SURGICARE INC/DE
Form PRER14A
April 27, 2004

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SCHEDULE 14A INFORMATION
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 o

Check the appropriate box:

x Preliminary Proxy Statement

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

o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

SURGICARE, 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):

o No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

x Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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, 2004

Dear SurgiCare Stockholders:

You are invited to attend the special meeting in lieu of an annual meeting of stockholders of SurgiCare to be held at the offices of SurgiCare, Inc., (SurgiCare) located at 12727 Kimberley Lane, Suite 200, Houston, Texas 77024 on , 2004, beginning at 5:30 p.m. Central Daylight Time.

At the meeting, stockholders will consider whether to restructure SurgiCare in a series of transactions that will result in a change of control of SurgiCare through the acquisition of three new businesses and issuance of new equity securities for cash and debt forgiveness. Stockholders will also consider whether to approve a reverse stock split and change our name to Orion HealthCorp, Inc. Our board of directors has approved all of these actions and recommends that the stockholders approve them.

The highlights of the financial transactions to be considered include:

Effecting a one-for-ten reverse stock split and redesignating our outstanding common stock as Class A common stock.

Issuing a new class of Class B common stock to Brantley Partners IV, L.P., a private investor (Brantley IV) or its assignees. Brantley IV will forgive indebtedness owed by SurgiCare and Integrated Physician Solutions, Inc. (IPS) to its subsidiary in the aggregate principal amount of $1.28 million and will contribute up to $6 million in cash (as reduced for additional debt owing by SurgiCare and IPS to Brantley IV s subsidiary at the time of the closing of the transactions, which will also be forgiven) in exchange for shares of Class B common stock. It is estimated that the net proceeds to SurgiCare will be $3,951,686. The shares to be received by Brantley IV or its assignees will constitute approximately 51.0% of SurgiCare s outstanding equity after the transactions on an as-converted basis.

Acquiring IPS, a holding company whose two business units provide business management services dedicated to the practice of pediatrics and integrated business and clinical software applications for physicians, in a merger in which we will issue Class A common stock to the IPS stockholders and certain IPS creditors. After the transactions, former IPS stockholders and creditors will own approximately 20.4% of our outstanding equity on an as-converted basis.

Acquiring Medical Billing Services, Inc. (MBS), and Dennis Cain Physician Solutions, Ltd. (DCPS), two providers of physician management, billing, consulting and collection services, in a merger in which we will pay between $2.9 million and $3.5 million cash and issue promissory notes in the aggregate principal amount of $500,000 and Class C common stock to their current equityholders. The amount of consideration received depends upon the fair market value of our common stock at the time of the closing of the transactions, and the consideration is also subject to retroactive increase or decrease, including the issuance of additional shares of Class A common stock. We will also issue shares of Class A common stock as directed by the DCPS and MBS equityholders, and may be required to make additional payments in certain circumstances. After the transactions, the equityholders of these two companies and their designees will own Class A common stock and Class C common stock which may amount to as much as approximately 9.0% of our outstanding equity on an as converted basis.

These transactions will, if adopted, have a significant effect on each existing stockholder s interest in SurgiCare.

The current holders of the outstanding common stock of SurgiCare will own a much smaller interest in the larger, combined company. The holders of 100% of our outstanding common stock prior to the transactions will have their ownership interest reduced to approximately 20.4% of the new entity.

The new Class B common stock stockholder, Brantley IV, will own approximately 51% of the outstanding voting equity of SurgiCare. Affiliates of Brantley IV are significant stockholders and creditors of IPS, and will receive a large part of the merger consideration we issue to the stockholders of IPS and all of the consideration issued to creditors of IPS in connection with the merger. Accordingly, after the transactions, Brantley IV and its affiliates will control approximately 68.4% of the outstanding voting equity of SurgiCare and will be able to control elections to the board of directors and other actions of the company.

The new Class B common stock and Class C common stock has significant preferences over the Class A common stock that will be owned by our current stockholders after the transactions.

At the meeting, we will ask stockholders to vote on several other matters, including the name change, amendments to our certificate of incorporation and new compensation arrangements. The Notice of Special Meeting which accompanies the proxy statement lists the specific proposals to be voted on at the meeting.

Your vote is important, regardless of the number of shares you own. If you fail to vote or if you abstain, it will have the same effect as a vote against certain of the proposals. Please vote as soon as possible and return the enclosed proxy card in accordance with the procedures set forth in the section entitled The Special Meeting. You may also cast your vote in person at the special meeting.

Very truly yours,

SurgiCare, Inc.
Keith G. LeBlanc
President and Chief Executive Officer

SURGICARE, INC.

12727 Kimberley Lane, Suite 200
Houston, Texas 77024
(713) 973-6675

NOTICE OF SPECIAL MEETING IN LIEU OF ANNUAL MEETING OF STOCKHOLDERS

DATE:	**, 2004**	**PLACE:**	**12727 Kimberley Lane, Suite 200**
TIME:	**5:30 p.m.**		**Houston, Texas 77024**

Matters to be Voted on:

Stockholders who attend the meeting in person or by proxy will be asked to consider and approve the following items:

Each of the following amendments to our certificate of incorporation to:

1. effect a reverse stock split of all of the outstanding shares of our common stock, $0.005 par value per share at a ratio of one-for-ten,

2. increase the number of authorized shares of common stock from 5 million shares to 90 million shares, after giving effect to the reverse stock split, and leave the number of shares of authorized preferred stock at 20 million shares,

3. reclassify SurgiCare, Inc. (SurgiCare) common stock as Class A common stock $0.001 par value per share,

4. establish a new class of common stock entitled Class B common stock , $0.001 par value per share,

5. establish a new class of common stock entitled Class C common stock , $0.001 par value per share, and

6. change the name of SurgiCare to Orion HealthCorp, Inc.;

If each of the above proposals is approved, we will amend and restate our certificate of incorporation to reflect the amendments, subject to approval of the other proposals required to consummate the transactions.

7. The issuance of shares of Class A common stock pursuant to (a) an amended and restated merger agreement dated as of February 9, 2004, among SurgiCare, IPS Acquisition, Inc., and Integrated Physician Solutions, Inc. (IPS), and (b) an amended and restated debt exchange agreement dated as of February 9, 2004, among SurgiCare, Inc., Brantley Venture Partners III, L.P. and Brantley Capital Corporation;

8. The issuance of shares of Class C common stock and Class A common stock pursuant to a merger agreement dated as of February 9, 2004, among SurgiCare, DCPS/ MBS Acquisition, Inc., Dennis Cain Physician Solutions, Ltd. (DCPS), Medical Billing Services, Inc. (MBS) and the sellers party thereto (the DCPS/ MBS Sellers);

9. The issuance of shares of Class B common stock to Brantley Partners IV, L.P. (Brantley IV) or its assignees pursuant to an amended and restated subscription agreement dated as of February 9, 2004 between SurgiCare and Brantley IV;

10. The issuance of up to ten million shares of our outstanding common stock (prior to giving effect to the one-for-ten reverse stock split) in exchange for 900,000 shares of our currently

outstanding Series AA preferred stock, which common shares will be reclassified as up to one million shares of Class A common stock after the reverse stock split and reclassification;

11. The election of the members of our board of directors and the election of the members of the board of directors of Orion HealthCorp, Inc., who will begin serving upon the consummation of the transactions described herein;

12. The Orion HealthCorp, Inc. 2004 Incentive Plan (the 2004 Incentive Plan);

13. The issuance of warrants to the current members of our board of directors; and

14. Such other business as may properly come before the meeting and any adjournment thereof.

Who May Attend and Vote at the Meeting:

Holders of record of our common stock and Series AA preferred stock at the close of business on , 2004, and valid proxy holders may attend and vote at the meeting and any adjournments or postponements of the meeting. If your shares are registered in the name of a brokerage firm or trustee and you plan to attend the meeting, please obtain from the firm or trustee a letter or other evidence of your beneficial ownership of those shares to facilitate your admittance to the meeting.

Your vote is very important, regardless of the number of shares you own. Please vote as soon as possible to make sure that your shares are represented at the meeting. To vote your shares, you must complete and return the enclosed proxy card. If you are a holder of record, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting AGAINST the proposals described above regarding amending the certificate of incorporation.

Approval Required to Consummate the Transactions:

The IPS merger agreement, the debt exchange agreement, the DCPS/ MBS merger agreement and the stock subscription agreement described above require that we receive stockholder approval of proposals one through twelve above in order to consummate any of the transactions governed by such documents.

We sent this meeting notice and proxy statement to stockholders on or about , 2004.

By Order of the Board of Directors

KEITH G. LEBLANC
President and Chief Executive Officer

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SUMMARY TERM SHEET

FOP THE IPS MERGER,
DCPS/MBS MERGER
AND
EQUITY FINANCING

This summary does not contain all of the information that is important to you. To fully understand the acquisitions you should carefully read this entire document and the other documents to which this summary refers. Stockholders are being asked to approve a one-for-ten reverse stock split, and all share amounts give effect to such reverse stock split unless otherwise indicated. We will not be able to ascertain the exact number of shares that will be issued in connection with the Transactions until immediately prior to the closing of the Transactions. Unless otherwise indicated, all share amounts and percentages are based on the assumptions described in Assumptions and are therefore subject to change if those assumptions are not accurate at the time of closing.

Key Terms. The following key terms are used throughout this summary and the proxy statement:

SurgiCare, we, our, us and *our company* SurgiCare, Inc.

IPS Integrated Physician Solutions, Inc.

DCPS Dennis Cain Physician Solutions, Inc.

MBS Medical Billing Services, Inc.

DCPS/MBS our new DCPS and MBS subsidiary.

DCPS/MBS Sellers the sellers party to the DCPS/MBS Merger Agreement.

Brantley IV Brantley Partners IV, L.P., a limited partnership which is affiliated with Brantley Venture Partners III, L.P. and Brantley Capital Corporation.

Stock Subscription Agreement the agreement between SurgiCare and Brantley IV to purchase our Class B common stock, as amended to date.

Reverse Stock Split the one-for-ten reverse stock split of our common stock described in this proxy statement.

Acquisitions and *Mergers* the IPS Merger and DCPS/MBS Merger, collectively.

IPS Merger and *IPS Merger Agreement* the merger between SurgiCare and IPS and the related merger agreement, as amended to date.

DCPS/MBS Merger and *DCPS/MBS Merger Agreement* the merger between SurgiCare, DCPS and MBS and the related merger agreement.

Debt Exchange Agreement the debt exchange agreement between Brantley Venture Partners III, LP, Brantley Capital Corporation, and IPS, as amended to date.

Transaction Documents the IPS Merger Agreement, the DCPS/MBS Merger Agreement, the Debt Exchange Agreement and the Stock Subscription Agreement.

Transactions the transactions contemplated by the Transaction Documents.

Overview of the Transactions

This proxy statement proposes a restructuring of SurgiCare in which we will acquire three healthcare service companies, IPS, DCPS and MBS. In addition, Brantley IV will invest new capital into the combined companies by purchasing a new series of Class B common stock. We expect to use the funds from this investment for operations and for further growth. Affiliates of Brantley IV will also forgive existing debt owed to them by SurgiCare and IPS. We will effect a one-for-ten reverse stock split and other corporate charter amendments and will change our name to Orion HealthCorp, Inc. **All of these transactions must be approved by our stockholders before any of them will be consummated.**

We will merge with IPS and issue stock in exchange for forgiveness of certain IPS debts. The IPS equityholders and certain IPS debtholders party to the Debt Exchange Agreement will receive an aggregate of approximately 4,360,572 shares of Class A common stock. This number approximately equals the total number of shares of SurgiCare stock outstanding on a fully-diluted basis prior to closing the IPS Merger. The manner in which the number of fully-diluted shares of SurgiCare stock is calculated is described in the section Assumptions . Of these shares of Class A common stock, approximately 1,178,731 shares will be issued to Brantley Venture Partners III, L.P., and Brantley Capital Corporation under the Debt Exchange Agreement in exchange for forgiveness of debt in an aggregate principal amount of approximately $3,256,619 and $593,100 of debt in respect of accrued dividends. The approximately 3,181,841 remaining shares of Class A common stock will be issued to the IPS equityholders in connection with the IPS Merger. See The Transactions beginning on page 22 and The Transactions The IPS Merger beginning on page 31.

We will merge with DCPS and MBS. In the DCPS/MBS Merger, equityholders of DCPS and MBS will receive an aggregate of $3.5 million in cash, promissory notes of SurgiCare in an aggregate principal amount of $500,000 and 1,212,122 shares of Class C common stock (or, if the fair market value of SurgiCare common stock, based on the average of the high and low price per share over the five trading days immediately prior to the closing, is greater than or equal to $0.70, an aggregate of $2.9 million in cash, promissory notes of SurgiCare in an aggregate principal amount of $500,000 and 1,406,061 shares of Class C common stock). The purchase price is subject to retroactive adjustment based on the financial results of our newly formed subsidiary, DCPS/MBS, in the two years following the DCPS/MBS merger. Such retroactive adjustment is described in The Transactions The DCPS/MBS Merger The DCPS/MBS Merger Agreement Purchase Price Adjustments. In addition, 75,758 shares of our Class A common stock will be reserved for issuance at the direction of the DCPS and MBS equityholders and, under certain circumstances, the MBS and DCPS equityholders may receive other payments as described in The Transactions The DCPS/MBS Merger The DCPS/MBS Merger Agreement Additional Issuances, Advances and Payments. See The Transactions beginning on page 22 and The Transactions The DCPS/MBS Merger beginning on page 44.

We will issue approximately 9,077,110 shares of Class B common stock to Brantley IV or its assignees. In exchange for the Class B shares, Brantley IV will forgive indebtedness owed to its wholly-owned subsidiary by IPS and SurgiCare in the aggregate principal amount of $1,280,000 and accrued interest thereon and will contribute up to $6 million in cash. The cash portion of Brantley IV s contribution will be reduced by the additional amounts lent by Brantley s subsidiary to IPS and SurgiCare since November 18, 2003, and the accrued interest on such amounts, all of which will also be forgiven by Brantley IV. As of April 20, 2004, the aggregate amount of such additional debt forgiveness will be $2,048,414, and the remaining $3,951,586 of the $6 million will be paid in cash. A detailed description of the calculation of the number of Class B shares to be issued to Brantley IV is contained in The Transactions The Equity Financing Shares Received by Brantley IV . See The Transactions beginning on page 22 and The Transactions The Equity Financing beginning on page 58.

Proposals

Proposals Related to the Transactions (all of these must be approved for any of the Transactions to occur). We are seeking your approval at the special stockholders meeting to:

Amend our certificate of incorporation in order to:

- effect a reverse stock split of all of the outstanding shares of our common stock, $0.005 par value per share at a ratio of one-for-ten (see Proposal One Reverse Stock Split beginning on page 123);

- increase the number of authorized shares of common stock from 5 million shares to 90 million shares, after giving effect to the Reverse Stock Split, and leave the number of authorized shares of preferred stock at 20 million shares (see Proposal Two Increase the Number of Shares of Authorized Common Stock beginning on page 127);

reclassify SurgiCare common stock as Class A common stock, $0.001 par value per share (see Proposal Three Reclassification of Common Stock beginning on page 130);

establish a new class of common stock entitled Class B common stock , $0.001 par value per share (see Proposal Four Establishment of Class B Common Stock beginning on page 131);

establish a new class of common stock entitled Class C common stock , $0.001 par value per share (see Proposal Five Establishment of Class C Common Stock beginning on page 132); and

change the name of SurgiCare to Orion HealthCorp, Inc. (see Proposal Six Change of Name beginning on page 133).

If each of the above amendments are approved, we will amend and restate our certificate of incorporation to reflect the amendments, subject to approval of the other proposals required to consummate the Transactions.

Authorize the issuance of Class A common stock in connection with the IPS Merger (see Proposal Seven Issuance of Shares of Class A Common Stock in Connection with the IPS Merger beginning on page 134).

Authorize the issuance of Class C common stock and Class A common stock in connection with the DCPS/MBS Merger (see Proposal Eight Issuance of Shares of Class C Common Stock and Class A Common Stock in Connection with the DCPS/MBS Merger beginning on page 135).

Authorize the issuance of Class B common stock pursuant to the Stock Subscription Agreement (see Proposal Nine Issuance of Shares of Class B Common Stock in Connection with the Equity Financing beginning on page 136).

Authorize the issuance of common stock (which will be reclassified as Class A common stock) in exchange for our outstanding Series AA preferred stock (see Proposal Ten Issuance of Shares of Our Common Stock in Exchange for Series AA Preferred Stock beginning on page 138).

Re-elect our existing directors pending closing of the Transactions and elect new directors to serve after consummation of the Transactions (see Proposal Eleven Election of Directors beginning on page 140).

Approve a new 2004 Incentive Plan, to replace our existing plan, which provides for issuance of up to 2.2 million shares of Class A common stock (see Proposal Twelve Approval of 2004 Incentive Plan beginning on page 151).

Additional Business. We also seek your approval of the following actions:

Approve issuance of warrants to purchase an aggregate of 100,000 shares of our Class A common stock to our four current directors upon consummation of the Transactions (see Proposal Thirteen Approval of Warrant Issuances to the Directors beginning on page 152).

Authorize the proxy holders to approve such other matters as may lawfully come before the meeting (see Proposal Fourteen Other Matters beginning on page 153).

If our stockholders approve all of the components of the Transactions, we will take the following actions in the following order:

1. Complete negotiations to exchange our existing Series AA preferred stock for common stock.

2. Execute and file the amended and restated certificate of incorporation to effect the one-for-ten reverse stock split, increase the number of authorized common shares, reclassify our common stock to

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Class A common stock, establish the Class B and Class C common stock, and change our name to Orion HealthCorp., Inc. Based on the number of shares outstanding as of April 12, 2004, and assuming all Series AA preferred stock is exchanged for ten million shares of common stock, before the reverse stock split, there will be 50,000,000 authorized and 38,408,685 outstanding shares of common stock and after the reverse stock split and the other amendments to the certificate of incorporation, there will be 90,000,000 authorized and 3,840,869 outstanding shares of common stock.

3. Close the IPS Merger and the Debt Exchange Agreement.

4. Issue our Class B common stock in exchange for cash from, and the forgiveness of debt by, Brantley IV.

5. Close the DCPS/MBS Merger.

We expect to complete the Transactions promptly after the meeting of our stockholders, which is scheduled for , 2004.

Assumptions

Certain share numbers, dollar amounts, and percentages as they appear in this proxy statement are calculated based on formulas which include variable factors that will not be ascertained until immediately prior to the closing of the Transactions, such as the stock price for the SurgiCare common stock. Therefore, we do not know exactly how many shares will be issued in connection with the Transactions. In order to arrive at the values used in this proxy statement, we had to make assumptions regarding such information. We have assumed:

That the stock price for our common stock immediately prior to the closing of the Transactions (whether determined as of a specific date or calculated based on average prices over a specified period of days) is $0.397 per share, which was the average of the daily average of the high and low trading prices of our common stock on the American Stock Exchange (AMEX) for the five trading days ending on April 12, 2004. Changes in the stock price of our common stock affect, among other things, the number of shares to be issued to Brantley IV, to equityholders of IPS and MBS and to debtholders of IPS.

That all outstanding shares of our Series AA preferred stock will be exchanged for an aggregate of ten million shares (prior to giving effect to the Reverse Stock Split) of our common stock.

That the number of shares of SurgiCare stock authorized and outstanding on a fully-diluted basis, assuming exchange of our Series AA preferred stock for shares of our common stock and cashless exercise of in-the-money options and warrants based on the closing price set forth above, immediately prior to the closings of the Transactions is 43,605,720 (prior to giving effect to the Reverse Stock Split), which is the number of shares of SurgiCare stock outstanding on a fully-diluted basis assuming exchange of the 900,000 outstanding shares of our Series AA preferred stock for ten million shares of our common stock (prior to giving effect to the Reverse Stock Split) and cashless exercise of in-the-money options and warrants as of April 12, 2004, based on a price per share of common stock equal to the greater of $0.55 or $0.397 which is the average of the daily average of the high and low trading prices of our common stock on the AMEX for the five trading days ending on April 12, 2004. Of such fully-diluted shares of common stock, based on the assumptions above, 10 million shares (22.9%) would be owned by the current Series AA preferred stockholder, and the remaining 31,725,720 shares (72.8%) would be owned by the current holders of common stock, options and warrants and 1,880,000 shares (4.3%) will be owned by the holder of a convertible debenture. Changes in the outstanding number of shares of our common stock affect, among other things, the number of shares to be issued to Brantley IV, to equityholders of IPS and to debtholders of IPS.

That, unless otherwise specified, there are 4,360,572 shares of Class A common stock held by current SurgiCare stockholders on a fully-diluted basis after the consummation of the Transactions, and that out-of- the-money options and warrants do not exist.

That the number of outstanding shares of Class A common stock on a fully-diluted basis immediately following the consummation of the Transactions, assuming conversion of Class B and Class C common stock at the initial conversion rates, the number of shares of Class A common stock held by current SurgiCare stockholders on a fully-diluted basis described above, the issuance of the maximum number of additional shares of Class A common stock to equityholders of DCPS/MBS pursuant to the earn-out provisions of the DCPS/MBS Merger Agreement and the other assumptions in this proxy statement, is 21,384,888 (the Fully-Diluted Orion Shares). Changes in the number of shares of our common stock outstanding following the Transactions affect the percentage ownership of the stockholders.

That the Class B stock will initially represent, on an as-converted basis, approximately 51% of the Fully-Diluted Orion Shares, and the current common stockholders will own approximately 20.4% of the Fully-Diluted Orion Shares. The initial conversion ratio of the Class B common stock to Class A common stock is approximately 1.20 shares of Class A common stock for each share of Class B common stock. The conversion ratio of the Class B common stock is calculated according to a ratio that increases the conversion ratio if the price of the Class A common stock declines, and decreases the conversion ratio if the price of the Class A common stock increases. For example, assume that everything else remains the same, but the price of the Class A common stock declines 25%, from our assumed initial price of $3.97 per share to $2.98. This would change the conversion ratio from approximately 1.20 to approximately 1.27 and would result, therefore, in an increase of approximately 5.7% in the number of shares of Class A common stock issued on conversion. Such an increase would result in a decrease in the relative ownership and voting power of current SurgiCare stockholders (on an as-converted, fully-diluted basis) by approximately 0.6%. *See The Transactions The Equity Financing Shares Received by Brantley IV, page 58, and The Transactions The New Classes of Common Stock Conversion, page 65.*

That there will be no dissenting IPS stockholders.

That there will be no dissenting DCPS or MBS equityholders.

The New Classes of Common Stock (See Page 64)

Our amended and restated certificate of incorporation will create three classes of common stock and will authorize the issuance of preferred stock in the future on terms to be determined by the board of directors. No preferred stock will be outstanding upon completion of the Transactions. The rights and preferences of the three classes of common stock differ significantly.

The Class A Common Stock. We will issue Class A common stock to our current stockholders in exchange for their existing common stock. Class A common stock will also be issued as part of the consideration for the IPS Merger and the DCPS/MBS Merger and to the holder of our Series AA preferred stock in exchange for the common stock for which the Series AA preferred stock is exchanged. Each share of Class A common stock will be entitled to one vote in all matters on which stockholders are entitled to vote. The right of holders of Class A common stock to receive distributions from our company is subject to prior rights of holders of the Class B and Class C common stock described below. After holders of Class B and Class C common stock receive all distributions to which they are entitled, any remaining distribution amount shall be distributed to holders of Class A, Class B and Class C common stock pro rata based on their shareholdings, except that the shares of Class B common stock will be deemed to have been converted into the number of shares of Class A common stock into which they are then entitled to convert. Sixty-three million shares of our common stock will be designated Class A common stock.

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Our common stock is traded on the AMEX, and we will apply to have our Class A common stock traded on the AMEX, replacing the current common stock, after the close of the Transactions. The Company is currently preparing its listing application to be filed with the AMEX. At this time, we do not know the symbol which the Class A common stock will be traded under. Because Brantley IV and its affiliates will own the majority of our equity securities after the Transactions, we will be a controlled company under the AMEX rules. As such, our board of directors will not be required under the AMEX rules to be composed of a majority of independent directors or to have a nominating committee or a compensation committee or to have the functions of such committees performed by a majority of independent directors.

The Class B Common Stock. Class B common stock will be issued to Brantley IV in connection with the equity financing in consideration for Brantley IV s investment in SurgiCare, which includes the forgiveness of certain outstanding indebtedness of IPS and SurgiCare to a subsidiary of Brantley IV. After the completion of the Transactions, the Class B common stock issued to Brantley IV will initially total (on an as-converted basis) 51.0% of the Fully-Diluted Orion Shares. Based on the assumptions in this proxy statement, a total of 9,077,110 shares of Class B common stock will be issued to Brantley IV. Brantley IV, and, provided the required conditions are met, certain of its limited partners who have agreed to purchase a portion of the Class B common stock, as described below in The Equity Financing Summary , will initially be the sole holders of Class B common stock. The shares of Class B common stock have significant rights in addition to the rights of shares of Class A common stock, including:

Distribution Preference. Shares of Class B common stock are entitled to receive a distribution preference equal to their purchase price plus 9% per annum (not compounded) prior to payment of any distributions to holders of other classes of common stock.

Conversion. The shares of Class B common stock are convertible at the option of the holder into shares of Class A common stock at a variable rate equal to 1.0 plus the quotient of the aggregate purchase price of the shares of Class B common stock plus 9% per annum (not compounded) divided by the fair market value of the shares of Class A common stock immediately prior to conversion. Thus, the number of shares of Class A common stock into which shares of Class B common stock are convertible varies inversely with the price of the shares of Class A common stock and will naturally increase over time because of the 9% annual return feature.

Voting. The shares of Class B common stock will vote with the other common stock on all matters subject to stockholder approval. The number of votes to which each share of Class B common stock will be entitled will be fixed at the closing of the Transactions based on the conversion factor in effect at closing. Based on the assumptions in this proxy statement, the conversion factor at closing would allocate approximately 1.20 votes per share of Class B common stock.

The Class C Common Stock. We will issue shares of Class C common stock to DCPS partners and MBS stockholders in the DCPS/MBS Merger. The total number of shares of Class C common stock issued will range from 1,212,122 shares to 1,406,061 shares depending on the fair market value of the common stock at the closing of the Transactions. Shares of Class C common stock have rights differing from shares of Class A common stock as follows:

Distribution Preference. After the shares of Class B common stock have received the distribution preference described above, the shares of Class C common stock will be entitled to receive all distributions until each share of Class C common stock has received distributions totaling $3.30. After all such distributions are received, the shares of Class C common stock shall be retired and will not be reissued.

Conversion. Holders of Class C common stock have the option to convert their shares to shares of Class A common stock based on a conversion factor designed to yield one share of Class A common stock per share of Class C common stock being converted, with the number of shares reduced to the extent that distributions are paid on the shares of Class C common stock. Thus, initially, one share of Class C common stock converts into one share of Class A common stock. The conversion factor is calculated as the amount by which $3.30 exceeds the aggregate distributions made to each share of Class C common stock prior to conversion, divided by $3.30. If the fair market value used in determining the conversion factor for the Class B common stock in connection with any conversion of Class B common stock is less than $3.30 (subject to certain adjustments), holders of shares of Class C common stock have the option to convert their shares of Class C common stock (within ten days of receipt of notice of the conversion of the Class B common stock) into a number of shares of Class A common stock equal to the amount by which $3.30 exceeds the aggregate distributions made to each share of Class C common stock prior to conversion, divided by the fair market value used in determining the conversion factor for the Class B common stock. The aggregate number of shares of Class C common stock so converted by any holder shall not exceed a number equal to the number of shares of Class C common stock previously converted into Class A common stock by such holder multiplied by a fraction, the numerator of which is the number of shares of Class B common stock converted at the lower price and the denominator of which is the aggregate number of shares of Class B common stock issued at the close of the equity financing.

Effect of Terms of Class B and Class Common Stock on holders of Class A Common Stock. The current SurgiCare common stockholders whose stock will be reclassified as Class A common stock in the Transactions will be significantly diluted as a result of the Transactions, as described below in Dilution . In addition, the shares of Class B and Class C common stock will have significant distribution preferences upon payment of any dividends, liquidation payments or other distributions. The significant distribution preference means that in the event of the sale or merger of Orion prior to payment of the distribution preferences, the holders of Class A common stock would receive a smaller percentage of the consideration than if the preferences had already been paid, since the consideration would first be used to pay these distribution preference with the remainder distributed pro rata among the holders of common stock. There may be little or no consideration left to distribute among the holders of common stock after payment of the distribution preferences.

Authorized and Outstanding Shares after the Transactions

Assuming that all the Transactions contemplated in this proxy statement are completed (including the Reverse Stock Split), and based on the assumptions listed above in Assumptions, but assuming the maximum initial issuance of shares of Class C common stock in the DCPS/MBS Merger, after the Transactions our capitalization will be as follows:

Common stock, par value $0.001 per share 90,000,000 shares authorized, a total of 34,954,277 shares of all classes issued and outstanding or reserved for issuance, as follows:

Class A common stock 63,000,000 shares designated, 8,277,198 shares issued and outstanding, and 16,193,908 shares reserved for the following: 10,910,864 shares for conversion of the Class B common stock, 1,406,061 shares for conversion of the Class C common stock, 465,000 shares for issuance pursuant to the DCPS/MBS Merger Agreement, 2,200,000 shares for issuance pursuant to the 2004 Incentive Plan, 100,000 shares for the exercise of the warrants that we propose to issue to our current directors, 918,230 shares for exercise of existing SurgiCare warrants, 5,753 shares for exercise of vested stock options under SurgiCare s already existing employee stock option plan, and 188,000 shares for conversion of existing convertible debentures.

Class B common stock 25,000,000 shares designated, 9,077,110 shares issued and outstanding.

Class C common stock 2,000,000 shares designated, 1,406,061 shares issued and outstanding.

Preferred Stock, par value $0.001 per share 20,000,000 shares authorized, 0 shares outstanding.

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Voting

The voting power of the stockholders of Orion after the Transactions will be as follows, in each case based on the assumptions herein, on a fully-diluted and as-converted basis. Our current stockholders (including the series AA preferred stockholder) will hold an estimated 4,360,572 shares or 20.4% of the voting equity of Orion. Approximately 2.47 million of such shares (12% of the voting equity of Orion) will be held by stockholders other than our directors and officers. Former IPS equityholders and debtholders, will own an approximately equal number of the Class A shares and the voting equity of Orion. The Class B stockholders will own approximately 10,910,864 shares or 51% of the voting equity. The DCPS and MBS equityholders and their designees will own 1,752,880 shares of Class A and Class C common stock (assuming they earn the maximum number of earn-out shares) or 8.2% of the voting equity. Brantley IV and its affiliates will initially hold approximately 68.4% of the voting power of Orion, and will be able to control all decisions to be made by the Class A, Class B and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion s business, policies and affairs and will be able to elect Orion s entire board of directors, determine, without the approval of Orion s other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure you that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

Dilution

Issuances of our shares in connection with the Acquisitions and the equity financing will significantly dilute the ownership of our current stockholders. Based on the assumptions described above, following the Transactions, our current stockholders (including holders of options, warrants, and convertible debentures) will own (prior to giving effect to the Reverse Stock Split) approximately 20.4% of the Fully Diluted Orion Shares. Stockholders other than our directors and officers currently own approximately 24.7 million shares of common stock (87% of the total outstanding common stock of SurgiCare), and will own approximately 2.47 million shares of common stock (12% of the Fully-Diluted Orion Shares) after the completion of the Transactions. Our current stockholders may be further diluted in the future by shares issued pursuant to the 2004 Incentive Plan or upon exercise of the warrants proposed to be issued to our current directors. In addition, the ownership of our current stockholders will likely be diluted after the Transactions are complete because of the terms and conversion features of the Class B and Class C common stock.

The conversion factor for the Class B common stock is calculated based on a number equal to one plus the quotient of the purchase price of the Class B common stock, plus 9% per annum (not compounded), divided by the fair market value (which is determined by reference to the prices at which Class A common stock trades immediately prior to the conversion), and is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued to the date of conversion. Therefore, assuming everything else remains the same, the percentage interest of the holders of Class B common stock upon conversion will continually increase to account for such interest, and the relative percentage ownership of our current stockholders upon such conversion will continually decrease. In addition, so long as the Class B common stock has not yet received a full return of its purchase price and a 9% rate of return, if the market value of a share of Class A common stock decreases, the Class B common stock will convert into a greater number of shares, and the dilution to our current stockholders upon conversion of the shares of Class B common stock will be greater. This dilution of the Class A common stock could result in a further decrease in the market value of the Class A common stock.

The number of shares of Class A common stock issuable upon conversion of the Class C common stock is also subject to increase if the market value of the Class A common stock decreases. If the fair market value used in determining the conversion factor for the Class B common stock in connection with any conversion of Class B common stock is less than $3.30, holders of shares of Class C common stock may, subject to certain limitations, convert their shares into a number of shares of Class A common stock equal to (x) the amount by which $3.30 exceeds the aggregate distributions made with respect to a share of Class C common stock divided by (y) the fair market value used in determining the conversion factor for the Class B common stock. Therefore, so long as the shares of Class C common stock have not received aggregate distributions of $3.30 per share, and convert pursuant to this mechanism, if the fair market value of the Class A common stock decreases, the Class C common stock will convert into a greater number of shares, and will cause greater dilution to the ownership interests of our current stockholders. This dilution of the Class A common stock could result in a further decrease in the market value of the Class A common stock.

The Companies

SurgiCare, Inc. SurgiCare is a Delaware corporation. We develop, acquire and operate freestanding ambulatory surgery centers. These freestanding ambulatory surgery centers are licensed outpatient surgery centers that are equipped and staffed for a variety of surgical procedures. These freestanding ambulatory surgery centers provide a cost-effective alternative to the delivery of healthcare services at traditional inpatient hospitals. We, through our wholly-owned subsidiaries, own, or have investments in, four ambulatory surgery centers located in Texas and Ohio. Our principal executive offices are located at 12727 Kimberley Lane, Suite 200, Houston, Texas 77024 and our telephone number is (713) 973-6675.

Integrated Physician Solutions, Inc. IPS is a Delaware corporation. IPS is a Roswell, Georgia-based holding company whose business units include Pediatric Physician Alliance (PPA) and IntegriMED. PPA is a provider of business management services dedicated to the practice of pediatrics. PPA s services are designed to help medical practices lower costs and improve financial performance. Currently, PPA manages 13 practice sites, representing eight medical groups in California, Illinois, Ohio, Texas and New Jersey. IntegriMED provides software and technology solutions for physicians through an Application Service Provider (ASP) model. Its primary offering is a suite of integrated business and clinical software applications that provides practice management, billing, scheduling and electronic medical records. IPS s principal executive offices are located at 1805 Old Alabama Road, Suite 350, Roswell, Georgia 30076 and its telephone number is (678) 832-1800.

Dennis Cain Physician Solutions, Ltd. DCPS is a Texas limited partnership. DCPS, based in Houston, Texas, provides physician management services, including collections and consulting services, to hospital-based physicians and clinics. DCPS s principal offices are located at 714 FM 1960 West, Suite 206, Houston, Texas 77090 and its telephone number is (281) 880-6994.

Medical Billing Services, Inc. MBS is a Texas corporation. MBS, based in Houston, Texas, provides practice management, billing and collection, managed care consulting and coding/reimbursement services to hospital-based physicians and clinics. MBS s principal offices are located at 10700 Richmond Avenue, Suite 320, Houston, Texas 77042 and its telephone number is (713) 432-1100.

Reasons for the Transactions (See Page 23)

The Transactions serve SurgiCare s strategic goals of enhancing its practice management capabilities for physicians and combining businesses that are complementary to its existing operations. The board has determined that the terms of the equity financing, the other Transactions and the other actions proposed in this proxy statement are in the best interest of SurgiCare and its stockholders. The board considered the following matters, among others, in making this determination:

If we do not complete the equity financing and the other Transactions, we will not be able to obtain the capital needed to fund our business plan and operations from other sources. The equity financing will allow us to address our liquidity issues, support our working capital requirements, strengthen our balance sheet and support our strategic goals and our business plan for Orion. It will provide an infusion of cash for use in operations for 2004. Even after the restructuring, SurgiCare still expects to have a working capital deficit in excess of $11.6 million, but the Transactions are subject to refinancing the existing debt, which will improve the working capital deficit.

The pro forma revenue for the combined entities, which will become Orion HealthCorp, Inc., for the year ended December 31, 2003, is in excess of $42.4 million. The combined entities will have a pro forma net loss of approximately $8.3 million, for the year ended December 31, 2003. See Unaudited Pro Forma Condensed Combined Financial Statements.

The resulting, significantly larger company will be better equipped to achieve additional growth in its core businesses and to expand into new areas of outpatient healthcare delivery, including through future acquisitions. Orion s strategy will be to develop a healthcare services delivery model that will focus on serving the needs of the healthcare providers who utilize our services and their clients and on better enabling them to meet the demands of the outpatient marketplace.

Orion can also continue to supply IPS s, DCPS s and MBS s physician and practice management services and tools to their existing users and will seek to expand its client base for these services.

The positive considerations listed above are balanced against the facts that the Transactions will result in a change of control in which existing SurgiCare stockholders will become only minority stockholders of the reorganized company, Orion. However, given SurgiCare s struggle to obtain adequate financing and achieve profitability, the overall prospects for our stockholders appear better as minority shareholders in Orion than as stockholders of the existing SurgiCare.

The SurgiCare board generally considered that the Transactions would result in a reduction of the existing common stockholders equity interest in the reorganized company to about 25% of the total outstanding equity and the potential further dilutive effect of the Class B and Class C common stock. They did not consider the ramifications of being designated a controlled company under the AMEX rules. However, in light of SurgiCare s financial needs at this time, the dilutive effect on current stockholders is outweighed by the additional working capital and business possibilities provided by the Transactions. Further, there were no other definitive offers for similar business transactions or other financing from any parties other than the Brantley Partners affiliates.

Interests of Directors and Executive Officers in the Transactions (See Page 25)

Some of SurgiCare s executive officers, directors, and proposed directors and executive officers of Orion or its subsidiaries have interests in the Transactions that are different from, or are in addition to, your interests. Certain officers of SurgiCare, IPS, DCPS and MBS will enter into employment contracts with Orion and so may have a special interest in completing the Transactions. Keith G. LeBlanc and Phillip C. Scott, who are currently officers of SurgiCare, and Terrence L. Bauer, Stephen H. Murdock, Dennis Cain and Tom M. Smith are expected to enter into employment agreements as described in The Transactions Interests of Certain Persons in the Transactions on page 25. The four current members of our board of directors will each receive warrants to purchase 25,000 shares each (for a total of 100,000 shares) of Class A common stock (which collectively represent approximately 0.5% of the Fully-Diluted Orion Shares as adjusted to reflect the exercise of such warrants) upon the consummation of the Transactions as described in Proposal Thirteen Approval of Warrant Issuances . The current members of our board of directors are Sherman Nagler, Michael A. Mineo, Jeffrey J. Penso, and Bruce Miller. As of April 12, 2004, the aggregate number of shares of common stock owned by directors, officers, and their affiliates is 3,708,591 shares (prior to giving effect to the Reverse Stock Split), representing 13.1% of the outstanding shares of common stock. The total number of shares of common stock beneficially owned by such persons, including shares issuable upon exercise of unexercised warrants on or prior to June 11, 2004 is 7,979,547 shares (prior to giving effect to the Reverse Stock Split) or 24.4% of the outstanding shares of common stock and shares of common stock issuable upon the exercise of such warrants.

Phillip C. Scott and Keith G. LeBlanc each, as of April 12, 2004, and prior to giving effect to the Reverse Stock Split, own 80,000 shares of common stock, or 0.3% of our outstanding shares of common stock (collectively, 160,000 shares or 0.6% of the outstanding shares of common stock). The total number of shares of common stock beneficially owned by each of Mr. Scott and Mr. LeBlanc prior to giving effect to the Reverse Stock Split, including shares issuable upon exercise of unexercised warrants on or prior to June 11, 2004, is 2,215,478 shares (collectively 4,430,956 shares) or 7.3% (collectively 13.6%) of the outstanding shares of common stock and shares of common stock issuable upon the exercise of such warrants. These holdings would convert to approximately 221,547 shares of Class A common stock (collectively 443,094 shares), which together is approximately 1.0% (collectively, 2.1%) of the Fully-Diluted Orion Shares. Phillip C. Scott and Keith G. LeBlanc each have existing employment agreements with SurgiCare. Upon consummation of the Transactions, it is anticipated that Messrs. Scott and LeBlanc will enter into new employment agreements with Orion and terminate their existing employment agreements with SurgiCare.

Two of the nominees to become directors after the Transactions are affiliated with Brantley Partners and its affiliates. Brantley Partners and its affiliates have interests in the Transactions as described immediately below.

Brantley Partners and its Affiliates Interests in the Transactions

Certain affiliates of Brantley Partners have outstanding loans to IPS in the aggregate amount of $4,095,848 as of April 12, 2004, which includes accrued interest as of such date and were also owed $593,100 of debt in respect of accrued dividends. Brantley Partners affiliates will receive 1,178,731 shares of Class A common stock, with an aggregate value approximately equal to the approximately $4,688,948 of debt to be exchanged pursuant to the Debt Exchange Agreement. These affiliates of Brantley Partners also hold 1,653,000 shares of the Series A-2 convertible preferred stock of IPS with an aggregate value of approximately $10,049,938, and will receive 2,531,547 shares of Class A common stock, with an approximately equal aggregate value, pursuant to the IPS Merger Agreement. A wholly-owned subsidiary of Brantley IV has outstanding loans to SurgiCare in the aggregate amount of $1,494,645, as of April 20, 2004, which includes accrued interest as of such date, and to IPS in the aggregate amount of approximately $1,894,421, as of April 20, 2004, which includes accrued interest as of such date. Brantley IV, or its assignees, will receive approximately 9,077,110 shares of Class B common stock, for an aggregate purchase price of $7,280,000, which includes forgiveness of the debt owed to its subsidiary pursuant to the Stock Subscription Agreement.

Brantley IV and Orion will also enter into a registration rights agreement pursuant to which Brantley IV may cause Orion to register the shares of Class A common stock issuable upon conversion of Brantley IV s shares of Class B common stock. Brantley affiliates which are IPS stockholders and debtholders will be third-party beneficiaries to the agreement, as will other IPS stockholders and MBS and DCPS equityholders. Until the first anniversary of the registration rights agreement, such third-party beneficiaries are permitted to cause Orion to add the shares of Class A common stock they hold, including shares issued upon conversion of Class C common stock, to a registration statement on which Brantley IV s shares are being registered.

