governance*. The compensation committee met twice during fiscal year 2013. The compensation committee has authority to retain compensation consultants, outside counsel and other advisors that the committee deems appropriate, in its sole discretion, to assist it in discharging its duties, and to approve the terms of retention and fees to be paid to such consultants.

Compensation Committee Interlocks and Insider Participation

None of our executive officers currently serves or in the past year has served as a member of the compensation committee (or, in the absence of such committee, the board of directors) of any other entity that has one or more executive officers serving on our compensation committee.

Corporate Governance

Corporate Governance Guidelines

Our board has adopted written Corporate Governance Guidelines to assure that the board will have the necessary authority and practices in place to review and evaluate our business operations as needed and to make decisions that are independent of our management. The guidelines are also intended to align the interests of directors and management with those of our stockholders. The Corporate Governance Guidelines set forth the practices the board intends to follow with respect to board composition and selection, board meetings and involvement of senior management, Chief Executive Officer performance evaluations and succession planning, and board committees and compensation. The nominating and corporate governance committee assists the board in implementing and adhering to the Corporate Governance Guidelines. Our Corporate Governance Guidelines are available on the investor relations section of our website at *ir.invensense.com* under the heading *Corporate Governance*. The corporate governance guidelines are reviewed at least annually by our nominating and corporate governance committee, and changes are recommended to our board of directors with respect to changes as warranted.

Code of Business Conduct and Ethics

We have adopted the InvenSense Code of Business Conduct and Ethics that applies to all officers, directors and employees. Our Code of Business Conduct and Ethics is available on the investor relations section of our website at *ir.invensense.com* under the heading *Corporate Governance*. If we make any substantive amendments to our Code of Business Conduct and Ethics or grant any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on the investor relations section of our website at *ir.invensense.com* under the heading *Corporate Governance*.

Table of Contents

Corporate Governance Materials

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, charters for each committee of the board and other corporate governance documents, are posted on the investor relations section of our website at *ir.invensense.com* under the heading *Corporate Governance*. In addition, stockholders may obtain a print copy of our Corporate Governance Guidelines, Code of Business Conduct and Ethics as well as the charters of our audit committee, compensation committee and nominating and corporate governance committee by writing to our Corporate Secretary at 1745 Technology Drive, San Jose, California 95110.

Director Compensation

Director Compensation for Fiscal Year 2013

Our non-employee directors who served during the fiscal year ended March 31, 2013 received the following compensation for their service on our board of directors.

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)(3)	Total ($)
R. Douglas Norby	40,000	116,748(4)	156,748
Jon Olson	31,500	92,020(5)	123,520
Amit Shah		139,424(6)	139,424
Tim Wilson		139,424(6)	139,424
Yunbei Ben Yu, Ph.D.		78,869(7)	78,869

(1) Reflects board retainer fees, as well as committee and committee chair retainer fees.

(2) At April 1, 2013, the following non-employee directors each held stock awards and stock options covering the following aggregate numbers of shares:

Name	Stock Options (number of shares)
R. Douglas Norby	165,000
Jon Olson	110,000
Amit Shah	20,000
Tim Wilson	40,000
Yunbei Ben Yu, Ph.D.	60,000

(3) The amounts reported for the stock option awards are based on the grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the stock option awards are discussed in Note 6, Stockholders Equity, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended March 31, 2013 which was filed with the SEC on June 14, 2013.

(4) On September 15, 2012, we granted Mr. Norby an option to purchase 20,000 shares of our common stock with a per share exercise price of $13.18. 1/12th of the shares subject to the option will vest each month commencing on the vesting commencement date of September 16, 2014.

(5) On October 21, 2012, we granted Mr. Olson an option to purchase 20,000 shares of our common stock with a per share exercise price of $11.85. 1/12th of the shares subject to the option will vest each month commencing on the vesting commencement date of October 21, 2015.

(6) On April 14, 2012, we granted each of Mr. Shah and Mr Wilson an option to purchase 20,000 shares of our common stock with a per share exercise price of $15.58. 1/12th of the shares subject to the option will vest each month commencing on the vesting commencement date of November 15, 2012.

(7) On March 28, 2013, we granted Mr. Yu an option to purchase 20,000 shares of our common stock with a per share exercise price of $10.68. 1/12 of the shares subject to the option will vest each month commencing on the vesting commencement date of December 15, 2013.

Table of Contents

Discussion of Director Compensation

Directors who are employees of ours do not receive any compensation for their service on our board of directors. Our board of directors has adopted the following compensation policy that is applicable to all of our current non-employee directors:

Initial Equity Grants. Each non-employee director who joins the board receives an option to purchase 90,000 shares of our common stock, with 1/48th of the shares subject to the option vesting on a monthly basis over four years, subject to the director s continuous service as a member of the board of directors. If still vesting, the grant accelerates in full upon a change in control of our Company.

Annual Equity Grants. Each non-employee director receives annually an option to purchase 20,000 shares of our common stock, with 1/12th of the shares subject to the option vesting on a monthly basis commencing the month after the completion of vesting of any existing grants held by such director. The annual option grant is made on the anniversary of the date on which a non-employee director joins the board of directors. Any such grant which has commenced vesting will accelerate in full upon a change of control of our Company.

Retainers. Each non-employee director who is not an affiliate of an investor holding more than 5% of our outstanding shares of common stock as of November 15, 2011 receives annual cash retainers, payable quarterly in arrears. The unpaid amounts of these retainers are payable in full for the current fiscal year in the event of a change of control of our Company during that fiscal year. The annual retainer for service on the board of directors is $25,000, and the annual retainers for service on committees of our board of directors will be as follows:

Position	Audit Committee	Compensation Committee	Nominating And Corporate Governance Committee
Chair	$ 15,000	$ 10,000	$ 7,000
Member	$ 6,500	$ 5,000	$ 3,000

In the fiscal year ended March 31, 2013, the total cash compensation earned by non-employee directors was $87,833.33.

Table of Contents

EXECUTIVE COMPENSATION

Executive Officers

Our executive officers as of July 17, 2013, and their positions, and their respective ages on that date, are:

Name	Age	Position
Behrooz Abdi	51	President and Chief Executive Officer
Alan Krock	52	Vice President and Chief Financial Officer
Daniel Goehl	42	Vice President Worldwide Sales
Stephen Lloyd	48	Vice President Engineering and New Product Development

Our executive officers serve at the discretion of the board of directors, subject to rights, if any, under contracts of employment. See Employment Agreements; Change in Control Arrangements; and Potential Payments Upon Termination or Change in Control. Biographical information for Mr. Abdi is provided above. See Information Regarding Our Nominees and Directors.

Alan Krock joined us in May 2011 as our Chief Financial Officer. Prior to joining us, Mr. Krock gained extensive experience in financial and audit control related matters as the Chief Financial Officer of Beceem Communications, Inc., a provider of integrated circuit products, from January 2010 until January 2011, Vice President and Chief Financial Officer of PMC-Sierra, Inc., a provider of integrated circuit products, from November 2002 until March 2007, Vice President of Corporate Affairs for PMC-Sierra, Inc., from March 2007 until March 2008, and Vice President and Chief Financial Officer of Integrated Device Technology, Inc., a provider of semiconductor solutions, from January 1998 until November 2002. Mr. Krock also served as a member of the board of directors of NetLogic Microsystems, Inc. from August 2005 to February 2012. Mr. Krock holds a B.S. in Business Administration from the University of California, Berkeley, and is a California Certified Public Accountant.

Daniel Goehl joined us in 2004 as our Director of Business Development and became our Vice President of Worldwide Sales in March 2007. Prior to joining us, Mr. Goehl held senior management positions and led sales and business development initiatives at start-up companies in semiconductor and wireless technology markets such as Nazomi Communications, CSI Wireless, Meridian Wireless and Omni Telecommunications. Mr. Goehl has a B.A. in Economics from the University of Illinois and attended Kansai Gaidai University in Osaka, Japan for International Business and Japanese language studies.

Stephen Lloyd has been our Vice President of Engineering and New Product Development since December 2008. Prior to joining us, he worked at several semiconductor companies, including service from 2004 to 2008 at Beceem Communications first as Vice President of Engineering for RF Microelectronics and later as Executive Vice President of Engineering. From 2002 to 2004, he served as Executive Director of RF IC Design for Skyworks Solutions, and from 1997 to 2002, he served as an Executive Director of Conexant Systems. Mr. Lloyd received his B.S. in Electronic Engineering from the University of California, Berkeley.

Compensation Discussion and Analysis

The following discussion and analysis of the compensation arrangements of our named executive officers identified below for fiscal year 2013 should be read together with the compensation tables and related disclosures set forth below.

We refer to our chief executive officer, our former chief executive officer, our chief financial officer and our two other most highly compensated executive officers during fiscal year 2013 as our named executive officers. Our named executive officers for fiscal year 2013 are as follows:

Behrooz Abdi, President and Chief Executive Officer

Steven Nasiri, Former President and Chief Executive Officer

Alan Krock, Vice President and Chief Financial Officer

Daniel Goehl, Vice President Worldwide Sales

Stephen Lloyd, Vice President Engineering and New Product Development

Compensation Objectives

We structure our compensation programs to reward high performance and innovation, promote accountability and ensure that employee interests are aligned with the interests of our stockholders. Our executive compensation program is structured to attract, motivate and retain highly qualified executive officers by paying them competitively and tying their compensation to our success as a whole and to their individual contributions to such success.