Change of Control Provisions in Existing Contracts

Because the current SurgiCare stockholders will own only a minority interest in Orion after completion of the Transactions, change of control provisions will be triggered in some of our contractual obligations. Our management agreement with Tuscarawas Ambulatory Surgery Center, LLC, one of our four surgery centers, requires approval of the surgery center in the event of a change of control such as the one contemplated in the Transactions. We have reached an oral agreement with the surgery center to approve the Transactions without any other changes in our management agreement and expect to reduce the agreement to writing prior to consummation of the Transactions. In addition, our employment agreements with Keith LeBlanc, our Chief Executive Officer, and Phil Scott, our Chief Financial Officer, have change of control provisions giving them certain severance and compensation rights in a change of control. We have negotiated a new employment agreement with Mr. LeBlanc to be signed as part of consummation of the Transactions and are negotiating a new employment agreement with Mr. Scott.

The Special Meeting (See Page 19)

Our stockholders meeting will be held at the offices of SurgiCare at 12727 Kimberley Lane, Suite 200, Houston, Texas 77024 on , 2004, starting at 5:30 p.m., local time.

Holders of shares of our common stock and Series AA preferred stock as of , 2004 are entitled to notice of, and to vote at, the special meeting.

The vote necessary to approve each proposal is described in the section entitled The Special Meeting What Vote is Required for Each Proposal.

The Acquisitions

Summary of the IPS Merger (See Page 31)

Structure. We will acquire IPS by merging a newly-formed, wholly-owned subsidiary organized by us with and into IPS, with IPS as the surviving corporation. As a consequence of the merger, IPS will become a wholly-owned subsidiary of SurgiCare. However, IPS will be treated as the acquiring party for accounting purposes because we will account for the IPS Merger under the purchase method of accounting for business combinations.

Consideration. In connection with the IPS Merger, and based on the assumptions used in this proxy statement, IPS equityholders and certain IPS debtholders that are affiliates of Brantley IV will receive an aggregate of approximately 4,360,572 shares of Class A common stock (which represents approximately the total number of shares of SurgiCare stock outstanding on a fully-diluted basis, calculated as described in the section Assumptions , and approximately 20.4% of the Fully-Diluted Orion Shares)

SurgiCare will issue 1,178,731 shares (or approximately 5.5% of the Fully-Diluted Orion Shares) to the IPS debtholders referred to above in exchange for debt in an aggregate principal amount of approximately $3,256,619 and $593,100 of debt in respect of accrued dividends, and the approximately 3,181,841 remaining shares of Class A common stock (or approximately 14.9% of the Fully-Diluted Orion Shares) will be issued to the IPS equityholders.

Form of Consideration. We will not issue fractional shares of our common stock. Instead, each holder of shares of IPS common stock and/or preferred stock who otherwise would be entitled to a fraction of a share will be entitled to receive a cash payment in lieu of such fractional share.

No Solicitation Provisions. The IPS Merger Agreement contains detailed provisions prohibiting the parties from seeking an alternative transaction. These no solicitation provisions prohibit each of SurgiCare and IPS as well as their officers, directors, subsidiaries and agents, from taking any action to solicit an acquisition proposal. The IPS Merger Agreement does not, however, prohibit SurgiCare or IPS or their respective boards of directors from considering, and potentially recommending, an unsolicited bona fide written acquisition proposal from a third party that the board of directors concludes in good faith constitutes a superior proposal.

We have attached the IPS Merger Agreement as Annex A to this document. We urge you to read the IPS Merger Agreement in its entirety. It is the legal document that governs the IPS Merger.

Summary of the DCPS/ MBS Merger (See Page 44)

Structure. We will acquire MBS by merging a newly-formed, wholly-owned subsidiary organized by us with and into MBS, with MBS as the surviving corporation. As a consequence of the merger, MBS will become a wholly-owned subsidiary of SurgiCare. Immediately following the MBS merger, DCPS will merge with and into MBS, with MBS as the surviving corporation.

Consideration. Equityholders of DCPS and MBS will receive an aggregate of $3.5 million in cash, promissory notes of SurgiCare in an aggregate principal amount of $500,000 and 1,212,122 shares of Class C common stock (or, if the fair market value of SurgiCare common stock, based on the average of the high and low price per share over the five trading days immediately prior to the closing, is greater than or equal to $0.70, an aggregate of $2.9 million in cash, promissory notes of SurgiCare in an aggregate principal amount of $500,000 and 1,406,061 shares of Class C common stock), subject to retroactive increase or decrease. Based on the assumptions in this proxy statement, and assuming no retroactive increase in purchase price, if the fair market value of our common stock is less than $0.70, the DCPS/MBS equityholders and their designees will own approximately 6.2% of the Fully-Diluted Orion Shares, and if the fair market value of our common stock is greater than or equal to $0.70, the DCPS/MBS equityholders will own approximately 7.0% of the Fully-Diluted Orion Shares (as reduced by the amount of the potential retroactive increase and increased for the additional shares to be issued at such market value). In addition, 75,758 shares of our Class A common stock will be reserved for issuance at the direction of the DCPS/MBS Sellers and, under certain circumstances, the MBS and DCPS equityholders may receive other payments as described in The Transactions The DCPS/MBS Merger The DCPS/MBS Merger Agreement Additional Issuances, Advances and Payments.

Adjustments to Consideration. The purchase price described above is subject to retroactive increase (including issuance of up to 465,000 shares of Class A common stock and payment of up to $1,012,500) or decrease based on the financial results of the newly-formed company in the two years following the DCPS/MBS Merger. Based on the assumptions in this proxy statement, and assuming the maximum retroactive increase in purchase price, if the fair market value of our common stock is less than $0.70, the DCPS/MBS equityholders and their designees will own approximately 9.0% of the Fully-Diluted Orion Shares, and if the fair market value of our common stock is greater than or equal to $0.70, the DCPS/MBS equityholders and their designees will own approximately 8.2% of the Fully-Diluted Orion Shares (as increased for the additional shares to be issued at such market value). See The Transactions The DCPS/MBS Merger The DCPS/ MBS Merger Agreement Purchase Price Adjustments for a detailed description of the potential adjustments to the consideration for the DCPS/MBS Merger.

We have attached the DCPS/MBS Merger Agreement as Annex B to this document. We urge you to read the DCPS/MBS Merger Agreement in its entirety. It is the legal document that governs the DCPS/MBS Merger.

Regulatory Approvals

We are not aware of any governmental approvals or actions that are required to complete the Transactions, apart from regulatory notifications and approvals that could be required by the Centers for Medicare & Medicaid Services (CMS) or State Medicaid Offices or Departments of Health in connection with changes in control of Medicare and Medicaid providers and state licensed health care facilities. We plan to provide appropriate notifications to these regulatory agencies, seek any required governmental approval, and take any other necessary action to consummate the Transactions.

Tax Consequences (See Pages 32 and 46)

SurgiCare stockholders generally will not recognize taxable gain or loss as a result of the IPS Merger or the DCPS/MBS Merger. See The Transactions The IPS Merger Certain Material U.S. Federal Income Tax Consequences of the IPS Merger and The Transactions The

DCPS/MBS Merger Certain Material U.S. Federal Income Tax Consequences of the DCPS/MBS Merger below for a more detailed discussion of the tax considerations that may be relevant.

Accounting Treatment of the Acquisitions (See Pages 32 and 46)

Accounting Treatment of the IPS Merger. The IPS Merger will be treated as a reverse acquisition for accounting purposes. In the reverse acquisition, the SurgiCare stock held by SurgiCare stockholders immediately prior to the merger will be treated as the purchase price paid by IPS for SurgiCare. The fair value of those shares, plus applicable transaction costs, will be allocated to the fair value of SurgiCare s tangible and intangible assets and liabilities, with any excess being considered goodwill. See The Transactions The IPS Merger Accounting Treatment of the IPS Merger below for additional information regarding the accounting treatment.

Accounting Treatment of the DCPS/MBS Merger. SurgiCare intends to account for the DCPS/MBS Merger as a purchase transaction for financial reporting and accounting purposes in accordance with Statement of Financial Accounting Standards No. 141. The purchase price, which is equal to the total consideration of cash, notes and new SurgiCare Class C common stock, will be allocated based on the fair values of the DCPS/MBS assets acquired and liabilities assumed. The amount of the purchase price in excess of the fair value of the net tangible assets of DCPS/MBS acquired will be recorded as goodwill and other tangible assets. See The Transactions The DCPS/MBS Merger Accounting Treatment of the DCPS/MBS Merger below for additional information regarding the accounting treatment.

Conditions to Completion of the Acquisitions (See Pages 35 and 51)

The obligations of the parties to the Acquisitions to complete the Acquisitions are subject to the satisfaction or waiver of certain conditions specified in the respective merger agreements, including the approval by our stockholders of the issuance of our shares to be issued in the Acquisitions, and of certain other proposals contained in this proxy statement. The approval of Proposal One through Proposal Twelve by our stockholders is required to consummate the Acquisitions.

Termination of the IPS Merger Agreement and the DCPS/MBS Merger Agreement (See Pages 40 and 56)

The IPS Merger Agreement and the DCPS/MBS Merger Agreement may each be terminated by mutual consent by each of the parties thereto. The IPS Merger Agreement may also be terminated by either SurgiCare or IPS, and the DCPS/MBS Merger Agreement may also be terminated by either SurgiCare or DCPS and MBS, in each case, in a number of circumstances, including the following:

if the merger governed by the agreement is not completed by May 14, 2004 (the parties intend to amend the agreements to extend the date to July 15, 2004);

if the required SurgiCare stockholder approvals, and in the case of the IPS Merger Agreement, the required IPS stockholder approvals, are not obtained; or

if any governmental authority issues a final and non-appealable order prohibiting the consummation of the merger governed by the agreement (but the merger agreement cannot be terminated for this reason by a party whose failure to fulfill its obligations under the merger agreement resulted in such order).

Fees upon Termination of the Acquisitions (See Pages 41 and 57)

DCPS/MBS Merger Termination Fees. In the event that the DCPS/MBS Merger Agreement is terminated under certain specified circumstances, SurgiCare will reimburse DCPS and MBS for all reasonable out-of-pocket expenses incurred by or on behalf of DCPS or MBS.

IPS Merger Termination Fees. The IPS Merger Agreement provides that in certain circumstances, the party responsible for triggering the underlying cause for the termination of the IPS Merger Agreement will reimburse the other party for all of its reasonable out-of-pocket expenses. Pursuant to the Stock Subscription Agreement, upon termination of the IPS Merger Agreement in specified circumstances, SurgiCare is required by the Stock Subscription Agreement to reimburse Brantley IV for its reasonable out-of-pocket expenses. In certain of these circumstances, SurgiCare is also required to pay Brantley IV a non-refundable fee of $3 million. Based on our latest balance sheet, it would be impossible for us to make this payment using current assets.

The termination of the IPS Merger Agreement as a result of our stockholders failure to approve the IPS Merger and the other proposals upon which the IPS Merger is dependent, will require payment of Brantley IV s reasonable out-of-pocket expenses, but will not, in and of itself, trigger the payment of the $3 million fee to Brantley IV. However, the $3 million fee would be payable if, within 18 months of termination due to, among other things, our stockholders failure to approve the IPS Merger Agreement or other required proposals, we consummate, or enter into an agreement or letter of intent (or our board of directors resolves or announces an intention to enter into such agreement or letter of intent with respect to) a Business Combination (as defined below) with any person, entity or group.

Business Combination as used above means (i) a merger, consolidation, share exchange, business combination or similar transaction involving SurgiCare as a result of which SurgiCare s stockholders prior to such transaction cease to own at least 80% of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent entity thereof) in the proportion they owned such shares prior to such transaction, (ii) a sale, lease, exchange, transfer, public offering in respect of, or other disposition of more than 20% of the assets of SurgiCare and the SurgiCare subsidiaries, taken as a whole, in either case, in a single transaction or a series of related transactions, or (iii) the acquisition, by a person, group or entity of beneficial ownership of more than 20% of SurgiCare s outstanding common stock (or in the case of any person, group or entity beneficially owning in excess of 20% of SurgiCare s common stock outstanding on February 9, 2004, the acquisition of any additional shares of SurgiCare s common stock by such person, group or entity), in either case, whether from SurgiCare or by tender or exchange offer or otherwise.

Completion and Effectiveness of the Acquisitions (See Pages 31 and 44)

We will complete each of the Acquisitions when all of the conditions to completion in the merger agreement governing such acquisition are satisfied or waived in accordance with such merger agreement. Each of the Acquisitions will become effective when we file the certificate or certificates of merger for such acquisition with the secretary of state of the applicable jurisdiction, or at such later time specified in such certificate of merger. We expect to complete the Acquisitions and issue the stock to be issued pursuant to the Acquisitions promptly after the meeting of our stockholders, which is scheduled for , 2004.

The Equity Financing (See Page 58)

Summary

Pursuant to the Stock Subscription Agreement, Brantley IV will purchase shares of Class B common stock by surrendering the Bridge Notes for cancellation and contributing cash in an amount equal to $6 million minus (a) the amount by which the aggregate principal amount of the SurgiCare Bridge Notes surrendered for cancellation exceeds $490,000, (b) the amount by which the aggregate principal amount of the IPS Bridge Notes surrendered for cancellation exceeds $790,000, and (c) the accrued but unpaid interest on such excesses. As of April 20, 2004, the aggregate principal amount of the outstanding SurgiCare Bridge Notes is $1,465,411 and the aggregate principal amount of the IPS Bridge Notes is $1.84 million, which results in an aggregate excess principal amount of $2,025,411. The accrued interest on this excess was $23,003 as of

April 20, 2004. Therefore, it is estimated that the net proceeds to be received by SurgiCare will total approximately $3,951,686, of which $3.5 million will be used to complete the DCPS/MBS Merger.

In exchange for Brantley IV s contribution, and based on the assumptions used in this proxy statement, Brantley IV will receive approximately 9,077,110 shares of Class B common stock, which will initially represent, on an as-converted basis, approximately 51.0% of the Fully-Diluted Orion Shares and approximately 51.0% of the voting power of Orion. Assuming everything else remains the same, the percentage interest of Brantley IV upon conversion will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued to the date of conversion. Although the conversion factor will continually increase, the number of votes that holders of Class B common stock will be entitled to will be based on the initial conversion factor. The Class A common stock to be issued to Brantley Venture Partners III, L.P. and Brantley Capital Corporation, as stockholders and debtholders of IPS, further increases the ownership interest of Brantley IV affiliates in Orion. Because Brantley IV and its affiliates will hold common stock which initially represents, on an as-converted basis, approximately 68.4% of the Fully-Diluted Orion Shares, they will be able to control all decisions to be made by the Class A common stock, Class B common stock and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion s business, policies and affairs and will be able to elect Orion s entire board of directors, determine, without the approval of Orion s other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure you that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, $1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV s ownership will be decreased by the number of shares valued at $1 million, or approximately 1,246,856 shares of Class B common stock, which initially represent, on an as-converted basis approximately 7.0% of the Fully-Diluted Orion Shares.

Overview of Equity Financing Documents

The Stock Subscription Agreement contains customary closing conditions, along with additional conditions, including the requirement that SurgiCare complete additional financing to refinance existing debt obligations of IPS, DCPS, MBS, and SurgiCare of approximately $9.8 million and that the closing conditions to the IPS Merger Agreement and the DCPS/MBS Merger Agreement be satisfied, as well as representations, warranties and covenants. It also imposes certain indemnification obligations on the parties and provides for payment by SurgiCare of a non-refundable fee of $3 million and reasonable out-of-pocket expenses to Brantley IV if the IPS Merger Agreement is terminated under certain specified circumstances.

Brantley IV and Orion will also enter into a registration rights agreement pursuant to which Brantley IV may cause Orion to register the shares of Class A common stock issuable upon conversion of Brantley IV s shares of Class B common stock. See The Transactions The Equity

Financing Registration Rights Agreement below for a more detailed discussion of the registration rights. The IPS stockholders, certain IPS debtholders and the DCPS and MBS equityholders will be third-party beneficiaries to this agreement. Until the first anniversary of the date of the registration rights agreement, such third-party beneficiaries are permitted to cause Orion to add the shares of Class A common stock they hold, including the shares of Class A common stock issuable upon conversion of the shares of Class C common stock they hold, to a registration statement on which Brantley IV s shares are being registered.

Tax Consequences

SurgiCare stockholders generally will not recognize taxable gain or loss as a result of the equity financing transaction with Brantley IV. See The Transactions The Equity Financing Certain Material U.S. Federal Income Tax Consequences of the Equity Financing below for a more detailed discussion of the tax considerations that may be relevant.

Brantley IV s Affiliates

Brantley IV is an affiliate of Brantley Venture Partners III, L.P. and Brantley Capital Corporation, both of which are stockholders and creditors of IPS, and which are party to the Debt Exchange Agreement that is being entered as part of the Transactions. Brantley IV and Brantley Venture Partners III, L.P., are private equity partnerships and Brantley Capital Corporation is a public business development company. Brantley Capital Management, L.L.C., a registered investment adviser, serves as investment adviser for, and receives fees from, Brantley Capital Corporation. Brantley Management Company, whose principals include principals of Brantley Capital Management, L.L.C., acts as investment adviser for, and receives fees from, Brantley IV and Brantley Venture Partners III, L.P. Brantley Capital Corporation files reports with the Securities Exchange Commission. Trades in the common stock of Brantley Capital Corporation are reported on the NASDAQ National Market under the symbol BBDC.

The 2004 Incentive Plan (See Page 118)

The 2004 Incentive Plan provides for issuance of up to 2.2 million shares of Class A common stock to key employees, directors and consultants of the company. This amount is approximately 9.1% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan and issuance of 10,000,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock). Approximately 6,913,437 shares (691,343 after giving effect to the Reverse Stock Split) remained issuable in connection with outstanding awards under prior SurgiCare plans as of April 12, 2004. The total number of shares issuable under prior SurgiCare plans added together with shares issuable under the proposed 2004 Incentive Plan represent approximately 12.0% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan and issuance of 10,000,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock).

Currently, there are no specific grants proposed to be made under the 2004 Incentive Equity Plan. None of the proposed employment agreements with Keith G. LeBlanc, Terrence L. Bauer, Stephen H. Murdock, Phillip C. Scott, Dennis Cain and Tom M. Smith are contingent upon those individuals receiving grants under the 2004 Incentive Equity Plan.

Controlled Company Status

The AMEX has adopted minimum requirements for director independence and nominating and compensation committee membership. These requirements do not apply to companies whose ownership is controlled by a single owner or group. After the Transactions, SurgiCare will be considered a controlled company under the AMEX rules and will not be required to comply with certain of the AMEX s rules on director independence and nominating and compensation committee membership.

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STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The information in this proxy statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are not historical in nature, including statements about beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, will , should , estimates , predicts , potential , continue , strategy , believes , anticipates intends and similar expressions. The forward-looking statements in this proxy statement regarding us, IPS, DCPS, MBS, and the combined company following the merger of our wholly-owned subsidiaries with and into MBS (which will then merge with DCPS) and IPS, relate to, among other things:

financial condition;

revenues and results of operations;

business and financing plans, including plans for growth and future acquisitions;

description of businesses;

business strategy, operating efficiencies or synergies, competitive positions, growth opportunities for existing services;

plans, objectives and composition of management;

the market for our securities and effectiveness of the Reverse Stock Split;

our listing application with the AMEX and listing status;

potential and existing customers;

government licensing, insurance laws, reimbursement regulations and restrictions on physician ownership of healthcare facilities; and

the economic environment in the markets in which we, IPS, DCPS and MBS operate.

You should not place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement. These statements are based upon current expectations. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. All forward-looking statements are subject to risks and uncertainties that could cause actual events to differ materially from those projected. Important factors that might cause or contribute to such a discrepancy include, but are not limited to:

the extent of our ability to integrate the operations of IPS, DCPS and MBS with ours;

the effects of competition in the markets in which we, IPS, DCPS and MBS operate;

the impact of technological change on our business and that of IPS, DCPS and MBS;

the effect of any unknown liabilities of SurgiCare, IPS, MBS, and DCPS that materialize after the transactions;

the impact of the change in our management following the closing of the transactions;

the effect of the transactions on our AMEX listing status;

the impact of control by Brantley IV and its affiliates;

the effect of the Reverse Stock Split on the price of our securities;

future regulatory changes; and

other risks referenced from time to time in our filings with the Securities and Exchange Commission (the SEC), including our annual report on Form 10-KSB for our fiscal year ended December 31, 2003, which is attached as Annex C to this proxy statement.

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THE SPECIAL MEETING

What is the Purpose of the Meeting?

The SurgiCare stockholders meeting is being held so that our stockholders may consider and vote upon the following proposals:

Proposal 1. To approve a reverse stock split at a ratio of one-for-ten.

Proposal 2. To approve the increase the number of authorized shares of common stock from 5 million shares to 90 million shares, after giving effect to the Reverse Stock Split, and leave the number of authorized shares of preferred stock at 20 million shares.

Proposal 3. To reclassify our common stock as Class A common stock , $0.001 par value per share.

Proposal 4. To establish a new class of common stock entitled Class B common stock , $0.001 par value per share.

Proposal 5. To establish a new class of common stock entitled Class C common stock , $0.001 par value per share.

Proposal 6. To change the name of the corporation to Orion HealthCorp, Inc.

Proposal 7. To approve the issuance of shares of Class A common stock pursuant to the IPS Merger Agreement and the Debt Exchange Agreement.

Proposal 8. To approve the issuance of shares of Class C common stock and Class A common stock pursuant to the DCPS/MBS Merger Agreement.

Proposal 9. To approve the issuance of shares of Class B common stock pursuant to the Stock Subscription Agreement.

Proposal 10. To approve the issuance of up to ten million shares (prior to giving effect to the Reverse Stock Split) of our common stock in exchange for our Series AA preferred stock.

Proposal 11. To elect the members of our board of directors and to elect the members of the board of directors of Orion who will begin serving upon the consummation of the Transactions described in this proxy statement.

Proposal 12. To approve a new incentive plan, the Orion HealthCorp, Inc. 2004 Incentive Plan, to replace our 2001 Stock Option Plan.

Proposal 13. To approve the issuance of warrants to purchase an aggregate of 100,000 shares of Class A common stock to the current members of our board of directors.

Proposal 14. To transact such other business as may properly come before the meeting and any adjournment thereof.

If our stockholders adopt these proposals, we intend to amend and restate our certificate of incorporation to reflect Proposal One through Proposal Six, complete the IPS Merger (and the issuance of Class A common stock to IPS debtholders) and the DCPS/MBS Merger, and to issue the shares of Class B common stock to Brantley IV and the shares of our common stock in exchange for shares of our Series AA preferred stock. See The Transactions and Proposal One through Proposal Ten.

Who May Attend and Vote?

Stockholders who owned SurgiCare common stock and Series AA preferred stock at the close of business on , 2004 are entitled to notice of and to vote at the special meeting. We refer to this date in this proxy statement as the record date. As of the record date, we had shares of SurgiCare common stock issued and outstanding and 900,000 shares of Series AA preferred stock issued and outstanding. Each share of SurgiCare common stock and Series AA preferred stock is entitled to one vote on each matter to come before the special meeting.

How Do I Vote?

If you are a stockholder of record of our common stock or Series AA preferred stock, you may vote:

In person. If you attend the special meeting, you may deliver your completed proxy card in person or fill out and return a ballot that will be supplied to you at the special meeting.

By mail. If you choose to vote by mail, simply mark your proxy card, date and sign it, and return it in the postage-paid envelope provided.

By signing and returning the proxy card according to the enclosed instructions, you are enabling the individuals named on the proxy card (known as proxies) to vote your shares at the special meeting in the manner you indicate. We encourage you to sign and return the proxy card even if you plan to attend the special meeting. In this way, your shares will be voted even if you are unable to attend the meeting. Your shares will be voted as you direct on the proxy card. If a proxy card is signed and received by our corporate secretary, but no instructions are indicated, then the proxy will be voted FOR each of the proposals described in this proxy statement.

What Does the Board of Directors Recommend?

The Board recommends that you vote FOR:

1. approving the reverse stock split;

2. approving the increase in the number of shares of authorized common stock;

3. approving the reclassification of common stock;

4. approving the establishment of Class B common stock;

5. approving the establishment of Class C common stock;

6. approving the change of name;

7. approving the issuance of shares of Class A common stock pursuant to the IPS Merger Agreement and the Debt Exchange Agreement;

8. approving the issuance of shares of Class C common stock and Class A common stock pursuant to the DCPS/MBS Merger Agreement;

9. approving the issuance of shares of Class B common stock to Brantley IV or its assignees in connection with the financing transactions related to the Acquisitions;

10. approving the issuance of up to ten million shares (prior to giving effect to the Reverse Stock Split) of our common stock in exchange for our Series AA preferred stock;

11. electing the slates of directors listed in this proxy statement for the terms specified;

12. approving the adoption of the 2004 Incentive Plan;

13. approving the issuance of warrants to the current members of our board of directors; and

14. granting authority to the proxy holder to approve the transaction of any other business to properly come before the meeting.

If you submit the proxy card but do not indicate your voting instructions, the persons named as proxies on your proxy card will vote in accordance with the recommendations of the board of directors.

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What Vote is Required for Each Proposal?

Holders of record of our common stock and Series AA preferred stock are entitled to one vote per share on each proposal.

A majority of the shares entitled to be cast on a particular matter, present in person or represented by proxy, constitutes a quorum as to any proposal. Each proposal other those which relate to amending the certificate of incorporation, and the election of directors must be approved by the affirmative vote of the holders of a majority of the shares of our common stock and Series AA preferred stock properly cast in person or by proxy at the special meeting, voting together as a single class.

The restatement of our certificate of incorporation will require the vote of the majority of the outstanding shares of our common stock and Series AA preferred stock, each voting as a separate class and voting together as a single class.

Directors are elected by a plurality of the affirmative votes cast by those shares present in person, or represented by proxy, and entitled to vote at the special meeting, voting together as a single class. Stockholders may not cumulate votes in the election of directors.

Shares represented by proxies that indicate an abstention or a broker non-vote (that is, shares represented at the special meeting held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter) will be counted as shares that are present and entitled to vote on the matter for purposes of determining the presence of a quorum. Shares indicating an abstention and shares indicating a broker non-vote, however, will not constitute votes cast at the special meeting. Broker non-votes and abstentions will have the same effect as voting against the proposals to amend our certificate of incorporation, but will have no effect on the outcome of the votes required to approve the other proposals described above.

The Transaction Documents require that we obtain the approval of Proposal One through Proposal Twelve by a majority of the outstanding shares of our common stock and Series AA preferred stock, each voting as a separate class and voting together as a single class. Unless required by our certificate of incorporation or applicable law, rule or regulation, such requirement may be waived upon receipt of the necessary consents under the Transaction Documents.

May I Change My Vote After I Return My Proxy Card?

Yes. You may revoke a proxy any time before it is voted by:

- returning to us a newly signed proxy card bearing a later date;
- delivering a written instrument to our corporate secretary revoking the proxy card; or
- attending the special meeting and voting in person.

Who Will Bear the Cost of Proxy Solicitation?

We will bear the expense of soliciting proxies. Our officers and regular employees (who will receive no compensation in addition to their regular salaries) may solicit proxies. In addition to soliciting proxies through the mail, our officers and regular employees may solicit proxies personally, as well as by mail, telephone, and telegram from brokerage houses and other stockholders. We will reimburse brokers and other persons for reasonable charges and expenses incurred in forwarding soliciting materials to their clients.

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THE TRANSACTIONS

Introduction

History

Brantley Venture Partners III, L.P. originally invested in IPS in October 1996. Brantley Venture Partners III, L.P. and Brantley Capital Corporation both invested in IPS during January 1999 and continued to invest periodically through 2003. Brantley IV, an affiliate of Brantley Venture Partners III, L.P. and Brantley Capital Corporation was introduced to SurgiCare in June 2002 by a third-party finder. Limited discussions occurred with SurgiCare s prior management. In September 2002, new management was hired and began monthly meetings with Brantley during their regular monthly trips to SurgiCare s Ohio facility. Meetings were held between these parties throughout 2002 and early 2003.

SurgiCare conducted a private placement in the spring of 2003, which included an investor group of anesthesiologists. The office manager of the anesthesiologist group was Mrs. Valerie Cain who introduced SurgiCare s officers to her husband, Dennis Cain. Mr. Cain suggested that SurgiCare acquire DCPS, of which he is a majority equityholder, and its related company, MBS, majority owned by Mr. Tom Smith. DCPS and MBS are related entities that use a shared information system, respond to request for proposals jointly, have common clients and shared business arrangements and collectively share the responsibility for sales and marketing efforts, though they do not have common ownership or accounting relationships. SurgiCare s officers evaluated the opportunity and negotiated a letter of intent with Messrs. Cain and Smith for the companies at the same time it negotiated the IPS agreement as described below.

In May 2003, the Managing General Partner of Brantley contacted Terrence Bauer, President and CEO of IPS, to discuss merging IPS with SurgiCare and DCPS/MBS. In June 2003, Mr. Bauer agreed to meet with SurgiCare s officers to discuss the possible merger. Exchange of information for due diligence review purposes between IPS and SurgiCare began shortly after this meeting. After due diligence review, Messrs. Bauer and Murdock from IPS, Messrs. LeBlanc and Scott from SurgiCare and Mr. Cascio from Brantley IV began merger negotiations. On August 22, 2003, the letter of intent to merge IPS and DCPS/MBS with SurgiCare was executed, along with a commitment letter from Brantley IV to contribute a $6 million equity investment in the combined enterprise. All parties were represented by separate counsel.

Definitive agreement negotiations commenced in September 2003 as due diligence moved forward. On November 18, 2003, definitive agreements were executed by IPS, SurgiCare, Brantley IV and its affiliates. Negotiations with DCPS/MBS continued during this period and definitive agreements for that portion of the transaction were executed as of February 9, 2004.

The Transactions

On November 18, 2003, we entered into an agreement and plan of merger with IPS, which we amended and restated on February 9, 2004, relating to the merger of one of our wholly-owned subsidiaries with and into IPS, with IPS as the surviving corporation. On February 9, 2004, we entered into an agreement and plan of merger with DCPS and MBS relating to the merger of one of our wholly-owned subsidiaries, DCPS/MBS Acquisition, Inc., with and into MBS with MBS as the surviving corporation and the subsequent merger of DCPS with and into MBS, with MBS as the surviving corporation. We will issue, in transactions exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), shares of our Class A common stock in exchange for the shares of capital stock held by IPS stockholders and shares of our newly-created Class C common stock and our Class A common stock in exchange for the shares of capital stock held by MBS stockholders and the partnership interests held by the DCPS partners. We will also issue shares of our Class A common stock to certain IPS debtholders in connection with the IPS Merger. Once the Acquisitions are completed, IPS and the new DCPS/MBS entity will each be a wholly-owned subsidiary of SurgiCare. We are also planning to issue, pursuant to the Stock Subscription Agreement, shares of our newly-created Class B common stock, in a transaction exempt from the registration requirements of the Securities Act, to Brantley IV for its surrender of the Bridge Notes (under which there was an aggregate principal amount of $3.305 million

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outstanding as of April 20, 2004) for cancellation and contribution of cash in an amount equal to $6 million minus (a) the amount by which the aggregate principal amount of the SurgiCare Bridge Notes surrendered for cancellation exceeds $490,000, (b) the amount by which the aggregate principal amount of the IPS Bridge Notes surrendered for cancellation exceeds $790,000, and (c) the accrued but unpaid interest on such excesses. As of April 20, 2004, the aggregate amount of such excesses and accrued interest was $2,048,414.

Material Contacts and Transactions

Other than with respect to the transactions described in this proxy statement, neither we nor any of our subsidiaries is party, nor has been party during the prior two years, to any negotiations, transactions or material contact with IPS, DCPS, MBS or any of their respective subsidiaries or affiliates concerning any merger, consolidation, acquisition, tender offer for or other acquisition of any class of IPS s or DCPS/MBS s securities, election of directors of IPS or MBS or managers of DCPS or sale or other transfer of a material amount of assets of IPS, DCPS or MBS.

SurgiCare s Reasons for the Transactions

In reaching its decision to approve the Transactions, our board of directors consulted with management, as well as with our financial advisors, independent accountants and legal advisors. The board has determined that the terms of the equity financing, the other Transactions and the other actions proposed in this proxy statement are in the best interest of SurgiCare and its stockholders. In the board s view, the Transactions serve SurgiCare s strategic goals of enhancing its practice management capabilities for physicians and combining businesses that are complementary to its existing operations. The pro forma revenues for the combined entities for the year ended December 31, 2003, is in excess of $42.4 million. The combined entities will have a pro forma net loss of approximately $8.3 million, for the year ended December 31, 2003. See Unaudited Pro Forma Condensed Combined Financial Statements. The resulting, significantly larger company will be better equipped to achieve additional growth in its core businesses and to expand into new areas of outpatient healthcare delivery, including through future acquisitions. This integrated healthcare services delivery model will focus on serving the needs of the healthcare providers who utilize our services and their clients and on better enabling them to meet the demands of the outpatient marketplace. Orion will also continue to supply IPS s, DCPS s and MBS s physician and practice management services and tools to their existing users and will seek to expand its client base for these services.

The board believed that current cash and cash equivalents would be insufficient to continue to fund our operations. The board concluded that if we do not complete the equity financing and the other Transactions, we will not be able to obtain the capital needed to fund our business plan and operations from other sources. The equity financing will allow us to address our liquidity issues, support our working capital requirements, strengthen our balance sheet and support our strategic goals and our business plan for Orion. The equity financing will provide needed cash for operations in 2004. We believe that, after the equity financing, we will have sufficient cash for the short term. We still expect to have a working capital deficit of approximately $11.6 million. As part of the Transactions, however, the combined current liabilities of IPS and SurgiCare will be reduced by more than $6.6 million as a result of conversion of debt owed to Brantley Partners affiliates. In addition, we are required, and expect, to refinance the remaining existing debt of SurgiCare, IPS, DCPS, and MBS prior to the consummation of the Transactions, which will also improve working capital. The Transactions significantly decrease the current stockholders overall equity in our company and effect a change of control. However, the board believed that the necessity of obtaining capital to fund the business plan and the advantages to be gained from expanding SurgiCare s business through the proposed acquisitions outweighed the dilution to current common stockholders that will occur because of the issuance of new equity in the Transactions.

The SurgiCare board generally considered that the Transactions would result in a reduction of the existing common stockholders equity interest in the reorganized company to about 25% of the total outstanding equity and the potential dilutive effect of the Class B and Class C common stock. They did

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not consider the ramifications of being designated a controlled company under the AMEX rules. However, in light of SurgiCare s financial needs at this time, the dilutive effect on current stockholders is outweighed by the additional working capital and business possibilities provided by the Transactions. Further, there were no other definitive offers for similar business transactions or other financing from any parties other than the Brantley Partners affiliates.

The board of directors received a written opinion from G. A. Herrera & Co., LLC (GAH), financial advisors, that, as of November 18, 2003, the Transactions as described in such written opinion, are fair to the SurgiCare stockholders from a financial standpoint. Because certain terms of the Transactions had changed since GAH issued its opinion, on February 12, 2004, GAH provided a supplement to its written opinion indicating that such changes were of no material consequence. See Opinion of SurgiCare s Financial Advisor below. Copies of the opinion and supplement are attached hereto as Annex D. GAH did not consider the Transactions independently, but rather, considered the Transactions taken as a whole. GAH charged $19,957 for its fairness opinion, of which $7,500 has been paid. GAH will also be paid to prepare the purchase price allocation. That service will be on an hourly basis, with the maximum amount being $20,000. GAH has been paid $7,500 to date for services relating to the purchase price allocation. Payments to GAH are not dependent upon the Transactions closing.

The discussion above describes the material information and factors considered by our board in its review of the Acquisitions. Members of our board of directors evaluated these factors in light of their knowledge of our business and the industry in which we operate and their business judgment. In view of the wide variety of factors considered, our board did not find it practicable to, and did not, make specific assessments of, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. The determination to approve the Acquisitions was made after consideration of all of the factors as a whole. In addition, individual members of our board may have given different weight to different factors.

Opinion of SurgiCare s Financial Advisor

GAH is a Houston based private financial advisory and consulting firm with proven expertise in merger and acquisition advisory services, debt and equity placements, valuations, fairness opinions, impairment studies and expert testimony. GAH has completed numerous fairness opinions for public and private transactions. GAH s active participation in the valuation field and specific healthcare industry expertise provides GAH with extensive knowledge with respect to valuation theory and Internal Revenue Service rulings and guidelines which are significant factors in the determination of fairness opinions. Requests for bids were submitted to three investment banking firms, and GAH was selected based upon its ability to meet the necessary time frames and its fees. There have been no other material relationships and none are contemplated between SurgiCare (or its affiliates) and GAH (or any of its affiliates).

GAH opined on the consideration that will be paid in the Transactions. GAH was not involved in recommending the amount of consideration. In arriving at its opinion, GAH considered available financial data as well as other relevant business and industry factors including, the following:

the nature and history of the business;

the economic outlook in general and the current condition and prospects for SurgiCare s business;

the total stockholders equity, liquidity and financial condition of SurgiCare;

the historical and future earning capacity of SurgiCare;

the dividend paying capacity of SurgiCare;

SurgiCare s goodwill or other intangible value;

relevant sales of SurgiCare stock and the economic impact of the Transactions; and

the market price of public companies engaged in the same or similar lines of business as SurgiCare.

GAH completed a valuation analysis using an income approach, a comparable public company approach, and a comparable private transaction approach. The income approach utilized a discounted cash flow analysis based on management financial projections over a three-year time horizon utilizing a weighted average cost of capital. The comparable public company approach valued SurgiCare on a multiple of trailing twelve months EBITDA against the range of multiples of six comparable public companies. The comparable private transaction approach valued SurgiCare on a multiple of trailing twelve month EBITDA against the range of multiples of four recent comparable private transactions. Based on the multiples determined in each case, an enterprise value was determined. The debt was then subtracted from that amount to determine the net equity value for the SurgiCare stockholders. The valuations of SurgiCare under each of the methodologies in which SurgiCare did not complete the Transaction resulted in a negative net equity value for the SurgiCare stockholders in an amount ranging from $3,700,000 to $5,000,000. The value of the SurgiCare stockholders under the Transaction as valued on a discounted cash flow method yielded a value of nearly $3,000,000. GAH s opinion, as of the date of the report, was that the terms and conditions of the Transactions are fair to the stockholders from a financial standpoint. GAH did not opine as to each of the mergers and equity financing independently, rather they reviewed the transactions as a whole.

The approaches and methodologies used by GAH in preparing the opinion did not comprise an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the fair presentation of financial statements or other financial information presented in accordance with generally accepted accounting principles. GAH expressed no opinion and accepted no responsibility for the accuracy and completeness of the financial information or other data provided to GAH by SurgiCare. GAH assumed that the financial and other information provided to GAH was accurate and complete, and GAH relied upon this information in performing their valuation for purposes of our engagement of GAH.

GAH did not make an independent valuation or appraisal of the assets or liabilities of SurgiCare and was not furnished with any such evaluation or appraisal. For purposes of this engagement and report, GAH made no investigation of, and assumed no responsibility for, the titles to, or any liens against, the assets of SurgiCare or the Transactions. Neither did GAH attempt to determine what the Transactions or the shares of SurgiCare might have sold for in the public or private market or account for the costs that might have been incurred if shares of SurgiCare had been sold. GAH assumed there were no hidden or unexpected conditions associated with SurgiCare or the Transactions that would adversely affect the Transactions or the opinion prepared by GAH.

GAH charged $19,957 for its fairness opinion, of which $7,500 has been paid. GAH will also be paid to prepare the purchase price allocation. That service will be on an hourly basis, with the maximum amount being $20,000. GAH has been paid $7,500 to date for services relating to the purchase price allocation. Payment to GAH is not dependent on the Transactions being consummated.

Interests of Certain Persons in the Transactions

Except as disclosed below, none of SurgiCare s directors or executive officers, nominees for directors or any proposed directors or directors or executive officers of Orion or its subsidiaries has any substantial interest, direct or indirect, by security holdings or otherwise in the Transactions. We do not, however, believe that any of these interests presents a material conflict of interest.

Some of SurgiCare s executive officers, directors, and proposed directors and executive officers of Orion or its subsidiaries have interests in the Transactions that are different from, or are in addition to, your interests. Certain officers of SurgiCare, IPS, DCPS and MBS will enter into employment contracts with Orion and therefore may have a special interest in completing the Transactions. Their arrangements follow:

Keith G. LeBlanc, the current Chief Executive Officer of SurgiCare, will continue to run the SurgiCare business of Orion. He will enter into an employment agreement with Orion and will become president of Orion, reporting to its board of directors. He has been nominated for election to the Orion board of directors. As of April 12, 2004 and prior to giving effect to the Reverse Stock Split, he owned 80,000 shares of common stock (0.3% of our outstanding common stock). The total number of shares beneficially owned by Mr. LeBlanc prior to giving effect to the Reverse Stock Split, including shares issuable upon exercise of unexercised warrants on or prior to June 11, 2004; is 2,215,478 shares, or 7.3% of the outstanding shares of common stock and shares issuable upon the exercise of such warrants. Mr. LeBlanc s warrants have an exercise price of $0.32. These holdings would convert to approximately 221,547 shares of Class A common stock, which together is approximately 1.0% of the Fully Diluted Orion Shares. Simultaneously with the execution of the new employment agreement, Mr. LeBlanc will terminate his existing employment agreement with SurgiCare.

Terrence L. Bauer, the current President and Chief Executive Officer of IPS, will continue to run the IPS business of Orion. He will enter into an employment agreement with Orion and will become Chief Executive Officer of Orion, reporting to its board of directors. He has been nominated for election to the Orion board of directors. As of April 12, 2004, he owned 200,000 shares (7.1%) of IPS s common stock, which would convert to approximately 13,100 shares of Class A common stock, which is approximately 0.1% of the Fully- Diluted Orion Shares.

Stephen H. Murdock, the current Chief Financial Officer of IPS, will enter into an employment agreement to become Chief Financial Officer of Orion.

Dennis Cain, the current President of DCPS, will enter into an employment agreement to become the Chief Executive Officer of DCPS/MBS. Pursuant to the DCPS/MBS Merger Agreement, he may have the authority to appoint a member to any advisory board established by the Orion board of directors. As of March 31, 2004, he and his wife together owned, directly and indirectly, 100% of the total partnership interests in DCPS. All of the partnership interests would convert to approximately 606,061 shares of Class C common stock, subject to retroactive adjustment, which together with the 75,758 shares of Class A common stock to be issued at the direction of Mr. Cain or Mr. Smith is, on an as-converted basis, approximately 3.2% of the Fully-Diluted Orion Shares.

Tom M. Smith, the current President of MBS, will enter into an employment agreement to become the President and Chief Operating Officer of DCPS/MBS. Pursuant to the DCPS/MBS Merger Agreement, he may have the authority to appoint a member to any advisory board established by the Orion board of directors. As of March 31, 2004, he owned 890 shares (89%), and has an option to buy another 10 shares (1%), of MBS s common stock, which together, assuming exercise of the option, would convert to approximately 545,455 shares of Class C common stock, subject to retroactive adjustment, which together with the 75,758 shares of Class A common stock to be issued at the direction of Mr. Cain or Mr. Smith, is on an as-converted basis, approximately 2.9% of the Fully-Diluted Orion Shares, assuming that the fair market value of the SurgiCare common stock (based on the average of the daily average of the high and low price per share over the five trading days immediately prior to the closing) is less than $0.70. If the fair market value of SurgiCare common stock (based on the same calculation) is equal to or greater than $0.70, such holding would convert to approximately 720,000 shares of Class C common stock, subject to retroactive adjustment, which together with the 75,758 shares of Class A common stock to be issued at the direction of Mr. Cain or Mr. Smith would be, on an as-converted basis, approximately 3.7% of the Fully-Diluted Orion Shares (as adjusted for the number of additional shares issuable pursuant to the DCPS/ MBS Merger Agreement if the fair market value is equal to or greater than $0.70).

Phillip C. Scott, the current Chief Financial Officer of SurgiCare, owned 80,000 shares of common stock (0.3% of our outstanding common stock). The total number of shares beneficially owned by Mr. Scott prior to giving effect to the Reverse Stock Split, including shares issuable upon exercise of unexercised warrants on or prior to June 11, 2004, is 2,215,478 shares, or 7.3% of the outstanding shares of common stock and shares issuable upon the exercise of such warrants. Mr. Scott s warrants have an exercise price of $0.32. These holdings would convert to approximately

221,547 shares of Class A common stock, which together is approximately 1.0% of the Fully-Diluted Orion Shares. We are currently negotiating a new employment agreement with Mr. Scott to replace his existing employment agreement. Mr. Scott s current employment agreement with SurgiCare contains a change of control agreement entitling him to two year s severance pay if he is terminated by a change of control such as the one contemplated in the Transactions. We anticipate that Mr. Scott will waive his contractual right to the aforementioned severance pay upon entering into his new employment agreement with Orion.

Orion will enter into agreements to employ Messrs. LeBlanc, Bauer, Murdock, Cain and Smith in the capacities described above. The Form of Employment Agreement is attached as Annex E to this Proxy Statement. The initial term of each agreement is five years. The agreements provide that Orion may pay bonuses to the executives upon the attainment of objectives determined by the board of directors. By entering into these employment agreements, the executives will agree not to disclose confidential information or engage in an activity that interferes with Orion until the second anniversary of (i) the end of the executive s employment agreement or (ii) termination of the executive s employment (Non-Competition Period). If an executive s employment is terminated without cause, the agreements provide for continuation of the executive s base salary until the expiration of the Non-Competition Period and a minimum bonus of 50% of the average of the bonus payments made to the executive in the two years immediately preceding the termination. All options would also vest at that time. Orion s base annual salary commitments under the employment agreements are as follows: $240,000 to each of Keith G. LeBlanc and Terrence L. Bauer; and, $175,000 to each of Stephen H. Murdock, Dennis Cain and Tom M. Smith.

The proposed salary described above for Mr. LeBlanc represents a decrease from the $298,000 annual salary to which he is entitled under his current employment agreement with SurgiCare, although it represents an increase from the $188,942 that he actually received in 2003. See Proposal Eleven Election of Directors Executive Compensation, page 145. Mr. LeBlanc s current employment agreement with SurgiCare also entitles him to two years severance pay if he is terminated without cause or in the event of a change of control of SurgiCare, which would include the ownership change contemplated by the Transactions. In contrast, the severance provisions in the form of the Orion employment agreement for executives, described above, require only that salary be continued during the Non-Competition Period. Mr. LeBlanc will give up his right to severance payments from SurgiCare as part of his employment agreement with Orion. Under the terms of both his existing SurgiCare agreement and the proposed form of the Orion employment agreement, Mr. LeBlanc will be entitled to benefits comparable to those paid to other executives.

The aggregate number of shares of common stock owned by Directors, Officers and their affiliates as of April 12, 2004 is 3,708,591 shares (prior to giving effect to the Reverse Stock Split) representing 13.1% of our outstanding common stock. The total number of shares of common stock beneficially owned by such persons, including shares issuable upon exercise of unexercised warrants on or prior to June 11, 2004 would total 7,979,547 shares (prior to giving effect to the Reverse Stock Split), or 24.4% of our outstanding common stock and the shares issuable upon exercise of such warrants.

SurgiCare is seeking approval to issue to Bruce Miller, Michael A. Mineo, Sherman Nagler and Jeffrey J. Penso, its current directors, as compensation for their services as directors of SurgiCare, warrants to purchase 25,000 shares (100,000 shares total) of Class A common stock, which collectively represent approximately 0.5% of the Fully-Diluted Orion Shares (as adjusted to reflect the exercise of such warrants), upon the consummation of the Transactions. See Proposal Thirteen Approval of Warrant Issuances. These warrants are being issued separately and not pursuant to the 2004 Incentive Plan.

Paul H. Cascio and Michael J. Finn, each of whom is a nominee to become a director of Orion, are affiliated with Brantley Partners, a private equity firm with offices in Ohio and California. Since the firm s inception in 1987, it has been a lead investor in over 40 privately held companies in a variety of manufacturing, technology and service industries throughout the United States. Brantley Partners and its affiliates have approximately $300 million of committed capital under management.

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Mr. Cascio and Mr. Finn are general partners of the general partner of Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley IV and limited partners of those funds. Mr. Cascio is director, vice president, secretary and a stockholder of Brantley Capital Corporation, and vice president and secretary of Brantley Capital Management, L.L.C. Mr. Finn is the president and a stockholder of Brantley Capital Corporation and a manager and co-owner of Brantley Capital Management, L.L.C. Brantley Capital Management, L.L.C. serves as investment adviser for, and receives advisory fees from, Brantley Capital Corporation. Brantley Management Company, whose principals include principals of Brantley Capital Management, L.L.C. acts as investment adviser for, and receives fees from, Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley IV.

SurgiCare and IPS have Bridge Notes outstanding to a wholly-owned subsidiary of Brantley IV in aggregate principal amounts of $1,465,411 and $1,840,000, respectively, as of April 20, 2004. Pursuant to the Stock Subscription Agreement, Brantley IV will purchase shares of new Class B common stock by surrendering the Bridge Notes for cancellation and contributing cash in an amount equal to $6 million minus (a) the amount by which the aggregate principal amount of the SurgiCare Bridge Notes surrendered for cancellation exceeds $490,000, (b) the amount by which the aggregate principal amount of the IPS Bridge Notes surrendered for cancellation exceeds $790,000, and (c) the accrued but unpaid interest on such excesses. The aggregate amount of these excesses and accrued interest was $2,048,414 as of April 20, 2004. Brantley IV or its assignees will receive 9,077,110 shares of Class B common stock for an aggregate purchase price of approximately $7,280,000.

Brantley Capital Corporation and Brantley Venture Partners III, L.P. each hold debt of IPS and are party to the Debt Exchange Agreement. Pursuant to the Debt Exchange Agreement, Brantley Capital Corporation and Brantley Venture Partners III, L.P. are each entitled to receive Class A common stock with a fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to the closing) equal to the amount owing to it under its loan to IPS. Pursuant to the Debt Exchange Agreement, Brantley Capital Corporation is also entitled to receive Class A common stock with a fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to the closing) equal to the amount of certain accrued dividends owed to it by IPS. As of April 12, 2004, the aggregate amount of debt to be exchanged by the parties to the Debt Exchange Agreement was $4,679,557, which includes accrued interest as of such date and $593,100 of debt in respect of accrued dividends.

Brantley Venture Partners III, L.P. and Brantley Capital Corporation own an aggregate of 1,653,000 shares of the Series A-2 convertible preferred stock of IPS with an aggregate value of approximately $10,049,938, and will receive 2,531,547 shares of Class A common stock with an approximately equal aggregate value pursuant to the IPS Merger Agreement.

The Stock Subscription Agreement contains customary closing conditions, including the requirement that SurgiCare complete additional financing, in connection with which the debt liabilities of each of IPS, DCPS, MBS and SurgiCare will be restructured, refinanced or assumed and the requirement that the closing conditions to the IPS and DCPS/MBS Merger Agreements be satisfied. The companies are currently negotiating with several banking institutions to refinance those debt obligations, which total approximately $9.8 million. We expect that the refinancing will take the form of bank or other financial institution loans and will not involve the issuance of additional equity securities or have any dilutive effect on existing stockholders; however, we cannot be sure what the ultimate amount or terms of the refinancing will be. We expect that we will be able to complete our refinancing plans in the next few weeks and that this requirement will not substantially impede or delay our ability to consummate the Transactions as contemplated in this proxy statement.

A wholly-owned subsidiary of Brantley IV provided SurgiCare with a portion of the funding for its Tuscarawas MRI center. SurgiCare and Brantley IV are negotiating the terms of warrants to be issued by SurgiCare in connection with this loan.

Brantley IV will also receive the right to register Registrable Shares (as defined below) pursuant to a registration rights agreement to be executed between Orion and Brantley IV. Registrable Shares means the Class A common stock currently issued, or issued in the future, to Brantley IV and its permitted transferees (including shares of Class A common stock into which shares of Class B common stock or other securities of Orion are convertible) other than shares which have been sold pursuant to an effective registration statement or pursuant to a transaction under Rule 144 under the Securities Act.

Pursuant to the registration rights agreement, Brantley IV and/or its permitted transferees, holding at least 50 percent of the Registrable Shares will have the right to request that Orion effect the registration on Form S-1 of shares of Class A common stock having an anticipated net aggregate offering price of at least $5,000,000. Orion will not be required to effect any such registration within six months after the effective date of any such registration statement. Additionally, at any time Orion is eligible to file a registration statement on Form S-3, Brantley IV, and/or its permitted transferees, may request that Orion effect the registration on Form S-3 of Registrable Shares having an anticipated net aggregate offering price of at least $500,000.

At any time Orion otherwise proposes to register any of its equity securities under the Securities Act, Brantley IV and/or its permitted transferees may request the registration of Registrable Shares. However, Orion will not be obligated to effect any registration of shares incidental to the registration of Orion securities in connection with a Form S-8 or a Form S-4 relating to the acquisition or merger, by Orion or Orion s subsidiaries, of or with any other business.

For one year after the date of the registration rights agreement, the IPS stockholders and certain IPS debtholders and the DCPS/MBS equityholders may request to have the following shares included in registrations pursuant to which Brantley IV and its permitted transferees are registering shares: (i) the shares of Class A common stock issued to the IPS stockholders pursuant to the IPS Merger Agreement or to the IPS debtholders pursuant to the Debt Exchange Agreement; and, (ii) the shares of Class A common stock issued to the DCPS/MBS equityholders pursuant to the DCPS/MBS Merger Agreement (including shares issuable upon conversion of Class C common stock).

Brantley IV will have registration rights for all of the shares of Class A common stock issuable upon conversion of its shares of Class B common stock. Initially, this will be approximately 10,910,864 shares, but, assuming everything else remains the same, the number of shares of Class A common stock as to which Brantley IV has registration rights will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price from time to time outstanding, without compounding, from the date the Class B common stock was first issued to the date of conversion. Brantley IV and its permitted transferees will also have registration rights for any additional shares of Class A common stock (including Class A common stock into which other securities of Orion are convertible) issued to them. The third-party beneficiaries will have registration rights for one year with respect to an aggregate of up to approximately 5,842,391 shares of Class A common stock. If the registration rights are exercised and the underlying shares are offered or sold, our stock price could decline.

Upon closing of the Transactions, Brantley IV will own shares of Class B common stock and Brantley Venture Partners III, L.P. and Brantley Capital Corporation will own shares of Class A common stock. See The Equity Financing and The IPS Merger below. By virtue of their affiliations with Brantley Venture Partners III, L.P., Brantley IV, Brantley Capital Corporation and Brantley Capital Management, L.L.C., Messrs. Cascio and Finn may be deemed to possess beneficial ownership of the shares of Class B common stock to be held by Brantley IV and the shares of Class A common stock to be held by Brantley Capital Corporation and Brantley Venture Partners III, L.P., which together will initially represent, on an as-converted basis, approximately 68.4% of the Fully-Diluted Orion Shares. Assuming everything else remains the same, the percentage interest of Brantley IV upon conversion will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A

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common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued to the date of conversion. Messrs. Cascio and Finn disclaim beneficial ownership of such shares except to the extent of their pecuniary interests therein.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, $1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV s ownership will be decreased by the number of shares valued at $1 million, or approximately 1,246,856 shares of Class B common stock, which initially represent, on an as-converted basis, approximately 7.0% of the Fully-Diluted Orion Shares.

Regulatory Approvals

We are not aware of any governmental approvals or actions that are required to complete the Transactions, apart from regulatory notifications and approvals that could be required by CMS or State Medicaid Offices or Departments of Health in connection with changes in control of Medicare and Medicaid providers and state licensed health care facilities. We plan to provide appropriate notifications to these regulatory agencies, seek any required governmental approval, and take any other necessary action to consummate the Transactions.

SurgiCare will file two additional listing applications with the AMEX. One additional listing application will cover the Reverse Stock Spilt and reclassification of SurgiCare s common stock as Class A common stock. The second additional listing application will cover the shares of Class A common stock issuable upon conversion of the Class B and C common stock or otherwise pursuant to the transactions described in this proxy statement. The Transaction Documents require that the shares of Class A common stock issuable thereunder be authorized for listing on the AMEX, subject to official notice of issuance, as a condition to closing.

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THE IPS MERGER

This section of the proxy statement describes the material aspects of the proposed IPS Merger, including the IPS Merger Agreement. While we believe that the description covers the material terms of the IPS Merger, this summary may not contain all of the information that is important to you. You should read this entire proxy statement and the other documents we refer to carefully for a more complete understanding of the IPS Merger and the related transactions.

Unless otherwise indicated, all share amounts give effect to the Reverse Stock Split described in this proxy statement. Unless otherwise indicated, all share amounts and percentages are based on the assumptions described in the section Summary Term Sheet Assumptions and are therefore subject to change if such assumptions are not accurate at the time of the closing of the Acquisitions.

Vote Required for the IPS Merger

Pursuant to our certificate of incorporation and applicable Delaware law, we do not require the approval of our stockholders to consummate the IPS Merger. However, we are required by our certificate of incorporation and Delaware law to obtain the approval majority of each class of our stockholders, voting as separate classes, and voting together as a single class, in order to amend and restate our certificate of incorporation. In addition, the AMEX rules require that we obtain the approval of our stockholders for the issuance of Class A common stock in connection with the IPS Merger. The Transaction Documents require that we obtain our stockholders the approval of the IPS Merger and all of the related proposals in this proxy statement (other than the proposal to issue warrants to the current members of our board of directors). The Transaction Documents specifically require that these proposals which require approval (other than the proposal to issue Class A common stock in exchange for our Series AA preferred stock) be approved by a majority of the outstanding shares of our common stock and Series AA preferred stock, each voting as a separate class and voting together as a single class.

Completion and Effectiveness of the IPS Merger

The IPS Merger will be completed when all of the conditions to completion of the IPS Merger, as specified in the IPS Merger Agreement, are satisfied or, to the extent legally permissible, waived, including the adoption of the IPS Merger Agreement by the stockholders of IPS. The IPS Merger will become effective upon the filing of a certificate of merger with the Delaware Secretary of State.

We are working toward completing the IPS Merger as quickly as possible. We expect to complete the IPS Merger promptly after the meeting of our stockholders.

Structure and Effect of the IPS Merger and Consideration Paid

Structure and Effect. To effectuate the IPS Merger, we formed a subsidiary, IPS Acquisition, Inc., that will be merged into IPS, with IPS as the surviving corporation. Following the IPS Merger, IPS will be a wholly-owned subsidiary of SurgiCare.

Consideration. When the IPS Merger is completed, and based on the assumptions used in this proxy statement, the IPS equityholders and certain IPS debtholders affiliated with Brantley IV will receive an aggregate of approximately 4,360,572 shares of Class A common stock (which will represent approximately 20.4% of the Fully-Diluted Orion Shares) in exchange for their shares of IPS common and preferred stock and all debt, including accrued interest, owed under certain notes issued by IPS having an aggregate principal amount as of April 12, 2004 of approximately $3,256,619 and $593,100 of debt in respect of accrued dividends. Of these shares of Class A common stock, an aggregate of approximately 3,710,278 shares (representing approximately 17.3% of the Fully-Diluted Orion Shares) will be issued to IPS equityholders and debtholders affiliated with Brantley IV.

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Terms of the Class A Common Stock

The terms of the Class A common stock, including its rights and preferences, are discussed in The New Classes of Common Stock and are governed by the Amended and Restated Certificate of Incorporation attached as Annex L to this proxy statement. The shares of Class A common stock to be issued in the IPS merger shall be restricted securities as that term is defined in Rule 144 adopted by the SEC. Rule 144 provides an exemption for sales in compliance with the rule and generally provides that the stock must be held for more than one (1) year after issuance before it may be sold, in the market in brokered transactions, requires Orion to be current in its reporting requirements and imposes volume limitations on the amount of stock that may be sold in any three (3) month period. The holders of Class A common stock issued in the IPS merger will also have piggyback registration rights pursuant to the Registration Rights Agreement as further described in The Equity Financing Registration Rights Agreement .

Material U.S. Federal Income Tax Consequences of the IPS Merger

The following discussion briefly summarizes material U.S. federal income tax considerations relating to the IPS Merger that may be relevant to holders of SurgiCare common stock. It assumes that the other Transactions described herein occur in the manner described. We have not obtained, and do not intend to obtain, an IRS ruling or a legal opinion regarding the tax consequences of the IPS Merger or the other Transactions described herein. This discussion is based upon advice we have received regarding the currently existing provisions of the Internal Revenue Code (the Code), existing and proposed Treasury Regulations promulgated thereunder, Internal Revenue Service (IRS) rulings and pronouncements, and judicial decisions, all in effect as of the date hereof and all of which are subject to change (possibly retroactively) at any time. This summary does not address all tax considerations that may be relevant; in particular, it does not address any tax considerations under state, local or foreign laws, or any tax considerations that may be relevant to certain stockholders in light of their particular circumstances. This summary also does not address any tax considerations that may be relevant to IPS stockholders, MBS stockholders, DCPS stockholders, Brantley IV or any of its affiliated entities, any stockholder who acquired SurgiCare common stock upon the exercise of an option or otherwise as compensation, or any optionholders, debtholders or warrantholders of any company. Finally, this summary does not address any tax consequences of the IPS Merger or of any related transactions other than as specifically set forth below.

IPS Merger. Neither SurgiCare nor the holders of SurgiCare common stock should recognize any taxable gain or loss for U.S. federal income tax purposes as a result of the issuance of shares of Class A common stock in exchange for the shares of IPS stock held by IPS stockholders in IPS Merger. However, see Loss Limitations below.

Debt Exchange. If the Class A common stock that is exchanged for debt owing to affiliates of Brantley IV by IPS pursuant to the Debt Exchange Agreement has a fair market value that is lower than the amount of the debt for which it is exchanged, IPS will recognize taxable cancellation of indebtedness income. The amount of such income will generally be equal to the difference between the amount of the debt and the fair market value of the Class A common stock exchanged therefor.

Loss Limitations. As a result of the IPS Merger and the other related Transactions described herein, it is expected that the use of any existing net operating losses of SurgiCare and IPS will be severely limited following the transactions.

Accounting Treatment of the IPS Merger

The IPS Merger will be treated as a reverse acquisition for accounting purposes. Statement of Financial Accounting Standards No. 141 requires that in a business combination effected through the issuance of shares or other equity interests, as in the case of the IPS Merger, a determination be made as to which entity is the accounting acquirer. This determination is principally based on the relative voting rights in the combined entity held by existing stockholders of each of the combining companies, the composition of the board of directors of the combined entity, and the expected composition of the executive management of the combined entity. Based on an assessment of the relevant facts and circumstances existing with respect to the IPS Merger, it has been determined that IPS will be the acquirer for accounting purposes, even though IPS will be a subsidiary of SurgiCare.

Accordingly, the IPS Merger will be treated as a reverse acquisition, meaning that the purchase price, comprised of the fair value of the shares issued to current stockholders of SurgiCare, plus applicable transaction costs, will be allocated to the fair value of SurgiCare s tangible and intangible assets and liabilities, with any excess being considered goodwill. Upon closing of the IPS Merger, IPS will be treated as the continuing reporting entity, and thus IPS s historical results will become those of the combined company. The combined company s results will include the results of both SurgiCare and IPS commencing on the date of closing of the merger. For more information, see Unaudited Pro Forma Condensed Combined Financial Statements beginning on page 68 of this proxy statement.

The IPS Merger Agreement

We will acquire IPS by merging IPS Acquisition, Inc., a wholly-owned subsidiary of SurgiCare which we refer to as the IPS merger sub, with and into IPS, with IPS as the surviving corporation. It has been determined that IPS will be the acquirer for accounting purposes, as described above in Accounting Treatment of the IPS Merger. As a consequence of the merger, IPS will become a wholly-owned subsidiary of SurgiCare. The following is a summary of material provisions of the IPS Merger Agreement. This summary is qualified in its entirety by reference to the complete text of the IPS Merger Agreement, which is attached as Annex A to this proxy statement. We urge you to read the full text of the IPS Merger Agreement. The transaction in which certain debtholders are receiving Class A shares in connection with the merger is governed by the Debt Exchange Agreement attached as Annex F to this proxy statement.

Effective Time. The IPS Merger will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware or such later time as may be specified in the certificate of merger. The filing of the certificate of merger will occur as soon as practicable but not later than three business days after the day on which all of the conditions to completion of the IPS Merger are satisfied or waived, including the required stockholder approvals, or at such other time as SurgiCare and IPS may agree in writing.

Conversion of Securities. Upon completion of the IPS Merger, and based upon the assumptions described above in Summary Term Sheet Assumptions , holders of IPS common stock and preferred stock and certain IPS debtholders, will receive an aggregate of approximately 4,360,572 shares of our Class A common stock (representing approximately 20.4% of the Fully-Diluted Orion Shares). The aggregate amount of shares to be received by the IPS stockholders is the amount of SurgiCare shares outstanding immediately after giving effect to the amendments to SurgiCare s charter, but prior to the closing of the Transactions, assuming cashless exercise of all in-the-money options and warrants, less the shares received by the debtholders pursuant to the Debt Exchange Agreement. Options and warrants will be deemed in-the-money if they have an exercise price of less than the greater of $0.55 or the fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to closing). Changes in the closing price will affect the number of SurgiCare shares deemed outstanding for purposes of this calculation and thus will affect the aggregate number of shares to be received by the IPS stockholders.

Pursuant to the Debt Exchange Agreement, each debtholder party thereto is entitled to receive Class A common stock with a fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to the closing) equal to the aggregate amount of principal and interest owing to the debtholder under its loan to IPS. Pursuant to the Debt Exchange Agreement, Brantley Capital Corporation is also entitled to receive Class A common stock with a fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to the closing) equal to the amount of certain accrued dividends owed to it by IPS.

At the effective time of the IPS Merger, each share of IPS common stock and preferred stock, issued and outstanding immediately prior to the effective time of the IPS Merger (other than shares as to which appraisal rights pursuant to the DGCL have been exercised), will be cancelled and automatically converted into the right to receive shares of our Class A common stock pursuant to a ratio to be calculated for each class of stock pursuant to the terms of the IPS Merger Agreement. At the effective time of the IPS Merger, each share held in treasury of IPS or any subsidiary of IPS or owned by SurgiCare or its subsidiaries immediately prior to the effective time of the IPS Merger will be cancelled and extinguished, no conversion of those shares will occur and no payment will be made for those shares.

No fractional shares will be issued in connection with the IPS Merger. Instead, each holder of shares of IPS common stock and/or preferred stock who otherwise would be entitled to a fraction of a share (after aggregating all fractional shares to be received by such holder) will receive from SurgiCare an amount of cash, without interest, equal to the product of the average of the daily average of the high and low price per share of SurgiCare common stock on the AMEX for the five trading days immediately preceding the closing of the IPS Merger, as adjusted to account for the Reverse Stock Split.

The shares of our Class A common stock that IPS stockholders and certain IPS debtholders will receive in connection with the IPS Merger will be issued in a transaction exempt from the registration requirements of the Securities Act and any applicable state securities laws and may not be transferred until we register such shares under the Securities Act or unless the shares are transferred in a transaction not requiring registration under the Securities Act, such as a transfer pursuant to Rule 144 under the Securities Act. The IPS stockholders and debtholders receiving shares of Class A common stock will be third-party beneficiaries to the registration rights agreement between Orion and Brantley IV. Until the first anniversary of the date of the registration rights agreement, the IPS stockholders and debtholders will be permitted to cause Orion to add their shares of Class A common stock to a registration statement on which Brantley IV s shares are being registered. A form of the registration rights agreement is attached hereto as Annex G.

Exchange Agent. As soon as practicable after the effective time of the IPS Merger (but in any event within five business days), Registrar and Transfer Company, or another bank or trust company designated by SurgiCare and reasonably satisfactory to IPS, in its capacity as exchange agent, will send a transmittal letter to each former IPS stockholder. The transmittal letter will be accompanied by instructions on how to obtain shares of SurgiCare common stock in exchange for shares of IPS common stock and/or preferred stock. IPS stockholders should not send their certificates until they receive the transmittal materials from the exchange agent.

IPS Stock Options and Warrants. In connection with the IPS Merger, the exercisability of all outstanding IPS stock options under the IPS 1996 Long-Term Incentive Plan will be accelerated. Immediately following the effective time, all such outstanding IPS stock options not exercised prior to the effective time of the IPS Merger will be cancelled without payment of any consideration.

IPS has issued warrants to purchase 150,000 shares of its Series C preferred stock to Bank Austria Creditanstalt Corporate Finance, Inc. (Bank Austria). Bank Austria will receive warrants to purchase the number of shares of SurgiCare Class A common stock that Bank Austria would have been entitled to receive if it had exercised its warrants immediately prior to the effective time, which number, based on the assumptions described above in Summary Term Sheet Assumptions will equal approximately 9,833 shares of Class A common stock.

Warrants to purchase 100,000 shares of IPS common stock held by Brantley Venture Partners III, L.P. and Brantley Capital Corporation are required to be terminated without consideration as a condition to the closing of the IPS Merger.

Appraisal Rights. Under Delaware law, holders of shares of IPS common stock and preferred stock have appraisal rights.

Conditions to Closing. The obligations of SurgiCare and IPS to consummate the IPS Merger are subject to the satisfaction or waiver (all conditions are waivable, unless otherwise indicated) of a number of conditions, including:

Obtaining all necessary approvals of the SurgiCare and IPS stockholders (this condition is not waivable);

No governmental entity or court shall have enacted, threatened, issued, promulgated, enforced or entered any law, rule, regulation, judgment, decree, injunction, executive order or award that is then in effect, pending or threatened and has, or would have, the effect of making the IPS Merger illegal or otherwise prohibiting consummation of the IPS Merger or the other transactions;

Expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which provides for advance notification of business combinations of greater than a minimum size by the Federal Trade Commission and the Antitrust Division of the Department of Justice (this condition is not waivable);

Shares of Class A common stock to be issued in the IPS Merger shall have been authorized for listing on the AMEX, subject to official notice of issuance;

The DCPS/ MBS Merger shall have been consummated concurrently with the IPS Merger;

The equity financing with Brantley IV, and the debt exchange with certain affiliates of Brantley IV, described herein shall have been consummated;

The continued truthfulness and accuracy of the representations and warranties in all material respects, except that representations and warranties that address matters only as of a particular date shall remain true and correct in all material respects as of such date (representations or warranties that are qualified by materiality shall continue to be true and accurate in all respects) and the performance or compliance with all agreements and covenants required by the IPS Merger Agreement, and receipt from the other party of a certificate of an officer certifying to the foregoing;

The receipt of all material governmental consents, approvals or other authorizations legally required to consummate the IPS Merger from all governmental authorities and receipt by IPS and SurgiCare of all required third party consents in respect of material contracts;

No event, circumstance, occurrence, change or effect shall have occurred since February 9, 2004 which, individually or in the aggregate, has or would materially and adversely affect, or pose a material risk of materially and adversely affecting, the business, operations, condition (financial or otherwise), assets (tangible or intangible), results of operations or prospects of SurgiCare and its subsidiaries, taken as a whole, or IPS and its subsidiaries, taken as a whole, or which is reasonably likely to prevent or delay the consummation of the IPS Merger.

No action shall have been brought, be pending or have been threatened by any government entity or any person that seeks to prevent or delay the consummation of the IPS Merger or the other transactions, seeks to restrain or prohibit SurgiCare s or IPS merger sub s or impose limitations on SurgiCare s or IPS merger sub s ability to own or dispose of any portion of the business or assets of IPS or IPS capital stock or that would reasonably be expected to, individually or in the aggregate, materially and adversely affect, or pose a material risk of materially and adversely affecting, the business, operations, condition (financial or otherwise), assets (tangible or intangible), results of operations or prospects of IPS and it subsidiaries, taken as a whole, or SurgiCare and its subsidiaries, taken as a whole, or which is reasonably likely to prevent or delay the consummation of the IPS merger.

The number of shares as to which appraisal rights pursuant to the DGCL have been exercised shall not exceed 15% of the outstanding common stock of IPS.

All directors of IPS and each IPS subsidiary shall have resigned from their positions as directors of IPS and each IPS subsidiary, except as agreed by IPS and SurgiCare.

- Each of Keith G. LeBlanc, Terrence L. Bauer and Stephen H. Murdock shall have entered into an employment agreement with SurgiCare which is in full force and effect, must be employed by their respective employers immediately prior to the merger, and cannot have indicated an intention to terminate his employment, and all other employment agreements with such individuals shall have been terminated;

- SurgiCare and IPS each having received a legal opinion from the counsel to the other party;

- All existing registration rights of holders of IPS common and/or preferred stock shall have been terminated and SurgiCare shall have received a certificate to such effect signed by an officer of IPS;

- There shall be no more than 30 holders of IPS capital stock immediately prior to the merger that (i) have not delivered to SurgiCare executed investment letters certifying as to their investor status under the securities laws or (ii) have returned investment letters indicating that they are not accredited investors;

- No tender offer, exchange offer, merger or other transaction in respect of shares of capital stock or material assets of IPS or SurgiCare or their subsidiaries shall have been commenced by any person;

- SurgiCare shall have delivered resignations from each director of SurgiCare and, except as agreed by SurgiCare and IPS, each SurgiCare subsidiary; and the Orion board shall consist of Terrence L. Bauer, Keith G. LeBlanc, two individuals designated by Brantley IV, and three outside directors reasonably satisfactory to IPS (Messrs. Crane, McIntosh and Valley are satisfactory to IPS), and the officers of Orion shall be Mr. Bauer as Chief Executive Officer, Mr. LeBlanc as President, and Stephen H. Murdock as Chief Financial Officer;

- The capital structure of each SurgiCare subsidiary shall have been resyndicated in a manner satisfactory to IPS;

- SurgiCare shall have amended and restated its certificate of incorporation and by-laws; and

- All shares of SurgiCare Series AA preferred stock shall have been redeemed or converted into shares of SurgiCare common stock.

The Debt Exchange Agreement and the Stock Subscription Agreement require that the conditions to closing of the IPS Merger Agreement have been satisfied.

Representations and Warranties. SurgiCare and the IPS merger sub, on the one hand, and IPS, on the other hand, made mutual representations and warranties in the IPS Merger Agreement regarding the following:

- corporate organization, good standing and qualification of each of the companies and their subsidiaries;

- validity and effectiveness of charter and by laws of each of the companies and their subsidiaries;

- capitalization of the companies and their subsidiaries;

- authority to enter into the IPS Merger Agreement;

- absence of conflicts between the IPS Merger Agreement, the IPS Merger and the other transactions contemplated by the IPS Merger Agreement, on the one hand, and other contractual and legal obligations of the companies, on the other hand;

- requirement of consents, approvals, licenses, permits, orders, filings or other authorizations to enter into the IPS Merger Agreement and consummate the IPS Merger and the other transactions contemplated by the IPS Merger Agreement;

- possession of authorizations, licenses, permits, certificates, approvals and orders of any government or other authority thereof, or any body exercising any other authority necessary or advisable for

- each of the companies and their subsidiaries to own, lease and operate their properties and to carry on their business as currently conducted;
- compliance with applicable laws;
- absence of undisclosed liabilities;
- absence of certain changes or events since December 31, 2002;
- absence of material litigation;
- employee benefit matters;
- material contracts;
- environmental matters;
- title to properties and absence of liens and encumbrances;
- intellectual property;
- taxes;
- insurance;
- opinion of financial advisor;
- use of brokers;
- labor matters;
- transactions with affiliates;
- absence of stockholder rights agreements; and
- absence of unlawful or prohibited payments.

In addition to the mutual representations, SurgiCare also made representations and warranties in the IPS Merger Agreement regarding the following:

- compliance with all applicable SEC filing requirements and accuracy and completeness of SEC filings;
- effectiveness of the DCPS/ MBS Merger Agreement; and
- validity of the offering.

None of the representations and warranties contained in the IPS Merger Agreement survives the closing of the IPS Merger.

Conduct of Business Prior to Closing. Each of SurgiCare and IPS has agreed on behalf of itself and its subsidiaries, subject to certain exceptions, between the execution of the IPS Merger Agreement and the effective time of the IPS Merger, to:

- conduct its businesses and the business of its subsidiaries in the ordinary course of business and in a manner consistent with past practice; and

- use its reasonable best efforts to preserve substantially intact its business organization and goodwill and to keep available the services of its (and its subsidiaries) current officers, employees and consultants and to preserve its (and its subsidiaries) current relationships with customers, suppliers, licensors, licensees and other persons with which it and its subsidiaries have significant business relations.

Each of SurgiCare and IPS has also agreed that, except as contemplated by the IPS Merger Agreement, and subject to certain other exceptions, prior to the effective time of the IPS Merger, without the prior written agreement of the other party, it shall neither do any of the following nor permit its subsidiaries to do any of the following:

Amend or otherwise change its charter or bylaws;

Issue, sell, pledge, dispose of, or authorize for issuance, sale, pledge or disposal, equity securities or equity equivalent securities, except for the issuance of common stock upon the exercise of options and warrants outstanding as of the date of the IPS Merger Agreement;

Authorize, declare or set aside any dividend payments or other distribution with respect to any of its stock;

Reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of its stock or issue or authorize the issuance of any other securities in respect of, or in lieu of or in substitution for shares of its capital stock;

Acquire or agree to acquire or sell any interest in any corporation, partnership or other business or any assets constituting a business or a portion of a business;

Sell, lease, license, encumber or otherwise dispose of any of its or its subsidiaries real property or improvements;

Incur any indebtedness for borrowed money or issue any debt securities or assume guarantee or endorse the obligations of any person, or make any loans or advances, except with a maturity of not more than one year and in a principal amount not, in the aggregate, in excess of $100,000 or under its existing revolving credit facility in the ordinary course of business and consistent with past practice;

Enter into any contracts or agreement requiring payment or receipt of payment in excess of $250,000, or modify, renew or waive any material provision of, breach or terminate any of its or its subsidiaries existing material contracts;

Make or authorize any capital expenditures which were not disclosed to the other party in connection with the IPS Merger Agreement;

Except for the acceleration of vesting of unvested stock options and warrants outstanding on the date of the IPS Merger Agreement, waive any stock repurchase or acceleration rights, otherwise amend or change the terms of any options, warrants or restricted stock, or reprice options granted under its stock option plan or warrants or authorize cash payments in exchange for any options or warrants;

Increase compensation to its or its subsidiaries officers or employees (including rights to severance or termination pay), except for increases in salaries or wages of employees other than directors, officers and key employees, in accordance with past practices and consistent with current budgets (and, in the case of SurgiCare, in the ordinary course of business, and as disclosed to IPS in connection with the IPS Merger Agreement), grant or amend any rights to severance or termination pay to, or enter into or amend any employment or severance agreement with any of its or its subsidiaries directors, officers or employees (or, in the case of SurgiCare any person, except as required by previously existing contractual arrangements or required law) or forgive any indebtedness of any employee, or in the case of SurgiCare, enter into or amend any consulting, retirement or special pay arrangement with any person, except as required by previously existing contractual arrangements or applicable law;

Pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in excess of $100,000 in the aggregate, other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice, of liabilities reflected or reserved against in its balance sheet or incurred in the ordinary course of business, consistent with past practices, or cancel any indebtedness in excess of $100,000 in the aggregate or waive any claims or rights of substantial value, or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which it or any of its subsidiaries is a party;

Settle any action other than any settlement that involves only the payment of damages in an immaterial amount and does not involve injunctive or equitable relief or commence any litigation or arbitration;

Make or revoke any tax election, unless required by law, adopt or change any method of tax accounting, request any ruling or similar determination, enter into any closing agreement or settle any tax liabilities or take any action with respect to the computation of taxes or the preparation of a tax return that is inconsistent with past practices;

Change its accounting principles or procedures, other than certain required changes;

Subject to certain exceptions, establish, adopt, enter into, amend or terminate any collective bargaining agreement or certain employee benefit plans, other than to the extent required by such benefit employee plans or to comply with applicable law, or, unless consistent with past practice, make any material determinations not in the ordinary course of business, under any collective bargaining, certain employee benefit plans, or take any action or accelerate any rights or benefits;

Enter into or implement any stockholder rights plan or similar anti-takeover plan or device in a manner that could prevent or delay the consummation of the IPS Merger;

Agree in writing or otherwise take any of the actions described above; or

Take any action that would reasonably be expected to cause any representation and warranty given by it (and in the case of SurgiCare, given by the IPS merger sub) that is qualified by materiality to be untrue, any representation and warranty given by it (and in the case of SurgiCare, given by the IPS merger sub) that is not qualified by materiality to be untrue in any material respect, or would reasonably be expected to result in its (and in the case of SurgiCare, the IPS merger sub s) inability to satisfy certain conditions to closing.

No Solicitation Provision. Each of SurgiCare and IPS has agreed not to, and not to permit any of its subsidiaries, officers, directors, or agents to, directly or indirectly through any officer, director, agent or otherwise, initiate, solicit, negotiate, engage in discussions regarding, encourage or provide confidential information to facilitate any proposal or offer to acquire (i) any material part of its or its subsidiaries business or properties (which includes, but is not limited to any part of such business or properties constituting 10% or more of its and its subsidiaries net revenues, net income or assets) or (ii) any of its or its subsidiaries capital stock. Each of SurgiCare and IPS has also agreed to cease and cause to be terminated all activities, discussions or negotiations with respect to any offer or proposal with respect to any such acquisition transaction other than the IPS Merger described herein. SurgiCare and IPS have each agreed to notify the other party orally within 24 hours (and in writing within 48 hours), of all inquiries and proposals that it may receive relating to any of the foregoing matters, such notice to set out the terms and conditions of such contact, inquiry or proposal, the identity of the person making it and the intent of the party providing the notice to furnish information to, or enter into discussions or negotiations with such person.

Notwithstanding the foregoing, prior to the effective time of the IPS Merger, the boards of directors of each of SurgiCare and IPS is not prohibited from:

Furnishing information to, or entering into and engaging in discussions or negotiations with, any person in response to an unsolicited written proposal or offer regarding an acquisition transaction; if only to the extent that:

the board of directors determines in good faith after consultation with its independent financial advisor and legal counsel, that the acquisition proposal would (or reasonably could) constitute a superior proposal, which is defined in the IPS Merger Agreement as a bona fide acquisition proposal by a third party for all of the outstanding capital stock of the party receiving the proposal or all of the assets of that party and its subsidiaries, not subject to financing approvals and due diligence condition, which the board of directors determines in its good faith judgment (after consultation with its financial advisor) to be significantly more favorable to the stockholders of that party from a financial point of view than the IPS Merger, taking into account all terms of such acquisition proposal, and which the board of directors determines in its good faith judgment is reasonably likely to be consummated, taking into account all legal and regulatory aspects of the proposal;

the board of directors determines in good faith after consultation with its legal counsel, that the failure to take such action would constitute a breach of the fiduciary duties of the board of directors to its stockholders under applicable law; and

the board of directors receives, prior to furnishing any such information or entering into any discussions or negotiations with such person, an executed confidentiality agreement on terms no less favorable to SurgiCare or IPS, as the case may be, than the confidentiality agreement between SurgiCare and IPS.

Withholding, withdrawing, qualifying or modifying its approval or recommendation of the IPS Merger or certain related actions, or proposing publicly to do so, in a manner adverse to the other party to the merger, or endorsing, approving, recommending or submitting to the stockholders another acquisition transaction, or proposing publicly to do so, or causing the party to enter into any letter of intent or other agreement or understanding related to a potential acquisition, if after receipt of a superior proposal , it determines in good faith, after taking into account advice from independent outside legal counsel with respect to its fiduciary duties to its stockholders under applicable law, that such action is required for the board to comply with its fiduciary obligations to the stockholders of that party under applicable law, but only at a time that is after the fifth business day after the other party to the IPS Merger Agreement receives written notice from the board that it intends to take such action. The written notice must specify the material terms and conditions of the superior proposal, identify the person making such proposal and state that the board intends to take an action described above. During the five business day period, the party whose board is proposing to take such action will provide full opportunity for the other party to the IPS Merger Agreement to propose such adjustment to the terms and conditions of the IPS Merger Agreement and the IPS Merger as would enable the board to proceed with its recommendation to its stockholders without taking such action.

Events of Termination. The IPS Merger Agreement may be terminated and the IPS Merger abandoned at any time prior to the effective time:

By mutual written consent duly authorized by the board of directors of each of SurgiCare and IPS;

By either SurgiCare or IPS if a governmental authority has taken any final and non appealable action prohibiting the consummation of the IPS Merger (but the merger agreement cannot be terminated for this reason by a party whose failure to fulfill its obligations under merger agreement resulted in such action);

By either SurgiCare or IPS if the IPS Merger is not completed on or prior to May 14, 2004 (the parties intend to amend the agreement to extend this date to July 15, 2004);

By either SurgiCare or IPS if the board of directors of the other party:

(i) withholds, withdraws, qualifies or modifies its approval or recommendation of the IPS Merger or certain related actions, or proposes publicly to do so, in a manner adverse to the other party to the merger, (ii) endorses, approves, recommends or submits to its stockholders another acquisition proposal, or proposes publicly to do so, or (iii) enters into any letter of intent, or other agreement or understanding relating to a proposed acquisition, in each case, if after receipt of a superior proposal it determines in good faith, after taking into account advice from independent outside legal counsel with respect to its fiduciary duties to its stockholders under applicable law, that such action is required for the board to comply with its fiduciary obligations to its stockholders under applicable law;

fails to recommend to its stockholders that they approve the issuance of shares of its stock in the IPS Merger or approve the IPS Merger, as the case may be, and that they give the other stockholder approvals required by the IPS Merger Agreement; or

fails to reconfirm the recommendation referred to in the foregoing bullet or fails to announce that it does not recommend any alternative acquisition to the IPS Merger, within five business days after the other party requests in writing that such recommendation be reaffirmed, or such announcement be made, as the case may be.