Specifically, the compensation committee believes that the primary objectives of our compensation policies are:

creating long-term incentives for management to increase stockholder value;

motivating our executives to achieve our short-term and long-term goals;

providing clear company and individual objectives that promote innovation to achieve our objectives;

rewarding the achievement of targeted results; and

retaining executive officers whose abilities are critical to our long-term success and competitiveness.

Framework for Determining Executive Compensation

The executive compensation program we adopted for fiscal 2013 had three primary components: (i) base salary, (ii) non-equity incentive plan compensation and (iii) equity awards. In addition, we provided our executive officers with other compensation, including a variety of benefits that are available generally to all salaried employees in the geographic locations where such executives are based.

We utilize a discretionary approach for determining our named executive officers compensation, which is based upon the business judgment and experience of our compensation committee and our chief executive officer. We rely in part on the experience and familiarity of our compensation committee members with current information relating to total aggregate compensation levels paid by technology companies of similar scale to ours. Our compensation committee members have obtained this experience and familiarity as venture capitalists and/or executives at technology companies. In June 2011, in anticipation of our initial public offering, our compensation committee engaged Compensia, Inc., a national compensation consulting firm, to review the compensation arrangements of our executive officers and to evaluate our equity award grant practices, in comparison to the practices of a group of publicly traded semiconductor companies identified by Compensia. The committee and Mr. Nasiri reviewed this previously gathered information and publicly available information of which members of the committee and Mr. Nasiri were aware in April 2012 in connection with setting compensation for named executive officers for fiscal 2013. The committee reviewed additional information provided by Compensia in establishing Mr. Abdi s compensation package in connection with the execution of his employment agreement as chief executive officer in October 2012. We did not benchmark our compensation levels against a peer group of companies. We have not adopted any formal or informal policies or guidelines for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.

In fiscal 2013, our former chief executive officer, Mr. Nasiri, provided recommendations to the compensation committee in connection with the establishment of compensation of our executive officers for 2013. Mr. Nasiri discussed the target compensation and past performance of all executive officers, excluding

Table of Contents

himself, with the compensation committee. Mr. Nasiri based his recommendations for 2013 compensation in part upon annual performance reviews of our executive officers conducted at beginning of fiscal 2013. New individual performance goals were established for 2013 and were reviewed with the compensation committee at the time they are established.

Prior to fiscal 2013, as part of each performance review, our chief executive officer utilized a scoring methodology and his discretion to determine the amount of the non-equity incentive awards paid to our executive officers.

Beginning in November 2012, our new chief executive officer, with the assistance of our human relations organization, commenced a review of the structure of our historical performance review and executive compensation program, and recommended to the compensation committee that the program be restructured to focus on achievement and goals and to eliminate its scoring features, on the basis that such a restructuring would lead to improvements in executive performance and overall satisfaction. In conjunction with the completion of this review, the compensation committee, upon the recommendation of management and with the agreement of our named executive officers, determined that despite the achievement of certain revenue goals established as part of the original compensation program for 2013, it was decided that the non-equity incentive compensation plan would be discontinued for the 2013 fiscal year, with no bonuses being paid thereunder. Although the compensation committee, in light of the decision not to pay bonuses, did not complete a formal assessment of performance of our executive officers against goals, the compensation committee did evaluate the overall performance of our executive officers, and our executive officers were compensated through base salary adjustments and equity awards made in early fiscal 2014. In addition, our compensation committee has adopted a new non-equity incentive program for the 2014 fiscal year.

Until his resignation in October 2012, the compensation of our president and chief executive officer, Mr. Nasiri, was established by the board of directors, excluding Mr. Nasiri, upon the recommendation of the compensation committee, based on the compensation committee s discussions with, and evaluation of, Mr. Nasiri. The specific criteria used to evaluate Mr. Nasiri s performance during fiscal year 2013 are described below.

The compensation of our current president and chief executive officer, Mr. Abdi, for 2013 was determined pursuant to an employment agreement described below under Employment Agreements; Change in Control Arrangements; and Potential Payments upon Termination or Change in Control Behrooz Abdi.

The following is a discussion of the individual performance evaluation criteria applicable to our named executive officers for fiscal year 2013:

Steven Nasiri, Former President and Chief Executive Officer

Mr. Nasiri was to be evaluated on the basis of the overall performance of our Company, including the extent to which we were successful in achieving net revenue goals, market leadership, profitability, customer diversification, product development, technology milestones, and organizational development.

Alan Krock, Vice President and Chief Financial Officer

Mr. Krock was evaluated on his management of our financial operations, development of reporting systems to support our functioning as a public company, timely and accurate reporting of financial and critical operating information to our management team and board, establishment and management of a treasury function, and improvements in systems supporting, and management of, our human resources, information technology and facilities functions.

Table of Contents

Daniel Goehl, Vice President Worldwide Sales

Mr. Goehl was evaluated on his achievement of sales objectives, development of marketing strategies, generation of business development opportunities, management of our sales organization, support of our business development activities, management of key customer relationships, and participation in hiring and training activities.

Stephen Lloyd, Vice President Engineering and New Product Development

Mr. Lloyd was evaluated on his achievement of certain product development and production goals, development of intellectual property, support of business development activities, and participation in hiring and training activities.

Elements of Compensation

Base Salary

We pay base salaries to provide a fixed level of cash compensation for our named executive officers to compensate them for services rendered during the fiscal year. Each year we determine salary increases, if any, based upon a subjective evaluation of each executive s individual performance, position, tenure, experience, expertise, leadership, management capability, and the extent to which the executive has been successful in managing and growing the operations or organization for which such executive is responsible. We do not apply formulaic base salary increases to our named executive officers. For fiscal year 2013, the compensation committee approved increases in the base salaries of Mr. Krock, Mr. Goehl and Mr Lloyd recommended by our chief executive officer from $220,000 to $270,000, $200,000 to $230,000 and $205,000 to $240,000, respectively, in each case in recognition of the increased responsibility of their positions resulting from our status as a public company and the increasing scale and scope of our operations resulting from growth in our business.

Non-Equity Incentive Awards

For fiscal 2013, our compensation committee established a bonus pool available to all of our named executive officers to reward named executive officers for the successful performance of our Company as a whole and of each participating named executive officer as an individual. The bonus pool was initially based on our annual plan for the 2013 fiscal year, which took into account net revenue objectives established by the board of directors in consultation with management. The compensation committee would distribute the bonus pool to our named executive officers based on the extent to which we attained specified net revenue goals, believing that adequate incentives and controls were in place to encourage the attainment of other objectives established in our annual plan.

The compensation committee delegated the ability to designate our named executive officers fiscal year 2013 target awards to our former chief executive officer, Mr. Nasiri. The committee designated a fiscal year 2013 target award for our former chief executive officer after reviewing this target with our board. The following target awards were allocated to the participating named executive officers by our former chief executive officer on the basis of relative salary levels and contributions to our net revenue goals.

Named Executive Officer	**2013 Fiscal Year Target Award**
Behrooz Abdi	$ N/A(1)
Steven Nasiri	$ 200,000
Alan Krock	$ 60,000
Daniel Goehl	$ 80,000
Stephen Lloyd	$ 60,000

(1) Mr. Abdi was not an executive officer at the time that fiscal 2013 cash bonus targets were set. Mr. Abdi s compensation package for the 2013 fiscal year, including a potential bonus, was established in his

18

Table of Contents

employment agreement, described below in Employment Agreements; Change in Control Arrangements; and Potential Payments upon Termination or Change in Control Behrooz Abdi.

For the 2013 fiscal year, the target awards for each of our named executive officers were subject to a percentage adjustment based on a target revenue goal of $200 million based on the following schedule:

	Revenue Attainment						
	Under 95% of Goal	95% to 100% of Goal	100% to 105% of Goal	105% to 110% of Goal	100% to 115% of Goal	115% to 120% of Goal	Above 120% of Goal
Target Award Adjustment	0%	50%	100%	150%	200%	250%	300%

As discussed further above in Framework for Determining Executive Compensation, our compensation committee determined the non-equity incentive plan would be discontinued for the 2013 fiscal year and that no bonuses be paid thereunder.

Equity Awards

We believe that equity ownership in our Company is an important component of each named executive officer s total compensation because it promotes long-term performance by aligning the interests of our named executive officers with the interests of our stockholders. We believe that equity awards will incentivize our named executive officers to achieve long-term performance because they provide greater opportunities for our named executive officers to benefit from any future successes in our business. We have not adopted stock ownership guidelines, and our equity compensation plans have provided the principal method for our named executive officers to acquire equity or equity-linked interests in our Company.