By either SurgiCare or IPS if the other party has breached its non-solicitation agreements contained in the IPS Merger Agreement;

By either SurgiCare or IPS if a tender offer or exchange offer for 10% or more of the outstanding shares of the other party is commenced and the board of directors of that party fails to recommend against acceptance of such tender offer or exchange offer by its stockholders;

By either SurgiCare or IPS if either SurgiCare or IPS does not receive the required stockholder approval;

By either SurgiCare or IPS if the other party (and by IPS if the IPS merger sub) breaches a representation, warranty, covenant or agreement, or if any representation or warranty by such party becomes untrue, in either case such that the relevant closing conditions, subject to the materiality thresholds contained in such closing conditions, would not be satisfied;

By either SurgiCare or IPS prior to its stockholders meeting, upon written notice to the other party of the existence of a superior proposal in respect of which its board of directors authorized it to enter a definitive agreement and the other party has not made, within five business days of receipt of notice, an offer which its board of directors determines, in good faith after consultation with its financial advisor is at least as favorable to its stockholders as the competing proposal; provided that termination will not be effective until the terminating party pays the termination fee described below;

By IPS, if a tender offer, exchange offer, merger or other transaction in respect of shares of capital stock of SurgiCare shall have been commenced by any person;

By SurgiCare, if a tender offer, exchange offer, merger or other transaction in respect of shares of capital stock of IPS shall have been commenced by any person; and

By either SurgiCare or IPS prior to its stockholders meeting, if after receipt of a superior proposal, the board of directors of such party determines in good faith, after consultation with legal counsel, that failure to (i) withhold, withdraw, qualify or modify its approval of the IPS Merger, or certain related transactions, or publicly propose to do so, (ii) endorse, approve, recommend or submit to its stockholders an acquisition proposal it has received or publicly propose to do so or (iii) enter into any letter of intent, or other agreement or understanding relating to such acquisition proposal, and that the holding of a stockholders meeting for the approval of the IPS Merger described herein, would constitute a breach of its fiduciary duties to its stockholders; provided that termination will not be effective until the terminating party pays the termination fee described below.

Fees and Expenses. In the event the IPS Merger Agreement is terminated by either party (other than by mutual written consent or as result of final and non appealable action taken by a governmental authority prohibiting the consummation of the IPS Merger or the failure to consummate the IPS Merger prior to May 14, 2004, or July 15, 2004, assuming the parties amend the agreement to extend this date), then under the terms of the IPS Merger Agreement, the party responsible for triggering the underlying cause for the termination will reimburse the other party for all of its reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, financing sources, appraisers,

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investment bankers, experts and consultants). Except as set forth above, each party to the IPS Merger Agreement will pay its fees and expenses.

SurgiCare is required by the Stock Subscription Agreement to reimburse Brantley IV for its reasonable out-of-pocket expenses and pay Brantley IV a non-refundable fee of $3 million upon termination of the IPS Merger Agreement:

By either SurgiCare or IPS if the IPS Merger is not completed on or prior to May 14, 2004 (the parties intend to amend the agreement to extend this date to July 15, 2004), except that the expenses are only payable if at the time of such termination, any of the conditions to the obligations of IPS to consummate the IPS Merger set forth in Section 7.03 of the IPS Merger Agreement have not been satisfied, and the fee is only payable if within 18 months of such termination SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare s board of directors resolves to enter into such agreement or letter of intent with respect to) a Business Combination (as defined below) with any person, entity or group;

By either SurgiCare or IPS, if the required approvals of the SurgiCare stockholders are not received, except that the fee is only payable if within 18 months of such termination SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare s board of directors resolves to enter into such agreement or letter of intent with respect to) a Business Combination with any person, entity or group;

By IPS if the board of directors of SurgiCare:

(i) withholds, withdraws, qualifies or modifies its approval or recommendation of the IPS Merger or certain related actions or proposes publicly to do so, in a manner adverse to IPS, (ii) endorses, approves, recommends or submits to its stockholders another acquisition proposal, or proposes publicly to do so, or (iii) enters into any letter of intent, or other agreement or understanding relating to a proposed acquisition, in each case, if after receipt of a superior proposal it determines in good faith, after taking into account advice from independent outside legal counsel with respect to its fiduciary duties to its stockholders under applicable law, that such action is required for the board to comply with its fiduciary obligations to its stockholders under applicable law;

fails to recommend to its stockholders that they approve the issuance of shares of its stock in the IPS Merger and that they give the other stockholder approvals required by the IPS Merger Agreement; or

fails to reconfirm the recommendation referred to in the foregoing bullet or fails to announce that it does not recommend any alternative acquisition to the IPS Merger, within five business days after IPS requests in writing that such recommendation be reaffirmed;

By IPS if SurgiCare has breached its non-solicitation agreements contained in the IPS Merger Agreement;

By IPS if a tender offer or exchange offer for 10% or more of the outstanding shares of SurgiCare is commenced and the board of directors of SurgiCare fails to recommend against acceptance of such tender offer or exchange offer by its stockholders;

By IPS if SurgiCare or the IPS merger sub breaches a representation, warranty, covenant or agreement, or if any representation or warranty by such party becomes untrue, in either case such that the relevant closing conditions, subject to the materiality thresholds contained in such closing conditions, would not be satisfied, except that the fee is only payable if within 18 months of such termination SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare s board of directors resolves to enter into such agreement or letter of intent with respect to) a Business Combination with any person, entity or group;

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By IPS, if a tender offer, exchange offer, merger or other transaction in respect of shares of capital stock of SurgiCare shall have been commenced by any person, except that the fee is only payable if within 18 months of such termination SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare s board of directors resolves to enter into such agreement or letter of intent with respect to) a Business Combination with any person, entity or group;

By SurgiCare prior to its stockholders meeting, upon written notice to IPS of the existence of a superior proposal in respect of which its board of directors authorized it to enter a definitive agreement and IPS has not made, within five business days of receipt of notice, an offer which its board of directors determines, in good faith after consultation with its financial advisor is at least as favorable to its stockholders as the competing proposal; or

By SurgiCare prior to its stockholders meeting, if after receipt of a superior proposal, the board of directors of SurgiCare determines in good faith, after consultation with legal counsel, that failure to (i) withhold, withdraw, qualify or modify its approval of the IPS Merger, or certain related transactions, or publicly propose to do so, (ii) endorse, approve, recommend or submit to its stockholders an acquisition proposal it has received or publicly propose to do so or (iii) enter into any letter of intent, or other agreement or understanding relating to such acquisition proposal, and that the holding of a stockholders meeting for the approval of the IPS Merger described herein, would constitute a breach of its fiduciary duties to its stockholders.

As used above, Business Combination means (i) a merger, consolidation, share exchange, business combination or similar transaction involving SurgiCare as a result of which SurgiCare s stockholders prior to such transaction cease to own at least 80% of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent entity thereof) in the proportion they owned such shares prior to such transaction, (ii) a sale, lease, exchange, transfer, public offering in respect of, or other disposition of more than 20% of the assets of SurgiCare and the SurgiCare subsidiaries, taken as a whole, in either case, in a single transaction or a series of related transactions, or (iii) the acquisition, by a person, group or entity of beneficial ownership of more than 20% of SurgiCare s outstanding common stock (or in the case of any person, group or entity beneficially owning in excess of 20% of SurgiCare s common stock outstanding on February 9, 2004, the acquisition of any additional shares of SurgiCare s common stock by such person, group or entity), in either case, whether from SurgiCare or by tender or exchange offer or otherwise.

SurgiCare is also required to pay Brantley IV s out-of-pocket expenses and the non-refundable fee of $3 million if SurgiCare breaches its obligation to issue the shares of Class B common stock pursuant to the Stock Subscription Agreement.

Choice of Law. The IPS Merger Agreement is governed by and construed in accordance with the laws of the State of New York.

THE DCPS/MBS MERGER

This section of the proxy statement describes the material aspects of the proposed DCPS/MBS Merger, including the DCPS/MBS Merger Agreement. While we believe that the description covers the material terms of the DCPS/MBS Merger, this summary may not contain all of the information that is important to you. You should read this entire proxy statement and the other documents we refer to carefully for a more complete understanding of the DCPS/MBS Merger and the related transactions.

Unless otherwise indicated, all share amounts give effect to the Reverse Stock Split described in this proxy statement. Unless otherwise indicated, all share amounts and percentages are based on the assumptions described in the section Summary Term Sheet Assumptions and are therefore subject to change if such assumptions are not accurate at the time of the closing of the Acquisitions.

Vote Required for the DCPS/MBS Merger

Under our certificate of incorporation and under Delaware law, we do not require the approval of our stockholders to consummate the DCPS/MBS Merger. However, we are required by our certificate of incorporation and Delaware law to obtain the approval majority of each class of our stockholders, voting as separate classes, and voting together as a single class, in order to amend and restate our certificate of incorporation. In addition, the AMEX rules require that we obtain the approval of our stockholders for the issuance of our common stock in connection with the IPS Merger and the DCPS/MBS Merger. The Transaction Documents require that we obtain our stockholders approval of the DCPS/MBS Merger and all of the related proposals in this proxy statement, other than the proposal to issue warrants to the current members of our board of directors. The Transaction Documents specifically require that these proposals which require approval, other than the proposal to issue Class A common stock in exchange for our Series AA preferred stock, be approved by a majority of the outstanding shares of our common stock and Series AA preferred stock, each voting as a separate class and voting together as a single class.

Completion and Effectiveness of the DCPS/MBS Merger

The DCPS/MBS Merger will be completed when all of the conditions to completion of the DCPS/MBS are satisfied or, to the extent legally permissible, waived, including the adoption of the DCPS/MBS Merger Agreement by the stockholders of IPS. The acquisition of DCPS/MBS will become effective upon the filing of certificates of merger with the Texas Secretary of State or such later time as may be specified in the certificates of merger.

We are working toward completing the Acquisitions as quickly as possible. We expect to complete the DCPS/MBS Merger promptly after the meeting of our stockholders.

Structure and Effect of the DCPS/MBS Merger and Consideration Paid

Structure and Effect. To effectuate the DCPS/MBS Merger, we formed a subsidiary, DCPS/MBS Acquisition, Inc., that will be merged with and into MBS, with MBS as the surviving corporation. DCPS will subsequently be merged with and into MBS, with MBS with the surviving corporation. Following the Acquisitions, IPS and DCPS/MBS will both be wholly-owned subsidiaries of SurgiCare.

MBS Merger Consideration. When the MBS merger is completed and the fair market value of SurgiCare common stock (based on the average of the daily average of the high and low price per share over the five trading days immediately prior to the closing) is less than $0.70, stockholders of MBS will receive:

- an aggregate of $2 million in cash, and

- approximately 606,061 shares of Class C common stock

in exchange for all of the outstanding stock of MBS.

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Otherwise, the stockholders of MBS will receive:

an aggregate of $1.4 million in cash, and

approximately 800,000 shares of Class C common stock

in exchange for all of the outstanding stock of MBS.

The purchase price is subject to retroactive increase or decrease based on the financial results of the newly-formed DCPS/MBS entity in the two years following the DCPS/MBS Merger.

DCPS Merger Consideration. When the DCPS merger is completed, the partners of DCPS will receive:

an aggregate of $1.5 million in cash,

subordinated promissory notes of SurgiCare in an aggregate principal amount of $500,000, and

approximately 606,061 shares of Class C common stock

in exchange for all of the outstanding partnership interests of DCPS.

The purchase price is subject to retroactive increase or decrease based on the financial results of the newly-formed DCPS/MBS entity in the two years following the DCPS/MBS Merger.

Additional Issuances, Advances and Payments

The DCPS/MBS Merger Agreement also provides for additional issuances, advances and payments as described in The DCPS/MBS Merger Agreement Additional Issuances, Advances and Payments on page .

DCPS/MBS Ownership

Based on the assumptions in this proxy statement, including the fair market value of our common stock being less than $0.70, and assuming receipt of the maximum number of shares of Class A common stock pursuant to the earn-out provisions of the DCPS/MBS Merger Agreement, the DCPS and MBS equityholders and their designees will own approximately 8.2% of the Fully-Diluted Orion Shares. If the fair market value of our common stock is greater than or equal to $0.70, but all other assumptions remain the same, the DCPS/MBS equityholders and their designees will own approximately 9.0% of the Fully-Diluted Orion Shares, as adjusted for the issuance of additional shares of Class C common stock at such fair market value.

Terms of the Class C Common Stock

The terms of the Class C common stock, including its rights and preferences, are discussed in The New Classes of Common Stock and are governed by the Amended and Restated Certificate of Incorporation.

The shares of Class C common stock to be issued, and the shares of Class A common stock into which they are convertible, will each be restricted securities as that term is defined in Rule 144 adopted by the SEC. No market for resale of the Class C common stock to be issued is ever expected to develop. The Class A common stock into which the Class C common stock is convertible may be sold in compliance with Rule 144. Rule 144 provides an exemption for sales in compliance with the rule and generally provides that the stock must be held for more than one (1) year after issuance before it may be sold in the market in brokered transactions, requires Orion to be current in its reporting requirements, and imposes volume limitations on the amount of stock that may be sold in any three (3) month period.

Material U.S. Federal Income Tax Consequences of the DCPS/MBS Merger

The following discussion briefly summarizes the material U.S. federal income tax considerations relating to the DCPS/MBS Merger that may be relevant to holders of SurgiCare common stock. It assumes that the other Transactions described herein occur in the manner described. We have not obtained, and do not intend to obtain, an IRS ruling or a legal opinion regarding the tax consequences of the DCPS/MBS Merger or the other Transactions described herein. This discussion is based upon advice we have received regarding the currently existing provisions of the Code, existing and proposed Treasury Regulations promulgated thereunder, IRS rulings and pronouncements, and judicial decisions, all in effect as of the date hereof and all of which are subject to change (possibly retroactively) at any time. This summary does not address all tax considerations that may be relevant; in particular, it does not address any tax considerations under state, local or foreign laws, or any tax considerations that may be relevant to certain stockholders in light of their particular circumstances. This summary also does not address any tax considerations that may be relevant to IPS stockholders, MBS stockholders, DCPS stockholders, Brantley IV or any of its affiliated entities, any stockholder who acquired SurgiCare common stock upon the exercise of an option or otherwise as compensation, or any optionholders, debtholders or warrantholders of any company. Finally, this summary does not address any tax consequences of the DCPS/MBS Merger or of any related transactions other than as specifically set forth below.

MBS Merger. Neither SurgiCare nor holders of SurgiCare common stock should recognize any taxable gain or loss for U.S. federal income tax purposes as a result of the MBS merger. However, see Loss Limitations below.

DCPS Merger. Neither SurgiCare nor holders of SurgiCare common stock should recognize any taxable gain or loss for U.S. federal income tax purposes as a result of the DCPS merger. Assuming that DCPS is a validly electing S corporation for U.S. federal income tax purposes and is not subject to certain special rules providing for a corporate-level tax on S corporations in certain circumstances, DCPS should not be liable for any corporate level U.S. federal income tax as a result of the DCPS merger. We believe that DCPS will not be liable for any such corporate-level U.S. federal income tax. If DCPS were not a validly electing S corporation or were otherwise subject to certain special rules, DCPS could become liable for a corporate-level tax as a result of the DCPS merger if the merger did not qualify as a tax-free reorganization. MBS would become liable for that corporate-level tax as a result of the merger of DCPS into MBS.

Loss Limitations. As a result of the DCPS/MBS Merger and the other Transactions discussed herein, it is expected that the use of any existing net operating losses of SurgiCare and MBS will be severely limited following the Transactions.

Accounting Treatment of the DCPS/MBS Merger

SurgiCare intends to account for the DCPS/MBS Merger as a purchase transaction for financial reporting and accounting purposes in accordance with Statement of Financial Accounting Standards No. 141. After the DCPS/MBS Merger, the results of operations of DCPS/MBS will be included in the consolidated financial statements of SurgiCare. The purchase price, which is equal to the total consideration of cash, notes and new SurgiCare Class C common stock, will be allocated based on the fair values of the DCPS/MBS assets acquired and liabilities assumed. The amount of the purchase price in excess of the fair value of the net tangible assets of DCPS/MBS acquired will be recorded as goodwill and other tangible assets. For more information, see Unaudited Pro Forma Condensed Combined Financial Statements beginning on page 68 of this proxy statement.

The DCPS/MBS Merger Agreement

We will acquire DCPS and MBS by merging DCPS/MBS Acquisition, Inc., a wholly-owned subsidiary of SurgiCare, with MBS, with MBS as the surviving corporation and then, immediately thereafter, merging DCPS with and into MBS, with MBS as the surviving corporation. As a consequence of the merger, DCPS/MBS will be a wholly-owned subsidiary of SurgiCare. The following is a summary

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of material provisions of the DCPS/MBS Merger Agreement. This summary is qualified in its entirety by reference to the complete text of the DCPS/MBS Merger Agreement which is attached as Annex B to this proxy statement. We urge you to read the full text of the DCPS/MBS Merger Agreement.

Effective Time. The DCPS/MBS Merger will become effective upon the filing of certificates of merger with the Secretary of State of the State of Texas or such later time as may be specified in the certificates of merger. The filing of the certificates of merger will occur as soon as practicable but not later than three business days after the day on which all of the conditions to completion of the DCPS/MBS Merger are satisfied or waived, including the required stockholder approvals, or at such other time as SurgiCare and the DCPS/MBS Sellers may agree in writing.

Conversion of Securities.

MBS

At the effective time of the DCPS/MBS Merger, all of the shares of MBS common stock issued and outstanding immediately prior to the effective time of the DCPS/MBS Merger will be cancelled and automatically converted into the right to receive, in the aggregate:

If the fair market value of SurgiCare common stock (based on the average of the daily average of the high and low price per share over the five trading days immediately prior to the closing) is less than $0.70,

an aggregate of $2 million in cash, and

606,061 shares of Class C common stock in exchange for all of the outstanding stock of MBS, subject to retroactive adjustment.

Otherwise,

an aggregate of $1.4 million in cash, and

800,000 shares of Class C common stock in exchange for all of the outstanding stock of MBS, subject to retroactive adjustment

Shares of MBS common stock as to which appraisal rights pursuant to Texas law have been exercised will not be converted to receive the applicable merger consideration pursuant to the provisions described above, but will have the rights described below under Appraisal Rights.

At the effective time of the DCPS/MBS Merger, each share of MBS common stock held in treasury of MBS or any subsidiary of MBS or owned by SurgiCare or its subsidiaries immediately prior to the effective time of the DCPS/MBS Merger will be cancelled and extinguished, no conversion of those shares will occur and no payment will be made for those shares. Furthermore, each share of common stock of DCPS/MBS Acquisition, Inc. issued and outstanding immediately prior to the effective time of the DCPS/MBS Merger will be converted and exchanged for one share of common stock of MBS, as the surviving corporation. No fractional shares will be issued in connection with the DCPS/MBS Merger. Instead, each holder of shares of MBS common stock who otherwise would be entitled to a fraction of a share (after aggregating all fractional shares to be received by such holder) will receive from SurgiCare a number of shares of Class C common stock rounded down to the nearest whole share.

The shares of SurgiCare common stock that MBS stockholders will receive in the merger will be issued in a transaction exempt from the registration requirements of the Securities Act and any applicable state securities laws and may not be transferred until we register such shares under the Securities Act or unless the shares are transferred in a transaction not requiring registration under the Securities Act, such as a transfer pursuant to Rule 144 under the Securities Act. The MBS stockholders will be third-party beneficiaries to the registration rights agreement between Orion and Brantley IV. Until the first anniversary of the date of the registration rights agreement, the MBS stockholders will be permitted to cause Orion to add their shares of Class A common stock (received upon conversion of the shares of Class C common stock or otherwise pursuant to the DCPS/MBS Merger Agreement) to a registration statement on which

Brantley IV s shares are being registered. A form of the registration rights agreement is attached hereto as Annex G.

DCPS

At the effective time of the DCPS/MBS Merger, all partnership interests in DCPS issued and outstanding immediately prior to the effective time of the DCPS/MBS Merger, will be cancelled and automatically converted into the right to receive, in the aggregate:

- an aggregate of $1.5 million in cash;
- subordinated promissory notes of SurgiCare which bear interest (computed on the basis of a 360-day year of twelve 30-day months) at a rate of 8% per annum in an aggregate principal amount of $500,000, subject to retroactive adjustment (the DCPS Note); and
- 606,061 shares of Orion Class C common stock in exchange for all of the outstanding partnership interests of DCPS, subject to retroactive adjustment.

The shares of SurgiCare common stock that holders of DCPS partnership interests will receive in the merger will be issued in a transaction exempt from the registration requirements of the Securities Act and any applicable state securities laws and may not be transferred until we register such shares under the Securities Act or unless the shares are transferred in a transaction not requiring registration under the Securities Act, such as a transfer pursuant to Rule 144 under the Securities Act. The DCPS equityholders will be third-party beneficiaries to the registration rights agreement between Orion and Brantley IV. Until the first anniversary of the date of the registration rights agreement, the DCPS equityholders will be permitted to cause Orion to add their shares of Class A common stock (received upon conversion of the Class C common stock or otherwise pursuant to the DCPS/MBS Merger Agreement) to a registration statement on which Brantley IV s shares are being registered. A form of the registration rights agreement is attached hereto as Annex G.

Exchange Procedures

At the closing of the DCPS/MBS Merger, certificates representing shares of Class C common stock will be exchanged for certificates representing MBS common shares and DCPS partnership interests as applicable.

Additional Issuances, Advances and Payments.

Subject to any restrictions imposed by applicable law, SurgiCare agrees to provide, upon Dennis Cain s request, a loan to the DCPS equityholders in the amount of up to $375,000 in the event that the DCPS/MBS Merger does not qualify as a tax-free reorganization under Section 368(a)(2)(D) of the Internal Revenue Code. Such loan will have the same interest rate and maturity date as that of the DCPS Note.

If the fair market value of SurgiCare common stock at the closing of the MBS merger (based on the average of the daily average of the high and low price per share over the five trading days immediately prior to the closing) is less than $0.70, SurgiCare will pay Mr. Smith on April 1, 2005 an amount equal to the quotient of (a) the excess of 15% of the assumed incremental gain (as defined below) over $435,000 divided by (b) 85%. The assumed incremental gain is the amount by which the value of the 606,061 shares of Class C common stock (based on the average of the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to the closing as adjusted for the Reverse Stock Split) exceeds $100,000. Mr. Smith will allocate and distribute any such payment to the MBS stockholders pro rata based on the respective federal income tax liabilities of the MBS stockholders in respect of the Class C common stock issued to the MBS stockholder upon the closing of the DCPS/MBS Merger.

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Following the closing of the MBS merger, SurgiCare agrees to issue, subject to applicable securities laws, up to 75,758 shares of Class A common stock to such persons and entities as directed by Mr. Cain or Mr. Smith, which persons may be employees or customers of DCPS/MBS.

Purchase Price Adjustments.

Clawback. During 2004 and 2005, if the earnings before interest, taxes, depreciation and amortization (EBITDA) of DCPS/MBS (prior to deduction of any management fees payable to SurgiCare, excluding extraordinary or non-recurring gains and, for 2004, amounts paid to Tom M. Smith and Dennis Cain in excess of their base salaries prior to the closing) is less than $1.6 million (the Negotiated Amount), annually, SurgiCare is entitled to a return of debt and stock based on the following formula:

1) 125% of the difference between the actual EBITDA and the Negotiated Amount is referred to as the Payback Amount with respect to each of MBS and DCPS.

2) The stockholders of MBS forfeit to SurgiCare a number of shares of Class C common stock which, if converted, would represent a number of shares of Class A common stock equal to (x) the Payback Amount divided by (y) 3.3. Mr. Smith, on behalf of the MBS equityholders, may elect to pay some or all of the Payback Amount in cash.

3) The principal balance of the DCPS Note shall be reduced by the Payback Amount. If the Payback Amount exceeds the principal balance of the DCPS Note, SurgiCare may request that the DCPS equityholders forfeit to SurgiCare a number of shares of Class C common stock which, if converted, would represent a number of shares of Class A common stock equal to (x) the difference between the Payback Amount and the principal balance on the DCPS Note divided by (y) 3.3.

Earn-out. During 2004 and 2005, if the EBITDA of DCPS/MBS (prior to deduction of any management fees payable to SurgiCare, excluding extraordinary or non-recurring gains and, for 2004, amounts paid to Tom M. Smith and Dennis Cain in excess of their base salaries prior to the closing) is greater than the Negotiated Amount, annually, the DCPS/MBS equityholders will be entitled to additional cash and Class A common stock from Orion based on the following formula:

1) The difference between the actual EBITDA and the Negotiated Amount each year shall be called the Additional Consideration Amount.

2) Twenty percent (20%) of the Additional Consideration Amount shall be paid to the MBS equityholders in cash, up to a maximum of $450,000 over the two year period.

3) Twenty-five percent (25%) of the Additional Consideration Amount shall be paid to the DCPS equityholders in cash, up to a maximum of $562,500 over the two year period.

4) The MBS equityholders shall receive a number of shares of Class A common stock equal to 80% of the Additional Consideration Amount divided by 7.5, up to a maximum of 240,000 shares over the two year period.

5) The DCPS equityholders shall receive a number of shares of Class A common stock equal to 20% of the Additional Consideration Amount divided by 7.5, up to a maximum of 225,000 shares over the two year period.

Effect of Sale; Termination of Key Employees without Cause. In the event that (a) the employment of Tom M. Smith is terminated by SurgiCare without Cause (as defined in his employment agreement) or (b) SurgiCare sells all of the capital stock, or all or substantially all of the assets, of the DCPS/MBS merger sub to an unaffiliated third party (other than in connection with an acquisition of all or substantially all of SurgiCare):

1) On or prior to the first anniversary of the Closing Date, the MBS equityholders shall be entitled to receive the maximum earn-out amount of $450,000 in cash and 240,000 shares of Class A common stock.

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2) After the first anniversary of the Closing Date but on or prior to the second anniversary, the Additional Consideration Amount shall be payable to the MBS equityholders in respect to the second year of operations of the DCPS/MBS merger sub, as pro-rated for a full year based upon the EBITDA of the DCPS/MBS merger sub for such year as of the last day of the month of such termination or sale.

3) On or prior to the second anniversary of the Closing Date, the claw-back provisions under the letter of intent as described above shall terminate with respect to the MBS equityholders, provided that no such termination of the claw-back provisions shall require SurgiCare to return any amount already forfeited in accordance with same.

In the event that (a) the employment of Dennis Cain is terminated by SurgiCare without Cause (as defined in his employment agreement) or (b) SurgiCare sells all of the capital stock, or all or substantially all of the assets, of the DCPS/MBS merger sub to an unaffiliated third party (other than in connection with an acquisition of all or substantially all of SurgiCare):

1) On or prior to the first anniversary of the Closing Date, the DCPS equityholders shall be entitled to receive the maximum earn-out amount of $562,500 in cash and 225,000 shares of Class A common stock.

2) After the first anniversary of the Closing Date but on or prior to the second anniversary, the Additional Consideration Amount shall be payable to the DCPS equityholders in respect to the second year of operations of the DCPS/MBS merger sub, as pro-rated for a full year based upon the EBITDA of the DCPS/MBS merger sub for such year as of the last day of the month of such termination or sale.

3) On or prior to the second anniversary of the Closing Date, the claw-back provisions under the letter of intent as described above shall terminate with respect to the DCPS equityholders, provided that no such termination of the claw-back provisions shall require SurgiCare to return any amount already forfeited in accordance with same.

Certain Additional Terms of the Merger. In the event that, during the earn-out period, the DCPS/ MBS merger sub performs billing and collection, contracting and/or management services for SurgiCare, SurgiCare agrees to pay the DCPS/MBS merger sub a rate 10% greater than the minimal amount needed to cover all costs associated with such services. SurgiCare also agrees to assist the DCPS/MBS merger sub in the development and marketing of a surgery center division of the company. In addition, during the earn-out period, SurgiCare agrees that it will not purchase any medical billing services provided by DCPS/ MBS from any person other than DCPS/MBS at a rate equal to or higher than the rate provided by DCPS/MBS. If, during the earn-out period, SurgiCare proposes to purchase such services from a person other than DCPS/MBS at a rate lower than the rate payable to DCPS/MBS, SurgiCare will provide DCPS/MBS with the opportunity to provide such services to SurgiCare at the lower rate.

In the event that SurgiCare shall establish an advisory board, each of Tom M. Smith and Dennis Cain shall have the right to appoint one member, so long as he continues to own 50% of the SurgiCare shares issued to him in consideration for the merger.

Right of First Refusal. In the event that SurgiCare or its successors desire to sell the DCPS/MBS merger sub prior to the later of (i) the third anniversary of the Closing Date or (ii) the date on which the promissory notes issued to Dennis Cain and Tom M. Smith have been paid in full, the DCPS/MBS Sellers will be given the right to match any offer received by SurgiCare or its successors, unless all or substantially all of SurgiCare is to be acquired pursuant to such offer. The DCPS/MBS Sellers may elect to transfer shares of Class A common stock or Class C common stock in satisfaction of all or portion of the applicable purchase price, provided that the value of any such share transferred to SurgiCare shall be deemed to equal 85% of the average of the closing prices of the Class A common stock over the five trading days immediately prior to the closing of such sale.

Terms of Debt. The DCPS Note shall be due and payable after three (3) years, and shall bear interest at an eight percent (8%) annual rate, with monthly interest payments and no prepayment penalty. The DCPS Note shall be subordinated to SurgiCare s senior bank debt on terms satisfactory to its senior lender. SurgiCare shall have the right to set off amounts owed by DCPS to SurgiCare against amounts owing under the DCPS Note. Upon a material default by SurgiCare under the DCPS Note, the noncompetition agreement contained in the employment agreement with Dennis Cain shall terminate.

Appraisal Rights. Under Texas law, holders of shares of MBS common stock are entitled to exercise appraisal rights.

Conditions to Closing. The obligations of SurgiCare, DCPS and MBS to consummate the DCPS/MBS Merger are subject to the satisfaction or waiver (all conditions are waivable unless otherwise indicated) of a number of specified conditions, including:

Obtaining all necessary approvals of the SurgiCare stockholders (this condition is not waivable);

No governmental entity or court shall have enacted, threatened, issued, promulgated, enforced or entered any law, rule, regulation, judgment, decree, injunction, executive order, or award that is then in effect, pending or threatened and has, or would have, the effect of making the DCPS/MBS Merger illegal or otherwise prohibiting consummation of the DCPS/MBS Merger or the other transactions;

Expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which provides for advance notification of business combinations of greater than a minimum size by the Federal Trade Commission and the Antitrust Division of the Department of Justice (this condition is not waivable);

The shares of Class A common stock issuable upon conversion of the shares of Class C common stock issuable in the DCPS/MBS Merger and the Shares of Class A common stock issuable pursuant to the earn-out shall have been authorized for listing on the AMEX, subject to official notice of issuance;

The IPS Merger shall have been consummated concurrently with the DCPS/MBS Merger;

The equity financing with Brantley IV, and the debt exchange with certain affiliates of Brantley IV described herein shall have been consummated;

The continued truthfulness and accuracy of the representations and warranties in all material respects, except that representations and warranties that address matters only as of a particular date shall remain true and correct in all material respects as of such date (representations or warranties that are qualified by materiality shall continue to be true and accurate in all respects) and the performance or compliance in all material respects with all agreements and covenants required by the DCPS/MBS Merger Agreement, and receipt from the other party of a certificate of an officer certifying to the foregoing;

The receipt of all material governmental consents, approvals or other authorizations legally required to consummate the DCPS/MBS Merger from all governmental authorities and receipt by DCPS, MBS and SurgiCare of all required third party consents in respect of material contracts;

No event, circumstance, occurrence, change or effect shall have occurred since the date of the DCPS/MBS Merger Agreement which, individually or in the aggregate, has or would materially and adversely affect, or pose a material risk of materially and adversely affecting, the business, operations, condition (financial or otherwise), assets (tangible or intangible), results of operations or prospects of SurgiCare and its subsidiaries, taken as a whole, or DCPS and MBS, taken as a whole, or which is reasonably likely to prevent or delay the consummation of the DCPS/MBS Merger.

No action shall have been brought, be pending or have been threatened by any government entity or any person that seeks to prevent or delay the consummation of the DCPS/MBS Merger or the other transactions, seeks to restrain or prohibit SurgiCare s or DCPS/MBS s or impose limitations on SurgiCare s or DCPS/MBS s ability to own or dispose of any portion of the business or assets of DCPS or MBS or that would reasonably be expected to, individually or in the aggregate, materially and adversely affect, or pose a material risk of materially and adversely affecting the business, operations, condition (financial or otherwise), assets (tangible or intangible), results of operations or prospects of SurgiCare and its subsidiaries, taken as a whole, or DCPS and MBS, taken as a whole, or which is reasonable likely to prevent or delay the consummation of the DCPS/MBS Merger.

Each of Dennis Cain and Tom M. Smith shall have entered into an employment agreement with SurgiCare which is in full force and effect, must be employed by their respective employers immediately prior to the merger, and cannot have indicated an intention to terminate his employment, and all other employment agreements with such individuals shall have been terminated;

SurgiCare having received a legal opinion from the counsel to DCPS and MBS, and DCPS and MBS having received a legal opinion from the counsel of SurgiCare and DCPS/MBS;

All existing registration rights of holders of MBS common shares and DCPS partnership interests shall have been terminated and SurgiCare and DCPS/MBS shall have received a certificate to such effect signed by the DCPS/MBS Sellers and by an officer of each of DCPS and MBS;

All loans, guarantees or other obligations of DCPS or MBS to each other or to any of their affiliates have been terminated without the payment of any consideration and, except as otherwise agreed to in writing by SurgiCare, all agreements among any of the foregoing shall have been terminated without cost to DCPS or MBS;

Each of the DCPS/MBS Sellers shall have entered into a subordination agreement with each of SurgiCare s senior lenders in form and substance satisfactory to SurgiCare and such senior lenders;

SurgiCare shall have delivered resignations from each director of SurgiCare and the Orion board shall consist of Terrence L. Bauer, Keith G. LeBlanc, two individuals designated by Brantley IV, and three outside directors reasonably satisfactory to DCPS and MBS, and the officers of Orion shall be Mr. Bauer as Chief Executive Officer, Mr. LeBlanc as President, and Stephen H. Murdock as Chief Financial Officer;

SurgiCare shall have amended and restated its certificate of incorporation and by-laws; and.

No appraisal rights shall have been exercised with respect to any MBS common shares.

The Debt Exchange Agreement and the Stock Subscription Agreement require that the conditions to closing of the DCPS/MBS Merger Agreement have been satisfied.

Representations and Warranties. SurgiCare and DCPS/MBS, on the one hand, and DCPS, MBS and the DCPS/MBS Sellers, on the other hand, made mutual representations and warranties in the DCPS/MBS Merger Agreement regarding the following:

corporate organization, good standing and qualification of each of the companies and their subsidiaries;

validity and effectiveness of charter and by laws of each of the companies and their subsidiaries;

capitalization of the companies and their subsidiaries;

authority to enter into the DCPS/MBS Merger Agreement;

absence of conflicts between the DCPS/MBS Merger Agreement, the DCPS/MBS Merger and the other transactions contemplated by the DCPS/MBS Merger Agreement, on the one hand, and other contractual and legal obligations of the companies, on the other hand;

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- requirement of consents, approvals, licenses, permits, orders, filings or other authorizations to enter into the DCPS/MBS Merger Agreement and consummate the DCPS/MBS Merger and the other transactions contemplated by the DCPS/MBS Merger Agreement;
- possession of authorizations, licenses, permits, certificates, approvals and orders of any government or other authority thereof, or any body exercising any other authority necessary or advisable for each of the companies and their subsidiaries to own, lease and operate their properties and to carry on their business as currently conducted;
- compliance with applicable laws;
- absence of undisclosed liabilities;
- absence of certain changes or events since December 31, 2002 (in the case of MBS, since September 30, 2003);
- absence of material litigation;
- employee benefit matters;
- material contracts;
- environmental matters;
- title to properties and absence of liens and encumbrances;
- intellectual property;
- taxes;
- insurance;
- opinion of financial advisor;
- use of brokers;
- labor matters;
- transactions with affiliates;
- absence of stockholder rights agreements; and
- absence of unlawful or prohibited payments.

In addition to the mutual representations, the DCPS/MBS Sellers made representations and warranties regarding their investment and their status as accredited investors under Regulation D and SurgiCare made representations and warranties in the DCPS/MBS Merger Agreement regarding the following:

- compliance with all applicable SEC filing requirements and accuracy and completeness of SEC filings;
- effectiveness of the IPS Merger agreement; and
- validity of the offering.

None of the representations and warranties contained in the DCPS/MBS Merger Agreement survives the closing of the DCPS/MBS Merger.

Conduct of Business Prior to Closing. Each of SurgiCare, DCPS and MBS has agreed on behalf of itself and its subsidiaries, as applicable, that, subject to certain exceptions, between the execution of the DCPS/MBS Merger Agreement and the effective time of the DCPS/MBS Merger, to:

- conduct its businesses and the business of its subsidiaries, as applicable, in the ordinary course of business and in a manner consistent with past practice; and use its reasonable best efforts to preserve substantially intact its business organization and goodwill and to keep available the services of its (and its subsidiaries as applicable) current officers, employees and consultants and to preserve its (and its subsidiaries as applicable) current relationships with members or other customers, suppliers, licensors, licensees and other persons with which it and its subsidiaries, as applicable, have significant business relations.

Each of SurgiCare, DCPS and MBS has also agreed that, subject to certain exceptions, prior to the effective time of the DCPS/MBS Merger, without the prior written agreement of the other party, it shall neither do any of the following nor permit its subsidiaries, as applicable, to do any of the following:

Amend or otherwise change its charter or bylaws or equivalent organizational documents;

Issue, sell, pledge, dispose of, or authorize for issuance, sale, pledge or disposal, equity securities or equity equivalent securities, or any other ownership interest, except for the issuance of shares of SurgiCare common stock upon the exercise of options and warrants outstanding as of the date of the DCPS/MBS Merger Agreement;

Authorize, declare or set aside any dividend payments or other distribution with respect to any of its stock or other ownership interests; provided, however, that each of DCPS and MBS may dividend out excess cash prior to the closing of the DCPS/MBS Merger subject to certain exceptions;

Reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of its stock or other ownership interests or issue or authorize the issuance of any other securities in respect of, or in lieu of or in substitution for shares of its capital stock or other ownership interests;

Acquire or agree to acquire or sell or agree to sell any interest in any corporation, partnership or other business or any assets constituting a business or a portion of a business;

Sell, lease, license, encumber or otherwise dispose of any of its or its subsidiaries , as applicable, real property or improvements;

Incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse the obligations of any person, or make any loans or advances, except for revolving indebtedness under existing revolving loan agreements of SurgiCare, DCPS and MBS, incurred in the ordinary course of business and consistent with past practice, indebtedness under any additional notes evidencing additional loans made by Lakepoint Acquisition, Inc. to SurgiCare after October 24, 2003, and other indebtedness with a maturity of not more than one year and in a principal amount not, in the aggregate, in excess of $100,000 with respect to SurgiCare and in excess of $25,000 with respect to DCPS and MBS;

Enter into any contracts or agreements requiring payment or receipt of payment in excess of $250,000 with respect to SurgiCare and in excess of $100,000 with respect to DCPS and MBS, or modify, amend, renew or waive any material provision of, breach or terminate any of its or its subsidiaries , as applicable, existing material contracts;

Make or authorize any capital expenditures which were not disclosed in connection with the DCPS/MBS Merger Agreement;

Except for the acceleration of vesting of unvested SurgiCare stock options and warrants outstanding on the date of the DCPS/MBS Merger Agreement, waive any stock repurchase or acceleration rights, amend or change the terms of any options, warrants or restricted stock, or reprice options or warrants or authorize cash payments in exchange for any options or warrants;

Increase compensation to its or its subsidiaries , as applicable, officers or employees (including rights to severance or termination pay), except for increases in salaries or wages of employees other than directors, officers and key employees, in accordance with past practices and consistent with current budgets (and, in the case of SurgiCare in the ordinary course of business, and as disclosed to DCPS and MBS in connection with the DCPS/MBS Merger Agreement), grant or amend any rights to severance or termination pay to, or enter into or amend any employment or severance agreement with any of its or its subsidiaries , as applicable, directors, officers or employees (or, in the case of SurgiCare any person, except as required by previously existing contractual arrangements or required law) or forgive any indebtedness of any of its or its subsidiaries , as applicable, employees;

Pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in excess of $100,000 in the aggregate with respect to SurgiCare and $50,000 in the aggregate with respect to DCPS and MBS, other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice, of liabilities reflected or reserved against in its balance sheet or incurred in the ordinary course of business, consistent with past practices, or cancel any indebtedness in excess of $100,000 in the aggregate with respect to SurgiCare and $50,000 in the aggregate with respect to DCPS and MBS, or waive any claims or rights of substantial value, or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which it or any of its subsidiaries, as applicable, is a party;

Settle any action other than any settlement that involves only the payment of damages in an immaterial amount and does not involve injunctive or other equitable relief, or commence any litigation or arbitration;

Make or revoke any tax elections, unless required by applicable law, adopt or change any method of tax accounting, request any ruling or similar determination, enter into any closing agreement or settle any tax liabilities or take any action with respect to the computation of taxes or the preparation of a tax return that is inconsistent with past practice;

Change its accounting principles or procedures, other than certain required changes;

Subject to certain exceptions, establish, adopt, enter into, amend or terminate any collective bargaining agreement or certain employee benefit plans, other than to the extent required by such employee benefit plans or to comply with applicable law, or, take any action to accelerate any rights or benefits, or, unless consistent with past practice, make any material determinations not in the ordinary course of business, under any collective bargaining agreement or certain employee benefit plans;

Enter into or implement any stockholder rights plan or any similar anti-takeover plan or device in a manner that could prevent or delay the consummation of the DCPS/MBS Merger;

Agree in writing or otherwise to take any of the actions described above; or

Take any action that would reasonably be expected to cause any representation and warranty given by it (and in the case of SurgiCare, given by DCPS/MBS) that is qualified by materiality to be untrue, any representation and warranty given by it (and in the case of SurgiCare, given by DCPS/MBS) that is not qualified by materiality to be untrue in any material respect, or would reasonably be expected to result in its (and in the case of SurgiCare, DCPS/MBS s) inability to satisfy certain conditions to closing.

No Solicitation Provisions.

Each of DCPS and MBS has agreed not to directly or indirectly initiate, solicit, negotiate, engage in discussions regarding, encourage or provide nonpublic confidential information to facilitate, and DCPS and MBS will not, and will use their reasonable best efforts to cause any officer, director or employee of DCPS or MBS, or any attorney, accountant, investment banker, financial advisor or other agent retained by DCPS or MBS not to, directly or indirectly, initiate, solicit, negotiate, engage in discussions regarding, encourage or provide nonpublic or confidential information to facilitate, any proposal, offer or inquiry to acquire a material part of the business or properties of DCPS or MBS (which shall include, but not be limited to, a part of the business or properties of DCPS or MBS constituting 10% or more of the net revenues, net income or the assets of DCPS or MBS or any capital stock or other ownership interests of DCPS or MBS) whether by merger, consolidation, recapitalization, purchase of assets, tender offer or otherwise and whether for cash, securities or any other consideration or combination thereof. DCPS and MBS have also agreed to immediately cease and cause to be terminated all activities, discussions or negotiations with any parties with respect to any of the transactions described in the previous sentence, other than in connection with the DCPS/MBS Merger.

Observer Rights. Dennis Cain, the current President of DCPS, will have the right to be present as an observer at all meetings of the board of directors of Orion or any of its committees so long as he continues to own at least 50% of the shares of Class C common stock issued to him in connection with the DCPS/MBS Merger (or Class A common stock issued upon conversion of the Class C common stock or otherwise). Similarly, Tom M. Smith, the current President of MBS, will have the right to be present as an observer at all meetings of the Board of Directors of Orion or any of its committees so long as he continues to own at least 50% of the shares of Class C common stock issued to him in connection with the DCPS/MBS Merger (or Class A common stock issued upon conversion of the Class C common stock or otherwise). The board of directors, however, may exclude either observer from attending any meeting where all members of management are excluded or which relates to a matter in which the observer has a material business or financial interest (other than by reason of his interest as a stockholder). Orion will pay for all reasonable expenses incurred by the observers in connection with their attendance of meetings of the board of directors of Orion or any of its committees.

Events of Termination. The DCPS/MBS Merger Agreement may be terminated and the DCPS/MBS Merger abandoned at any time prior to the effective time, notwithstanding any requisite approval and adoption of the DCPS/MBS Merger Agreement and such transactions, as follows:

By mutual written consent duly authorized by the board of directors of each of SurgiCare and MBS, and the general partner and limited partners of DCPS;

By either SurgiCare, on the one hand, or DCPS and MBS, on the other hand, by giving written notice to the other party, if there is any applicable law or order of a governmental authority which is final and nonappealable preventing the consummation of the DCPS/MBS Merger (but the merger agreement cannot be terminated for this reason by a party whose failure to fulfill its obligations under the merger agreement resulted in such action);

By either SurgiCare, on the one hand, or DCPS and MBS, on the other, by giving written notice to the other party, if the DCPS/MBS Merger is not completed on or prior to May 14, 2004 (the parties intend to amend the agreement to extend this date to July 15, 2004);

By either SurgiCare, on the one hand, or DCPS and MBS, on the other hand, by giving written notice to the other party, if SurgiCare does not obtain the required stockholder approval;

By SurgiCare, by giving written notice to DCPS and MBS, upon a breach of any representation, warranty, covenant or agreement on the part of DCPS or MBS set forth in the DCPS/MBS Merger Agreement, or if any representation or warranty of DCPS and MBS has become untrue, in either case such that the relevant closing conditions, subject to the materiality thresholds contained in such closing conditions, would not be satisfied (but the merger agreement cannot be terminated for this reason by SurgiCare if SurgiCare is, at the time, in breach of the merger agreement);

By DCPS and MBS by giving written notice to SurgiCare, upon a breach of any representation, warranty, covenant or agreement on the part of SurgiCare or DCPS/MBS set forth in the DCPS/MBS Merger Agreement, or if any representation or warranty of SurgiCare or DCPS/MBS has become untrue, in either case such that the relevant closing conditions, subject to the materiality thresholds contained in such closing conditions, would not be satisfied (but the merger agreement cannot be terminated for this reason by DCPS and MBS if DCPS or MBS is, at the time, in breach of the merger agreement);

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Fees and Expenses. In the event that the DCPS/MBS Merger Agreement is terminated due to SurgiCare s failure to obtain the required stockholder approval, SurgiCare will reimburse DCPS and MBS for all reasonable out-of-pocket expenses incurred by or on behalf of DCPS or MBS. In all other circumstances, each party to the DCPS/MBS Merger Agreement will pay its fees and expenses.

Choice of Law. The DCPS/MBS Merger Agreement is governed by and construed in accordance with the laws of the State of Texas.

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THE EQUITY FINANCING

This section of the proxy statement describes the material aspects of the proposed equity financing. While we believe that the description covers the material terms of the equity financing, this summary may not contain all of the information that is important to you. You should read this entire proxy statement and the other documents we refer to carefully for a more complete understanding of the equity financing and the related transactions.

Unless otherwise indicated, all share amounts give effect to the Reverse Stock Split described in this proxy statement. Unless otherwise indicated, all share amounts and percentages are based on the assumptions described in the section Summary Term Sheet Assumptions and are therefore subject to change if such assumptions are not accurate at the time of the closing of the Acquisitions.

Vote Required for the Equity Financing

We are required by our certificate of incorporation, Delaware law and the Transaction Documents to obtain the approval majority of each class of our stockholders, voting as separate classes, and voting together as a single class, in order to amend and restate our certificate of incorporation to authorize the Class B common stock. In addition, the AMEX rules require that we obtain the approval of our stockholders for the issuance of our Class B common stock.

The Equity Financing

Brantley IV has, through an entity wholly-owned by Brantley IV, bridge loans outstanding to both SurgiCare and IPS. Pursuant to the Stock Subscription Agreement, Brantley IV will purchase shares of Class B common stock by surrendering the Bridge Notes for cancellation and contributing cash in an amount equal to $6 million minus (a) the amount by which the aggregate principal amount of the SurgiCare Bridge Notes surrendered for cancellation exceeds $490,000, (b) the amount by which the aggregate principal amount of the IPS Bridge Notes surrendered for cancellation exceeds $790,000, and (c) the accrued but unpaid interest on such excesses. As of April 20, 2004, the aggregate principal amount of the outstanding SurgiCare Bridge Notes is $1,465,411 and the aggregate principal amount of the IPS Bridge Notes is $1.84 million, which results in an aggregate excess principal amount of $2,025,411. The accrued interest on this excess was $23,003 as of April 20, 2004.

Shares Received by Brantley IV. Brantley IV will receive a number of shares of Class B common stock equal to 1.02 times the aggregate number of outstanding shares of Class A common stock immediately after giving effect to the amendments to SurgiCare s charter, but prior to the closing of the Transactions (giving effect to conversion of our Series AA preferred stock and cashless exercise of in-the-money options or warrants) divided by 0.49. Options and warrants will be deemed in-the-money if they have an exercise price of less than the greater of $0.55 or the fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to closing). Changes in the closing price will affect the number of SurgiCare shares deemed outstanding for purposes of this calculation and thus will affect the aggregate number of shares to be received by Brantley IV.

Based on the assumptions used in this proxy statement, including the assumed market price of the SurgiCare common stock, Brantley IV would receive approximately 9,077,110 shares (based on the market price of SurgiCare Common Stock as of April 12, 2004) of Class B common stock. Prior to the DCPS/MBS Merger, the shares of Class B common stock issued to Brantley IV will represent, on an as-converted basis, approximately 55.6% of the Fully-Diluted Orion Shares (as adjusted for the shares of Class A common stock and Class C common stock issuable pursuant to the DCPS/MBS Merger Agreement), and will initially represent, on an as-converted basis, approximately 51.0% of the Fully-Diluted Orion Shares. Assuming everything else remains the same, the percentage interest of Brantley IV upon conversion will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued to the date of conversion. Although the conversion factor will continually increase, the number of votes that holders of Class B common stock will be entitled to will be based on the initial conversion factor.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, $1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV s ownership will be decreased by the number of shares valued at $1 million, or approximately 1,246,856 shares of Class B common stock, which initially represent, on an as-converted basis, approximately 7.0% of the Fully-Diluted Orion Shares.

In addition, the conversion ratio of the Class B common stock is tied to the price of the Class A common stock. The Class B common stock conversion ratio which is initially approximately 1.20 shares of Class A common stock for each share of Class B common stock, is determined upon conversion by adding one to a fraction whose numerator is the Class B common stock purchase price (plus 9% per annum) and whose denominator is the market price of the Class A common stock at that time. Thus, a decline in the price of Class A common stock will increase the Class B common stock conversion ratio because the multiplier for calculating the conversion ratio increases as the stock price used in its denominator decreases.

The fraction obtained by dividing the purchase price of the Class B common stock (approximately $0.802 per share) by the market price of the Class A common stock is added to 1 to arrive at the Class B conversion ratio. The initial conversion price of 1.20 assumes a Class A common stock price of $3.97 per share, calculated as follows:

$0.802 ÷ $3.97 = .2 + 1 = 1.20

If the price of the Class A common stock rises, the conversion ratio decreases, and if the Class A common price falls, the conversion ratio increases. For example, assume that nothing else changes but the price of the Class A common stock declines by 25%, from $3.97 per share to $2.98. The conversion ratio would then increase as follows:

$0.802 ÷ $2.98 = .27 + 1 = 1.27

Terms of the Class B Common Stock

The terms of the Class B common stock, including its rights and preferences, are discussed in The New Classes of Common Stock and are governed by the Amended and Restated Certificate of Incorporation.

The shares of Class B common stock to be issued, and the shares of Class A common stock into which they are convertible, will each be restricted securities as that term is defined in Rule 144 adopted by the SEC. No market for resale of the Class B common stock to be issued is ever expected to develop. The Class A common stock into which the Class B common stock is convertible may be sold in compliance with Rule 144. Rule 144 provides an exemption for sales in compliance with the rule and generally provides that the stock must be held for more than one (1) year after issuance before it may be sold in the market in brokered transactions, requires Orion to be current in its reporting requirements, and imposes volume limitations on the amount of stock that may be sold in any three (3) month period.

In addition, the holders of Class B common stock will have the right to cause Orion to register the shares of Class A common stock issuable upon conversion of their shares for sale pursuant to the Registration Rights Agreement as further described below in Registration Rights Agreement.

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Stock Subscription Agreement

The equity financing is governed by the Stock Subscription Agreement, a copy of which is attached hereto as Annex H. We urge you to read the Stock Subscription Agreement in its entirety. It is the legal document that governs the equity financing.

The Stock Subscription Agreement contains customary closing conditions, including the requirement that SurgiCare complete additional financing, in connection with which the debt liabilities of each of IPS, DCPS, MBS and SurgiCare will be restructured, refinanced or assumed and the requirement that the closing conditions to the IPS and DCPS/MBS Merger Agreements be satisfied. The companies are currently negotiating with several banking institutions to refinance these debt obligations, which total approximately $9.8 million. We expect that the refinancing will take the form of bank or other financial institution loans and will not involve the issuance of additional equity securities or have any dilutive effect on existing stockholders; however, we cannot be sure what the ultimate amount or terms of the refinancing will be. We expect that we will be able to complete our refinancing plans in the next few weeks and that this requirement will not substantially impede or delay our ability to consummate the Transactions as contemplated in this proxy statement.

Pursuant to the Stock Subscription Agreement, upon termination of the IPS Merger Agreement in specified circumstances, SurgiCare is required to reimburse Brantley IV for its reasonable out-of-pocket expenses and/or pay Brantley IV a non-refundable fee of $3 million. See The Transactions The IPS Merger The IPS Merger Agreement Fees and Expenses for details regarding the circumstances under which such expenses and fee are required to be paid. SurgiCare is also required to pay such expenses and fee if it breaches its obligation to issue the shares of Class B common stock pursuant to the Stock Subscription Agreement.

The Stock Subscription Agreement also contains representations, warranties and covenants as summarized below.

SurgiCare s Representations and Warranties to Brantley IV. SurgiCare made representations and warranties to Brantley IV in the Stock Subscription Agreement regarding the following:

organization, existence and good standing of SurgiCare;

corporate action taken by SurgiCare to execute the Stock Subscription Agreement, the issuance of the shares of Class B common stock pursuant to the Stock Subscription Agreement and the shares of Class A common stock issuable upon conversion of such shares;

authorization and valid issuance of the shares of Class B common stock pursuant to the Stock Subscription Agreement, and reservation of shares of Class A common stock issuable upon the conversion of such shares;

correctness of the representations and warranties made by SurgiCare in the IPS Merger Agreement and the DCPS/MBS Merger Agreement;

validity and enforceability of the IPS Merger Agreement, the DCPS/MBS Merger Agreement, the Debt Exchange Agreement, the Registration Rights Agreement and the Stock Subscription Agreement;

capital structure of SurgiCare after consummation of the transactions contemplated by the Stock Subscription Agreement; and

absence of a requirement to register the shares issued pursuant to the Stock Subscription Agreement for offer or sale.

Brantley IV s Representations and Warranties to SurgiCare. Brantley IV made representations and warranties to SurgiCare in the Stock Subscription Agreement regarding the following:

Brantley IV s legal capacity, power and authority to execute and deliver the Stock Subscription Agreement and perform its obligations; and the investment qualifications of the Brantley IV and the information provided to Brantley IV.

SurgiCare s Covenants to Brantley IV. SurgiCare covenanted in the Stock Subscription Agreement to:

furnish to each registered holder of shares of Class B common stock issued pursuant to the Stock Subscription Agreement, and shares of Class A common stock which have been received upon conversion of such shares, other than shares which have been sold in a registered public offering or to the public pursuant to Rule 144 under the Securities Act (each, a Holder), annual and quarterly financial reports, and any documents filed by SurgiCare with the SEC;

keep, and cause each Holder to have access to, appropriate books, records and accounts;

provide to each Holder, upon request, information regarding the business of SurgiCare and SurgiCare s subsidiaries;

to invite Brantley IV to send one representative to attend meetings of SurgiCare s board of directors in a nonvoting observer capacity, and give the representative copies of all notices, consents and other material provided to the SurgiCare directors (unless exclusion from such meetings or from access to such materials is reasonably necessary to preserve SurgiCare s attorney-client privilege) if, and for so long as, Brantley IV does not have a representative on SurgiCare s board of directors and is a Holder; and

reserve and keep available out of SurgiCare s authorized but unissued shares of Class A common stock a number of shares sufficient to effect the conversion of all the outstanding shares of Class B common stock, or take corporate action to increase SurgiCare s authorized but unissued shares of Class A common stock.

The Stock Subscription Agreement also imposes the following indemnification obligations on SurgiCare and Brantley IV:

SurgiCare will indemnify Brantley IV (and its affiliates) against any losses relating to (i) any breach of any representation, warranty or agreement by SurgiCare or any misrepresentation by SurgiCare in the Stock Subscription Agreement or Debt Exchange Agreement or (ii) any breach of any representation, warranty or agreement of SurgiCare, IPS, DCPS or MBS or any misrepresentation by SurgiCare, IPS, DCPS, MBS or any of their respective affiliates under the IPS Merger Agreement, the DCPS/MBS Merger Agreement or any other agreement entered into in connection with these agreements or the transactions contemplated by these agreements.

Brantley IV will indemnify SurgiCare against losses resulting from any breach of any representation, warranty or agreement of Brantley IV in the Stock Subscription Agreement or any misrepresentation of Brantley IV in the Stock Subscription Agreement. Brantley IV and its affiliates will not be liable to SurgiCare or its affiliates for any act or omission by Brantley IV that does not constitute either a breach of the Stock Subscription Agreement or gross negligence or willful misconduct.

The Stock Subscription Agreement contains notice requirements related to indemnification, and also permits the indemnifying party to participate in the defense and disposition of the claim against the indemnified party.

Registration Rights Agreement

Brantley IV will also receive the right to register Registrable Shares (as defined below) pursuant to a registration rights agreement to be executed between Orion and Brantley IV. Registrable Shares means the Class A common stock currently issued, or issued in the future, to Brantley IV and its permitted transferees (including shares of Class A common stock into which shares of Class B common stock or other securities of Orion are convertible) other than shares which have been sold pursuant to an effective registration statement or pursuant to a transaction under Rule 144 under the Securities Act.

Pursuant to the registration rights agreement, Brantley IV and/or its permitted transferees, holding at least 50 percent of the Registrable Shares will have the right to request that Orion effect the registration on Form S-1 of shares of Class A common stock having an anticipated net aggregate offering price of at least $5,000,000. Orion will not be required to effect any such registration within six months after the effective date of any such registration statement. Additionally, at any time Orion is eligible to file a registration statement on Form S-3, Brantley IV, and/or its permitted transferees, may request that Orion effect the registration on Form S-3 of Registrable Shares having an anticipated net aggregate offering price of at least $500,000.

At any time Orion otherwise proposes to register any of its equity securities under the Securities Act, Brantley IV and/or its permitted transferees may request the registration of Registrable Shares. However, Orion will not be obligated to effect any registration of shares incidental to the registration of Orion securities in connection with a Form S-8 or a Form S-4 relating to the acquisition or merger, by Orion or Orion s subsidiaries, of or with any other business.

For one year after the date of the registration rights agreement, the IPS stockholders and certain IPS debtholders and the DCPS/MBS equityholders may request to have the following shares included in registrations pursuant to which Brantley IV and its permitted transferees are registering shares: (i) the shares of Class A common stock issued to the IPS stockholders pursuant to the IPS Merger Agreement or to the IPS debtholders pursuant to the Debt Exchange Agreement; and, (ii) the shares of Class A common stock issued to the DCPS/MBS equityholders pursuant to the DCPS/MBS Merger Agreement (including shares issuable upon conversion of Class C common stock).

Brantley IV will have registration rights for all of the shares of Class A common stock issuable upon conversion of its shares of Class B common stock. Initially, this will be approximately 10,910,864 shares (as converted on a fully-diluted basis), but, assuming everything else remains the same, the number of shares of Class A common stock as to which Brantley IV has registration rights will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price from time to time outstanding, without compounding, from the date the Class B common stock was first issued to the date of conversion. Brantley IV and its permitted transferees will also have registration rights for any additional shares of Class A common stock (including Class A common stock into which other securities of Orion are convertible) issued to them. The third-party beneficiaries will have registration rights for one year with respect to an aggregate of up to approximately 5,842,391 shares of Class A common stock. If the registration rights are exercised and the underlying shares are offered or sold, our stock price could decline.

Orion will use its best efforts to effect the registration under the Securities Act of the Registrable Shares which Orion has been requested to register and cause the registration statement to become effective within 60 days after filing. Orion will file a shelf registration statement if Orion is eligible for the use thereof and Orion is asked to file a shelf registration statement. Orion will prepare and file amendments and supplements necessary to keep the registration statement effective until the stockholders requesting the registration statement have sold their Registrable Shares.

Orion will use its best efforts to obtain all legal opinions, auditors consents and comfort letters and experts cooperation as may be required in an underwritten offering. Orion will pay registration expenses, unless requested to withdraw the registration statement when the requestor has not learned of information that is reasonably likely to have a material adverse effect on Orion. Orion will indemnify the selling stockholders from any liability arising out of or relating to any untrue statement of a material fact or any omission or a material fact in any registration statement filed by Orion pursuant to the registration rights agreement, subject to certain exceptions.

Orion is generally required to refrain from disposing of common equity, or securities convertible into common equity, for a period commencing 15 days before, and ending 90 days after, the effectiveness of an underwritten offering requested pursuant to the registration rights agreement. The registration rights agreement also contains customary rights permitting Orion to suspend or delay registration of securities under the agreement in certain circumstances. Without the prior written consent of holders of a majority of the Registrable Shares, Orion is not permitted to grant any other registration rights, other than registration rights subordinated to those granted pursuant to the registration rights agreement.

The form of registration rights agreement is attached hereto as Annex G.

Material U.S. Federal Income Tax Consequences of the Equity Financing

The following discussion briefly summarizes material U.S. federal income tax considerations relating to the equity financing that may be relevant to holders of SurgiCare common stock. It assumes that the other Transactions described herein occur in the manner described. We have not obtained, and do not intend to obtain, an IRS ruling or a legal opinion regarding the equity financing or the other Transactions described herein. This discussion is based upon advice we have received regarding the currently existing provisions of the Code, existing and proposed Treasury Regulations promulgated thereunder, IRS rulings and pronouncements, and judicial decisions, all in effect as of the date hereof and all of which are subject to change (possibly retroactively) at any time. This summary does not address all tax considerations that may be relevant. In particular, it does not address any tax considerations under state, local or foreign laws, or any tax considerations that may be relevant to certain stockholders in light of their particular circumstances. Also, it does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. This summary also does not address any tax considerations that may be relevant to IPS stockholders, MBS stockholders, DCPS stockholders, Brantley IV or any of its affiliated entities, any stockholder who acquired SurgiCare common stock upon the exercise of an option or otherwise as compensation, or any optionholders, debtholders or warrantholders of any company. Finally, this summary does not address any tax consequences of the equity financing or of any related transactions other than as specifically set forth below.

Issuance of SurgiCare Stock for Cash. Neither SurgiCare nor the holders of SurgiCare common stock will recognize any taxable gain or loss as a result of the issuance of SurgiCare common stock in exchange for cash in the equity financing.

Issuance of SurgiCare Stock for Debt. If it is determined that the Class B common stock that is exchanged for the bridge loans made by Brantley IV s subsidiary to SurgiCare or to IPS in the equity financing pursuant to the Stock Subscription Agreement has a fair market value less than the amount of the bridge loans for which it is exchanged, the company that issued the debt (IPS or SurgiCare, as applicable) will recognize taxable cancellation of indebtedness income. The amount of such income will generally be equal to the difference between the amount of the bridge loans and the fair market value of the SurgiCare common stock exchanged therefore.

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THE NEW CLASSES OF COMMON STOCK

The amended and restated certificate of incorporation authorizes the new classes of common stock. The following summary of the proposed terms of our Class A common stock, Class B common stock and Class C common stock, while complete in material respects, is nonetheless a summary. It is qualified in its entirety by reference to the complete text of the form of our amended and restated certificate of incorporation attached as Annex L to this proxy statement.

Except as set forth below, the Class B common stock and Class C common stock will have the same rights and preferences as our Class A Common Stock.

Voting Rights

The Class A Common Stock, Class B Common Stock and the Class C Common Stock will vote together as a single class on all matters, except as otherwise required by the DGCL. Each holder of Class A Common Stock is entitled one vote with respect to each share of Class A Common Stock held by such holder.

Each holder of Class B Common Stock is entitled to a number of votes with respect to each share of Class B Common Stock held by such holder based on the conversion factor in effect as of the closing date of the Transactions. For purposes of determining the voting rights of the Class B Common Stock, this initial conversion factor will only be adjusted to take into account stock splits, stock dividends, combinations or other similar events affecting the Class A Common Stock. The conversion factor in effect for the Class B Common Stock at closing would allocate approximately 1.20 votes per share of Class B common stock.

Each holder of Class C common stock is entitled to a number of votes with respect to each share of Class C common stock held by such holder based on the conversion factor in effect as of the record date applicable to a vote. Initially, the conversion factor allocates one vote per share of Class C common stock, subject to adjustment to account for stock splits, stock dividends, combinations or other similar events affecting the Class A common stock and any distributions on the Class C common stock.

Subject to the provisions of Section 242(b)(2) of the DGCL, any term or provision of our amended and restated certificate of incorporation may be amended, and the number of authorized shares of our capital stock may be increased or decreased, by the affirmative vote of holders of a majority of the votes attributable to the then outstanding shares of Class A common stock, Class B common stock and Class C common stock.

Distributions

Subject to the terms of any preferred stock or any other class of stock having any preference or priority over the Class A common stock, Class B common stock and Class C common stock that we may issue in the future, all distributions shall be made to the holders of Class A common stock and Class B common stock in the following order of priority:

First, the holders of the shares of Class B common stock (other than shares concurrently being converted into Class A common stock), as a single and separate class, shall be entitled to receive all distributions until there has been paid with respect to each such share from amounts then and previously distributed an amount equal to the original purchase price, which will be $7,280,000, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued.

Second, the holders of the shares of Class C common stock (other than shares concurrently being converted into Class A common stock), as a single and separate class, shall be entitled to receive all distributions until there has been paid with respect to each such share from amounts then and previously distributed an amount equal to $3.30. After the full required distributions have been made to the holders of shares of Class C common stock (other than shares concurrently being converted into Class A common stock) as described in the previous sentence, each share of Class C common stock then outstanding shall be retired and shall not be reissued, and the holder thereof shall surrender the certificates evidencing the shares to Orion.

Third, after the full distributions have been made to the holders of the shares of Class B common stock and Class C common stock as described above, all holders of the shares of Class A common stock and Class B common stock, as a single class, shall thereafter be entitled to receive all remaining distributions pro rata based on the number of outstanding shares of Class A common stock or Class B common stock held by each holder, provided that for purposes of such remaining distributions, each share of Class B common stock shall be deemed to have been converted into the number of shares of Class A common stock yielded by multiplying the shares of Class B common stock by the conversion constant, which shall initially be one (1), but is subject to adjustment to account for stock splits, stock dividends, combinations or other similar events affecting Class A common stock.

All such distributions shall be made ratably among the holders of the class of common stock in question, based on the number of shares of such class held or deemed to be held by such holders.

Certain events, however, are not considered a distribution for purposes of the distributions described above. Such events include: (a) any redemption or repurchase by us of any shares of Class A common stock or Class B common stock pursuant to the provisions of any other agreement with any of our or our subsidiaries directors, officers or employees, (b) any subdivision or increase in the number of (by stock split, stock dividend or otherwise), or any combination in any manner of, the outstanding shares of Class A common stock or Class B common stock in accordance with the certificate of incorporation, (c) a merger, share exchange or consolidation after the consummation of which our stockholders immediately prior to such merger, share exchange or consolidation effectively have the power to elect a majority of the board of directors of the surviving corporation or its parent corporation and (d) any other distribution, redemption, repurchase or other action at any time when there is any share of Class B common stock outstanding if the holders of a majority of the shares of Class B common stock then outstanding determine that such distribution, redemption, repurchase or other action shall not constitute a distribution for purposes of the above.

If a sale or liquidation of Orion occurs, or if Orion enters into a merger or business combination, the liquidation and distribution preferences of the Class B and Class C common stock would result in the holders of Class B and Class C common stock receiving a greater portion of the proceeds of such a transaction than such holders would be entitled to if the proceeds were allocated to holders of common stock pro rata based on their portion of the total equity of Orion. That is, in a sale, liquidation, merger or business combination, the payment of the preferences described above means that holders of Class B and Class C common stock receive a share of the proceeds first, and then any remaining proceeds are divided among all of the shareholders of all classes of common stock. For example, if the company were sold for a price at or near the amount of the preferences owed to holders of Class B and Class C common stock, there could be little or nothing left for distribution to holders of Class A common stock after such preferences are paid.

Conversion

Holders of shares of Class B common stock have the option to convert their shares of Class B common stock into shares of Class A common stock at any time based on a conversion factor in effect at the time of the conversion. The conversion factor is designed to yield one share of Class A common stock per share of Class B common stock converted, plus such additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued to the date of conversion. The conversion factor is calculated based on a number equal to one plus the quotient of the purchase price of the Class B common stock, plus 9% per annum (not compounded),

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divided by the fair market value (which is determined by reference to the prices at which Class A common stock trades immediately prior to the conversion). Therefore, so long as the Class B common stock has not yet received a full return of its purchase price and a 9% rate of return, if the market value of a share of Class A common stock increases, a share of Class B common stock will convert into fewer shares of Class A common stock, and if the market value of Class A common stock shares decreases, a share of Class B common stock will convert into more shares of Class A common stock. The initial conversion factor is approximately 1.20 (one share of Class B common stock converts into approximately 1.20 shares of Class A common stock), and is subject to adjustment to account for stock splits, stock dividends, combinations or other similar events affecting Class A common stock.

Holders of shares of Class C common stock have the option to convert their shares of Class C common stock into shares of Class A common stock at any time based on a conversion factor in effect at the time of the conversion. The conversion factor is designed initially to yield one share of Class A common stock per share of Class C common stock converted, with the number of shares of Class A common stock reducing to the extent that distributions are paid on the Class C common stock. The conversion factor is calculated as (x) the amount by which $3.30 exceeds the aggregate distributions made with respect to a share of Class C common stock divided by (y) $3.30. The initial conversion factor is one (one share of Class C common stock converts into one share of Class A common stock), and is subject to adjustment to account for stock splits, stock dividends, combinations or other similar events affecting Class A common stock.

If the fair market value used in determining the conversion factor for the Class B common stock in connection with any conversion of Class B common stock is less than $3.30 (subject to adjustment to account for stock splits, stock dividends, combinations or other similar events affecting Class A common stock), holders of shares of Class C common stock have the option to convert their shares of Class C common stock (within 10 days of receipt of notice of the conversion of the Class B common stock) into a number of shares of Class A common stock equal to (x) the amount by which $3.30 exceeds the aggregate distributions made with respect to a share of Class C common stock divided by (y) the fair market value used in determining the conversion factor for the Class B common stock. The aggregate number of shares of Class C common stock so converted by any holder shall not exceed a number equal to (a) the number of shares of Class C common stock held by such holder immediately prior to such conversion plus the number of shares of Class C common stock previously converted in Class A common stock by such holder multiplied by (b) a fraction, the numerator of which is the number of shares of Class B common stock converted at the lower price and the denominator of which is the aggregate number of shares of Class B common stock issued at the closing of the equity financing.

Control

The Class B common stock issued to Brantley IV will initially represent, on an as-converted basis, approximately 51.0% of the Fully-Diluted Orion Shares. Assuming everything else remains the same, the percentage interest of Brantley IV upon conversion will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price, without compounding, from the date the Class B common stock was first issued to the date of conversion. Although the conversion factor will continually increase, the number of votes that holders of Class B common stock will be entitled to will be based on the initial conversion factor. The Class A common stock to be issued to Brantley Venture Partners III, L.P. and Brantley Capital Corporation, as stockholders and debtholders of IPS, further increases the ownership interest of Brantley IV affiliates in Orion. Because Brantley IV and its affiliates will hold common stock which initially represents, on an as-converted basis, approximately 68.4% of the Fully-Diluted Orion Shares they will be able to control all decisions to be made by the Class A common stock, Class B common stock and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion s business, policies and affairs and will be able to elect Orion s entire

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board of directors, determine, without the approval of Orion s other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure you that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, $1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV s ownership will be decreased by the number of shares valued at $1 million, or approximately 1,246,856 shares of Class B common stock, which initially represent, on an as-converted basis, approximately 7.0% of the Fully-Diluted Orion Shares.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are presented to illustrate the effect on the historical financial position and operating results as a result of the proposed IPS Merger, with IPS being treated as the acquirer for accounting purposes, and the proposed DCPS/MBS Merger. The unaudited pro forma condensed combined statements also give effect to the Brantley IV equity financing transaction, as well as the debt exchange agreement between SurgiCare and certain affiliates of Brantley IV. The following twelve-month unaudited pro forma condensed combined statement of operations is presented using SurgiCare s, IPS s, DCPS s results for the year ended December 31, 2003 and MBS s results for the year ended September 30, 2003. The DCPS/MBS pro forma adjustments are combined for purposes of the unaudited pro forma combined financial statements because the mergers of these two entities into the subsidiary of SurgiCare are contingent on each other. DCPS and MBS are related entities that use a shared information system, respond to request for proposals jointly, have common clients and shared business arrangements and collectively share the responsibility for sales and marketing efforts, though they do not have common ownership or accounting relationships. We have determined that showing the pro forma adjustments combined instead of separately would be consistent with the proposed merger transactions with DCPS and MBS.

SurgiCare expects to account for the IPS Merger as a reverse acquisition in accordance with generally accepted accounting principles, with IPS being designated as the accounting acquirer. In identifying the acquiring entity, in accordance with SFAS 141, the following pertinent facts and circumstances were considered: a) The relative voting rights in the combined entity after the merger Brantley IV, an affiliate of Brantley Venture Partners III, L.P. and Brantley Capital Corporation, (who in combination are the largest stockholders and debtholders of IPS), and its assignees will own the majority of the voting rights in the combined entity; b) The composition of the governing body of the combined entity Brantley IV, Brantley Venture Partners III, L.P. and Brantley Capital Corporation will have the ability to elect a voting majority of the governing body of the combined entity after the merger is completed; c) The non-executive chairman of the board is anticipated to be a Brantley Partners partner, the Chief Executive Officer (CEO) of the newly combined entities is the current CEO of IPS, the President of the newly combined entities is the current CEO of SurgiCare and the Chief Financial Officer (CFO) of the newly combined entities is the current CFO of IPS. The DCPS/MBS Merger will be accounted for as a purchase in accordance with generally accepted accounting principles. The pro forma adjustments were applied to the respective historical financial statements to reflect and account for each merger using the purchase method of accounting. Accordingly, the total purchase costs will be allocated to the tangible and intangible assets acquired and liabilities assumed of SurgiCare, DCPS and MBS based on their respective fair values. The unaudited pro forma condensed combined balance sheet is presented as if the Mergers and other transactions contemplated thereby had occurred on December 31, 2003. The unaudited pro forma condensed combined statement of operations assumes that the Mergers and the other transactions contemplated thereby had occurred on January 1, 2003. The pro forma adjustments are based on the information and assumptions available and considered reasonable at the time of the printing of this proxy statement.

A final determination of the required purchase accounting adjustments will be made after completion of the Transactions. In management s opinion, the pro forma financial information reflected herein is not expected to differ materially from the final amounts, however, amortization will ultimately be provided for identifiable intangibles other than goodwill. The actual financial position and results of operations may differ, perhaps significantly, from the pro forma amounts reflected herein because of additional information, changes in value that are not currently identified and operating results between the dates of the pro forma information and the date on which the acquisitions actually take place.

Because the pro forma financial information is based upon the financial condition and operating results of SurgiCare, IPS, MBS and DCPS during periods when the businesses were under separate management and control, the information presented may not be indicative of the results that would have actually occurred had the Mergers been consummated as of the respective periods presented, nor is it

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indicative of future financial or operating results. SurgiCare may also expect to incur integration related expenses as a result of the Mergers. The unaudited pro forma financial information and related notes should be read along with:

(i) the annual report on Form 10-KSB of SurgiCare for the fiscal year ended December 31, 2003 included in Annex C to this proxy statement;

(ii) the management s discussion and analysis of financial condition and results of operations, historical financial statements, and the related notes of IPS, included in Annex I to this proxy statement;

(iii) the management s discussion and analysis of financial condition and results of operations, historical financial statements, and the related notes of DCPS, included in Annex J to this proxy statement; and

(iv) the management s discussion and analysis of financial condition and results of operations, historical financial statements, and the related notes of MBS, included in Annex K to this proxy statement.

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UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of December 31, 2003

	(A) SurgiCare, Inc. as reported 31-Dec-03	(B) Integrated Physician Solutions, Inc. as reported 31-Dec-03	(C) Medical Billing Services, Inc. as reported 30-Sep-03	(D) Dennis Cain Physicians Solutions, Ltd. as reported 31-Dec-03	(E) SurgiCare/ IPS Pro Forma Adjustments	(F) DCPS/ MBS Pro Forma Adjustments	(G) (A)+(B)+(C) +(D)+(E)+(F) Pro Forma Combined
Current Assets							
Cash and Cash equivalents	$ 141,553	$ 50,274	$ 60,915	$ 388,030	$ 5,779,910 (f)	$ (3,750,000)(g)	$ 2,670,682
Receivables	1,529,437	2,469,874	770,760	256,262			5,026,333
Inventory	338,470	127,535					466,005
Prepaid expenses and other current assets	156,320	331,726	26,531	1,998			516,575
Total current assets	2,165,780	2,979,409	858,206	646,290	5,779,910	(3,750,000)	8,679,595
Property, Plant & Equipment	2,258,982	361,866	98,552	98,500			2,817,900
Other Long-Term Assets							
Intangibles, including goodwill	8,209,523	7,813,458	0	0	9,823,837 (b)	9,784,549 (g)	35,631,367
Real estate and related guarantee	4,000,000						4,000,000
Other assets	821,857	82,023	32,445	0			936,325
Total other long-term assets	13,031,380	7,895,481	32,445	0	9,823,837	9,784,549	40,567,692
Total assets	$ 17,456,142	$ 11,236,756	$ 989,203	$ 744,790	$ 15,603,747	$ 6,034,549	$ 52,065,187
Current Liabilities							
Accounts payable and accrued expenses	4,138,539	3,727,089	232,486	118,557	1,500,000 (b)	(84,850)(g)	9,631,821
Income taxes payable			203,168				203,168
					(220,090)(f)		
Current portion of long-term debt and capital lease obligation	8,525,268	7,448,780	14,460		(5,245,549)(a)		10,522,869
Total current liabilities	12,663,807	11,175,869	450,114	118,557	(3,965,639)	(84,850)	20,357,858
Long-Term Liabilities							
Long-term debt and capital lease obligations	103,341	2,234,099	35,127	0		500,000 (g)	2,872,567
Total-long term liabilities	103,341	2,234,099	35,127	0	0	500,000	2,872,567
Redeemable Convertible Preferred stock		12,291,513			(12,291,513)(c)		0
Stockholders Equity							
Preferred Stock	2,038				(1,138)(e)		900
					7,003 (f)		
					(2,821)(c)		
					(137,722)(d)	(1,000)(g)	
Common Stock, Class A, B and C	135,414	2,821	1,000		9,036 (a)	1,288 (g)	15,019

Capital				(291,499)		291,499 (g)	0
					(4,241,144)(b) 5,236,513 (a) 11,669,334 (c) 137,722 (d) 1,138 (e)		
Additional paid-in-capital	17,116,523	9,392,506	114,000		5,992,997 (f)	6,634,306 (g)	52,053,895
Retained Earnings (Accumulated Deficit)	(12,518,413)	(23,235,052)	418,962	917,732	12,518,413 (b)	(1,336,694)(g)	(23,235,052)
					38,318 (b)		
Treasury stock	(38,318)	(625,000)	(30,000)		625,000 (c)	30,000(g)	0
Shareholders receivable	(8,250)				8,250 (b)		0
Total stockholders equity	4,688,994	(14,464,725)	503,962	626,233	31,862,037	5,597,252	28,834,762
Total liabilities and stockholders equity	$ 17,456,142	$ 11,236,756	$989,203	$ 744,790	$ 15,603,747	$ 6,034,549	$ 52,065,187

See Accompanying Introduction and Notes to Unaudited Pro Forma Condensed Combined Balance Sheet

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of December 31, 2003

(a) Conversion of Brantley III and Brantley Capital Corporation Debt to SurgiCare, Inc. Stock

Represents the conversion of outstanding IPS and SurgiCare notes (and related interest) payable to Brantley affiliates into an estimate of 9,035,980 (on a pre-split basis) shares of SurgiCare, Inc. common Class A and Class B stock as follows:

Brantley Venture Partners III, LLP (IPS)	$1,722,984
Brantley Capital Corporation (IPS)	2,242,565
Lakepoint Acquisition (IPS and SurgiCare)	1,500,090
Total Liabilities Converted	$5,465,639
Less: excess bridge loan	(220,090)
Total Adjustment	$5,245,549
Common Stock	$ 9,036
9,035,980 @ $10.000 par	5,236,513
Additional Paid in Capital	$5,245,549

The actual number of shares issuable to the Brantley affiliates and Lakepoint Acquisition (an affiliate of Brantley IV) in exchange for the IPS and SurgiCare notes will be determined based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to closing. The Lakepoint Acquisition debt represents the bridge loans from an affiliate of Brantley IV, $1,280,000 of which will be converted to Class B common as part of the equity financing. The remaining $220,090 (the excess bridge loan as of December 31, 2003) will reduce the amount of cash received from Brantley IV at closing.

(b) To record the tentative allocation of the purchase price and the elimination of historical equity balances of SurgiCare

Purchase Price includes:

		Purchase Price
Market Capitalization of SurgiCare, Inc. at effective date of Merger:		
SurgiCare, Inc. outstanding Class A common stock	25,793,520	
Market Price per Share (measurement date of November 18, 2003)	$ 0.505	13,012,832
Direct merger transaction costs		1,500,000
Total Purchase Price		14,512,831

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NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET (Continued)

Allocated as follows:

	Fair Value
Cash	$ 141,553
Receivables	1,529,437
Inventory	338,470
Other current assets	156,320
Property and equipment	2,258,982
Real Estate and related guarantee	4,000,000
Investments/ Other	821,857
Goodwill and identifiable intangibles	18,033,360
Debt	(8,628,609)
Accounts payable-trade and accruals	(4,138,539)
Net assets acquired	$ 14,512,831

The outstanding Common Stock Class A used in the purchase price allocation was based on the amount of outstanding shares as of November 18, 2003, the date of the IPS/SurgiCare merger agreement (the measurement date). The market price per share used was calculated in accordance with paragraph 22 of SFAS 141, using the average of the daily high and low price for the five days immediately prior to the measurement date and the five days immediately after the measurement date.

Pursuant to a December 11, 2002 agreement, SurgiCare received a resale guarantee regarding the real estate from American International Industries, Inc. (AIII). The guarantee provides SurgiCare with a land resale guarantee, if, by June 1, 2006, SurgiCare is unable to sell any or all of the tracts of real estate for net sales proceeds of at least $4,000,000. If the proceeds are less than $4,000,000, AIII agrees to compensate SurgiCare in an amount equal to the difference between $4,000,000 and the net sales proceeds received from the sale of any of the land prior to June 1, 2006. AIII has the option to make such payment in the form of the SurgiCare s common stock valued at $0.41 per share or cash. In the event AIII does not own any of SurgiCare s common stock on that date, it agrees to make any payment due in cash. SurgiCare continues to market the real estate but does not believe it will generate sale prices greater than the guarantee in the next year or two. The real estate is presented at a value of $4,000,000 because of the existence of the guarantee by AIII.