The number of shares subject to options granted to each named executive officer is determined by our compensation committee based upon several factors, including individual performance reviews and the levels of equity ownership we believe to be representative of and competitive with ownership levels of officers having similar responsibilities in technology companies of similar scale and stage of development to ours. In addition to the annual awards, grants of options may be made to executive officers as an inducement to accept employment, following a significant change in job responsibility or in recognition of a significant achievement. The exercise price of options granted under our equity incentive plans is equal to or exceeds the fair market value of the underlying shares on the date of grant. Our equity incentive plans are more fully described below in the section titled Employee Benefit and Equity Plans.

Policies with Respect to Equity Compensation Awards

During fiscal year 2013, we granted options to purchase shares of our common stock under our 2011 Stock Incentive Plan. The plan allows us to grant options, restricted stock, and other equity awards. We grant options with exercise prices equal to or in excess of the fair market value of our common stock as of the date of grant. The fair market value of shares of our common stock and the corresponding exercise prices of our option grants is established as the closing sale price of our common stock on the NYSE on the date a grant is made.

Table of Contents

Executive Compensation Tables

Summary Compensation Table

The following table presents information regarding compensation earned by or awards to our named executive officers for fiscal year 2013 during each of our last three fiscal years.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(2)	Total ($)
Behrooz Abdi	2013	159,231		6,345,720(3)		22,199(4)	6,527,150
President and Chief Executive Officer							
(Principal Executive Officer)							
Steven Nasiri	2013	318,509				1,434,390(5)	1,752,899
Former President and Chief Executive Officer	2012	337,500		1,640,828	300,000	8,101	2,286,429
(Former Principal Executive Officer)	2011	275,000			225,000	11,288(6)	511,288
						4,963	
Alan Krock	2013	258,571				13,174	271,745
Vice President and Chief Financial Officer	2012	163,114	50,000	1,854,409	65,625	4,157	2,137,305
(Principal Financial Officer)							
Daniel Goehl	2013	228,750	5,000(7)			11,580	245,330
Vice President Worldwide Sales	2012	190,880	38,500	271,279	92,400	9,720	602,780
	2011	175,000	42,500	86,805	63,750	7,608	375,663
Stephen Lloyd	2013	233,926				12,768	246,694
Vice President Engineering and New	2012	205,270	42,500	141,364	63,750	11,365	464,249
Product Development	2011	205,000	29,750	153,216	44,625	10,632	443,223

(1) This column reflects the aggregate grant date fair value of option awards granted to our named executive officers estimated pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 718 (FASB ASC Topic 718). The amounts reported for the stock option awards are based on the grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of the stock option awards are discussed in Note 6, Stockholders Equity, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended March 31, 2013 which was filed with the SEC on June 14, 2013.

(2) This column includes our Company s contribution to the executive s medical and life insurance payments and health savings account contributions.

(3) This amount includes a grant of 20,000 options made to Mr. Abdi for service as a director that were subsequently cancelled upon Mr. Abdi s commencement of employment as chief executive officer.

(4) This amount includes fees earned as compensation for service as a director in the amount of $16,333.

(5)

This amount reflects severance payments in the amount of $1,424,848 (including $800,000 in cash, $596,820 in expense related to option acceleration and $28,028 in medical plan costs) and medical, dental, and disability insurance coverage payments in the aggregate amount of $9,542.

(6) This amount includes a pay-out of Mr. Nasiri s accrued vacation of $5,288.

(7) This amount reflects an employee referral bonus paid out under the Company s employee referral program.

Table of Contents

Grants of Plan-Based Awards

The following table sets forth certain information with respect to grants of plan-based awards to our named executive officers during fiscal year 2013.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Based Plans Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value Of Stock and Option Awards ($)(1)
Behrooz Abdi	10/24/2012			414,770		1,986,939	
CASH AND EQUIVALENTS - beginning of period	2,701,243	38,682,186					
CASH AND EQUIVALENTS - end of period	$ 2,494,005	$ 40,669,125					

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

5

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

NOTE 1 UNAUDITED INTERIM INFORMATION

The accompanying unaudited condensed consolidated financial statements of Metropolitan Health Networks, Inc. and subsidiaries (referred to as "Metropolitan," "the Company," "we," "us," or "our") have been prepared in accordance w accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, or those normally made in an Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be reported for the remainder of the year ending December 31, 2009 or future periods.

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

For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The accompanying December 31, 2008 condensed consolidated balance sheet has been derived from these audited financial statements. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in that report.

NOTE 2 ORGANIZATION AND BUSINESS ACTIVITY

Our business is focused on the operation of a provider services network ("PSN") in the State of Florida through our wholly owned subsidiary, Metcare of Florida, Inc. Prior to August 29, 2008 (the "Closing Date"), we also owned and operated a health maintenance organization (the "HMO") through our wholly owned subsidiary, Metcare Health Plans, Inc.

On the Closing Date, we completed the sale (the "Sale") of the HMO to Humana Medical Plan, Inc. (the "Humana Plan"). Concurrently with the Sale, the PSN entered into a five-year independent practice association participation agreement (the "IPA Agreement") with Humana, Inc. ("Humana") to provide or coordinate the provision of healthcare services to the HMO's customers pursuant to a per customer fee arrangement. Under the IPA Agreement, the PSN will, on a non-exclusive basis, provide and arrange for the provision of covered medical services, in all 13 Florida counties served by the HMO, to each customer of Humana's Medicare Advantage health plans who selects one of our PSN's primary care physicians as his or her primary care physician. The IPA Agreement has a five-year term and will renew automatically for additional one-year periods upon the expiration of the initial term and each renewal term unless terminated upon 90 days notice prior to the end of the applicable term.

Since August 30, 2008, the PSN operated under the IPA Agreement and two other network contracts (the "Pre-Existing Humana Network Agreements" and, together with the IPA Agreement, (the "Humana Agreements") with Humana, to provide medical care to Medicare beneficiaries enrolled under Humana's health plans. To deliver care, we utilize our wholly-owned medical practices and have also contracted directly or indirectly through Humana with medical practices, service providers and hospitals (collectively the "Affiliated Providers"). For the approximately 6,100 Humana Participating Customers covered under our network agreement covering Miami-Dade, Broward and Palm Beach counties, our PSN and Humana share in the cost of inpatient hospital services and the PSN is responsible for the full cost of all other medical care provided to the Humana Participating Customers. For the remaining 28,600 Humana Participating Customers covered under our other two network agreements, our PSN is responsible for the cost of all medical care provided.

6

At March 31, 2009, the PSN has agreements that enable it to provide services to Humana customers in 27 Florida counties. We currently have operations in 19 of these counties.

Effective as of August 1, 2007, the PSN entered into a network agreement (the "CarePlus Agreement") with CarePlus Health Plans, Inc. ("CarePlus"), a Medicare Advantage health plan in Florida. CarePlus is a wholly-owned subsidiary of Humana. Pursuant to the CarePlus Agreement the PSN has the right to manage, on a non-exclusive basis, healthcare services to Medicare beneficiaries in 22 Florida counties who have elected to receive benefits through CarePlus' Medicare Advantage plans (each, a "CarePlus Plan Customer"). Like Humana, CarePlus directly contracts with CMS and is paid a monthly premium payment for each CarePlus Plan Customer. In return for managing these healthcare services, the PSN receives a monthly network administration fee for each CarePlus Participating Customer. Effective on September 1, 2009 in nine of the counties covered by the CarePlus Agreement and on January 31, 2010 in 13 of the counties covered by the CarePlus Agreement, the PSN will begin to receive a capitation fee from CarePlus and will assume full responsibility for the cost of all medical services provided to each CarePlus Participating Customer. The capitation fee represents a substantial portion of the monthly premium CarePlus is to receive from CMS.

At March 31, 2009, we operated in six of the 22 Florida counties covered by the CarePlus Agreement.

Prior to the Sale, we managed the PSN and the HMO as separate business segments. Subsequent to the Sale, we operate only the PSN business.

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R), and other U.S. generally accepted accounting principles. This FSP applies to all intangible assets, whether acquired in a business combination or otherwise and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. Early adoption is not permitted. The requirements of this FSP are effective for the Company's 2009 fiscal year and are not expected to have a material impact on our consolidated financial statements.

In February, 2008, the Financial Accounting Standards Board ("FASB") issued FSP No. 157-2, Effective Date of FASB Statement No. 157, which delays for one year the effective date of FASB Statement No. 157 ("FAS 157"), Fair Value Measurements, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of FAS 157, which became effective for fiscal years beginning after November 15, 2007 (and for interim periods within those years). The requirements of FSP No. 157-2 are effective for the Company's 2009 fiscal year and are not expected to have a material impact on our consolidated financial statements.

On December 4, 2007, the FASB issued FASB Statement No. 141(R) ("Statement No. 141(R)") which replaces FASB Statement No. 141, Business Combinations ("Statement No. 141"). Statement No. 141(R) fundamentally changes many aspects of existing accounting requirements for business combinations. It requires, among other things, the accounting for any entity in a business combination to recognize the full value of the assets acquired and liabilities assumed in the transaction at the acquisition date; the immediate expense recognition of transaction costs; and accounting for restructuring plans separately from the business combination. Statement No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Statement No. 141(R) retains the guidance in Statement No. 141 for identifying and recognizing intangible assets separately from goodwill. If we enter into any business combination after the adoption of Statement No. 141(R), a transaction may significantly impact our financial position and earnings, but not cash flows, compared to acquisitions prior to the adoption of Statement No. 141(R). We adopted Statement No. 141(R) on January 1, 2009.