The net adjustment to additional paid in capital was calculated as follows:

To adjust goodwill and identifiable intangibles to the amount calculated above (SurgiCare $18,033,360, IPS $7,813,458 and DCPS/MBS $9,784,549 would result in total goodwill and identifiable intangibles of $35,631,367)	$ 9,823,837
Accrued Merger Costs (to be paid over time after closing)	(1,500,000)
Elimination of SurgiCare equity accounts:	
Retained Earnings (accumulated deficit)	(12,518,413)
Treasury Stock	(38,318)
Shareholders receivable	(8,250)
Net adjustment to additional paid in capital	$ (4,241,144)

(c) To reflect the conversion of IPS preferred into IPS common then its exchange for SurgiCare common in accordance with the formula described in The IPS Merger Agreement Conversion of Securities.

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NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET (Continued)

(d) To reflect the one for ten reverse stock split as required by the merger agreement and change the par value of the common stock from $.005 to $.001

Certain in-the-money stock options held by SurgiCare employees and others will be modified to include cashless option features just prior to the close of the merger. The impact of such cashless exercise would be to increase compensation cost at the date of the transaction for the intrinsic value. No adjustment for the cashless option feature has been made in the accompanying pro forma unaudited condensed financial statements.

(e) Conversion of Preferred Stock Series A

Represents the conversion of SurgiCare Preferred Stock Series A into SurgiCare Common Stock Class A

(f) Additional equity investment by Brantley Venture Partners IV

Represents the investment by Brantley Venture Partners IV of cash in exchange for SurgiCare Common Stock Class B, $6,000,000 and contribution of bridge notes outstanding. Outstanding excess bridge loan (see note (a) above) $220,090 as of December 31, 2003, will reduce cash at closing. Brantley will receive a number of shares of Class B Common Stock equal to 1.02 times the SurgiCare shares outstanding (giving effect to in-the-money options and warrants) divided by .49. On a post reverse split basis, the total outstanding shares for purposes of this calculation as of December 31, 2003 is assumed to be 3,364,072 (total shares post-split outstanding on a Fully-Diluted basis), therefore the amount of shares of Class B Common Stock to be issued to Brantley IV would be (3,364,072 × 1.02)/.49 = 7,002,763. The allocation between common stock and additional paid in capital would be 7,002,763 shares multiplied times a post reverse split par value of $0.001, or $7,003 for common stock. The remaining difference ($6,000,000 $7,003) or $5,992,997 is allocated to additional paid in capital.

The total outstanding Class A and B common stock, assuming a market price of $5.05 (post reverse split) and Class C common stock, assuming a market price of $5.81 and Class C common, assuming a market price of $5.81 (see note (b) above)) would be as follows:

Brantley IV (Class B)	7,002,763
Brantley III Loan conversion (Class A)	341,523
Brantley Capital Corporation loan conversion (Class A)	444,513
SurgiCare Stockholders (Class A)	3,364,072
IPS Stockholders (Class A)(includes Brantley Affiliates)	2,578,036
DCPS/MBS Equityholders (Class C)	1,287,880
Total	15,018,787

The common stock par value after closing would be 15,018,787 × $0.001 par value, or $15,019.

(g) To reflect the allocation of purchase consideration for the DCPS/MBS transaction and the elimination of those entities historical equity accounts

Cash, at closing	$ 3,500,000
Note Payable	500,000
Common Stock Class A and C (1,287,880 shares)	7,482,583
Liabilities Assumed	489,059
Total Purchase Price	$ 11,971,642

The DCPS/MBS merger agreement includes contingent future payments (the earnout) to the sellers and contingent return of debt and stock (the clawback) to SurgiCare based on post-acquisition earnings targets for

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET (Continued)

2004 and 2005 of $1.6 million in EBITDA. The contingent earnout or clawback has not been reflected in the purchase price allocation. The contingent earnout or clawback, if realized, will be accounted for at that time as an addition to (earnout) or reduction in (clawback) the cost of the acquisition and goodwill and other identifiable intangibles will be adjusted accordingly.

Allocated, as follows:

	Historical NBV			
	DCPS	MBS	Adjustments	As Adjusted
Cash	$ 388,030	$ 60,915(1)	(250,000)	$ 198,944
Accounts receivable-trade and other	258,260	797,291		1,055,551
Total Current Assets	646,290	858,206	(250,000)	1,254,496
Property and equipment	98,500	98,552		189,308
Goodwill and identifiable intangibles	0	0	9,784,549	9,784,549
Total Assets	744,790	989,203		12,460,701
Accounts payable and accruals	118,557	(435,654)(2)	84,850	(469,363)
LT Debt and capital leases		(49,587)		(49,587)
Net assets acquired				$ 11,971,642

(1) Represents the amount of cash contemplated to be distributed to sellers prior to closing

(2) Represents adjustments negotiated to historical accrued vacation due certain employees

The measurement date for purposes of the purchase price allocation is February 9, 2004, the date of the merger agreement of DCPS/MBS and SurgiCare. In accordance with SFAS 141 and EITF 99-12, the date at which the number of shares and other consideration to be issued are not subject to further change pursuant to the existing terms of the acquisition agreement is the measurement date. According to paragraph 22 of SFAS 141, the market price for a reasonable time before and after the date that the terms of the acquisition are agreed to and announced shall be considered in determining the fair value of securities issued. The terms of the merger for DCPS/MBS were negotiated up until the date of the merger agreement, February 9, 2004, therefore that date is considered as the measurement date. The purchase price calculation assumes a market value of SurgiCare common stock of $0.581 (based on the daily average of the high and low price per share over the five trading days immediately prior to and immediately after the measurement date). Total merger consideration shares issued of 1,287,880 (post reverse split) @ $5.81 (post reverse split) equates to $7,482,583 in total dollar value. If the fair market value of SurgiCare common stock is greater than $0.70 per share (based on the daily average of the high and low price per share over the five trading days immediately prior to the closing) the total cash amount paid will be reduced by $600,000 and the number of SurgiCare common stock Class C issued will be increased by 193,939.

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NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET (Continued)

The adjustment to additional paid in capital was calculated based on a total value of common stock issued of $7,482,583 at a post reverse split par value of $0.001, the elimination of the equity accounts of DCPS/MBS and recording the purchase transaction as follows:

Stock consideration	1,287,880 shares
Par value	$0.001

Common Stock	$ (1,288)
Goodwill	9,784,549
Cash	(3,750,000)
Accrued expenses	84,850
Notes payable	(500,000)
Common Stock	1,000
Retained Earnings	1,336,694
Treasury Stock	(30,000)
Capital	(291,499)
Net Additional paid in capital	$ 6,634,306

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the twelve-month period ended December 31, 2003

	(A) SurgiCare, Inc. as reported 31-Dec-03	(B) Integrated Physician Solutions, Inc. as reported 31-Dec-03	(C) Medical Billing Services, Inc. as reported 30-Sep-03	(D) Dennis Cain Physicians Solutions, Ltd. as reported 31-Dec-03	(E) SurgiCare/ IPS Pro Forma Adjustments	(F) DCPS/ MBS Pro Forma Adjustments	(G) (A)+(B)+(C) +(D)+(E)+(F) Pro Forma Combined
Operating revenues	$ 8,064,523	$24,283,152	$6,060,302	$4,010,797			$42,418,774
Cost of services	4,528,644	15,040,180	0	0			19,568,824
Gross margin	3,535,879	9,242,972	6,060,302	4,010,797	0	0	22,849,950
General and administrative expenses:							
Salaries and benefits	1,576,831	4,101,010	4,547,114	2,525,068		(676,007)(b)	12,074,016
Facility rent and related costs	1,299,268	1,300,644	253,281	137,058			2,990,251
Depreciation and amortization	858,924	680,494	50,779	47,570			1,637,767
Professional and consulting fees	1,097,264	929,179	75,906	20,597			2,122,946
Insurance	178,161	564,472	20,872	10,508			774,013
Provision for doubtful accounts	289,823	1,986,564					2,276,387
Other	799,921	1,633,406	957,133	514,731			3,905,191
Total general and administrative	6,100,192	11,195,769	5,905,085	3,255,532	0	(676,007)	25,780,571
Other operating expenses:							
Charge for impairment of intangible assets		2,560,906					2,560,906
Loss (gain) on sale of assets	144,259		(512)				143,747
Impairment of investment in land	579,386						579,386
Total other operating expenses	723,645	2,560,906	(512)	0	0	0	3,284,039
Total Operating expenses	6,823,837	13,756,675	5,904,573	3,255,532	0	(676,007)	29,064,610
Operating Income (loss)	(3,287,958)	(4,513,703)	155,729	755,265	0	676,007	(6,214,660)
Other income							
Interest expense	(1,922,315)	(784,008)	(4,552)		322,015(a)	(40,000)(d)	(2,428,860)
Interest income			2,593	546			3,139
Equity in (earnings) losses of limited partnerships	194,444						194,444
Other income	32,206						32,205
Other expense, net		(24,034)					(24,034)
Total other expense, net	(1,695,666)	(808,042)	(1,959)	546	322,015	(40,000)	(2,223,106)
Income (Loss) before income taxes	(4,983,624)	(5,321,745)	153,770	755,811	322,015	636,007	(8,437,766)
Income taxes expenses (recovery)	173,407		(52,194)				121,213

Net Income (Loss)	$ (4,810,217)	$ (5,321,745)	$ 101,576	$ 755,811	$ 322,015	$ 636,007	$ (8,316,553)

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Historical and Pro Forma primary and fully diluted per share data:

	For the Year Ended December 31, 2003	
	Historical	Pro Forma
Net Loss	$ (4,810,217)	(8,316,553)
Weighted average shares outstanding	24,754,050	14,247,682(c)
Dilutive stock options and warrants	(A)	(A)
Conversion of preferred shares	(B)	(B)
Conversion of debt	(C)	(C)
Weighted average shares outstanding for diluted net loss per share		
Net Loss per share Primary	$ (0.19)	$ (0.58)
Net Loss per share Diluted	$ (0.19)	$ (0.58)

The following potentially dilutive securities are not included in the 2003 Historical and Pro Forma calculation of common shares outstanding for diluted net earnings per share, because their effects would be anti-dilutive due to the net loss on a historical and pro forma basis:

(A) 8,896,171 options and warrants outstanding at December 31, 2003.

(B) 900,000 shares of SurgiCare, Inc. Series AA Preferred stock are convertible into $4,500,000 of common shares and 1,137,700 shares of SurgiCare, Inc. Series A Preferred stock are convertible into 1,137,700 common shares.

(C) $1,000,000 of debentures are convertible into common stock at a price equal to $1.50 per share (pre-reverse split).

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NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(a) To eliminate historical interest expense on indebtedness converted to SurgiCare common as part of the merger totalling $4,533,061 at 12/31/03

$322,015

(b) To eliminate historical employee compensation in excess of contractual obligations as indicated in the merger agreements. The merger agreement includes provisions for employment agreements with specific annual compensation

Total DCPS/MBS historical compensation subject to adjustment	1,026,007
Less: Total DCPS/MBS annual compensation per employment contractual agreement to be signed as part of the merger	(350,000)
DCPS/MBS historical employee compensation adjustment	$676,007

(c) The weighted average shares outstanding on a pro forma basis was calculated as follows:

Weighted average shares outstanding	24,754,050
1 for 10 reverse stock split	2,475,405
Transaction consideration (Post reverse split):	
Debt Conversion	903,598
IPS Merger	2,578,036
DCPS/MBS merger	1,287,880
Equity financing	7,002,763
Weighted average shares outstanding-pro forma	14,247,682

The assumed market price per share for the transaction consideration calculations, on a pre-reverse split basis was based on the average of the high and low stock price for the five days immediately prior to the measurement date of November 18, 2003 (the date of the IPS/SurgiCare merger agreement) and the five days immediately after the measurement date, which was $0.5045 per share. The number of shares used for the DCPS/MBS merger was based on the fixed shares issued as part of that merger agreement dated February 9, 2004.

(d) To record the interest expense on the note payable due to DCPS as part of the DCPS acquisition ($500,000 @ 8%)

$40,000

(e) To record amortization of identifiable intangible assets acquired in the transactions on a straight-line basis over to years to reflect estimated economic useful lives.

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INFORMATION ABOUT SURGICARE

Description of Business

SurgiCare, Inc. was incorporated in Delaware on February 24, 1984 as Technical Coatings Incorporated. On September 10, 1984, its name was changed to Technical Coatings, Inc. (TCI). Immediately prior to July 1999, TCI was an inactive company. On July 11, 1999, TCI changed its name to SurgiCare, Inc., and at that time changed its business strategy to developing, acquiring and operating freestanding ambulatory surgery centers (ASC). On July 21, 1999, SurgiCare acquired all of the issued and outstanding shares of common stock of Bellaire SurgiCare, Inc. a Texas corporation (Bellaire), in exchange for the issuance of 9.86 million shares of SurgiCare common stock and 1.35 million shares of SurgiCare Series A Redeemable preferred stock, par value $.001 per share, to the holders of Bellaire s common stock. For accounting purposes, this reverse acquisition was effective July 1, 1999.

As of December 31, 2003, SurgiCare owned a majority interest in three surgery centers and a minority interest as general partner in one additional center. Three of SurgiCare s centers are located in Texas and one is located in Ohio. In limited circumstances, SurgiCare, or its subsidiaries, may also furnish anesthesia services in support of the activities of the surgery centers. Our ASCs perform various types of procedures including: orthopedic surgery, colonoscopy, ophthalmic laser surgery, pain injections and various pediatric surgeries. The most common procedures performed in our ASCs include knee arthroscopy, lumbar nerve block and sacral injection, colonoscopy, hammertoe correction, sinus endoscopic biopsy, cataract removal, breast biopsy, Mitchell procedures and cystourethroscopy.

With a view to SurgiCare consolidating the operations of some or all of these surgery centers, SurgiCare anticipates that it will need to adjust its ownership interest in such centers to establish an ownership interest of approximately 35% in each surgery center in keeping with our strategy of maximizing our investor pool. SurgiCare believes that physician owned surgical centers are typically more profitable because physicians who own an ambulatory surgical center are the center s most significant source of patients and benefactors. Generally, it is the operating physician, not the patient, who chooses the facilities where surgical procedures are to be performed. By allowing physicians to own approximately sixty-five percent of the interest in the surgery centers, there is more opportunity for more physicians to own an interest in the surgery center. When physicians have an ownership interest in surgery centers, they have an incentive to make the surgery centers as profitable as possible.

We have begun the process of restructuring the ownership of the surgery center partnership that owns and operates the Bellaire ASC to allow for the sale of investment interests to additional operating physicians practicing in that area of Houston, Texas. The Bellaire partnership prepared a private placement memorandum for the private offering of partnership interests to Texas resident physicians, which it released on April 15, 2004. Sixty-five percent (65%) of the total ownership interest in the Bellaire partnership is being offered for sale. This offering is a purely intrastate transaction and is exempt from federal securities laws. If it is determined that federal securities laws apply, SurgiCare believes the offering is exempt pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D.

Prior to the proposed amendments to its certificate of incorporation, SurgiCare is authorized to issue up to 50,000,000 shares of common stock, par value $0.005 per share, and 20,000,000 shares of preferred stock, par value $0.001 per share.

SurgiCare, Inc. s principal executive offices are located at 12727 Kimberley Lane, Suite 200, Houston, TX 77024, and its telephone number is 713-973-6675.

Bellaire SurgiCare, Inc.

Bellaire owns and operates an ASC located in Houston, Texas. The ASC has been in operation for 14 years, first as The Institute for Eye Surgery, and since March of 1995, as Bellaire SurgiCare, Inc. (Bellaire). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology, as well as reconstructive and general surgery utilize this facility. The surgeons performing surgery at

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Bellaire generally charge their patients for the professional services they provide, while Bellaire only charges the patients for the facility fee. While Bellaire is currently a wholly-owned subsidiary of SurgiCare, we have begun the process of restructuring the ownership of the surgery center owned and operated by Bellaire to allow for the sale of investment interests to operating physicians in such surgery center. In 2003, there were 1,803 patients treated at Bellaire by approximately 30 doctors, 14 of which have an ownership interest in Bellaire.

SurgiCare Memorial Village, L.P.

SurgiCare, through its wholly-owned subsidiary, Town & Country SurgiCare, Inc., owns a 60% general partnership interest in SurgiCare Memorial Village, L.P. (Memorial Village). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology, reconstructive, as well as general surgery utilize this facility. The surgeons performing surgery at Memorial Village generally charge their patients for the professional services they provide, while Memorial Village only charges the patients for the facility fee. In 2003, there were 2,226 patients treated at Memorial Village by approximately 60 doctors, 25 of which have an ownership interest in Memorial Village.

San Jacinto Surgery Center, L.P.

SurgiCare, through its wholly-owned subsidiary Baytown SurgiCare, Inc., owns a 10% general partnership interest in San Jacinto Surgery Center, L.P. (San Jacinto). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology and plastics, as well as general, surgery utilize this facility. The surgeons performing surgery at San Jacinto generally charge their patients for the professional services they provide, while San Jacinto only charges the patients for the facility fee. In 2003, there were 4,214 patients treated at San Jacinto by approximately 43 doctors, 19 of which have an ownership interest in San Jacinto.

Tuscarawas Ambulatory Surgery Center, LLC

SurgiCare owns a 51% interest in Tuscarawas Ambulatory Surgery Center, LLC (Tuscarawas) located in Dover, Ohio. This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in orthopedics, ear, nose and throat and general surgery utilize this facility. The surgeons performing surgery at the center generally charge their patients for the professional services they provide, while Tuscarawas only charges the patients for the facility fee. In 2003, there were 2,762 patients treated at Tuscarawas by approximately 25 doctors, 12 of which have an ownership interest in Tuscarawas.

Our management agreement with Tuscarawas requires approval of the surgery center in the event of a charge of control such as that contemplated in the Transactions. We have reached an oral agreement with the center to approve the Transactions without any other changes in our management agreement and expect to reduce the agreement to writing prior to consummation of the Transactions.

Industry Overview

ASCs are licensed outpatient surgery centers, generally equipped and staffed for a wide variety of surgical procedures. These procedures are generally lower-risk and considered appropriate for the freestanding ambulatory setting. In recent years, government programs, private insurance companies, managed care organizations and self-insured employers have implemented various cost-containment measures to limit the growth of healthcare expenditures. These cost-containment measures, together with technological advances, have resulted in a significant shift in the delivery of healthcare services away from traditional inpatient hospitals to more cost-effective alternative sites, including ASCs. This shift is illustrated by an outpatient market study, performed by Verispan, L.L.C., that shows an 81% increase in surgeries provided outside traditional hospitals, over a 7-year period from 1996 to 2003.

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SurgiCare believes that the following factors have contributed to the growth of ASCs:

Cost-effective Alternative. ASCs are not usually saddled with the high cost and overhead of the ancillary services such as administration, laboratory, radiology, or dietary, that are generally found in hospital settings. Therefore, surgery at an ASC is generally less expensive than hospital inpatient surgery. SurgiCare believes that surgery performed at an ASC is also less expensive than hospital-based ambulatory surgery for a number of reasons, including:

Lower facility development costs;

More efficient use of staffing and space utilization; and

Specialized operating environment focused on cost containment.

SurgiCare believes that interest in ASCs has grown as managed care organizations have continued to seek a cost-effective alternative to inpatient services.

Physician and Patient Preference. Operating physicians, who have determined that their patients are in need of a surgical procedure, generally choose in which facility the surgery will be performed. In most cases, patients will have their surgery performed at the facility that their doctor determines is most appropriate.

Freestanding ASCs subject neither doctors nor their patients to the large institutional environment found at both acute care inpatient hospitals, and outpatient surgery centers located within a hospital.

SurgiCare believes that because of the ease of admission and discharge, many physicians prefer ASCs. SurgiCare believes that such centers enhance physicians productivity by providing them with greater scheduling flexibility, more consistent nurse staffing and faster turnaround time between cases. This allows the physician to perform more surgeries in a defined period.

In contrast, hospitals generally serve a broader group of physicians, including those involved with emergency procedures, resulting in postponed or delayed surgeries. Additionally, many physicians choose to perform surgery in an ASC because their patients prefer the simplified admissions and discharge procedures and the less institutional atmosphere.

New Technology. The increased use of minimally invasive surgery, enhanced endoscopic techniques and fiber optics, have reduced the trauma and recovery time associated with many surgical procedures. Improved anesthesia has shortened recovery time by minimizing postoperative side effects such as nausea and drowsiness, thereby avoiding, in some cases, overnight hospitalization. These new technologies and advances in anesthesia, which have been increasingly accepted by physicians, have significantly expanded the types of surgical procedures that are being performed in ASCs.

Business Philosophy

SurgiCare believes that physician owned and operated ASCs are typically profitable. This profitability results primarily from the fact that physicians who own and operate an ASC are the center s most significant source of patients and benefactors. Generally, it is the operating physician, not the patient, who chooses the facilities where surgical procedures are to be done. Because this decision is made at the physician level, it is in fact the physicians bringing patients to the outpatient surgical facility.

SurgiCare believes that ASCs receive their patient referrals almost exclusively from the operating physicians. Therefore, it becomes an extremely important role of a center s management to insure that the operating physicians have everything they need, and that they are pleased with the results that they are able to obtain at the center. If management and the operating physicians are substantially the same, it becomes much easier to insure that physician needs are meet, and that their experiences at the centers are pleasant.

Furthermore, SurgiCare believes that physicians become more cost conscious when they own and manage the ASCs in which they practice. This increased cost consciousness can have a significant positive effect on the overall profitability of the center without detrimentally affecting the patients.

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SurgiCare believes that the profitability of freestanding ASCs tends to make them attractive to acquirers. Nevertheless, following the acquisition of a physician owned center, evidence suggests that the typical center s profitability will significantly decrease. SurgiCare believes that this typical decline in profitability can be explained, in part, because in many of such acquisitions, the operating physicians lose control of the center. After a typical acquisition of an ASC, the control of the center is typically vested in non-physician management. The factors motivating the physician users to insure the center s profitability are therefore typically removed.

SurgiCare s management structure consists of physicians and healthcare professionals. SurgiCare s management has substantial experience in the operation and management of ASCs. SurgiCare also expects that it will issue its own shares, or other equity interests, to the physicians who own and operate other centers in which SurgiCare may acquire an interest. SurgiCare believes that it will thereby be able to substantially align the interests of SurgiCare s management and stockholders with those of the physician owners of centers in which SurgiCare may acquire an interest. SurgiCare also presently intends to permit each surgery center to be substantially managed by its own board, which is anticipated to consist of a majority of physicians associated with the center and one or more representatives of SurgiCare. Based upon this approach, SurgiCare expects that it will benefit from the substantial unity of goals and motivations of its own management and stockholders with those of physicians who have previously owned and operated a freestanding center acquired, in whole or in part, by SurgiCare.

SurgiCare believes that if the goals and motivations for each center are substantially aligned, then SurgiCare can achieve profitability for every center in which it acquires an interest. However, there are numerous factors that affect the profitability of ASCs, including regulatory and liability matters. Therefore, there can be no assurance that the profitability of any center, or of SurgiCare as a whole, will be achieved or maintained.

SurgiCare intends to apply its philosophy in the acquisition, development and operation of physician owned/managed freestanding ASCs.

Strategy

SurgiCare s market strategy is to accelerate penetration of key markets and expand into new markets by:

Attracting and retaining top quality, highly productive surgeons and other physicians. Recognizing the importance of physician satisfaction, SurgiCare operates its facilities and has designed its operating model to encourage physicians to choose our facilities. SurgiCare has identified and seeks to accommodate the key factors in a physician s decision making process, which SurgiCare believes includes quality of care, patient comfort, streamlined administrative processes, efficient operation and overall opportunity for increased physician productivity.

Enhance physician productivity. SurgiCare intends to enhance physician productivity and promote increased same-center volumes, revenues and profitability by increasing physician involvement, and creating operating efficiencies, including improved scheduling, group purchasing programs and clinical efficiencies.

Growth through selective domestic acquisitions and development of surgical facilities. SurgiCare typically targets the acquisition or development of surgery centers that provide high volume, non-emergency, lower risk procedures in several medical specialties. Our focus is on under-performing centers where acquisition prices are modest and the leverage returns for operational performance improvements is high. SurgiCare s development staff first identifies existing centers that are potential acquisition candidates. The candidates are then evaluated against SurgiCare s project criteria which may be expected to include several factors such as number of procedures currently being performed by the practice, competition from and the fees being charged by other surgical providers, relative competitive market position of the surgery centers under consideration, ability to contract with payors in the market and state certificate of need (CON) requirements for development of a new center. SurgiCare is in the process of identifying ASCs as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of centers, although there are no signed letters of intent or any verbal or other offers to acquire any surgery centers. SurgiCare expects that the acquisition of other surgery centers will take the form of mergers, stock-for-stock exchanges or stock-for-assets exchanges and that in most instances, the target company will wish to structure the business combination to be within the definition of a tax-free reorganization under Section 368 of the Internal Revenue Code of 1986, as amended. SurgiCare may, however, use other acquisition structuring techniques including purchases of assets or stock for cash or cash and stock, or through formation of one or more limited partnerships or limited liability companies. SurgiCare will typically acquire a minority interest in a particular center.

Enhance operating efficiencies. We use systems and protocols to enhance operating efficiencies at both existing and newly acquired or developed facilities. These systems and protocols include: patient scheduling and pre-certification processes, block scheduling by physicians, dedicating multiple operating rooms to each physician to speed turn-around time, and not offering emergency room services which ensures ease in scheduling and availability. We believe that this focus on efficient operations increases our own profitability and encourages physicians to use our facilities by increasing their productivity. In addition, efficient operations are critical to our lower cost model and our competitive advantage in attracting and negotiating with payors.

Creation of operationally efficient clusters of ASCs. We seek to build a core management team in each geographical market which will gain increased marketing and operational efficiencies as we add new centers to the market. Spreading the overhead burdens across more operating units not only reduces the total overhead per center but also allows us to attract increasingly more competent operating managers.

Diversification into complimentary healthcare businesses. SurgiCare expects to diversify into related healthcare markets and is targeting imaging centers and practice management companies. SurgiCare is looking to develop and/or acquire imaging centers to operate in conjunction with our ASCs. This will strategically position us to service medical outpatient needs and enhance the practices of the healthcare providers who utilize our services. SurgiCare is planning to expand into practice management, which is a core discipline that SurgiCare will need to continue to grow and be profitable. Servicing surgery centers with practice management functions can be a source of potential acquisitions.

Acquisition and Development of Surgery Centers

SurgiCare s development staff works to identify existing centers that are potential acquisition candidates and identify physician practices that are potential partners for new center development in the medical specialties that SurgiCare has targeted for development.

The candidates are then evaluated against SurgiCare s project criteria which may be expected to include several factors such as number of procedures currently being performed by the practice, competition from and the fees being charged by other surgical providers, relative competitive market position of the physician practice under consideration, ability to contract with payors in the market and state CON requirements for development of a new center.

In presenting the advantages to physicians of developing a new freestanding ASC in partnership with SurgiCare, SurgiCare anticipates that its development staff will emphasize the following factors, among others:

1. SurgiCare s model of minority interest, allowing the physicians or limited partners to own a majority of the center.

2. Simplified administrative procedures.

3. The ability to schedule consecutive cases without preemption by inpatient or emergency procedures.

4. Rapid turnaround time between cases.

5. The high technical competency of the center s clinical staff that performs only a limited number of specialized procedures, and state-of-the-art surgical equipment.

SurgiCare expects that it will provide the following developmental services: financial feasibility pro forma analysis; assistance in state CON approval process; site selection; assistance in space analysis and schematic floor plan design; analysis of local, state, and federal building codes; negotiation of equipment financing with lenders; equipment budgeting, specification, bidding, and purchasing; construction financing; architectural oversight; contractor bidding; construction management; assistance with licensing; assistance with Medicare certification; and assistance with third party managed care contracts.

SurgiCare, under previous management, developed Bellaire Surgery Center. SurgiCare, under current management, developed Physicians Endoscopy Center, L.P. (Physicians Endoscopy). SurgiCare sold Physicians Endoscopy in June, 2003. SurgiCare acquired Memorial Village, San Jacinto and Tuscarawas as already established and operating surgery centers under its previous management. SurgiCare s current management has experience in developing surgery centers and was responsible for developing five new centers and managing two centers prior to working for SurgiCare.

In addition, SurgiCare is opening the Tuscarawas MRI center to expand our operations in Dover, Ohio. Sixty percent (60%) of the funding is being provided by a third party lease finance company called Maxus Leasing Group (Maxus). The Maxus financing is a typical equipment lease financed over five years. The remaining portion of the funding was loaned to SurgiCare by a wholly-owned subsidiary of Brantley IV. Brantley IV and SurgiCare are negotiating regarding the terms of warrants to be issued by SurgiCare in connection with this loan.

Going forward, SurgiCare anticipates that its ownership interests in most of its ASCs will be approximately 35%. However, from time to time SurgiCare may identify centers where it is advantageous to acquire a majority interest. Regardless of the percentage of each center that SurgiCare acquires, the physicians who had owned and operated a center acquired by SurgiCare, or who have newly developed a center in partnership with SurgiCare, generally will become stockholders in SurgiCare. The local physicians will continue to oversee their operations through an executive committee that interacts with SurgiCare on a regular basis to provide feedback and set policy.

Surgery Center Locations

The following table sets forth information related to SurgiCare s surgical centers in operation as of December 31, 2003:

Name	Location	Acquisition Date	SurgiCare Ownership
Bellaire SurgiCare	Houston, Texas	July 1999	100%
SurgiCare Memorial Village	Houston, Texas	Oct. 2000	60%
San Jacinto Surgery Center	Baytown, Texas	Oct. 2000	10%
Tuscarawas Ambulatory Surgery Center	Dover, Ohio	June 2002	51%

AAAHC Accreditation

Two of SurgiCare s surgery centers are accredited by the Accreditation Association for Ambulatory Health Care Inc. (AAAHC). SurgiCare s Bellaire and Memorial Village facilities are not yet accredited. SurgiCare will seek accreditation for the Bellaire facility upon completion of the facility s renovation. In the future, SurgiCare s Memorial Village facility will re-apply for accreditation. Although not required, SurgiCare believes that obtaining an AAAHC accreditation is useful in competing for, and contracting with, certain managed care organizations. SurgiCare, where practical, will strive to obtain AAAHC accreditation.

Revenues

SurgiCare s principal source of revenues is a surgical facility fee charged to patients for surgical procedures performed in its surgery centers. SurgiCare depends upon third-party programs, including governmental and private health insurance programs to pay these fees on behalf of their patients. Patients are responsible for the co-payments and deductibles when applicable. The fees vary depending on the procedure, but usually include all charges for operating room usage, special equipment usage, supplies, recovery room usage, nursing staff and medications. Facility fees do not include the charges of the patient s surgeon, anesthesiologist or other attending physicians, which are billed directly to third-party payors by such physicians. In addition to the facility fee revenues, SurgiCare also earns management fees from its operating facilities and development fees from centers that it develops.

ASCs, such as those in which SurgiCare owns, or intends to acquire, an interest, depend upon third-party reimbursement programs, including governmental and private insurance programs, to pay for services rendered to patients. SurgiCare derived approximately 21% of its gross revenues from governmental healthcare programs, including Medicare and Medicaid, in 2003. The Medicare program currently pays ASCs and physicians in accordance with fee schedules, which are prospectively determined.

The Department of Health and Human Services (DHHS) currently bases its reimbursement system to ASCs on a 1986 cost survey. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) enacted in December 2003 requires that the current ASC reimbursement methodology based on cost surveys be replaced with a new ASC payment system that will be effective prior to 2008. This new system will be based on recommendations made by the General Accounting Office after studying the relative costs of procedures furnished in ASCs to those furnished in hospital outpatient departments. The new payment methodology could adversely impact surgery center reimbursement and therefore our financial condition, results of operations and business prospects. The MMA also reduces Medicare payments to ASCs by 1% starting April 1, 2004 and thereafter freezes the payment rates through December 31, 2009.

In addition to payment from governmental programs, ASCs derive a significant portion of their net revenues from private healthcare reimbursement plans. These plans include both standard indemnity insurance programs as well as managed care structures such as preferred provider organizations (PPOs), health maintenance organizations (HMOs) and other similar structures.

The strengthening of managed care systems nationally has resulted in substantial competition among providers of services, including providers of surgery center services. This competition includes companies with greater financial resources and market penetration than SurgiCare. In some cases national managed care systems require that a provider, in order to participate in a specific plan, be able to cover an expanded geographical area.

SurgiCare believes that all payors, both governmental and private, will continue their efforts over the next several years to reduce healthcare costs and that their efforts will generally result in a less stable market for healthcare services. While no assurances can be given concerning the ultimate success of SurgiCare s efforts to contract with healthcare payors, SurgiCare believes that its position as a low-cost alternative for certain surgical procedures should enable its current centers, and additional centers which it may acquire, to compete effectively in the evolving healthcare marketplace.

Competition

There are several companies, many in niche markets, that acquire existing freestanding ASCs. Many of these competitors have greater resources than SurgiCare. The principal competitive factors that affect the ability of SurgiCare and its competitors to acquire ASCs are price, experience, reputation, and access to capital.

SurgiCare s most significant competitors include: Symbion, Inc., Amsurg Corporation, Surgis, Inc., Foundation Surgery Affiliates, Inc., HealthSouth Corporation, United Surgical Partners International, Inc., Dynacq Healthcare, Inc., NovaMed Eyecare, Inc., TLCVision Corporation, LCA Vision, Inc., Hospital Partners of America, Inc. and National Surgical Care, Inc.

Managed Care Contracts

SurgiCare s participation in managed care contracts, often referred to as HMOs and PPOs, in most cases simply makes it more convenient and cost-effective for a potential patient to allow their doctor to choose a SurgiCare facility. Participation in most managed care contracts is helpful, but not material to SurgiCare s business. SurgiCare believes that its current centers can provide lower-cost, high quality surgery in a more comfortable environment for the patient in comparison to hospitals and to hospital-based surgery centers with which SurgiCare competes for managed care contracts. SurgiCare intends that any additional center which it may acquire will be similarly situated. In competing for managed care contracts, it is important that SurgiCare be able to show insurance companies that it provides quality healthcare at affordable, competitive prices.

Government Regulation

The healthcare industry is subject to extensive regulation by a number of governmental entities at the federal, state and local levels. Regulatory activities affect the business activities of SurgiCare by controlling its growth, requiring licensure and certification for its facilities, regulating the use of SurgiCare s properties, and controlling reimbursement to SurgiCare for the services provided at those facilities.

Certificates of Need and State Licensing. CON regulations control the development of ASCs in certain states. CON statutes generally provide that prior to the expansion of existing centers, the construction of new centers, the acquisition of major items of equipment or the introduction of certain new services, approval must be obtained from the designated state health-planning agency based on a determination that a need exists for those facilities or services. SurgiCare expects that its development of ASCs will generally focus on states that do not require CONs. However, acquisitions of existing surgery centers, even in states that require CONs for new centers, generally do not require CON regulatory approval. There are currently 23 states that do not require CONs for ASCs. The large population states that require CON regulatory approval are New York, Michigan and Illinois.

State licensing of ASCs is generally a prerequisite to the operation of each center and to participation in federally funded programs, such as Medicare and Medicaid. Once a center becomes licensed and operational, it must continue to comply with federal, state and local licensing and certification requirements in addition to local building and life safety codes. In addition, each center is also subject to federal, state and local laws dealing with issues such as occupational safety, employment, medical leave, insurance regulations, civil rights and discrimination, and medical waste and other environmental issues.

Insurance Laws. Laws in all states regulate the business of insurance and the operation of HMOs. Many states also regulate the establishment and operation of networks of healthcare providers. SurgiCare believes that its operations are in compliance with these laws in the states in which it currently does business. The National Association of Insurance Commissioners (the NAIC) recently endorsed a policy proposing the state regulation of risk assumption by healthcare providers. The policy proposes prohibiting providers from entering into capitated payment contracts (which are contracts that compensate the provider based on the number of members in the plan rather than based on the services the provider performs) or other risk sharing contracts, except through HMOs or insurance companies. Several states have adopted regulations implementing the NAIC policy in some form. In states where such regulations have been adopted, healthcare providers will be precluded from entering into capitated contracts directly with employers and benefit plans other than HMOs and insurance companies.

SurgiCare and its affiliated groups currently do not and currently do not intend to enter into contracts with managed care organizations, such as HMOs, whereby SurgiCare and its affiliated groups would assume risk in connection with providing healthcare services under capitated payment arrangements, although certain of the subsidiaries of SurgiCare that will exist after the Transactions currently do so, and may continue to do so in the future. If SurgiCare or its affiliated entities are considered to be in the business of insurance as a result of entering into such arrangements, they could become subject to a variety of regulatory and licensing requirements applicable to insurance companies or HMOs, which could have a material adverse effect upon SurgiCare s ability to enter into such contracts. SurgiCare has not made a determination regarding whether it will be deemed to be in the insurance business after the Transactions close.

With respect to managed care contracts that do not involve capitated payments or some other form of financial risk sharing, federal and state antitrust laws restrict the ability of healthcare provider networks such as SurgiCare s specialty physician networks to negotiate payments on a collective basis.

Reimbursement. SurgiCare depends upon third-party programs, including governmental and private health insurance programs; to reimburse its ASCs for services rendered to patients in its centers. In order to receive Medicare reimbursement, each ASC must meet the applicable conditions of participation set forth by DHHS relating to the type of facility, its equipment, personnel and standard of medical care, as well as compliance with state and local laws and regulations, all of which are subject to change from time to time. ASCs undergo periodic on-site Medicare certification surveys. SurgiCare s existing centers are certified as Medicare providers. SurgiCare believes that its current centers will participate in Medicare and other government programs. However, SurgiCare s current centers may or may not continue to qualify for participation in Medicare and other government programs. Additionally, the centers that SurgiCare acquires in the future may not qualify for participation in Medicare or other government programs.

Medicare-Medicaid Illegal Remuneration Provisions. The anti-kickback statute makes unlawful knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe, or rebate) directly or indirectly to induce or in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under Medicare or Medicaid. Violation is a felony punishable by a fine of up to $25,000 or imprisonment for up to five years, or both. The Medicare and Medicaid Patient Program Protection Act of 1987 (the 1987 Act) provides administrative penalties for healthcare practices which encourage over-utilization or illegal remuneration when the costs of services are reimbursed under the Medicare program. Loss of Medicare certification and severe financial penalties are included among the 1987 Act s sanctions. The 1987 Act, which adds to the criminal penalties under preexisting law, also directs the Inspector General of DHHS to investigate practices which may constitute over-utilization, including investments by healthcare providers in medical diagnostic facilities and to promulgate regulations establishing exemptions or safe harbors for investments by medical service providers in legitimate business ventures that will be deemed not to violate the law even though those providers may also refer patients to such a venture. Regulations identifying safe harbors were published in final form in July 1991 (the Regulations).

If an operating physician has a financial interest in a facility through a partnership interest, or as a stockholder, the operating physician has the potential to benefit from the profitability of the facility. Where a physician is in a position to direct referrals or business to an entity or facility in which such physician has an ownership interest, and, therefore will benefit from the financial profitability of such entity or facility, there is risk under federal and state law, including the Medicare-Medicaid Illegal Remuneration Provisions. If the facility where a surgeon performs surgery is considered an extension of the surgeon s practice, this may reduce the risk of a violation of the anti-kickback statutes of the Medicare-Medicaid Illegal Remuneration Provisions.

The Regulations set forth two specific exemptions or safe harbors related to investment interests : the first concerning investment interests in large publicly traded companies ($50 million in net tangible assets) and the second for investments in smaller entities. The corporate structure of SurgiCare and its centers meet all of the criteria of either existing investment interests safe harbor as announced in the Regulations.

While several federal court decisions have aggressively applied the restrictions of the anti-kickback statute, they provide little guidance as to the application of the anti-kickback statute to SurgiCare or its subsidiaries. There is safe harbor protection under the anti-kickback statute for physician-owned ASCs that are structured to meet certain tests set out in the regulations. SurgiCare s surgery centers may not currently satisfy all components of the tests for the ambulatory surgical center safe harbor applicable to ASCs. Nonetheless, SurgiCare believes that it is in compliance with the current requirements of the anti-kickback statute.

Notwithstanding SurgiCare s belief that the relationship of physician partners to SurgiCare s surgery centers should not constitute illegal remuneration under the anti-kickback statute, no assurances can be given that a federal or state agency charged with enforcement of the anti-kickback statute or similar state laws might not assert a contrary position or that new federal or state laws might not be enacted that would cause the physician partners ownership interest in SurgiCare to become illegal, or result in the imposition of penalties on SurgiCare or certain of its facilities. Even the assertion of a violation could have a material adverse effect upon SurgiCare.

Prohibition on Physician Ownership of Healthcare Facilities. The Stark II provisions of the Omnibus Budget Reconciliation Act of 1993 amend the federal Medicare statute to prohibit a referral by a physician for designated health services to an entity in which the physician has an investment interest or other financial relationship, subject to certain exceptions. A referral under Stark II that does not fall within an exception is strictly prohibited. This prohibition took effect on January 1, 1995. Sanctions for violating Stark II can include civil monetary penalties and exclusion from Medicare and Medicaid.

Ambulatory surgery is not identified as a designated health service and the Stark II regulations state that items and services provided in any ASC and reimbursed under the composite payment rate are not designated health services. Because all items and services provided at SurgiCare s surgery centers are billed to Medicare under a composite payment rate, as discussed below, SurgiCare believes that it is not subject to the physician self-referral restrictions set forth in Stark II. However, in the event that SurgiCare in the future offers services that are not ASC services covered by a composite payment rate and are designated health services under Stark II, SurgiCare would be subject to the Stark II physician self-referral prohibition with respect to those services.

Medicare pays ASCs a composite rate, or fixed facility payment, as payment in full for all items and services furnished to a patient in connection with a surgical procedure. For example, the Medicare ASC facility fee includes payment for all lab work that might be furnished in connection with a surgical procedure. As such, the physician who furnishes a surgical procedure in an ASC in which he or she has an ownership interest has no incentive to unnecessarily order lab services. CMS cited this as the primary basis for expressly protecting ASC services, and items and services that otherwise would constitute designated health services when furnished in the ASC setting.

Most payors pay using a composite payment rate based on the various procedure groups used by ASCs. Some payors will pay separately for supplies and implants. The compensation paid by each payor for the facility fees varies by insurance carrier. Most pay at a percentage of Medicare or a fixed amount per procedure group. If a facility has a mix of patients whose payors pay better rates than average, the margins of that center are typically higher. If a facility has a mix of patients whose payors pay less than the average rates, the margins of that center are typically lower. The margins achieved at each center are primarily a function of volume, payor, mix, and operating efficiency, in that order.

However, unfavorable future Stark II regulations or subsequent adverse court interpretations concerning the Stark II law or regulations or similar provisions found in similar state statutes could prohibit reimbursement for treatment provided by the physicians affiliated with SurgiCare or its current or future centers to their patients. The negative effect of such unfavorable future Stark II regulations or court rulings may be that investor physicians would not admit their patients to SurgiCare ASCs because of the prohibition on reimbursement for services. This would have a significant effect on the revenues and margins of SurgiCare and would threaten its continuing viability. However, due to the cost-effectiveness of ASCs as compared to hospitals, as discussed in Industry Overview in this section, SurgiCare believes it is unlikely that such unfavorable regulations or court interpretations would be implemented unless there is a dramatic shift in government policy towards ASCs.

Neither SurgiCare nor its subsidiaries are engaged in the corporate practice of medicine. SurgiCare does not employ any physicians to practice medicine on its behalf. SurgiCare and its subsidiaries merely provide the venue for its physicians to perform surgical procedures. SurgiCare submits claims and bills to patients, for the facility fee only, and in no way is involved with the billing or submission of claims for any professional medical fees.

Administrative Simplification and Privacy Requirements. There are currently numerous legislative and regulatory initiatives at the state and federal levels addressing patient privacy concerns. In particular, on December 28, 2000, DHHS released final health privacy regulations implementing portions of the Administrative Simplification Provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and in August 2002 published revisions to the final rules. These final health privacy regulations generally required compliance by April 14, 2003 and extensively regulate the use and disclosure of individually identifiable health-related information. In addition, HIPAA requires DHHS to adopt standards to protect the security of health-related information. DHHS released final security regulations on February 20, 2003. The security regulations will generally become mandatory on April 20, 2005. These security regulations will require healthcare providers to implement administrative, physical and technical practices to protect the security of individually identifiable health-related information that is electronically maintained or transmitted. Further, as required by HIPAA, DHHS has adopted final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations became mandatory on October 16, 2002. However, entities that filed for an extension before October 16, 2002 had until October 16, 2003 to comply with the regulations. SurgiCare filed extensions for its centers before October 16, 2002, and we believe that we were in compliance with the standards by October 16, 2003. We believe that the cost of compliance with these regulations will not have a material adverse effect on our business, financial position or results of operations. If we fail to comply with these regulations, we could suffer civil penalties up to $25,000 per calendar year for each provision violated and criminal penalties with fines of up to $250,000 per violation. In addition, our facilities will continue to remain subject to any state laws that are more restrictive than the privacy regulations issued under HIPAA. These statutes vary by state and could impose additional penalties.

SurgiCare cannot predict whether other regulatory or statutory provisions will be enacted by federal or state authorities which would prohibit or otherwise regulate relationships which SurgiCare has established or may establish with other healthcare providers or the possibility of material adverse effects on its business or revenues arising from such future actions. SurgiCare believes, however, that it will be able to adjust its operations to be in compliance with any regulatory or statutory provision, as may be applicable.

SurgiCare is subject to state and federal laws that govern the submission of claims for reimbursement. These laws generally prohibit an individual or entity from knowingly and willfully presenting a claim (or causing a claim to be presented) for payment from Medicare, Medicaid or other third party payors that is false or fraudulent. The standard for knowing and willful often includes conduct that amounts to a reckless disregard for whether accurate information is presented by claims processors.

Penalties under these statutes include substantial civil and criminal fines, exclusion from the Medicare program, and imprisonment. One of the most prominent of these laws is the federal False Claims Act, which may be enforced by the federal government directly, or by a qui tam plaintiff (a private person suing on the government s behalf under a statute that assigns a certain part of the penalty award to the government). Under the False Claims Act, both the government and the private plaintiff, if successful, are permitted to recover substantial monetary penalties, as well as an amount equal to three times actual damages. In recent cases, some qui tam plaintiffs have taken the position that violations of the anti-kickback statute and Stark II should also be prosecuted as violations of the federal False Claims Act. Even though SurgiCare believes that it has procedures in place to ensure the accurate completion of claims forms and requests for payment, the laws and regulations defining the proper parameters of proper Medicare or Medicaid billing are frequently unclear and have not been subjected to extensive judicial or agency interpretation. Billing errors can occur despite SurgiCare s best efforts to prevent or correct them, and no assurances can be given that the government will regard such errors as inadvertent and not in violation of the False Claims Act or related statutes.

SurgiCare does not believe it has materially failed to comply with any of the regulations described above during the past two years.

Employees

As of December 31, 2003, SurgiCare and its subsidiaries employed approximately 96 persons, 67 of whom were full-time employees and 29 of whom were part-time employees. Of the above, eight were employed at SurgiCare s corporate office in Houston, Texas and the remaining employees were employed by SurgiCare s surgery centers. These employees work in the following positions: corporate management (8); business office (14); administrators (4); nurses (47); and technicians (23). SurgiCare believes its relationship with its employees to be good. SurgiCare does not have any employment or labor contracts, except for its Chief Executive Officer and Chief Financial Officer (see Note 18 to the accompanying financial statements in the Form 10-KSB included in Annex C to this proxy statement). Additionally, SurgiCare does not currently plan on having any such contracts with any operating physician on staff at any of its facilities. At this time, SurgiCare believes that all of its nurses and other employees have at-will employment relationships with SurgiCare.

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Physician Stockholders

SurgiCare has never entered into any arrangement, nor does it plan on entering into any arrangement with any physicians that operate at any of its facilities, to assure their continued use of its facilities. However, many of the surgeons operating in SurgiCare facilities own SurgiCare common stock. Depending on SurgiCare s profitability, the potential exists for all stockholders, both physician and non-physician, to benefit financially.

Surgeons specializing in podiatry, orthopedics, pain management, gynecology, ophthalmology and reconstructive, as well as general surgery utilize SurgiCare s facilities. SurgiCare is not dependent on the revenue generated by patients brought by any single operating physician. At certain facilities, SurgiCare derives a large portion of its revenue from procedures performed within specific specialties. Currently, podiatry and pain management are the dominant specialties at Bellaire. Since Bellaire has over twenty podiatrist and three pain management physicians bringing patients to the surgery center, none are considered to be a major customer.

Description of Property

SurgiCare s principal office is located at 12727 Kimberley Lane, Suite 200, Houston, Texas, 77024. This property is approximately 3,900 square feet, located on the 2nd floor of the Kimberley Medical Office Building above our Memorial Village surgery center. The property is leased from an unaffiliated third party for an initial term that expires in August 2006, but with an option to renew for an additional five years thereafter. Annual rental of $55,272.96 is payable monthly in the amount of $4,606.08. SurgiCare maintains tenant fire and casualty insurance on its property located in such building in an amount deemed adequate by SurgiCare. The four surgery centers in operation at December 31, 2003, lease space ranging from 10,000 to 14,000 square feet with remaining lease terms ranging from month-to-month to nine years.

In June 2002, SurgiCare acquired five properties from American International Industries, Inc., Texas Real Estate Enterprises, Inc. and MidCity Houston Properties, Inc. in exchange for 1.2 million shares SurgiCare Series AA preferred stock. The land holdings are undeveloped properties. SurgiCare is currently marketing the properties for sale. The properties include 735.66 acre tract of vacant land located on the east side of a shell paved road leading to the Anahuac National Wildlife Refuge, approximately two miles South of FM 1985, in Chambers County, Texas; a 22.36 acre tract of land located on the east side of US 59 at the Old Humble/Atascocita Road exit, and an adjacent 14.80 acre tract of land on the west side of Homestead Road in Houston, Harris County, Texas; a 22,248 square foot tract of land located on the northeast corner of Almeda Road and Riverside Drive, in Houston, Harris County, Texas; four tracts of land totaling 26.856 acres located on the southeast, northwest, and northeast corners of Airport Boulevard and Sims Bayou and east side of 4th Street south of Airport Boulevard in Houston, Harris County, Texas; and a 12.216 net acre tract of land located on the southwest corner of Airport Boulevard and Sims Bayou, Houston, Harris County, Texas. SurgiCare currently has contracts to sell two of these properties the tract adjacent to the Anahuac National Wildlife Refuge and the tract on Almeda Road. Pursuant to a December 11, 2002 agreement, American International Industries, Inc. guaranteed a resale price on the land of $4 million, and agreed to make up for any shortfall.

Legal Proceedings

In March 2003, SurgiCare Memorial Village, L.P. and Town & Country SurgiCare, Inc. were named as defendants in a suit entitled MarCap Corporation vs. Health First Surgery Center-Memorial, Ltd.; HFMC, L.C.; SurgiCare Memorial Village, L.P.; and Town & Country SurgiCare, Inc. MarCap has sued for default under a promissory note and refusing to remit payment on a promissory note in the amount of $215,329.36. SurgiCare has paid $53,832.34 of this balance and settlement has been reached whereby SurgiCare will pay MarCap $150,000 over the next year with interest at 10%, with an underlying settlement of approximately $200,000 in the event of a breach in the payment plan.

On July 7, 2003, SurgiCare, Inc. was named as a party in the arbitration entitled Brewer & Pritchard, P.C. vs. SurgiCare, Inc. before the American Arbitration Association. Brewer & Pritchard have claimed breach of contract and demanded payment of $131,294.88 in billed and unbilled legal fees plus third party expenses, interest at the highest legal rate, costs, legal fees and damages from breach of contract. This case was settled in

November 2003 and SurgiCare issued shares of common stock valued at $117,500 as compensation for past legal fees.

On February 10, 2003, SurgiCare, Inc. was named as a defendant in a suit entitled S.E. Altman v. SurgiCare. S.E. Altman has sued for breach of contract, alleging that SurgiCare did not pay monies owed under a Finders Fee Contract. Plaintiff asserts damages in the amount of $217,000, plus interest and attorneys fees. International Diversified Corporation, Limited has indemnified SurgiCare with respect to any fees owed to Altman under the Finders Fee Contract. The case has been dismissed in favor of arbitration. In March 2004, the parties executed a Settlement Agreement and Release of Claims to resolve the dispute in which SurgiCare agreed to issue Mr. Altman 540,000 shares of common stock which have been registered with the Securities and Exchange Commission on Form S-8.

On April 14, 2003, SurgiCare, Inc. was named as a defendant in a suit entitled A.I. International Corporate Holdings, Ltd. v. SurgiCare, Inc. in the U.S. District Court for the Southern District of New York. Subsequently, SurgiCare filed suit against A.I. International Corporate Holdings, Ltd. and First National Bank, S.A.L. of Lebanon in the 215th Judicial District Court of Harris County, Texas. The New York case involves allegations that SurgiCare defaulted on its loan agreement. The plaintiffs in the New York case are suing SurgiCare for $834,252 representing the loan amount and interest, plus $219,000, representing damages for No-filing Charges and Non-Effective Charges under the contract. SurgiCare s lawsuit in Texas asserts that the loan agreement is usurious. The defendants in the Texas case have moved for sanctions against SurgiCare in that forum. The New York case has been ordered to mediation, which has not yet been scheduled. In conjunction with the mediation order, the parties agreed to stay the litigation in both states until the completion of the mediation.

On November 24, 2003, SurgiCare, Inc. was named as a defendant in a suit entitled Vincent A. Giammalva, Trustee v. SurgiCare, Inc., Keith G. LeBlanc, and Phillip C. Scott; in the 344th Judicial District Court of Chambers County, Texas. This case involves allegations that SurgiCare defaulted on a contract to sell a parcel of real estate to plaintiff. Plaintiff also claims that LeBlanc and Scott committed fraud. SurgiCare states that it could not sell the parcel of land because of a lien on the property. The plaintiff seeks specific performance, forcing SurgiCare to sell the property, as well as actual damages. SurgiCare is negotiating with the plaintiff in an effort to settle this matter.

In addition, we are involved in various other legal proceedings and claims arising in the ordinary course of business. Our management believes that the disposition of these additional matters, individually or in the aggregate, is not expected to have a materially adverse effect on our financial condition. However, depending on the amount and timing of such disposition, an unfavorable resolution of some or all of these matters could materially affect our future results of operations or cash flows in a particular period.

Stock Price Data

In April 2000, SurgiCare began trading on the OTC Bulletin Board. In July 2001, SurgiCare qualified for listing on the AMEX and began trading on this exchange at that time under the symbol SRG. The following table sets forth the high and low sales prices relating to SurgiCare s common stock for the last two fiscal years:

Fiscal 2003

	High	Low
Quarter ended March 31, 2003	$0.50	$0.27
Quarter ended June 30, 2003	$0.45	$0.23
Quarter ended September 30, 2003	$0.54	$0.22
Quarter ended December 31, 2003	$0.72	$0.36

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Fiscal 2002

	High	Low
Quarter ended March 31, 2002	$2.50	$1.90
Quarter ended June 30, 2002	$3.70	$1.76
Quarter ended September 30, 2002	$2.68	$0.30
Quarter ended December 31, 2002	$0.93	$0.22

We are in the process of applying for a new AMEX listing symbol for Orion.

Holders

SurgiCare believes that as of March 31, 2004, there were approximately 402 holders of record of SurgiCare common stock and one holder of SurgiCare Series AA preferred stock.

Dividends

SurgiCare has not paid dividends on shares of its common stock within the last two years, and does not expect to declare or pay any cash dividends on shares of its common stock in the foreseeable future.

Option Plan Data

In October 2001, SurgiCare established our 2001 Stock Option Plan, which authorized 1.4 million shares of our common stock to be made available through an incentive program for employees. The 2001 Stock Option Plan was approved by the stockholders. The options were granted at an exercise price equal to the fair market value of the common stock at the date of grant. The options had a ten year term. There were 81,955 options granted under the 2001 Stock Option Plan in 2002. There were none granted under the 2001 Stock Option Plan in 2001. As of December 31, 2003, there were 62,706 options outstanding.

The number of warrants outstanding as of the beginning of 2003 to employees was 7,265,899. The number of warrants outstanding as of the end of 2003 to employees or former employees was 6,855,899 with exercise prices ranging from $0.32 to $2.00, with a weighted average exercise price of $0.407 per share. There were no changes in the exercise price of outstanding warrants through cancellation and re-issuance or otherwise, except price changes resulting from the normal operation of anti-dilution provisions of the warrants.

Incorporation by Reference

We incorporate by reference in this proxy statement the following document which has been previously filed with the SEC and is attached as Annex C to this proxy statement:

Our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, which contains:

Our audited financial statements for the fiscal years ended December 31, 2003 and 2002; and

Our management s discussion and analysis of our financial condition and results of operations for applicable periods.

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INFORMATION ABOUT IPS

Description of Business

Overview

IPS, a Delaware corporation, is a Roswell, Georgia-based holding company. IPS s subsidiary, IntegriMED, Inc. (IntegriMED), is a provider of technology solutions for physicians, including a comprehensive suite of integrated business and clinical software applications called IntegriMED. The Pediatric Physician Alliance (PPA) division of IPS manages pediatric medical clinics.

IntegriMED represents a practical approach to providing medical groups with business and clinical software solutions that address day-to-day operational requirements and regulatory compliance. IntegriMED provides software and technology solutions for physicians through an Application Service Provider (ASP) model. Rather than independently developing a stand-alone software application, IPS identified proven and effective physician practice software solutions and developed an architecture that brought these applications together in a single, integrated management system. The IntegriMED system enables IPS to add new applications as required to respond to changing business and regulatory burdens and allows IPS to deliver these applications to its clients over the Internet resulting in a cost-effective means of delivering and accessing the applications.

The sales cycle is the process of converting a physician practice that has indicated interest in purchasing one or more of IntegriMED s applications into a customer for IntegriMED. IntegriMED s sales cycle varies based upon the customers needs, requirements, size, and scope as well as the competitive dynamics in the local or regional market. Therefore, the sales cycle could be from two weeks to one year in length. The implementation cycle is the process of planning the installation, training the staff and launching the services to a new customer. The implementation cycle can last up to six months.

The IntegriMED system includes practice management, billing, scheduling, collections, human resources, payroll and benefits administration, accounting, communication, procurement and electronic medical records applications. IntegriMED contracts with third-party manufacturers for practice management information systems, electronic medical records systems, human resources management systems, accounting system management and electronic claims processing. Although each of the third-party contracts contain multi-year terms, all are terminable for cause, which includes performance deficiencies. In the event of the termination of any of the third-party contracts, IntegriMED expects that a suitable replacement could be obtained on similar terms and prices. IntegriMED internally developed proprietary applications, including a user interface system, Virtual MBA™ (a proprietary financial reporting and benchmarking program), and software integration systems. IntegriMED offers its customers secure hosting, implementation, training and help desk services. IntegriMED s clients may choose a single product feature or bundle multiple products and services. Additional services can later be integrated into the IntegriMED desktop. The integrated applications are accessed over the internet and hosted at a secure third-party site.

PPA is an experienced and innovative provider of healthcare management services dedicated to the practice of Pediatrics. PPA has been building a tested record of helping medical practices lower costs and improve financial performance since 1996. Currently, PPA manages 13 practice sites, representing eight medical groups in California, Illinois, Ohio, Texas and New Jersey. PPA provides business management and administrative services to the affiliated medical groups. These services include human resources management, accounting, group purchasing, public relations, marketing, information technology, and general day-to-day business operations management services. The affiliated physicians, who are all employed by separate corporations, provide all clinical and patient care related services. There is a standard forty-year contract between PPA and the various affiliated medical groups whereby the physicians are compensated after all practice expenses and a management fee is paid to PPA.

PPA owns all the assets used in the operation of the medical groups and the physicians are equity owners in IPS. IPS manages the day-to-day business operations of each medical group and provides the assets for the physicians to use in their practice, for a fixed fee or percentage of the net operating income of the medical group. All revenues are collected by IPS, the fixed fee or percentage payment to IPS is taken from the net operating income of the medical group and the remainder of the net operating income of the medical group is paid to the physicians as a salary and treated as an expense on IPS s accounting records. This accounting method is allowed by Emerging Issues Task Force (EITF) 97-2.

Customers

IntegriMED currently has subscriptions for 230 desktops in 25 locations. IPS generally targets medical practices with less than 25 physicians with a primary emphasis on family medicine, internal medicine and pediatric practices.

Competition

IntegriMED. Several companies, including Amicore, iLIANT, MED3000 and TriZetto offer bundled packages of software and business services delivered in a hosting environment. The physician practice software industry (Practice Management and Electronic Medical Records) is highly fragmented and includes hundreds of independent companies offering software solutions sold on a perpetual license and client/server basis.

PPA. PPA competes with many local, regional and national companies in the healthcare business services markets in which they operate.

Government Regulation

IPS s customers must comply with the governmental regulations, such as those relating to HIPAA, Medicare and Medicaid, that affect healthcare providers. When providing its customers with healthcare business services and information technology solutions, IPS must consider the healthcare regulatory framework in which its customers operate in order to provide them with services and products that will not compromise their compliance with these regulations. IntegriMED s and PPA s products and services are HIPAA compliant and IntegriMED and PPA have HIPAA Business Associate agreements in place with all companies that are third-party business partners and may receive protected patient health information.

Employees

Currently, IPS has 204 full-time and part-time employees with 32 employees based in Roswell, Georgia. These IPS employees work in the following areas: corporate management (9); administrative functions (97); field management and operations (11); clinical (85); and marketing (2).

Description of Property

IPS is currently based in Roswell, Georgia where it leases a 7,000 square foot office facility. IPS also maintains a sales office in Charlotte, North Carolina and leases space for 13 medical offices ranging in size from 3,000-8,000 square feet. The leases relating to these facilities have terms that expire beginning on January 1, 2004 and continuing to March 9, 2011.

Legal Proceedings

IPS is not a defendant in any material adverse legal proceedings. From time to time, certain legal matters arise in the normal course of its business, such as labor-related claims. Such matters are not anticipated to result in material adverse claims against IPS.

Stock Price Data

The capital stock of IPS is not publicly traded and no market information relating to its capital stock is available. IPS has not paid any dividends on its common stock since inception and does not anticipate paying any dividends in the foreseeable future. There were 36 holders of record of common stock as of December 31, 2003. There were 759,111 options outstanding as of December 31, 2003. There were 357,500 warrants outstanding as of December 31, 2003. There were 2,223,403 shares of preferred stock outstanding and convertible into shares of common stock as of December 31, 2003. Of these preferred shares, 175,000 were

Series A shares, 71,028 were Series A-1 shares, 1,653,000 were Series A-2 shares and 334,375 were Series B shares.

Financial Information

The financial statements and related notes to the financial statements are provided in Annex I to this proxy statement.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis of Financial Condition highlights the principal factors that have affected IPS s financial condition and results of operations as well as IPS s liquidity and capital resources for the periods described. This discussion should be read in conjunction with IPS s consolidated financial statements for the years ended 2003 and 2002 and related notes thereto appearing in Annex I to this proxy statement.

Overview of Business Operations

General

IPS was founded in 1996 as a business development company to provide physician practice management services to general and subspecialty pediatric practices. IPS commenced its business activities upon consummation of several medical group business combinations effective January 1, 1999. IPS, through its two business units, PPA and IntegriMED, currently provides comprehensive management, administrative and other business services to medical groups in selected markets throughout the United States. IPS s headquarters are in Roswell, Georgia.

PPA is an experienced and innovative provider of business management services dedicated to the practice of pediatrics. PPA helps medical groups lower costs and improve financial performance. Currently, PPA manages 13 practice sites, representing eight medical groups in California, Illinois, Ohio, Texas and New Jersey.

IntegriMED is an integrator of business software and clinical systems designed to optimize the business performance of a medical office. IntegriMED deploys, hosts, and manages access to applications that are delivered over secure networks to multiple parties from an offsite, professionally managed facility.

Certain Recent Developments

IPS previously acquired New Interlachen Pediatrics, Inc. (NIP), a component of IPS in Maitland, Florida, pursuant to a plan of merger effective January 1, 1999. A variety of material disputes arose between New Interlachen Pediatrics, P.A. (Interlachen), a Florida professional association, from whom IPS purchased NIP and the employer of the physicians practicing medicine at NIP, and IPS, some or most of which were the subject of an action filed by Interlachen against IPS in Circuit Court of the Eighteenth Judicial Circuit in and for Seminole County, Florida (the Action) and the parties desired to settle all disputes between them and in connection with the Action.

Effective March 31, 2002, NIP entered into an Asset Purchase Agreement with Interlachen for the sale of substantially all of the assets used exclusively by NIP in connection with its practice of pediatric medicine. The purchase price for the assets was $1,904,502 in cash, plus 250,992 shares of the common stock of IPS owned by certain individual physicians of NIP and was consummated on April 30, 2002. The details of the transaction are as follows:

Sales price	$ 2,092,746
Assets, other than intangible assets	(530,551)
Intangible assets	(1,451,167)
Liabilities	134,410
Net gain on sale	$ 245,438

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In addition, as of the closing date, the parties agreed to terminate the Management Service Agreement (MSA) and waive and release all claims between the parties. The consolidated financial statements included in Annex I to this proxy statement include this business unit as a discontinued operation for the periods prior to March 31, 2002.

On September 19, 2003, IPS entered into a Mutual Release and Settlement Agreement (the Settlement Agreement) with Dr. Jane Kao and PediApex Heart Center for Children, P.A. (the Heart Center) to settle disputes as to the existence and enforceability of certain contractual obligations. As part of the Settlement Agreement, Dr. Kao, the Heart Center and IPS agreed that, until December 31, 2004, each party would conduct their operations under the terms established by the MSA. Additionally, among other provisions, after December 31, 2004, Dr. Kao and the Heart Center will be released from any further obligation to IPS arising from any previous agreement, and Dr. Kao will purchase the accounts receivable related to the Heart Center and IPS will terminate its ownership and management agreement with the Heart Center.

Critical Accounting Policies and Estimates

This management s discussion and analysis of financial condition and results of operations of IPS is based upon IPS s consolidated financial statements, which include the accounts of IPS, IntegriMED, and its affiliated medical groups. All significant intercompany balances and transactions are eliminated in consolidation.

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. IPS bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. IPS believes the following critical accounting policies affect the most significant areas involving management s judgments and estimates. In addition, please refer to the Organization and Summary of Accounting Policies section of IPS s Audited Financial Statements included in Annex I to this proxy statement for further discussion of IPS s accounting policies.

In March 1998, the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) issued its Consensus on Issue 97-2 (EITF 97-2). EITF 97-2 addresses the ability of physician practice management (PPM) companies to consolidate the results of medical groups with which it has an existing contractual relationship. Specifically, EITF 97-2 provides guidance for consolidation where PPM companies can establish a controlling financial interest in a physician practice through contractual management arrangements. A controlling financial interest exists, if, for a requisite period of time, the PPM has control over the physician practice and has a financial interest that meets six specific requirements. The six requirements for a controlling financial interest include: (a) the contractual arrangement between the PPM and physician practice (1) has a term that is either the entire remaining legal life of the physician practice or a period of 10 years or more, and (2) is not terminable by the physician practice except in the case of gross negligence, fraud, or other illegal acts by the PPM or bankruptcy of the PPM; (b) the PPM has exclusive authority over all decision making related to (3) ongoing, major, or central operations of the physician practice, except the dispensing of medical services, and (4) total practice compensation of the licensed medical professionals as well as the ability to establish and implement guidelines for the selection, hiring, and firing of them; (c) the PPM must have a significant financial interest in the physician practice that (5) is unilaterally salable or transferable by the PPM and (6) provides the PPM with the right to receive income, both as ongoing fees and as proceeds from the sale of its interest in the physician practice, in an amount that fluctuates based upon the performance of the operations of the physician practice and the change in the fair value thereof. IPS s MSAs governing the contractual relationship with its affiliated medical groups are for forty year terms; are not terminable by the physician practice other than for bankruptcy or fraud; provide IPS with decision making authority other than related to the practice of medicine; provide for employment and non-compete agreements with the physicians governing compensation; provide IPS the right to assign, transfer or sell its interest in the physician practice and assign the rights of the MSAs; provide IPS with the right to receive a management fee based on results of operations and the right to the proceeds from a sale of the practice to an outside party or, at the end of the MSA term, to the physician group. Based on this analysis, IPS has determined that its contracts meet the criteria of EITF 97-2 for consolidating the results of operations of the affiliated medical groups and has adopted EITF 97-2 in its statement of operations. EITF 97-2 also has addressed the accounting method for future combinations with individual physician practices. IPS believes that, based on the criteria set forth in EITF 97-2, any future acquisitions of individual physician practices will be accounted for under the purchase method of accounting.

Revenue Recognition. IPS records revenue based on patient services provided by its affiliated medical groups and for services provided by IntegriMED to its customers. Net patient service revenue is impacted by billing rates, changes in Current Procedural Terminology (CPT) code reimbursement and collection trends. IPS reviews billing rates at each of its affiliated medical groups on at least an annual basis and adjusts those rates based on each insurer s current reimbursement practices. Amounts collected by IPS for treatment by its affiliated medical groups of patients covered by Medicare, Medicaid and other contractual reimbursement programs, which may be based on cost of services provided or predetermined rates, are generally less than the established billing rates of IPS s affiliated medical groups. IPS estimates the amount of these contractual allowances and records a reserve against accounts receivable based on historical collection percentages for each of the affiliated medical groups, which include various payor categories. When payments are received, the contractual adjustment is written off against the established reserve for contractual allowances. The historical collection percentages are adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. Additionally, IPS tracks cash collection percentages for each medical group on a monthly basis, setting quarterly and annual goals for cash collections, bad debt write-offs and aging of accounts receivable. IPS is not aware of any material claims, disputes or unsettled matters with third-party payors and there have been no material settlements with third party payors for the years ended December 31, 2003 and 2002.

IntegriMED generates revenue based on fees charged to its customers for training, implementation, subscription services and administrative fees for management of employee benefit programs. Deferred revenue is recorded at the execution of a contract for the training and implementation fees billed and deposits collected from the customer, representing amounts to be recognized as revenue in future periods. Training and implementation fee revenues are recognized once the applicable software systems are installed and operational and are charged at a quoted daily rate plus expenses. Subscription fee revenues, which are billed on a monthly basis, are recognized based on contractual fee schedules in the period in which the services are provided. Employee benefit administrative fee revenues are recognized in the period in which the services are provided.

Capitated Contractual Arrangements. For the years ended December 31, 2003 and 2002, approximately 4.7% and 4.9%, respectively, of net patient service revenues were derived from capitated contractual arrangements. Revenue is recognized over the applicable coverage period on a per member basis for covered members. Deferred revenue is recorded when premium payments are received in advance of the applicable coverage period. IPS establishes accruals for costs incurred in connection with capitated contracts it negotiates on behalf of the physicians who practice in its affiliated medical groups based on historical trends. Any contracts that would have a realized loss would be immediately accrued for and the loss would be charged to operations.

Accounts Receivable and Allowance for Doubtful Accounts. IPS s affiliated medical groups grant credit without collateral to its patients, most of who are insured under third-party payor arrangements. The provision for bad debts that relates to patient service revenues is based on an evaluation of potentially uncollectible accounts. The provision for bad debts includes a reserve for 100% of the accounts receivable older than 180 days. Establishing an allowance for bad debt is subjective in nature. IPS uses historical collection percentages to determine the estimated allowance for bad debts, and adjusts the percentage on a quarterly basis. If IPS s policy had been to reserve 100% of the accounts receivable older than 120 days, the reserve would have resulted in an additional charge to operations of $341,093 and $317,387 in 2003 and 2002, respectively.

Goodwill and Other Intangible Assets. In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates pooling-of-interest accounting and requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires IPS to evaluate goodwill for impairment on an annual basis by applying a fair value test. SFAS No. 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value-based approach at least annually.

IPS adopted SFAS No. 142 effective January 1, 2002. As a result, IPS determined that its long-term MSAs, executed as part of the medical group business combinations consummated in 1999, are an identifiable intangible asset in accordance with paragraph 39 of SFAS No. 141. Effective January 1, 2002, previously recorded goodwill was allocated to the identifiable intangible assets the MSAs which arise as a result of the contractual rights of IPS with respect to those agreements. IPS has determined that the appropriate estimate of the useful economic life of the MSAs and the resulting amortization period is 25 years. This determination is based on the following facts and circumstances: (1) the MSAs are 40 year contracts, with 35 years remaining as of December 31, 2003. Most of the medical groups owned by PPA have been in existence for many years, some for as long as 60 years. Given that the MSA contracts are with the physician groups from whom PPA originally purchased the clinics in 1999, the composition of the individual physicians within the physician group has little impact on the term or enforceability of the MSAs. As individual physicians terminate their relationship with the physician groups, they are required by the MSA to find a replacement, unless that particular contract provision is waived by IPS; (2) each individual physician who practices as part of the physician groups has a non-compete agreement which restricts the physician s ability to see patients within a defined geographic area, depending on the specific nature of the type of medical group. For example, a very specialized practice, such as pediatric cardiology or neonatology has a broader non-compete geographic area than a general pediatric practice. General pediatric practices typically draw patients within a very small geographic region, and these pediatricians spend years developing a patient base and reputation. Moving a medical practice outside of the non-compete area for any of these practices would require a significant amount of time and effort to re-build a patient base and establish a satisfactory reputation; (3) the clinics owned by IPS consist of a pediatric cardiology practice, a hospital-based neonatology practice, an allergy specialist practice and five general pediatric practices. All of these types of practices have very stable operations, either because of the type of specialty, or the length of time the practice has been in operation in a specific area; (4) although two of the medical groups will have terminated their relationship with IPS by the end of 2004, (NIP was sold in 2002 and the remaining individual pediatric cardiologist relationship with IPS will end on December 31, 2004), there are very unusual circumstances involved in both situations and these terminations are not an indication of a probable economic life of the MSAs. The physician group from whom IPS originally purchased NIP offered to purchase the clinic from IPS at a time when the physician group was attempting to challenge the enforceability of the MSA. IPS concluded that the selling price of approximately $2 million and the resulting gain on sale of approximately $245,000 outweighed the cost of trying to enforce the MSA. The pediatric cardiologist, based in Dallas, Texas, was originally part of a clinic purchased by IPS where all of the other physicians abandoned the clinic and disregarded the MSA in 2001. IPS is seeking restitution through arbitration from these physicians and certain other hospitals, but maintain that the MSA is enforceable. IPS tested its intangible assets for impairment under the new standard in the fourth quarter of 2002, determining that no impairment had occurred for the year ended December 31, 2002. In the fourth quarter of 2003, IPS tested the intangible assets for impairment using several different methodologies, including comparisons of the medical groups earnings before interest, taxes, depreciation and amortization (EBITDA), sales multiples of EBITDA, terminal value to intangible assets and present value of future cash flows. As a result, IPS recorded a $2,560,906 charge for impairment of intangible assets, primarily related to an agreement signed in 2003, which releases a physician who practices pediatric cardiology at a medical group located in Dallas, Texas from the MSA on December 31, 2004. IPS has also determined that, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, this component does not qualify for discontinued operations treatment until it is disposed of at the end of 2004. Therefore, the operations and assets and liabilities of this component are

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included in the consolidated statements of operations and balance sheets for the years ended December 31, 2003 and 2002.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. Many such instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for fiscal years beginning after December 15, 2004 for nonpublic entities. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance of the date of the SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. IPS management believes that the adoption of SFAS No. 150 will not have a significant impact on the financial position, results of operations or cash flows of IPS.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The application of the requirements of FIN 45 did not have any impact on IPS s financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. FIN No. 46 (as revised in December 2003) clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity as risk for the entity to finance its activities without additional subordinated financial support from other parties. For nonpublic companies, FIN No. 46 is applicable immediately for variable interest entities created after December 31, 2003. For all variable interest entities, the provisions of FIN No. 46 are applicable the first annual period that begins after December 15, 2004. IPS has not identified any variable interest entities and does not expect FIN No. 46 to have any effect on its consolidated financial statements.

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Results of Operations

The following table sets forth selected statements of operations data expressed as a percentage of IPS s total revenue for the respective periods. IPS s historical results and period-to-period comparisons are not necessarily indicative of the results for any future period.

	For the Years Ended December 31,	
	2003	**2002**
Revenues:		
Net patient service revenue	98.5%	99.2%
IntegriMED and other	1.5%	0.8%
Total revenues	100.0%	100.0%
Operating expenses:		
Physician compensation	41.9%	43.3%
Direct clinical expenses	20.0%	19.1%
Operating expenses	16.9%	17.3%
General and administrative expenses	14.4%	13.8%
Provision for bad debts	8.2%	7.4%
Professional and consulting fees	3.8%	4.1%
Depreciation and amortization	2.8%	3.3%
Charge for impairment of intangible assets	10.5%	0.0%
Total operating expenses	118.5%	108.3%
Loss from continuing operations before other income (expenses) and income taxes	(18.5)%	(8.3)%
Other income (expenses)		
Interest expense	(3.2)%	(2.7)%
Other expenses	(0.1)%	(0.1)%
Total other income (expenses)	(3.3)%	(2.8)%
Loss from continuing operations before income taxes	(21.8)%	(11.1)%
Income taxes	0.0%	0.0%
Loss from continuing operations	(21.8)%	(11.1)%
Discontinued operations		
Income from operations of discontinued components, including gain on disposal of $245,438 in 2002	0.0%	2.1%
Net loss	(21.8)%	(9.0)%
Preferred stock dividends	(3.0)%	(3.6)%
Net loss attributable to common stockholders	(24.8)%	(12.6)%

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Year Ended December 31, 2003 as Compared to Year Ended December 31, 2002

The following table sets forth, for the periods indicated, the consolidated statements of operations of IPS.

	2003	2002	Variance
Revenues:			
Net patient service revenue	$23,912,067	$22,149,751	$ 1,762,316
IntegriMED and other	371,085	174,918	196,167
Total revenues	24,283,152	22,324,669	1,958,483
Operating expenses:			
Physician compensation	10,177,827	9,668,073	509,754
Direct clinical expenses	4,862,353	4,267,596	594,757
Operating expenses	4,101,010	3,860,027	240,983
General and administrative expenses	3,498,522	3,076,857	421,665
Provision for bad debts	1,986,564	1,660,516	326,048
Professional and consulting fees	929,179	912,795	16,383
Depreciation and amortization	680,494	730,660	(50,166)
Charge for impairment of intangible assets	2,560,906		2,560,906
Total operating expenses	28,796,855	24,176,524	4,620,330
Loss from continuing operations before other income (expenses) and income taxes	(4,513,703)	(1,851,855)	(2,661,848)
Other income (expenses)			
Interest expense	(784,008)	(599,392)	(184,616)
Other expense	(24,034)	(31,077)	7,043
Total other income (expenses)	(808,042)	(630,469)	(177,573)
Loss from continuing operations before income taxes	(5,321,745)	(2,482,324)	(2,839,421)
Income taxes			
Loss from continuing operations	(5,321,745)	(2,482,324)	(2,839,421)
Discontinued operations			
Income from operations of discontinued components, including gain on disposal of $245,438 in 2002		463,330	(463,330)
Net loss	$ (5,321,745)	$ (2,018,994)	$(3,302,751)
Preferred stock dividends	(738,085)	(793,000)	(54,915)
Net loss attributable to common stockholders	$ (6,059,830)	$ (2,811,994)	$(3,247,836)

Net patient service revenue increased $1,762,316, or 8.0%, to $23,912,067 for the year ended December 31, 2003, as compared with $22,149,751 for the same period in 2002. This increase in net patient service revenue was primarily the result of: (i) price increases implemented by several medical groups during the year; (ii) increased patient volume as a result of two medical groups extending their clinic hours to evenings and weekends; (iii) five additional providers added in 2003; and (iv) improved managed care contract negotiations.

IntegriMED and other revenues were $174,918 in 2002, increasing 112.1%, or $196,167, to $371,085 for the year ended December 31, 2003. Of the total increase, $62,671 relates to additional net revenue related to the operations of IntegriMED, as ten new customer practices were added to the employee benefits programs and practice management, electronic medical records and electronic data interchange applications offered by IntegriMED. Revenue from the IPS Vaccine Alliance, a group purchasing alliance for vaccines and medical supplies, increased $133,496 over 2002 to $213,797.

Pursuant to the terms of the MSAs governing each of IPS s affiliated medical groups, the physicians of each medical group are compensated after the payment of all clinic facility expenses as well as a management fee to IPS. The management fee revenue and expense, which is eliminated in the consolidation of the financial statements, is either a fixed fee, or is calculated based on a percentage of net operating income and represented approximately 14.3% of physician medical group net operating income in 2003 compared to 14.6% in 2002. Physician compensation increased $509,754, or 5.3%, for the year ended December 31, 2003 to $10,177,827, as compared with $9,668,073 for the year ended December 31, 2002. As a percentage of net patient service revenue, physician compensation decreased 1.4% to 41.9% in 2003, because of increasing medical group expenses. The increase in compensation in 2003 was directly related to an increase in net patient service revenue, which was primarily the result of: (i) price increases implemented by several medical groups during 2003; (ii) increased patient volume as a result of lengthened clinic hours; and (iii) additional providers added in 2003.

Direct clinical expenses are directly related to the practice of medicine by the physicians who practice at the affiliated medical groups managed by IPS. For the year ended December 31, 2003, direct clinical expenses increased $594,757, or 13.9%, from the same period in 2002 to $4,862,353. As a percentage of total revenue, direct clinical expenses increased slightly, from 19.1% in 2002 to 20.0% in 2003. Vaccine and medical supplies expense for IPS s affiliated medical groups accounted for $348,365 of the increase, which is directly related to the increase in patient volume during the year. Additionally, the price of several key vaccines used by the affiliated medical groups increased in 2003 when compared to 2002. The remainder of the increase was primarily the result of approximately $230,000 in additional salary and employee benefits expense related to the hiring of new nurse practitioners and nurses in 2003 to support the added patient volume associated with extended clinic hours and the addition of new physician providers at several affiliated medical groups.

Operating expenses represents the employee-related costs of all non-clinical practice personnel and the IPS corporate staff in Roswell, Georgia. Operating expenses increased $240,983 from $3,860,027, for the year ended December 31, 2002 to $4,101,010 for the year ended December 31, 2003. This increase can be attributed primarily to: (i) eight new employees hired in response to growth in the IntegriMED business; and (ii) the growing costs associated with medical benefits offered to IPS employees, as well as cost of living adjustments to employee compensation. As a percentage of total revenue these expenses were consistent with the prior year, decreasing 0.4% to 16.9% in 2003.

General and administrative expenses were $3,498,522 for the year ended December 31, 2003, which represents an increase of 13.7% over the same period in 2002. The increase was primarily due to: (i) a 31.4%, or $107,639, increase in professional liability insurance for affiliated physicians; (ii) rent increases totaling $37,546 related to medical group facilities, IPS s corporate office in Roswell, Georgia and a new IntegriMED satellite sales office in Charlotte, North Carolina; (iii) a $58,014 increase in equipment leasing and data communications expenses related to IntegriMED; and (iv) a $177,168 increase in bank charges in 2003 as a result of revolving credit facility over-advances beginning in August 2002.

The provision for bad debts increased $326,048 for the year ended December 31, 2003. As a percentage of total revenue, bad debt expense increased slightly from 7.4% in 2002 to 8.2% in 2003. The total collection rate, after contractual allowances, for IPS s affiliated medical groups was 62.2% in 2003, which was comparable to a 62.4% rate in 2002.

Professional and consulting fees, which totaled $929,179 for the year ended December 31, 2003, were comparable to the same period of the prior year.

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates pooling-of-interest accounting and requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires IPS to evaluate goodwill for impairment on an annual basis by applying a fair value test. SFAS No. 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value-based approach at least annually.

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IPS adopted SFAS No. 142 effective January 1, 2002. As a result, IPS determined that its long-term MSAs, executed as part of the medical group business combinations consummated in 1999, are an identifiable intangible asset in accordance with paragraph 39 of SFAS No. 141. Effective January 1, 2002, previously recorded goodwill was allocated to the intangible assets the MSAs which arise as a result of the contractual rights of IPS with respect to those agreements. The MSAs are 40-year contracts; however, IPS is amortizing the intangible assets over 25 years. IPS tested its intangible assets for impairment under the new standard in the fourth quarter of 2002, determining that no impairment had occurred for the year ended December 31, 2002.

Depreciation and amortization expense totaled $680,494 in 2003, a decrease of $50,166 from the year ended December 31, 2002. Amortization expense related to the MSAs totaled $522,993 for the years ended December 31, 2003 and 2002, respectively. The decrease in depreciation expense relates solely to retirements of fixed assets at the affiliated medical groups and corporate office during 2003.

In the fourth quarter of 2003, IPS tested the intangible assets for impairment using several different methodologies, including comparisons of the medical groups earnings before interest, taxes, depreciation and amortization (EBITDA), sales multiples of EBITDA, terminal value to intangible assets and present value of future cash flows. As a result, IPS recorded a $2,560,906 charge for impairment of intangible assets, primarily related to an agreement signed in 2003, which releases a physician who practices pediatric cardiology at a medical group located in Dallas, Texas from the MSA on December 31, 2004.