On April 1, 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies, ("FAS 141(R)-1"). FAS 141(R)-1 amends Statement No. 141(R) to require that assets acquired and liabilities assumed in a business combination that arise from contingencies (a "pre-acquisition contingency") be recognized at fair value in accordance with FAS 157, if the fair value can be determined during the measurement period. If the fair value of a pre-acquisition contingency cannot be determined during the measurement period, FAS 141(R)-1 requires that the contingency be recognized at the acquisition date in accordance with FASB Statement No. 5, Accounting for Contingencies, and FASB Interpretation No. 14, Reasonable Estimation of the Amount of Loss. FAS 141(R)-1 has the same effective date as Statement No. 141(R).

In December 2007, FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements: an Amendment of ARB No. 51 was issued by the FASB. Statement No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of Statement No. 141(R), Business Combinations. We adopted Statement No. 160 on January 1, 2009.

NOTE 4 REVENUE

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

Periodically we receive retroactive adjustments to the premiums paid to us based on the updated health status of our customers (known as a medical risk adjustment or "MRA" score). The factors considered in this update include changes in demographic factors, risk adjustment scores, customer information and adjustments required by the risk sharing requirements for prescription drug benefits under Part D of the Medicare program. In addition, the number of customers for whom we receive capitation fees may be retroactively adjusted due to enrollment changes not yet processed or reported. These retroactive adjustments could, in the near term, materially impact the revenue that has been recorded. We record any adjustments to this revenue at the time the information necessary to make the determination of the adjustment is available, the collectibility of the amount is reasonably assured, or the likelihood of repayment is probable.

Our PSN's wholly owned medical practices also provide medical care to non-Humana customers on a fee-for-service basis. These services are typically billed to patients, Medicare, Medicaid, health maintenance organizations and insurance companies. Fee-for-service revenue is recorded at the net amount expected to be collected from the patient or from the insurance company paying the bill. Often this amount is less than the charge that is billed and such discounts reduce the revenue recorded.

Investment income is recorded as earned and is included in other income.

NOTE 5 MEDICAL EXPENSE

Medical expenses are recognized in the period in which services are provided and include an estimate of our obligations for medical services that have been provided to our customers but for which we have neither received nor processed claims, and for liabilities for physician, hospital and other medical expense disputes. We develop estimates for medical expenses incurred but not reported using an actuarial process that is consistently applied. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical expense trends. The actuarial process and models develop a range for medical claims payable and we record to the amount in the range that is our best estimate of the ultimate liability.

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

As claims are ultimately settled, amounts incurred related to previously reported periods will vary from the estimated medical claims payable liability that had been recorded. Favorable claims development is a result of actual medical claim cost for prior periods developing lower than the original estimated cost which reduces the reported medical expense and the Medical Expense Ratio ("MER") for the current quarter. Unfavorable claims development is a result of actual medical claim cost for prior periods exceeding the original estimated cost which increases total reported medical expense and the MER for the current quarter.

As of March 31, 2009, we estimate that our medical claims cost for services provided prior to December 31, 2008 will be approximately $134,000 greater than the amount originally estimated, resulting in an unfavorable development. This increases the medical expense ratio for the three month period ended March 31, 2009 by 0.2%.

As of March 31, 2008, we estimated that our medical claims cost for services provided prior to December 31, 2007 would be approximately $1.1 million less than the amount originally estimated, resulting in a favorable development. This reduced the medical expense ratio for the three month period ended March 31, 2008 by 1.5%. Of this amount, $86,000 of favorable development related to the PSN and $1.1 million of favorable development related to the HMO.

At March 31, 2009, we determined that the range for estimated medical claims payable was between $26.0 million and $29.3 million and we recorded a liability at the actuarial mid-range of $27.9 million. Based on historical results, we believe that the actuarial mid-range represents the best estimate of the ultimate liability. This amount is included within the Due from Humana in the accompanying condensed consolidated balance sheets.

Medical expenses also include, among other things, the expense of operating our wholly owned practices, capitated payments made to affiliated primary care physicians and specialists, hospital costs, outpatient costs, pharmaceutical expense and premiums we pay to reinsurers net of the related reinsurance recoveries. Capitation payments represent monthly contractual fees disbursed to physicians and other providers who are responsible for providing medical care to customers. Pharmacy expense represents payments for customers' prescription drug benefits, net of rebates from drug manufacturers. Rebates are recognized when the rebates are earned according to the contractual arrangements with the respective vendors.

NOTE 6 PRESCRIPTION DRUG BENEFITS UNDER MEDICARE PART D

We provide prescription drug benefits to our Medicare Advantage customers in accordance with the requirements of Medicare Part D. The benefits covered under Medicare Part D are in addition to the benefits covered by the PSN under Medicare Parts A and B. We recognize premium revenue for the provision of Part D insurance coverage ratably.

The Part D Payment is subject to adjustment, positive or negative, based upon the application of risk corridors that compare the estimated prescription drug benefit costs ("Estimated Costs") to actual prescription drug benefit incurred costs (the "Actual Costs"). To the extent the Actual Costs exceed the Estimated Costs by more than the risk corridor, we may receive additional payments. Conversely, to the extent the Estimated Costs exceed the Actual Costs by more than the risk corridor, we may be required to refund a portion of the Part D Payment. We estimate and recognize an adjustment to premium revenue based upon pharmacy claims experience to date as if the contract to provide Part D coverage were to end at the end of each reporting period. Accordingly, this estimate does not take into consideration projected future pharmacy claims experience. It is reasonably possible that this estimate could change in the near term by an amount that could be material. Since these amounts represent additional premium or premium that is to be returned, any adjustment is recorded as an increase or decrease to revenue. The final settlement for the Part D program occurs in the subsequent year.

At March 31, 2009, we estimate that there will be no liability for excess Part D payments related to first quarter 2009 premiums.

9

We estimated that in the first quarter of 2008 the PSN would have a $500,000 liability for excess Part D payments related to 2008's first quarter premiums and the HMO would have a liability of approximately $107,000.

NOTE 7 INCOME TAXES

We applied an estimated effective income tax rate of 38.8% and 37.6% for the three months ended March 31, 2009 and 2008, respectively.

We are subject to income taxes in the U.S. federal jurisdiction and the state of Florida. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. We have utilized all of our available net operating loss carryforwards, including net operating loss carryforwards related to years prior to 2005. These net operating losses are open for examination by the relevant taxing authorities. Upon adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, we evaluated our tax positions with regard to these years. The statute of limitations for the federal and Florida 2005 tax years will expire in the next twelve months.

NOTE 8 EARNINGS (LOSS) PER SHARE

Earnings (loss) per common share, basic is computed using the weighted average number of common shares outstanding during the period. Earnings (loss) per common share, diluted is computed using the weighted average number of common shares outstanding during the period adjusted for incremental shares attributed to outstanding options and warrants, nonvested stock and preferred stock convertible into shares of common stock, if such incremental shares have a dilutive effect.

	Three months ended March 31,	
	2009	2008
Net income (loss)	$ 4,034,000	$ (338,000)
Less: Preferred stock dividend	(13,000)	(13,000)
Income (loss) available to common stockholders	$ 4,021,000	$ (351,000)
Denominator:		
Weighted average common shares outstanding	47,116,000	51,185,000
Basic earnings (loss) per common share	$ 0.09	$ (0.01)
Income (loss) available to common stockholders, diluted	$ 4,021,000	$ (351,000)
Add: Preferred stock dividend	13,000	-
	$ 4,034,000	$ (351,000)
Denominator:		
Weighted average common shares outstanding	47,116,000	51,185,000
Common share equivalents of outstanding stock:		
Convertible preferred stock	881,000	-
Unvested restricted stock	143,000	-
Options	165,000	-
Weighted average common shares outstanding	48,305,000	51,185,000
Diluted earnings (loss) per common share	$ 0.08	$ (0.01)

The following securities were not included in the computation of diluted loss per share at March 31, 2009 and 2008 as their effect would be anti-dilutive:

Security Excluded From Computation	Three Months Ended March 31, 2009	2008
Stock Options	3,921,000	4,360,000
Convertible Preferred Stock	-	5,000
Unvested restricted stock	342,000	636,000

NOTE 9 STOCKHOLDERS' EQUITY

In October 2008, we announced that the Board of Directors authorized the repurchase of up to 10 million shares of our outstanding common stock. During the three months ended March 31, 2009, we repurchased 1.5 million shares for $2.2 million. Since we commenced making stock repurchases on October 6, 2008, as of March 31, 2009, we have repurchased 5.7 million shares for $9.9 million. We cancel the stock that has been repurchased and reduce common stock and paid-in capital for the acquisition price of the stock.

During the three months ended March 31, 2008, we issued 25,000 shares of common stock in connection with the exercise of stock options.

During the first quarter of 2009, we issued 366,700 restricted shares of common stock and options to purchase 1.4 million shares of common stock to employees. The restricted shares and stock options vest in equal annual installments over a four-year period from the date of grant. The stock options have an exercise price equal to the closing price of our common stock on the day preceding the grant date. Compensation expense related to the restricted stock and options is recognized ratably over the vesting period.

NOTE 10 - INVESTMENTS

Investments

Investment securities at March 31, 2009 consisted of U.S. Treasury securities, municipal bonds and corporate debt. The Company classifies its debt securities as trading and does not classify any securities as available-for-sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are all securities not classified as trading or held to maturity. Cash and cash equivalents that have been set aside to invest in trading securities are classified as investments.

Trading securities are recorded at fair value based on the closing market price of the security. Unrealized holdings gains and losses on trading securities are included in operations.

Effective January 1, 2008, we adopted SFAS 157 and effective October 10, 2008, we adopted FSP No. SFAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS 157, we measure our investments at fair value. Our investments are in Level 1 because our investments are valued using quoted market prices in active markets.

Premiums and discounts are amortized or accreted over the life of the available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income is recognized when earned.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

In March 2009, we settled our ongoing litigation with Noel J. Guillama, who served as our President, Chairman of the Board and Chief Executive Officer from January 1996 thorough February 2000. The dispute involved 1.5 million restricted shares of common stock (the "Restricted Shares") issued to Mr. Guillama in connection with his personal guarantee of a Company line of credit in 1999. We repaid the line of credit and expected, based on documentation signed by Mr. Guillama, the Restricted Shares issued as collateral to be returned to us. In his complaint, filed on March 13, 2007, Mr. Guillama alleged that we breached an agreement to remove the transfer restrictions from these Restricted Shares. We have paid Mr. Guillama $50,000 in cash for the return of the Restricted Shares and in full settlement of all claims. We have never reflected these shares as issued or outstanding in the accompanying condensed consolidated balance sheets or in the computations of earnings per share and, accordingly, the settlement does not have any impact on our outstanding share count.

We are a party to various legal proceedings which are either immaterial in amount to us or involve ordinary routine litigation incidental to our business and the business of our subsidiaries. There are no material pending legal proceedings, other than routine litigation incidental to our business to which we are a party or of which any of our property is the subject.

Sale of HMO

The sale price of the HMO is subject to positive or negative post-closing adjustment based upon the difference between the HMO's estimated closing net equity, which was approximately $5.1 million, and the HMO's actual net equity as of the Closing Date as determined nine months following the Closing Date (the "Closing Net Equity"). In addition to this Purchase Price adjustment, the Stock Purchase Agreement requires that the Humana Plan reconcile any changes in CMS Part D payments and Medicare payments received by the HMO after the Closing Date for services provided prior to the Closing Date to the amounts recorded for such items as part of the Closing Net Equity determination. The net amount of such reconciliations is expected to be substantially determined in 2009 and will be paid to the Company or the Humana Plan, as applicable. The ultimate settlements, if any, will increase or decrease the gain on the sale of the HMO. At March 31, 2009 we are not aware of any significant adjustments that would impact the recorded gain.

Guarantees

In connection with the sale of the assets of our pharmacy division in 2003, the purchaser of the pharmacy assets agreed to assume our obligation under a lease which ran through 2012. In the event of the purchaser's default, we could be responsible for future lease payments totaling approximately $416,000 at March 31, 2009. We are not currently aware of any defaults.

NOTE 12 PHYSICIAN PRACTICE ACQUISITION

Effective as of April 13, 2009, Metcare of Florida, Inc., the Company's wholly owned subsidiary, entered into a Definitive Agreement to acquire the assets and assume certain liabilities of one of our contracted independent primary care physician practices in the Central Florida market for approximately $1.9 million.

NOTE 13 BUSINESS SEGMENT INFORMATION

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

Effective with the Sale, we operate only the PSN segment and, since we operated in only one segment during the three months ended March 31, 2009 segment information is not presented for this period. Segment information as of and for the period ended March 31, 2008, follows:

THREE MONTHS ENDED MARCH 31, 2008	PSN	HMO	Total
Revenues from external customers	$ 57,719,000	$ 18,295,000	$ 76,014,000
Segment gain (loss) before allocated overhead and income taxes	4,741,000	(2,652,000)	2,089,000
Allocated corporate overhead	1,298,000	1,333,000	2,631,000
Segment gain (loss) after allocated overhead and before income taxes	3,443,000	(3,985,000)	(542,000)
Segment assets	32,237,000	17,321,000	49,558,000
Goodwill	2,587,000	-	2,587,000

Segment assets at March 31, 2008 exclude general corporate assets of $5.6 million including deferred tax assets of $4.5 million.

13

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008, AS WELL AS THE FINANCIAL STATEMENTS AND NOTES THERETO.

Unless otherwise indicated or the context otherwise requires, all references in this Form 10-K to "we," "us," "our," "Metropolitan" or the "Company" refers to Metropolitan Health Networks, Inc. and its consolidated subsidiaries unless the context suggests otherwise. We disclaim any intent or obligation to update "forward looking statements."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Sections of this Quarterly Report contain statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements with respect to anticipated future operations and financial performance, growth and acquisition opportunities and other similar forecasts and statements of expectation. We intend such statements to be covered by the safe harbor provisions for forward looking statements created thereby. These statements involve known and unknown risks and uncertainties, such as our plans, objectives, expectations and intentions, and other factors that may cause us, or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by statements that include the words "estimate," "project," "anticipate," "expect," "intend," "may," "should," "believe," "seek" or other similar expressions.

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

- the ability of our PSN to renew those Humana Agreements (as defined below) with one-year renewable terms and maintain all of the Humana Agreements on favorable terms;
- our ability to make reasonable estimates of Medicare retroactive premium adjustments; and
- our ability to adequately predict and control medical expenses and to make reasonable estimates and maintain adequate accruals for incurred but not reported ("IBNR") claims.

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

- reductions in government funding of the Medicare program and changes in the political environment that may affect public policy and have an adverse impact on the demand for our services;
- the loss of or material, negative price amendment to significant contracts;
- disruptions in the PSN's or Humana's healthcare provider networks;

- failure to receive accurate and timely claims processing, billing services, data collection and other information from Humana;
- future legislation and changes in governmental regulations;
- increased operating costs;
- reductions in premium payments to Medicare Advantage plans;

14

- the impact of Medicare Risk Adjustments on payments we receive from Humana;
- the impact of the Medicare prescription drug plan on our operations;
- general economic and business conditions;
- increased competition;
- the relative health of our customers;
- changes in estimates and judgments associated with our critical accounting policies;
- federal and state investigations;
- our ability to successfully recruit and retain key management personnel and qualified medical professionals;
- impairment charges that could be required in future periods; and
- Our ability to successfully integrate any physician practices that we acquire.

Additional information concerning these and other risks and uncertainties is contained in our filings with the Securities and Exchange Commission (the “Commission”), including the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

15

BACKGROUND

Through our PSN, we provide and arrange for medical care primarily to Medicare Advantage beneficiaries in various counties in the State of Florida who have enrolled in health plans primarily operated by Humana, Inc. (“Humana”) or its subsidiaries, one of the largest participants in the Medicare Advantage program in the United States. We operate the PSN through our wholly owned subsidiary, Metcare of Florida, Inc. As of March 31, 2009, the PSN provided healthcare benefits to approximately 34,900 Medicare Advantage beneficiaries. Until the end of August 2008, we also operated a health maintenance organization (the “HMO”) which provided healthcare benefits to Medicare Advantage beneficiaries in 13 Florida counties. The HMO was sold to Humana Medical Plan, Inc. on August 29, 2008.

Our Agreements with Humana

The PSN currently operates under three network agreements with Humana (collectively, the “Humana Agreements”) pursuant to which the PSN provides, on a non-exclusive basis, healthcare services to Medicare beneficiaries in certain Florida counties who have elected to receive benefits under a Humana Medicare Advantage HMO Plan (“Humana Plan Customers”). Collectively, the Humana Agreements cover 27 counties within the State of Florida and, at March 31, 2009, we serve Humana Plan Customers in 19 counties and we may develop operations in several of the others in 2009. We entered into the most recent of these network agreements (“the IPA Agreement”) in connection with the sale of the HMO. The IPA agreement has a five-year term and covers the 13 Florida counties where the HMO operated at the time of its sale to the Humana Plan. As a result of the sale of the HMO and the IPA Agreement, the customer base of the PSN grew by approximately 7,400 customers upon the closing of the transaction.

Humana directly contracts with the Centers for Medicare & Medicaid Services (“CMS”) and is paid a monthly premium payment for each Humana Plan Customer. Among other factors, the monthly premium varies by customer, county, age and severity of health status. Pursuant to the Humana Agreements, the PSN provides or arranges for the provision of covered medical services to each Humana Plan Customer who selects one of the PSN physicians as his or her primary care physician (a “Humana Participating Customer”). In return for the provision of these medical services, the PSN receives from Humana a fee for each Humana Participating Customer. The fee rates are established by the Humana Agreements and represent a substantial percentage of the monthly premiums received by Humana from CMS with respect to Humana Participating Customers.

Our PSN assumes full responsibility for the provision or management of all necessary medical care for each of the approximately 34,700 Humana Participating Customers covered by the Humana Agreements, even for services we do not provide directly. For the approximately 6,100 Humana Participating Customers covered under our network agreement covering Miami-Dade, Broward and Palm beach counties, our PSN and Humana share in the cost of inpatient hospital services and the PSN is responsible for the full cost of all other medical care provided to the Humana Participating Customers. For the remaining 28,600 Humana Participating Customers covered under our other two network agreements, our PSN is responsible for the cost of all medical care provided. To the extent the costs of providing such medical care are less than the related fees received from Humana; our PSN generates a gross profit. Conversely, if medical expenses exceed the fees received from Humana, our PSN experiences a deficit in gross profit.

Substantially all of our PSN’s revenue is generated from the Humana Agreements. We do receive additional revenue pursuant to the CarePlus Agreement (described below) and, in the medical practices we own and operate, by providing primary care services to non-Humana or CarePlus Participating Customers on a fee-for-service basis.

CMS recently announced that it will reduce the premiums paid to Medicare Advantage Plans in 2010 by between 4% and 5% starting in 2010. In addition, in February 2009, CMS announced its expectation that annual health spending will increase by 6.2% between 2008 and 2018. We believe that the impact of the anticipated premium reduction and increased costs will be, to some degree, mitigated by, among other things, reduced benefit offerings, increased co-pays and deductibles, and improved risk score compliance. While we are unable to predict what, if any, impact the 2010 premium decrease, coupled with the uncertainties of broader healthcare reform efforts that have been initiated by the current administration, will have on our consolidated results of operations in the future, these uncertainties have caused us to more sharply focus on the profitability of our existing markets and operations and to re-evaluate various growth initiatives and strategies.

Our agreement with CarePlus

Effective as of August 1, 2007, our PSN entered into a network agreement (the “CarePlus Agreement”) with CarePlus Health Plans, Inc. (“CarePlus”), a Medicare Advantage HMO in Florida. CarePlus is a wholly-owned subsidiary of Humana. Pursuant to the CarePlus Agreement the PSN has the right to manage, on a non-exclusive basis, healthcare services to Medicare beneficiaries in 22 Florida counties who have elected to receive benefits through CarePlus’ Medicare Advantage plans (each, a “CarePlus Plan Customer”). Like Humana, CarePlus directly contracts with CMS and is paid a monthly premium payment for each CarePlus Plan Customer. In return for managing these healthcare services, the PSN receives a monthly network administration fee for each CarePlus Participating Customer. Effective on September 1, 2009 in nine of the counties covered by the CarePlus Agreement and on January 31, 2010 in 13 of the counties covered by the CarePlus Agreement, the PSN will begin to receive a capitation fee from CarePlus and will assume full responsibility for the cost of all medical services provided to each CarePlus Participating Customer. The capitation fee represents a substantial portion of the monthly premium CarePlus is to receive from CMS.

In nine of the counties covered by the CarePlus Agreement, including Miami-Dade, Broward, Palm Beach, Orange, Osceola, Seminole, Pasco, Pinellas and Hillsborough counties, the PSN physicians who provide services to the Humana Participating Customers are not allowed to provide services to CarePlus Participating Customers. In these counties, the PSN must (i) locate and contract with new independent primary care physician practices and/or (ii) acquire or establish and operate its own physician practices to service the CarePlus Participating Customers. In the remaining counties covered by the CarePlus Agreement, the PSN is allowed to use the PSN physicians who provide services to the Humana Participating Customers.

The CarePlus Agreement covered 235 CarePlus Participating Customers at March 31, 2009 and 85 CarePlus Participating Customers at March 31, 2008. We have operations in six of the counties covered by the CarePlus Agreement as of March 31, 2009.

Our Physician Network

We have built our PSN physician network by contracting with independent primary care physician practices (each, an “IPA”) for their services and by acquiring and operating our own physician practices. Through the Humana Agreements, we have established referral relationships with a large number of specialist physicians, ancillary service providers and hospitals throughout the counties covered by the Humana Agreements.

Effective as of April 13, 2009, Metcare of Florida, Inc., the Company's wholly owned subsidiary, entered into a Definitive Agreement to acquire the assets and assume certain liabilities of one of our contracted independent primary care physician practices in the Central Florida market for approximately $1.9 million.

Health Maintenance Organization

As discussed above, on the Closing Date, we completed the sale of all of the outstanding capital stock of the HMO to the Humana Plan. The following discussion generally summarizes the HMO’s business as operated by us prior to its sale.

At the time of its sale, the HMO was offering its Medicare Advantage health plan in 13 Florida counties. Our Medicare Advantage plan covered Medicare eligible customers who resided at least six months or more in the service area and offered more expansive benefits than those offered under the traditional Medicare fee-for-service plan. Through our Medicare Advantage plan, we had the flexibility to offer benefits not covered under traditional fee-for-service Medicare. These benefits were designed to be attractive to seniors and included prescription drug benefits, eye glasses, hearing aids, dental care, over-the-counter drug plans and health club memberships. In addition we offered a “special needs” zero premium, zero co-payment plan to dual-eligible individuals (as that term is defined by

CMS) in our markets.

The HMO's Medicare Advantage customers did not pay a monthly premium in 2008. The HMO's customers were subject to co-payments and deductibles, depending upon the market and benefit. Except in limited cases, including emergencies, our HMO customers were required to use primary care physicians within the HMO's network of providers and generally received referrals from their primary care physician in order to see a specialist or ancillary provider.

17

Pursuant to the agreement between the HMO and CMS (the "CMS Contract"), the HMO had agreed to provide services to Medicare beneficiaries pursuant to the Medicare Advantage program. Under the CMS Contract, CMS paid the HMO a capitation payment based on the number of customers enrolled, which payment was adjusted for demographic and health risk factors. Inflation, changes in utilization patterns and average per capita fee-for-service Medicare costs were also considered in the calculation of the fixed capitation payment by CMS.

The amount of premiums we received for each Medicare customer was established by the CMS Contract through the competitive bidding process. The premium varied according to various demographic factors, including the customer's geographic location, age, and gender, and was further adjusted based on our plans' average risk scores. In addition to the premiums paid to us, the CMS Contract regulated, among other matters, benefits provided, quality assurance procedures, and marketing and advertising for our Medicare products.

Insurance Arrangements

We rely upon insurance to protect us from many business risks, including medical malpractice, errors and omissions and certain significantly higher than average customer medical expenses. For example, to mitigate our exposure to high cost medical claims, we have reinsurance arrangements that provide for the reimbursement of certain customer medical expenses. For 2009, our deductible per customer per year for the PSN is $40,000 in Miami-Dade, Broward and Palm Beach counties and $200,000 in the other counties in which we operate, with a maximum benefit per customer per policy period of $1.0 million. Although we maintain insurance of the types and in the amounts that we believe are reasonable, there can be no assurances that the insurance policies maintained by us will insulate us from material expenses and/or losses in the future.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Policies

A description of our critical accounting policies is contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND MARCH 31, 2008

Summary

During the three months ended March 31, 2009 we operated only the PSN business segment as we sold the HMO on August 29, 2008. During the first quarter of 2008, we operated in two business segments, the PSN business and the HMO business.

Our operating results for the first quarter of 2009 showed substantial improvement as compared to the first quarter of 2008. For the first quarter of 2009, our net income was $4.0 million or $0.09 per basic share and $0.08 per diluted share compared to a net loss of $337,900 or $(0.01) per basic and diluted share for the first quarter of 2008. This improvement is primarily attributable to:

- a $14.4 million, or 19.0%, increase in our consolidated revenue, from $76.0 million in the first quarter of 2008 to $90.4 million in the first quarter of 2009, resulting mainly from a 5.9% increase in our consolidated customer base, an increase in the base premium of approximately 3.5% and an increase in the weighted average risk score of our members between the first quarter of 2008 and the first quarter of 2009 of approximately 12% ; and
-

a $3.7 million, or 44.6%, decrease in our operating expenses, from $8.3 million in the first quarter of 2008 to $4.6 million for the first quarter for 2009, resulting mainly from our sale of the HMO.

Partially offsetting the impact on our net income of the above items was an increase in our medical claims expense in the first quarter of 2009 as compared to the first quarter of 2008. Consolidated medical expense for the 2009 first quarter was $79.5 million, an increase of $11.1 million over the 2008 first quarter medical expense of $68.4 million. The increase in costs is primarily attributable to the growth in our customer base as well as increasing medical costs and utilization. However, our ratio of medical expense to revenue ("Medical Expense Ratio" or "MER") of 87.9% in the first quarter of 2009 compares favorably to the MER of 90.0% in the first quarter of 2008.

Our gross profit was $10.9 million for the first three months of 2009 as compared to $7.6 million for the first three months of 2008, an increase of $3.3 million or 43.3%.

Customer months, the aggregate number of months of healthcare service provided to our customers during the applicable period, with one month of service to one customer counting as one customer month, increased to approximately 105,500 in the first quarter of 2009 from approximately 98,600 in the first quarter of 2008, an increase of approximately 6,900 customer months.

Income before income tax expense for the first quarter of 2009 was $6.6 million compared to a loss before income tax benefit of $542,000 in the first quarter of 2008. The increase in the income before income tax expense between the quarters is primarily a result of the increased gross profit and reduced operating expenses discussed above.

Customer Information

The table set forth below provides (i) the total number of customers to whom we were providing healthcare services through the PSN as of March 31, 2009 and through the PSN and the HMO as of March 31, 2008 and (ii) the aggregate customer months of the PSN for the first quarter of 2009 and for the PSN and the HMO for the first quarter of 2008.

Through the IPA Agreement, our PSN began providing services to the customers of our HMO following its sale to the Humana Plan.

	March 31, 2009		March 31, 2008		
	Customers at End of Period	Customer Months For Quarter	Customers at End of Period	Customer Months for Quarter	Percentage Change in Customer Months Between Quarters
PSN	34,900	105,500	25,800	77,400	36.3%
HMO	-	-	7,200	21,200	-100.0%
Total	34,900	105,500	33,000	98,600	7.0%

The increase in total customer months for 2009 as compared to 2008 is primarily a result of the following:

- On January 1, 2009, we commenced service to approximately 1,000 Humana Participating Customers who utilized a special election period to transition to a Humana Medicare Advantage HMO plan from a healthcare plan that is now being liquidated and

- the net effect of new enrollments and disenrollments, deaths, customers moving from the covered areas, customers transferring to another physician practice or customers making other insurance selections.

Revenue

The following table provides a breakdown of our sources of revenue by segment for the 2009 first quarter and the 2008 first quarter:

	Three Months Ended March 31		$ Increase	%
	2009	2008	(Decrease)	Change
PSN revenue from Humana	$ 90,107,000	$ 57,245,000	$ 32,862,000	57.4%
PSN fee-for-service revenue	334,000	474,000	(140,000)	-29.5%
Total PSN revenue	90,441,000	57,719,000	32,722,000	56.7%
Percentage of total revenue	100.0%	75.9%		
HMO revenue	-	18,295,000	(18,295,000)	-100.0%
Percentage of total revenue	0.0%	24.1%		
Total revenue	$ 90,441,000	$ 76,014,000	$ 14,427,000	19.0%

The average premium we received per customer per month ("PCPM") on a consolidated basis in the 2009 first quarter was approximately $857 as compared to $770 in the first quarter of 2008. This PCPM premium increase is primarily a result of an increase in the base premium paid by CMS in 2009 of approximately 3.5% and an increase in the average Medicare risk score of our customers between the first quarter of 2008 and the first quarter of 2009 of approximately 12%. These premium increases were partially offset by a reduction in the percentage of the CMS premium we receive for customers of our former HMO. More specifically, prior to the sale of the HMO in August 2008, we received 100% of the premium paid by CMS for the HMO's customers. Following the sale of the HMO and under the related IPA Agreement, we receive a percentage of the CMS premium received by Humana for care for these customers through our PSN.

We have invested in people and processes to assure that our customers are assigned the proper risk scores. These processes include ongoing training of medical staff responsible for coding and routine auditing of patient charts to assure risk-coding compliance. Customers with higher risk codes generally require more healthcare resources than those with lower risk code. Proper coding assures that we receive premiums consistent with the cost of treating these customers. Our efforts related to coding compliance are ongoing and we continue to commit additional resources to this important discipline.

Premiums paid to us are retroactively adjusted based on the updated health status of our customers (known as a Medicare Risk Adjustment or "MRA"). We record an estimate of the retroactive MRA premium that we expect to receive in subsequent periods. Included in revenue in the first quarter of 2009 and 2008 is an estimate for retroactive receivable related to that quarter of $6.8 million and $486,000, respectively.

The PSN's most significant source of revenue during both the 2009 and 2008 first quarters was the premium revenue generated pursuant to the Humana Agreements (the "Humana Related Revenue"). The Humana Related Revenue increased from $57.2 million in the 2008 first quarter to $90.1 million in the 2009 first quarter, an increase of approximately 57.4%. The significant increase in the Humana revenue is a result of the PSN's subsequent provision of services under the IPA Agreement to the customers of the HMO following the Sale of the HMO to the Humana Plan.

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

Medical Expense

Total medical expense represents the estimated total cost of providing patient care and is comprised of two components, medical claims expense and medical center costs. Medical claims expense is recognized in the period in which services are provided and includes an estimate of our obligations for medical services that have been provided to our customers but for which we have neither received nor processed claims, and for liabilities for physician, hospital and other medical expense disputes. Medical claims expense includes such costs as inpatient and outpatient services, pharmacy benefits and physician services by providers other than the physician practices owned by the PSN (collectively "Non-Affiliated Providers"). Medical center costs represent the operating costs of the physician practices owned by the PSN.

We develop our estimated medical expenses payable by using an actuarial process that is consistently applied. The actuarial process develops a range of estimated medical expenses payable and we record to the amount in the range that is our best estimate of the ultimate liability. Each period, we re-examine previously recorded medical claims payable estimates based on actual claim submissions and other changes in facts and circumstances. As medical expenses recorded in prior periods becomes more exact, we adjust the amount of the estimate, and include the change in medical expense in the period in which the change is identified. In each reporting period, our operating results include the effects of more completely developed medical expense payable estimates associated with previously reported periods. While we believe our estimated medical expenses payable is adequate to cover future claims payments required, such estimates are based on our claims experience to date and various management assumptions. Therefore, the actual liability could differ materially from the amount recorded.

Total medical expenses and the MER for the three month periods ended March 31 are as follows:

	2009		2008	
	Consolidated (PSN Only)	HMO	PSN	Consolidated
Estimated medical expense for the quarter, excluding prior period claims development	$ 79,372,000	$ 17,611,000	$ 51,920,000	$ 69,531,000
(Favorable) unfavorable prior period medical claims development in current period based on actual claims submitted	$ 134,000	$ (1,056,000)	$ (86,000)	$ (1,142,000)
Total medical expense for quarter	$ 79,506,000	$ 16,555,000	$ 51,834,000	$ 68,389,000
Medical Expense Ratio for quarter	87.9%	90.5%	89.8%	90.0%
Medical Expense PCPM	$ 754	$ 780	$ 669	$ 693

In the table above, favorable adjustments to amounts we recorded in prior periods for estimated medical claims payable appear in parentheses while unfavorable adjustments do not appear in parentheses. Favorable adjustments reduce total medical expense for the respective applicable period and unfavorable claims development increases total medical expense for the applicable period.

The Medical Expense Ratio is impacted by both revenue and expense. Retroactive adjustments of prior period's premiums that are recorded in the current period impact the MER of that period. If the retroactive adjustment increases premium revenue then the impact reduces the MER for the period. Conversely, if the retroactive adjustment reduces revenue, then the MER for the period is higher. These retroactive adjustments include, among other things, the mid-year and annual MRA adjustments and settlement of Part D program premiums. In addition, actual medical claims expense usually develops differently than estimated during the period. Therefore, the reported MER shown in the above table will likely change as additional claim development occurs. Favorable claims development is a result of actual medical claim cost for prior periods developing lower than the original estimated cost which reduces the reported medical expense and the MER for the current period. Unfavorable claims development is a result of actual medical claim cost for prior periods exceeding the original estimated cost which increases total reported medical expense and the MER for the current period.

A change in either revenue or medical claims expense of approximately $900,000 impacts the consolidated MER by 1% in the first quarter of 2009 while a change of approximately $760,000 impacts the consolidated MER by 1% in the first quarter of 2008.

21

Total Medical Expense

Total medical expense was $79.5 million and $68.4 million for the 2009 and 2008 first quarters, respectively. Approximately $75.9 million or 95.5% of our total medical expense in the 2009 first quarter and $65.2 million or 95.4% of total medical expense in the 2008 first quarter are attributable to direct medical services such as inpatient and outpatient services, pharmacy benefits and physician services by non-affiliated providers. The increase in the 2009 quarter was primarily due to the increase in the number of customers and higher medical costs. Our consolidated MER decreased from 90.0% in the 2008 first quarter to 87.9% in the 2009 first quarter.

Because the Humana Agreements provide that the PSN is financially responsible for all medical services provided to the Humana Participating Customers, total medical expense includes the cost of medical services provided to Humana Participating Customers by providers other than the PSN's affiliated providers ("Non-Affiliated Providers").

Medical center costs include the salaries, taxes and benefits of the PSN's employed health professionals and staff providing primary care services, as well as the costs associated with the operations of those practices. Approximately $3.6 million of our total medical expenses in 2009 related to physician practices we own as compared to $3.2 million in 2008.

As of March 31, 2009, we estimated that our medical claims cost for services provided prior to December 31, 2008 will be approximately $134,000 greater than the amount originally estimated, resulting in an unfavorable claims development. This increases the medical expense ratio for the three month period ended March 31, 2009 by 0.2%.

As of March 31, 2008, we estimated that our medical claims cost for services provided prior to December 31, 2007 would be approximately $1.1 million less than the amount originally estimated, resulting in a favorable development. This reduced the medical expense ratio for the three month period ended March 31, 2008 by 1.5%. Of this amount, $86,000 of favorable development related to the PSN and $1.1 million of favorable development related to the HMO.

At March 31, 2009, we determined that the range for estimated medical claims payable was between $26.0 million and $29.3 million and we recorded a liability of $27.9 million. Based on historical results, we believe that the actuarial mid-point of the range continues to be the best estimate within the range of the PSN's ultimate liability.

Operating Expenses

	2009	2008	(Decrease)	Change
Payroll, payroll taxes and benefits	$ 2,709,000	$ 3,752,000	$ (1,043,000)	-27.8%
Percentage of total revenue	3.0%	4.9%		
General and administrative	1,826,000	3,131,000	(1,305,000)	-41.7%
Percentage of total revenue	2.0%	4.1%		
Marketing and advertising	39,000	1,368,000	(1,329,000)	-97.1%
Percentage of total revenue	0.0%	1.8%		
Total operating expenses	$ 4,574,000	$ 8,251,000	$ (3,677,000)	-44.6%

Payroll, Payroll Taxes and Benefits

In 2009, payroll, payroll taxes and benefits include salaries and benefits for our executive and administrative personnel. In 2008, these costs also included the salaries and benefits of the HMO's administrative staff, as well as salaries and sales commissions of the employed members of the HMO's sales staff. For the 2009 first quarter, payroll, payroll taxes and benefits were $2.7 million compared to $3.7 million for the 2008 first quarter, a decrease of approximately $1.0 million. The decrease is primarily a result of a $1.6 million decrease in payroll cost associated with the sale of the HMO. The decrease was partially offset by an increase in the PSN's payroll costs, most of which related to the increase in personnel that was required to manage the increased number of customers serviced under the IPA Agreement.

22

General and Administrative

General and administrative expenses for the 2009 first quarter totaled $1.8 million, a decrease of $1.3 million or 41.7% over the 2008 first quarter. General and administrative expenses associated with the HMO decreased $1.4 million in the first quarter of 2009 as compared to 2008 as a result of the sale of the HMO.

Marketing and Advertising

As a result of the sale of the HMO, our marketing and advertising costs were significantly reduced from $1.4 million in the first quarter of 2008 to $39,000 in the first quarter of 2009.

Other Income

We realized other income of $235,000 in the 2009 first quarter as compared to $84,000 in the 2008 first quarter. Investment income in the 2009 first quarter increased by $151,000 over the 2008 first quarter. Realized and unrealized losses in our investment portfolio were approximately $29,000 in the 2009 first quarter as compared to approximately $265,000 in the first quarter of 2008.

Income taxes

Our effective income tax rate was 38.8% and 37.6% in the first quarter of 2009 and 2008, respectively. The effective income tax rate applied for the first quarter of 2009 is the same as the full year effective rate for 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and short-term investments at March 31, 2009 were approximately $34.9 million as compared to approximately $36.3 million at December 31, 2008. We had a working capital surplus of approximately $36.7 million as of March 31, 2009 and $34.5 million at December 31, 2008.

Our total stockholders' equity was approximately $44.9 million at March 31, 2009 and $42.8 million at December 31, 2008. The $2.1 million increase was primarily a result of our net income reduced by the cost of shares acquired under our stock repurchase plan.

In October 2008, we announced the repurchase of up to 10 million shares of our outstanding common stock. We commenced making repurchases on October 6, 2008 and, as of March 31, 2009 we have repurchased 5.7 million shares for $9.9 million. During the first quarter of 2009, we repurchased 1.5 million shares for $2.2 million a per share cost of $1.48. Between April 1, 2009 and April 21, 2009, we repurchased an additional 459,000 shares for $708,000. The number of shares to be repurchased and the timing of the purchases are influenced by a number of factors, including the then prevailing market price of our common stock, other perceived opportunities that may become available to the Company and regulatory requirements.

At March 31, 2009, we had no outstanding debt. However, as of such date, as discussed below, we have a credit line that secures a $2.0 million letter of credit issued in favor of Humana.

During the first quarter of 2009, our cash and equivalents decreased $207,000 over the balance at December 31, 2008. Net cash provided by operating activities during the quarter was approximately $881,000 in cash and equivalents. Large sources of cash from operating activities were:

- net income for the quarter of $4.0 million;
- an increase in income taxes payable of $1.4 million;

- share based compensation expense of $247,000;
- non-cash depreciation and amortization expense of $220,000 and
- a decrease in other assets of $212,000;

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

- an increase in due from Humana of $5.0 million and
- a decrease in accrued payroll and payroll taxes of $601,000.

23

The increase in the due from Humana substantially relates to the receivable we recorded in the first quarter of 2009 of approximately $6.8 million for the estimate of the retroactive MRA premium that we expect to receive in August 2009. In addition, the due from Humana includes a $3.1 million receivable for the estimated retroactive MRA premium for 2008 that we expect to collect in the summer of 2009.

Net cash provided by investing activities for the quarter ended March 31, 2009 was approximately $1.2 million which primarily related to the sale of some of our short-term investments.

Net cash used in financing activities for the quarter ended March 31, 2009 was approximately $2.2 million for the repurchase of our common stock, in accordance with the stock purchase program.

As of December 31, 2008, we had an unsecured one year commercial line of credit agreement with a bank, which provides for borrowings and issuance of letters of credit of up to $2.0 million. The line of credit expires with respect to $1.0 million in August 2009 and with respect to the balance in March 2010. Any outstanding balance on these lines of credit bears interest at the bank's prime rate plus 3.25%. Should we borrow against this line of credit, the credit facility requires us to comply with certain financial covenants, including a minimum liquidity requirement. The availability under the lines of credit secures a $2.0 million letter of credit that is issued in favor of Humana.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Intangible Asset Risk

We have intangible assets and perform goodwill impairment tests annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material charges that could be adverse to our operating results and financial position. We evaluate the continuing value of goodwill by using valuation techniques based on multiples of earnings, revenue and EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) particularly with regard to entities similar to us that have recently been acquired. We also consider the market value of our own stock and those of companies similar to ours. At March 31, 2009, we believe our intangible assets are recoverable; however, changes in the economy, the business in which we operate, and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. We continue to monitor those assumptions and their effect on the estimated recoverability of our intangible assets.

Equity Price Risk

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

Commodity Price Risk

We do not enter into contracts for the purchase or sale of commodities. As a result, we do not currently have any direct commodity price risk.

24

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures for the period ended March 31, 2009.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In March 2009, we settled our ongoing litigation with Noel J. Guillama, who served as our President, Chairman of the Board and Chief Executive Officer from January 1996 thorough February 2000. The dispute involved 1.5 million restricted shares of common stock (the "Restricted Shares") issued to Mr. Guillama in connection with his personal guarantee of a Company line of credit in1999. We repaid the line of credit and expected, based on documentation signed by Mr. Guillama, the Restricted Shares issued as collateral to be returned to us. In his complaint, filed on March 13, 2007, Mr. Guillama alleged that we breached an agreement to remove the transfer restrictions from these Restricted Shares. We have paid Mr. Guillama $50,000 in cash for the return of the Restricted Shares and in full settlement of all claims. We have never reflected these shares as issued or outstanding in the accompanying condensed consolidated balance sheets or in the computations of earnings per share accordingly, the settlement does not have any impact on our outstanding share count.

We are a party to various legal proceedings which are either immaterial in amount to us or involve ordinary routine litigation incidental to our business and the business of our subsidiaries. There are no material pending legal proceedings, other than routine litigation incidental to our business to which we are a party or of which any of our property is the subject.

ITEM 1A. RISK FACTORS

There has been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 other than as set forth herein.

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

Issuer Purchases of Equity Securities

In October 2008, our Board of Directors authorized the repurchase of up to 10 million shares of our outstanding common stock. The number of shares to be repurchased and the timing of the purchases are influenced by a number of factors, including the then prevailing market price of our common stock, other perceived opportunities that may become available to us and regulatory requirements.

Common stock repurchases under our authorized plan during the first quarter of 2009 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan
January 1, 2009 - January 31, 2009	563,736	$ 1.54	4,755,534	5,244,466
February 1, 2009 - February 28, 2009	322,594	$ 1.57	5,078,128	4,921,872
March 1, 2009 - March 31, 2009	627,718	$ 1.35	5,705,846	4,294,154

(1) On October 3, 2008, we announced a stock repurchase plan pursuant to which our Board of Directors authorized us to repurchase up to 10 million shares of our common stock. The plan does not have a scheduled expiration date.

ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

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* filed herewith
** furnished herewith

26

SIGNATURES

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

METROPOLITAN HEALTH NETWORKS, INC.

Registrant

Date: April 29, 2009

/s/ Michael M. Earley
Michael M. Earley
Chairman, Chief Executive Officer

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

27