IPS has also determined that, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, this component does not qualify for discontinued operations treatment until it is disposed of at the end of 2004. Therefore, the operations and assets and liabilities of this component are included in the consolidated statements of operations and balance sheets for the years ended December 31, 2003 and 2002.

Interest expense increased $184,616 or 30.8%, to $784,008 for the year ended December 31, 2003. The increase over 2002 can be explained generally by the following events:

On March 26, 2003, IPS refinanced with DVI Financial Services (DVI FS) its $2,075,000 five-year term loan, with an effective interest rate of 10.75%, with a new $3 million five-year term loan. The new loan bears interest at the 31-month Treasury note rate, which is currently equal to 9.0%. The decrease in interest rate, net of the increase in note principal, will reduce interest expense approximately $20,000 per year over the term of the new loan.

On July 31, 2003, Brantley Capital Corporation exchanged 329,500 shares of the IPS Series A-2 redeemable convertible preferred stock for a convertible debenture in the amount of $1,318,000, bearing interest at 10% per annum.

Additionally, IPS borrowed $1,490,000 from Brantley Capital Corporation and its affiliate, Lakepoint Acquisitions, Inc., for ongoing working capital needs.

Other expenses, which totaled $24,034 for the year ended December 31, 2003 and represent franchise taxes at IPS s affiliated medical groups, were comparable to 2002.

IPS s Series A-2 preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable at the annual rate of $0.40 for each share. Such dividends shall accrue, even if not declared, and shall be declared and paid in cash in equal installments on the first day of January, April, July, and October immediately following the original issue date. Preferred stock dividends in the amount of $738,085 and $793,000 were accrued for the years ended December 31, 2003 and 2002, respectively.

Liquidity and Capital Resources

For the year ended December 31, 2003, net cash used in operating activities was $2,324,063 compared to $2,070,854 in net cash used in operating activities for the same period in 2002. The increase in net cash used in operations was primarily the result of: (i) increases of $160,174 and $33,185 in staff and technology expenses, respectively, related to the growth of the IntegriMED business; and (ii) the loss of cash available from the operating activities of a medical group sold in 2002.

Net cash used by investing activities was $16,428 for the year ended December 31, 2003 compared to $1,859,736 in net cash provided by investing activities for the year ended December 31, 2002. The sole investing activity in 2003 consisted of purchases of property and equipment. Purchases of property and equipment at the IPS corporate and affiliated medical group locations were offset in 2002 by the cash proceeds from the sale of NIP in March 2002 totaling $1,904,502. IPS has made essentially no capital expenditures in each of the most recent two years and no material expenditures are planned in the next fiscal year.

Net cash provided by financing activities was $2,382,631 for the year ended December 31, 2003 compared to $109,697 in net cash provided by financing activities for the same period in 2002. Payments totaling $267,337 on IPS s capital lease obligations and line of credit were made in the ordinary course of business operations during 2003. In March 2003, IPS s five-year $2,075,000 term loan with DVI FS was refinanced with a new $3 million five-year term loan. Additionally, during the third and fourth quarters of 2003, IPS borrowed $1,490,000 from Brantley Capital Corporation and its affiliate, Lakepoint Acquisitions, Inc., for ongoing working capital needs.

As of December 31, 2003, IPS had $50,274 of cash and cash equivalents on hand as compared to $8,134 at December 31, 2002. Additionally, IPS had negative working capital of $8,196,460 at December 31, 2003 compared to the $5,678,301 working capital deficit at December 31, 2002.

Effective June 22, 2001, IPS entered into a five-year, $2,075,000 term loan (the Term Loan) with DVI FS and a two-year, $5 million revolving credit facility (the RLOC) with DVI Business Credit Corporation (DVIBC). As of December 31, 2003 and 2002, the outstanding borrowings under the Term Loan and RLOC are classified in IPS s balance sheet in accordance with the debt repayment schedules. As security for the borrowings under the Term Loan, IPS has granted DVI FS a first priority perfected interest in, and lien on, all of its assets.

On March 26, 2003, IPS refinanced with DVI FS its $2,075,000 five-year term loan with a new $3 million five-year term loan. The new loan bears interest at the 31-month Treasury note rate. Repayments are $62,275 monthly representing principal and interest. Amounts outstanding under the Term Loan totaled approximately $2,741,000 and $1,627,000 as of December 31, 2003 and 2002, respectively.

Under the terms of the RLOC agreement, revolving credit loans are to be used for general operating and capital needs, as long as requests do not exceed the borrowing base, which is equal to the lesser of (a) maximum revolving credit amount, (b) amount equal to the lesser of (i) 85% of the expected net receivable amount of eligible accounts or (ii) monthly accounts receivable collections over the immediately preceding three-month period. As security for the borrowings under the RLOC, IPS has granted DVI BC a perfected security interest in all present and future accounts receivable. Amounts outstanding under the RLOC bear interest at prime rate plus 2.35%, and interest is payable monthly. The Term Loan and RLOC contain certain affirmative and negative covenants. Amounts outstanding under the RLOC as of December 31, 2003 and 2002 totaled approximately $2,454,000 and $2,600,000, respectively, and are classified as short-term in the accompanying consolidated balance sheet.

During fiscal year 1999, IPS issued subordinated promissory notes payable to Brantley Venture Partners III, L.P. and Brantley Capital Corporation in connection with the acquisition of physician practices. Total amounts issued were approximately $644,000, plus accrued interest. The notes payable bear interest at 15% per annum which is payable in cash each quarter or at the request of the payee in stock. The notes originally matured on September 30, 2003, but the maturity date was extended to April 15, 2004. During 2001 and 2002, IPS issued additional notes payable to the same stockholder in the amount of $720,000, plus accrued interest. These notes payable bear interest at 15% per annum which is payable in cash each quarter or at the request of the payee in stock. The notes originally matured on September 30, 2003, but the maturity date was also extended to April 15, 2004.

On July 31, 2003, Brantley Capital Corporation exchanged 329,500 shares of the Series A-2 redeemable convertible preferred stock for a convertible debenture in the amount of $1,318,000, bearing interest at 10% per annum. The convertible debenture may be converted into IPS s Series A-2 redeemable convertible preferred stock on demand.

During fiscal year 1999, IPS issued a $240,000 non-interest bearing note payable in connection with treasury shares purchased by IPS. The note provides for monthly repayment of $4,000, starting January 1, 1999 and ending December 31, 2003. The carrying value of the note payable, which is reflected on a discounted present value basis, was approximately $45,000 as of December 31, 2002 and was paid in full as of December 31, 2003.

IPS s financial statements have been prepared assuming IPS will continue as a going concern. IPS has suffered recurring losses from operations, has negative working capital and has a net capital deficiency, and scheduled maturities of debt aggregating $7.2 million in 2004. Additionally, on August 25, 2003, DVI, Inc., the parent organization of IPS s primary lenders, DVI FS and DVI BC, filed a petition with the United States Bankruptcy Court for protection under Chapter 11 of the United States Bankruptcy Code. The inability of DVI, Inc. to reorganize and emerge from the bankruptcy process may negatively impact IPS s ability to obtain debt financing in the future. The RLOC with DVI BC expired on January 15, 2004 and is being extended on a month-to-month basis. These factors raise substantial doubt about IPS s ability to continue as a going concern.

IPS s plans to merge with SurgiCare include the simultaneous acquisition by SurgiCare of DCPS and MBS. Additionally, Brantley IV will make a cash investment in the newly combined entities. IPS and SurgiCare are negotiating with DVI FS and DVIBC to restructure outstanding debt of both entities. The additional debt available from the restructured debt, the combined cash flow of the newly combined entities and the cash investment by Brantley IV will be used to finance the capital resource needs of the newly combined entities, including IntegriMED. There are currently no plans to add additional medical group affiliates; however, cash generated from the operating activities of the medical groups will be used to finance the internal growth of those medical groups.

Contractual Obligations

IPS has been authorized to issue 772,900 shares of Series A redeemable convertible preferred stock (Series A), 71,028 shares of Series A-1 redeemable convertible preferred stock (Series A-1), 2.2 million shares of Series A-2 redeemable convertible preferred stock (Series A-2), 474,375 shares of Series B redeemable convertible preferred stock (Series B), and 190,000 shares of Series C redeemable convertible preferred stock (Series C). Holders of Series A and Series A-2 are entitled to vote with the number of votes equal to the number of common shares into which such Series A and Series A-2 may be converted. Series A-1, Series B, and Series C are nonvoting.

During 1996, IPS issued 772,900, 24,600, and 474,378 shares of Series A, Series A-1, and Series B preferred stock, respectively, to certain investors. Series A and Series A-1 were issued at $4 per share, and Series B was issued at $1 per share.

On January 26, 1999, in connection with the medical group business combinations, IPS entered into an agreement to exchange the Series A and Series B shares, including accrued dividends, owned by Brantley Venture Partners III, L.P., at book value, which approximates the redemption value. Total shares redeemed by IPS were 686,000 shares of Series A at $4 per share and 171,500 shares of Series B at $1 per share. Total shares issued in connection with the redemption were 857,500 shares of Series A-2 at $4 per share. On January 27, 1999, Brantley Venture Partners III, L.P. co-invested with Brantley Capital Corporation in IPS by buying 793,000 and 1,189,500 shares of Series A-2, respectively, for $4 per share, which includes the 857,500 shares described above. Additionally, IPS issued warrants to purchase 40,000 and 60,000 shares of the IPS s common stock to Brantley Venture Partners III, L.P. and Brantley Capital Corporation, respectively, at $3.17 per share. The warrants expire on January 28, 2009. Holders of Series A and Series A-2 are entitled to vote with the number of votes equal to the number of common shares into which such Series A and Series A-2 may be converted. On July 31, 2003, Brantley Capital Corporation exchanged 329,500 shares of the Series A-2 redeemable convertible preferred stock for a convertible debenture in the amount of $1,318,000, bearing interest at 10% per annum. The convertible debenture may be converted into IPS s Series A-2 redeemable convertible preferred stock on demand.

At December 31, 2003, IPS has reserved 3,684,408 shares of common stock and 150,000 shares of Series C for the redemption of the convertible preferred stock, exercise of warrants, and other future issuances.

Series A and Series A-1 preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable (i) one-half in Series A or Series A-1 shares at the annual rate of $0.05 per share and (ii) one-half at the board s discretion of either (a) Series A or Series A-1 shares at the annual rate of $0.05 per share or (b) cash at the annual rate of $0.20 for each share. Such dividends shall accrue, even if not declared, until December 31, 2000, unless a public offering or merger occurs, at which time they shall be due and payable, as provided in the Amended and Restated Certificate of Incorporation dated January 27, 1999. Dividends have been accrued through December 31, 2000.

The Series A-2 preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable at the annual rate of $0.40 for each share. Such dividends shall accrue, even if not declared, and shall be declared and paid in cash in equal installments on the first day of January, April, July, and October immediately following the original issue date. Dividends have been accrued through December 31, 2003.

The Series B preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable (i) one-half in Series B at the annual rate of $0.05 per share for each share and (ii) one-half, at the board s discretion, of either (a) Series B at the annual rate of $0.05 per share for each share or (b) cash at the annual rate of $0.05 for each share, but only if all accrued dividends and distributions on the Series A, Series A-1, and Series A-2 preferred stock have been paid in full prior to the date of any such declaration. Such dividends shall accrue, even if not declared, until December 31, 2000, unless a public offering or merger occurs, at which time they shall be due and payable as provided in the Amended and Restated Certificate of Incorporation dated January 27, 1999. Dividends have been accrued through December 31, 2000.

Each share of Series A, Series A-1, Series A-2, and Series B preferred stock may be converted, at the option of the holder, into one share of common stock. Any shares of preferred stock that remain outstanding on the closing date of a public offering or a merger or consolidation of IPS with another company shall automatically convert on the same basis and at the same conversion price into common stock.

On or after October 6, 2002, each share of Series A, Series A-1, and Series B preferred stock is redeemable at the request of the holders if any of the following have not occurred: (i) a public offering, (ii) a public merger, or (iii) any liquidation, dissolution, or winding up of affairs. The redemption price is equal to the greater of the fair market value of the shares or $4 per share, plus accrued and unpaid dividends, whether declared or not, for Series A and A-1, and $1 per share, plus accrued and unpaid dividends, whether declared or not, for Series B. Redemption, at the request of the holder, shall occur as follows: (i) one-third of the outstanding shares shall be redeemed on October 6, 2002, (ii) one-third of the outstanding shares shall be redeemed on October 6, 2003, and (iii) one-third of the outstanding shares shall be redeemed on October 6, 2004. As of December 31, 2003, no shares have been redeemed.

On or after January 27, 2005, each share of Series A-2 preferred stock is redeemable at the request of the holders if any of the following have not occurred: (i) a public offering, (ii) a public merger, or (iii) any liquidation, dissolution, or winding up of affairs. The redemption price is equal to the greater of the fair market value of the shares or $4 per share, plus accrued and unpaid dividends, whether declared or not. Redemption, at the request of the holder, shall occur as follows: (i) one third of the outstanding shares shall be redeemed on January 27, 2005, (ii) one-third of the outstanding shares shall be redeemed on January 27, 2006, and (iii) one-third of the outstanding shares shall be redeemed on January 27, 2007.

In the event of IPS s liquidation, the holders of Series A, Series A-1, and Series A-2 are entitled to receive $4 per share, and the holders of Series B are entitled to receive $1 per share, plus an amount equal to all accrued and unpaid dividends thereon.

IPS has entered into several leases for computer software and hardware and to finance the renovation of several offices. These leases are accounted for as capital leases.

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IPS leases office space and certain equipment under noncancelable operating lease agreements with expiration dates through 2010. The leases may be renewed under terms to be negotiated by IPS and the lessors.

The following table sets forth, for the periods indicated, the consolidated commitments and contractual obligations for IPS as of December 31, 2003.

	Payments Due by Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Future aggregate annual maturities of long-term debt	$ 9,441,983	$ 7,231,054	$ 1,994,884	$ 216,045	$
Future capital lease minimum payments	87,505	58,059	29,446		
Minimum annual rental commitments under noncancelable operating leases with terms in excess of one year	4,111,546	1,099,786	2,379,630	316,348	315,782
Total	$ 13,641,034	$ 8,388,899	$ 4,403,960	$ 532,393	$ 315,782

INFORMATION ABOUT DCPS AND MBS

Description of the DCPS Business

Overview

DCPS is based in Houston, Texas and was organized as a Texas limited liability company on September 16, 1998. DCPS reorganized as a Texas limited partnership on August 31, 2003. DCPS provides physician management services to hospital-based physicians and clinics. These services include:

- Billing accounts receivable management;
- Management trend analysis;
- Custom reporting;
- Current Procedural Technology (CPT) and Independent Diagnosis Code (ICD-9) coding;
- Managed care contract negotiation, review and recommendation;
- Managed care contract database reporting and master file creation;
- Medicare, Medicaid, and Blue Cross Blue Shield provider number application and follow through;
- Fee schedule development;
- Retention and storage of records in accordance with federal and state statutes;
- HIPAA compliance;
- Pre-billing reviews and edits;
- Submission of electronic and secondary insurance claims; and
- Prompt processing of all insurance and patient correspondence.

Customers

DCPS provides services to approximately 25 customers located in the Houston area. These customers range in size from individual doctors to practice groups with up to 50 providers. The following are examples of the types of customers DCPS serves:

Anesthesiologists	Radiologists
Imaging Centers	Cardio-Thoracic Surgeons
Pathologists	Hospital Labs
Comprehensive Breast Centers	

Revenues

DCPS has grown from an average annual income of $1 million per year to its current level of approximately $4 million per year. DCPS s principal source of revenues is a fee charged to customers based on a percentage of collections. The fees vary depending on the specialty, size of the account, and payor mix. In addition to the collection of fee revenue, DCPS also earns consulting fees from the various consulting services that it provides.

Competition

There are several companies that compete with DCPS, including Per Se Technologies, Inc., RMI, and Houston Medical Records. Many of these competitors have greater resources than DCPS. The principal competitive factors that affect the ability of DCPS and its competitors to provide such services are price, experience, reputation, and access to capital.

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Government Regulation

The healthcare industry is subject to extensive regulation by a number of governmental entities at the federal, state and local levels. Regulatory activities affect the business activities of DCPS by controlling reimbursement to DCPS s clients, which affects DCPS s revenues, as well as regulations regarding patient privacy and submission of fraudulent claims.

Reimbursement. DCPS s clients depend upon third-party programs, including governmental and private health insurance programs, to reimburse them for services rendered to patients. In order to receive Medicare reimbursement, each client must meet the applicable conditions of participation set forth by DHHS relating to the type of specialty, as well as comply with state and local laws and regulations, all of which are subject to change from time to time. Reimbursement rates are subject to governmental regulation as well as negotiated contracts with third party payors. Changes in reimbursement to DCPS s clients will have a direct impact on DCPS s revenues because DCPS s revenues are based on a percentage of such reimbursements.

Administrative Simplification and Privacy Requirements. There are currently numerous legislative and regulatory initiatives at the state and federal levels addressing patient privacy concerns, and DCPS s clients, as healthcare providers, are regulated by these. In particular, on December 28, 2000, DHHS released final health privacy regulations implementing portions of the Administrative Simplification Provisions of HIPAA, and in August 2002 published revisions to the final rules. These final health privacy regulations generally required compliance by April 14, 2003 and extensively regulate the use and disclosure of individually identifiable health-related information. In addition, HIPAA requires DHHS to adopt standards to protect the security of health-related information. DHHS released final security regulations on February 20, 2003. The security regulations will generally become mandatory on April 20, 2005. These security regulations will require healthcare providers like DCPS s clients to implement administrative, physical and technical practices to protect the security of individually identifiable health-related information that is electronically maintained or transmitted. DHHS has also adopted, as required by HIPAA, final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations became mandatory on October 16, 2002. However, entities that filed for an extension before October 16, 2002 had until October 16, 2003 to comply with the regulations. DCPS is affected by all of these regulations because it must consider the healthcare regulatory framework in which its clients operate in order to provide them with services and products that will not compromise their regulatory compliance. In addition, as a business associate of its clients, DCPS is contractually bound to adhere to some or all of these regulations through written agreements with clients who are directly regulated by such regulations. DCPS believes that the cost of compliance with its client s requirements arising from these regulations will not have a material adverse effect on its business, financial position or results of operations. If DCPS s clients fail to comply with these regulations, they could suffer civil penalties up to $25,000 per calendar year for each provision violated and criminal penalties with fines of up to $250,000 per violation. In addition, DCPS s clients, and therefore DCPS indirectly, will continue to remain subject to any state laws that are more restrictive than the privacy regulations issued under HIPAA. These statutes vary by state and could impose additional penalties. DCPS may itself be subject to certain federal and state privacy laws.

DCPS cannot predict whether other regulatory or statutory provisions will be enacted by federal or state authorities which would prohibit or otherwise regulate relationships which DCPS has established or may establish with other healthcare providers or the possibility of material adverse effects on its business or revenues arising from such future actions. DCPS believes, however, that it will be able to adjust its operations to be in compliance with any applicable regulatory or statutory provision.

DCPS is subject to state and federal laws that govern the submission of claims for reimbursement because DCPS s customers are regulated by these laws and DCPS must consider the healthcare regulatory framework in which its clients operate in order to provide them with services and products that will not compromise their regulatory compliance. These laws generally prohibit an individual or entity from knowingly and willfully presenting a claim (or causing a claim to be presented) for payment from Medicare, Medicaid or other third party payors that is false or fraudulent. The standard for knowing and willful often includes conduct that amounts to a reckless disregard for whether accurate information is presented by claims processors.

Penalties under these statutes include substantial civil and criminal fines, exclusion from the Medicare program, and imprisonment. One of the most prominent of these laws is the federal False Claims Act, which may be enforced by the federal government directly, or by a qui tam plaintiff on the government s behalf. Under the False Claims Act, both the government and the private plaintiff, if successful, are permitted to recover substantial monetary penalties, as well as an amount equal to three times actual damages. In recent cases, some qui tam plaintiffs have taken the position that violations of the anti-kickback statute and Stark II should also be prosecuted as violations of the federal False Claims Act. Although DCPS believes that it has procedures in place to ensure the accurate completion of claims forms and requests for payment on behalf of its clients, the laws and regulations defining the parameters of proper Medicare or Medicaid billing are frequently unclear and have not been subjected to extensive judicial or agency interpretation. Billing errors can occur despite DCPS s best efforts to prevent or correct them, and no assurances can be given that the government will regard such errors as inadvertent and not in violation of the False Claims Act or related statutes.

Employees

Currently, DCPS employed approximately 55 persons, all of whom were full-time employees. These DCPS employees work in the following areas: corporate management (6), medical coding (3) and billing and collections (50).

Description of Property

DCPS s principal office is located at 714 FM 1960 West, Suite 206, Houston, Texas 77090. This property is approximately 10,200 square feet. The property is leased from an unaffiliated third party for an initial term that expires in December, 2004. Annual rental of $144,846 is payable monthly in the amount of $12,070.50. DCPS maintains tenant fire and casualty insurance on its property located in such building in an amount deemed adequate by DCPS.

Legal Proceedings

DCPS is not a defendant in any material adverse legal proceedings. From time to time, certain legal matters arise in the normal course of its business, such as labor-related claims. Such matters are not anticipated to result in material adverse claims against DCPS.

Stock Price Data

The partnership interests of DCPS are not publicly traded and no market information relating to the partnership interests is available. DCPS has not paid any dividends on its partnership interests or made distributions to its partners since January 1, 2002 and DCPS does not anticipate paying any dividends or making such distributions in the foreseeable future. There were three holders of record of partnership interests as of December 31, 2003. There are no warrants or options outstanding as of December 31, 2003.

Financial Information

The financial statements and related notes to the financial statements are provided in Annex J to this proxy statement.

Description of the MBS Business

Overview

MBS is based in Houston, Texas and was incorporated in Texas on October 16, 1985. MBS provides practice management, billing and collection, managed care consulting and coding/reimbursement services to hospital-based physicians and clinics.

Services

Medical Practice Management Services. MBS provides a wide range of management services to medical practices. These management services help create a more efficient medical practice and provide assistance with the business aspects associated with operating a medical practice. MBS s management services include the following:

Accounting and bookkeeping services;

Evaluation of staffing needs;

Provision of temporary staff services;

Quality assurance program development;

Physician credentialing assistance;

Fee schedule review, specific to locality;

Formulation of scheduling systems;

Training and continuing education programs; and

Billing and reimbursement analysis.

Billing and Collection Services. MBS provides billing and collection services to its clients. These include coding, reimbursement services, charge entry, claim submission, collection activities, and financial reporting services. The coding and reimbursement services include:

Current Procedural Technology (CPT) and Independent Diagnosis Code (ICD-9) utilization reviews;

Charge ticket (superbill) evaluations;

Fee schedule analyses;

Reimbursement audits; and

Training seminars.

Managed Care Consulting Services. MBS provides consulting services aimed at assisting clients with navigating and interacting with managed care organizations. The following are some of the managed care consulting services routinely provided by MBS:

Establishing the actual ownership of the managed care organization and determining that the entity is financially sound;

Negotiating the type of reimbursement offered;

Assuring that there are no withholds beyond the discount agreed upon;

Determining patient responsibility for non-covered services, as well as co-pays and deductibles;

Tracking managed care payments to verify the correctness of the reimbursement rate;

Evaluating the appeals process in case of disputes concerning payment issues, utilization review, and medical necessity; and

Confirming the length of the contract, the renewal process, and the termination options.

Customers

MBS provides services to approximately 31 customers throughout Texas. These customers include anesthesia, pathology, radiology and surgery groups.

Revenues

MBS s principal source of revenues is fees charged to clients based on a percentage of collections. All clients are invoiced at the end of the month and MBS is usually paid in full within 30 days. The fees vary depending on specialty, size of practice, payor mix, and complexity of the billing. In addition to the collection fee revenue, MBS also earns consulting fees from the various consulting services that MBS provides, including medical practice management services, managed care contracting, coding and reimbursement services.

Competition

MBS has the same competitors at DCPS which are set forth in this section under the subheading Competition.

Government Regulation

MBS is subject to the same healthcare regulations as DCPS which are set forth in this section under the subheading Government Regulation.

Employees

Currently, MBS employed approximately 91 persons, 87 of whom were full-time employees and four of whom were part-time employees. These MBS employees work in the following areas: corporate management (7), medical coding (4), technical support (3), billing and collection (70), and banking liaisons (4).

Description of Property

MBS is currently based in Houston, Texas where it leases an office facility. MBS also leases offices in Arlington, Texas. The leases relating to these facilities have terms that expire beginning in November 2003 and continuing to August 2005.

Legal Proceedings

MBS is not a defendant in any material adverse legal proceedings. From time to time, certain legal matters arise in the normal course of its business, such as labor-related claims. Such matters are not anticipated to result in material adverse claims against MBS.

Stock Price Data

The capital stock of MBS is not publicly traded and no market information relating to its stock is available. MBS has not paid any dividends on its common stock since inception and does not anticipate paying any dividends in the foreseeable future. There were four holders of record of common stock as of December 31, 2003. There were no options outstanding as of December 31, 2003. There were no warrants outstanding as of December 31, 2003. There were no shares of preferred stock outstanding as of December 31, 2003.

Financial Information

The financial statements and related notes to the financial statements are provided in Annex K to this proxy statement.

Management s Discussion and Analysis of Financial Condition and Results of Operations for DCPS

The following Management s Discussion and Analysis of Financial Condition highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion should be read in conjunction with DCPS s financial statements for the years ended December 31, 2003 and December 31, 2002 and related notes thereto appearing in Annex J to this proxy statement.

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Overview of Business Operations

General. DCPS was founded in 1998 as a medical billing company to provide billing and collection services to anesthesia, radiology, and pathology practices. DCPS currently provides comprehensive billing and collection, administrative and other business services to its clients in selected markets in and around Houston, Texas. DCPS s headquarters are in Houston, Texas.

Critical Accounting Policies and Estimates

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States, which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. DCPS bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. DCPS believes the following critical accounting policies affect the most significant areas involving management s judgments and estimates. In addition, please refer to the Summary of Significant Accounting Policies section of DCPS s December 31, 2003 and December 31, 2002 Audited Financial Statements included in Annex J to this proxy statement for further discussion of DCPS s accounting policies.

Revenue Recognition. DCPS earns revenues based on a percentage of collections of its customers receivables. DCPS s revenues are recognized during the period in which its customers receive the collections. Consulting fees are based on project fees or hourly rates. Revenue is recognized when the services are provided.

Accounts Receivable. DCPS records uncollectible accounts receivable using the direct write-off method of accounting for bad debts. Historically, DCPS has experienced minimal credit losses and has not written-off any material accounts during 2003 or 2002.

Property and Equipment. Property, plant and equipment is stated at cost. DCPS depreciates property and equipment over the estimated useful lives by the straight-line method.

Fair Value of Financial Instruments. DCPS estimates that the carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term and long-term debt, approximate their fair values due to the relatively short maturity of these instruments.

Results of Operations

The following table sets forth selected statements of operations data, expressed as a percentage of DCPS s total revenue for the respective periods. DCPS s historical results and period-to-period comparisons are not necessarily indicative of the results for any future period.

	Twelve Months Ended December 31	
	2003	**2002**
Revenues	100.0%	100.0%
Operating Expenses	81.2%	100.6%
Income From Operations	18.8%	(0.6)%
Other Income (Expense)		
Interest expense	0.0%	0.0%
Interest income	0.0%	0.1%
Total Other Income (Expense)	0.0%	0.0%

Net Income	18.8%	(0.6)%

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Year Ended December 31, 2003 as Compared to Year Ended December 31, 2002

The following table sets forth, for the periods indicated, the statements of operations of DCPS.

	Twelve Months Ended December 31		
	2003	**2002**	**Variance**
Revenues	$4,010,797	$3,767,024	$ 243,773
Operating Expenses	3,255,532	3,790,120	(534,588)
Income From Operations	755,265	(23,096)	778,361
Other Income (Expense)			
Interest expense		(1,727)	1,727
Interest income	546	2,457	(1,911)
Total Other Income (Expense)	546	730	(184)
Net Income	$ 755,811	$ (22,366)	$ 778,177

Net revenues increased $243,773, or 6.5%, to $4,010,797 for the year ended December 31, 2003, as compared with $3,767,024 for the same period in 2002. The increase in net revenues was primarily the result of additional clients added during the year.

Operating expenses, which represent the employee-related costs as well as supplies and general and administrative expense decreased $534,588, or 14.1%, to $3,255,532 for the year ended December 31, 2003, as compared to $3,790,120 for the same period in 2002. This decrease was also reduced compensation expense associated primarily with DCPS management.

Interest expense was $0 for the year ended December 31, 2003, compared to $1,727 for the previous year. The interest reduction is due to the pay-off of a working capital line of credit.

Liquidity and Capital Resources

Net cash provided by operating activities was $755,811 for the year ended December 31, 2003 compared to $94,749 in net cash provided by operating activities for the same period in 2002. The increase in net cash provided by operations was primarily the result of the increased revenues and decreased operating expenses.

Net cash used in investing activities was $44,807 for the year ended December 31, 2003 compared to $104,752 in net cash used in investing activities for the year ended December 31, 2002. Purchases of property and equipment at the DCPS corporate office decreased in 2003 compared to the purchases in 2002 to handle the increased clients added that year.

Net cash used in financing activities was $582,882 for the year ended December 31, 2003 compared to $195,850 in net cash used in financing activities for the same period in 2002. This was due to increased distributions.

As of December 31, 2002, DCPS had $388,030 of cash and cash equivalents on hand as compared to $238,211 at December 31, 2002. Additionally, DCPS had positive working capital of $527,733 at December 31, 2003, an increase of $175,575 from the working capital of $352,158 at December 31, 2002.

Management s Discussion and Analysis of Financial Condition and Results of Operations for MBS

The following Management s Discussion and Analysis of Financial Condition highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion should be read in conjunction with MBS s consolidated financial statements for the years ended September 30, 2003 and September 30, 2002 and related notes thereto appearing in Annex K to this proxy statement.

Overview of Business Operations

General. MBS was founded in 1985 as a medical billing company to provide billing and collection services to anesthesia, radiology, and pathology practices. MBS currently provides comprehensive billing and collection, managed care contracting, administrative and other business services to its clients in selected markets in and around Houston, Texas. MBS s headquarters are in Houston, Texas and MBS has a second office in Arlington, Texas. In September 2003, MBS began providing billing and collecting services for two SurgiCare centers on a full-time basis.

Critical Accounting Policies and Estimates.

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States, which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. MBS bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. MBS believes the following critical accounting policies affect the most significant areas involving management s judgments and estimates. In addition, please refer to the Summary of Significant Accounting Policies section of MBS s September 30, 2002 and September 30, 2003 Audited Financial Statements included in Annex K to this proxy statement for further discussion of MBS s accounting policies.

Revenue Recognition. MBS earns revenues based on the collection of MBS s customers receivables. Revenues are recognized during the period in which collections were received.

Accounts Receivable. MBS records uncollectible accounts receivable using the direct write-off method of accounting for bad debts. Historically, MBS has experienced minimal credit losses and has not written-off any material accounts during 2003 or 2002.

Property and Equipment. Property, plant and equipment is stated at cost. MBS depreciates property and equipment over the estimated useful lives by the straight-line method.

Fair Value of Financial Instruments. MBS estimates that the carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term and long-term debt, approximate their fair values due to the relatively short maturity of these instruments.

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Results of Operations

The following table sets forth selected statements of operations data, expressed as a percentage of MBS s total revenue for the respective periods. MBS s historical results and period-to-period comparisons are not necessarily indicative of the results for any future period.

	Twelve Months Ended September 30	
	2003	**2002**
Revenues	100.0%	100.0%
Operating Expenses	97.4%	97.3%
Income From Operations	2.6%	2.7%
Other Income (Expense)		
Interest expense	(0.1)%	0.0%
Interest income	0.0%	0.1%
Gain on sale of asset	0.0%	0.0%
Total Other Income (Expense)	0.0%	0.1%
Income Before Federal Income Taxes	2.5%	2.8%
Federal Income Tax Expense	(0.9)%	(1.0)%
Net Income	1.7%	1.8%

Year Ended September 30, 2003 as Compared to Year Ended September 30, 2002

The following table sets forth, for the periods indicated, the statements of operations of MBS.

	Twelve Months Ended September 30		
	2003	**2002**	**Variance**
Revenues	$6,060,302	$4,827,806	$1,232,496
Operating Expenses	5,905,085	4,698,546	1,206,539
Income From Operations	155,217	129,260	25,957
Other Income (Expense)			
Interest expense	(4,552)		(4,552)
Interest income	2,595	4,515	(1,920)
Gain on sale of asset	512		512
Total Other Income (Expense)	(1,445)	4,515	(5,960)
Income Before Federal Income Taxes	153,772	133,775	19,997
Federal Income Tax Expense	(52,194)	(47,578)	(4,616)

Net Income	$ 101,578	$ 86,197	$ 15,381

Net revenues increased $1,232,496, or 25.5%, to $6,060,302 for the year ended September 30, 2003, as compared with $4,827,806 for the same period in 2002. The increase in net revenues was primarily the result of additional clients added during the year and additional business from existing clients.

Operating expenses, which represent the employee-related costs as well as supplies and general and administrative expense increased $1,206,539, or 25.7%, to $5,905,085 for the year ended September 30, 2003, as compared to $4,698,546 for the same period in 2002. This increase is based directly on the increased revenue and the costs associated with generating that revenue. Due to the increased business, MBS hired 18 new employees to support the growth. The cost of these new employees compounded the growing costs associated

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with medical benefits offered to MBS employees and cost of living adjustments to employee compensation. As a percentage of net revenue, however, these expenses, when compared on a continuing operations basis, were consistent with the prior year, increasing slightly 0.1% to 97.4% in 2003.

Interest expense was $4,552 for the year ended September 30, 2003, compared to none for the previous year. This was a result of a capital lease for computer equipment.

Liquidity and Capital Resources

Net cash provided by operating activities was $60,763 for the year ended September 30, 2003 compared to $28,832 in net cash provided by operating activities for the same period in 2002. The increase in net cash provided by operations was primarily the result of the increased revenues and increased income from operations.

Net cash used in investing activities was $37,585 for the year ended September 30, 2003 compared to $48,822 in net cash used in investing activities for the year ended September 30, 2002. Purchases of property and equipment at the MBS corporate office decreased in 2003 and some assets were sold.

Net cash used in financing activities was $13,351 for the year ended September 30, 2003 compared to $14,516 in net cash used in financing activities for the same period in 2002. In both periods, the cash was used to pay down debt.

As of September 30, 2003, MBS had $60,914 of cash and cash equivalents on hand as compared to $51,087 at September 30, 2002. Additionally, MBS had positive working capital of $408,091 at September 30, 2003, an improvement of $99,799 from the working capital of $308,292 at September 30, 2002. The improvement was primarily due to the increased business activity in the year ended September 30, 2003.

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2004 INCENTIVE PLAN

The following is a summary of the material features of the 2004 Incentive Plan. It may not contain all of the information important to you. We urge you to read the entire 2004 Incentive Plan, a copy of which appears as Annex O to this Proxy Statement. The 2004 Incentive Plan provides for issuance of up to 2.2 million shares of Class A common stock. This amount is approximately 9.1% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan and issuance of 10,000,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock). Approximately 6,913,437 shares (691,343 after giving effect to the Reverse Stock Split) remained issuable in connection with outstanding awards under prior SurgiCare plans as of April 12, 2004. The total number of shares issuable under prior SurgiCare plans added together with shares issuable under the proposed 2004 Incentive Plan represent approximately 12.0% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan and issuance of 10,000,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock).

Currently, there are no specific grants proposed to be made under the 2004 Incentive Plan. None of the proposed employment agreements with Keith G. LeBlanc, Terrence L. Bauer, Philip C. Scott, Dennis Cain, Tom M. Smith, and Stephen H. Murdock are contingent upon those individuals receiving grants under the 2004 Incentive Plan.

The purpose of the 2004 Incentive Plan is to advance the interests of SurgiCare and its affiliated corporations by providing for the grant to participants of stock-based and other incentive awards, all as more fully described below.

The 2004 Incentive Plan will become effective on the date of its approval by the stockholders and will terminate when there are no remaining shares available for awards. No Incentive Stock Options (ISOs) may be granted under the 2004 Incentive Plan after the date that is ten years after the plan is adopted, although ISOs granted before such date may extend beyond that date. A maximum of 2.2 million shares of Class A common stock may be delivered in satisfaction of awards made under the 2004 Incentive Plan. For purposes of the preceding sentence, shares that have been forfeited in accordance with the terms of the applicable award and shares held back in satisfaction of the exercise price or tax withholding requirements from shares that would otherwise have been delivered pursuant to an award shall not be considered to have been delivered under the 2004 Incentive Plan. Also, the number of shares delivered under an award shall be determined net of any previously acquired shares tendered by the participant in payment of the exercise price or of withholding taxes.

The maximum number of shares of Class A common stock for which stock options may be granted to any person in any calendar year and the maximum number of shares of Class A common stock subject to stock appreciation rights, or SARs , granted to any person in any calendar year will each be 1,000,000. The maximum benefit that will be paid to any person under other awards in any calendar year will be, to the extent paid in shares, 1,000,000 shares, and, to the extent paid in cash, $1 million. However, stock options and SARs that are granted with an exercise price that is less than the fair market value of the underlying shares on the date of the grant will be subject to both of the limits imposed by the two preceding sentences. These limitations will be construed in a manner consistent with Section 162(m) of the Code.

In the event of a stock dividend, stock split or other change in our capital structure, the Administrator (as defined below) will make appropriate adjustments to the limits described above and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, any exercise prices relating to awards and any other provisions of awards affected by the change. The Administrator may also make similar adjustments to take into account other distributions to stockholders or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the 2004 Incentive Plan and to preserve the value of awards.

Administration

The board of directors or a committee appointed by the board will administer the 2004 Incentive Plan. In the case of awards granted to persons who are or are reasonably expected to become officers of SurgiCare, such committee shall be comprised solely of two or more directors, all of whom are outside directors within the meaning of Section 162(m) of the Code and non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The term Administrator is used in this proxy statement to refer to the person (the board or committee, and their delegates) charged with administering the 2004 Incentive Plan. The Administrator has full authority to determine who will receive awards and to determine the types of awards to be granted as well as the amounts, terms, and conditions of any awards. Awards may be in the form of options, SARs, restricted or unrestricted stock, Deferred Stock (hereafter defined) or performance awards. The Administrator has the right to determine any questions that may arise regarding the interpretation and application of the provisions of the 2004 Incentive Plan and to make, administer, and interpret such rules and regulations as it deems necessary or advisable. Determinations of the Administrator made under the 2004 Incentive Plan are conclusive and bind all parties.

Eligibility

Participation is limited to those key employees and directors, as well as consultants and advisors, who in the Administrator s opinion are in a position to make a significant contribution to the success of SurgiCare and its affiliated entities and who are selected by the Administrator to receive an award. The group of persons from which the Administrator will select participants consists of approximately 100 individuals.

Stock Options

The Administrator may from time to time award options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of Class A common stock of SurgiCare within a specified period of time at a specified price. Two types of stock options may be granted under the 2004 Incentive Plan: ISOs , which are subject to special tax treatment as described below, and nonstatutory options (NSOs). Eligibility for ISOs is limited to employees of SurgiCare and its subsidiaries.

The exercise price of an ISO cannot be less than the fair market value of the Class A common stock at the time of grant. In addition, the expiration date of an ISO cannot be more than ten years after the date of the original grant. In the case of NSOs, the exercise price and the expiration date are determined in the discretion of the Administrator. The Administrator also determines all other terms and conditions related to the exercise of an option, including the consideration to be paid, if any, for the grant of the option, the time at which options may be exercised and conditions related to the exercise of options. Unless the Administrator determines otherwise, and in all events in the case of any stock option intended to qualify as an ISO and any stock option or SAR (other than a Performance Award subject to Section 6(a)(7) of the 2004 Incentive Plan) intended to qualify as performance-based for purposes of Section 162(m), the exercise price of an award requiring exercise will not be less than the fair market value of the stock subject to the award determined as of the date of grant.

The closing price of SurgiCare common stock as reported on AMEX on April 12, 2004 was $0.41 per share, which corresponds to an implied price of $4.10 per share, after giving effect to the Reverse Stock Split.

Stock Appreciation Rights

The Administrator may grant SARs under the 2004 Incentive Plan. An SAR entitles the holder upon exercise to receive an amount in cash or Class A common stock or a combination thereof (as determined by the Administrator) computed by reference to appreciation in the value of a share of Class A common stock.

Stock Awards; Deferred Stock

The 2004 Incentive Plan provides for awards of nontransferable shares of restricted Class A common stock, as well as unrestricted shares of Class A common stock. Awards of restricted stock and unrestricted stock may be made in exchange for past services or other lawful consideration. Generally, awards of restricted stock are subject to the requirement that the shares be forfeited or resold to SurgiCare unless specified conditions are met. Subject to these restrictions, conditions and forfeiture provisions, any recipient of an award of restricted stock will have all the rights of a stockholder of SurgiCare, including the right to vote the shares and to receive dividends. Other awards under the 2004 Incentive Plan may also be settled with restricted stock. The 2004 Incentive Plan also provides for deferred grants (Deferred Stock) entitling the recipient to receive shares of Class A common stock in the future on such conditions as the Administrator may specify.

Performance Awards

The Administrator may also make awards subject to the satisfaction of specified performance criteria. Performance Awards may consist of Class A common stock or cash or a combination of the two. The performance criteria used in connection with a particular Performance Award will be determined by the Administrator. In the case of Performance Awards intended to qualify for exemption under Section 162(m) of the Internal Revenue Code, the Administrator will use objectively determinable measures of performance in accordance with Section 162(m) that are based on any or any combination of the following (determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. The Administrator will determine whether the performance targets or goals that have been chosen for a particular Performance Award have been met.

General Provisions Applicable to All Awards

Neither ISOs nor, except as the Administrator otherwise expressly provides, other awards may be transferred other than by will or by the laws of descent and distribution. During a recipient s lifetime an ISO and, except as the Administrator may provide, other non-transferable awards requiring exercise may be exercised only by the recipient. Shares delivered under the 2004 Incentive Plan may consist of either authorized but unissued or treasury shares. The number of shares delivered upon exercise of a stock option is determined net of any shares transferred by the optionee to SurgiCare (including through the holding back of shares that would otherwise have been deliverable upon exercise) in payment of the exercise price or tax withholding.

Mergers and Similar Transactions

In the event of a consolidation or merger in which SurgiCare is not the surviving corporation or which results in the acquisition of substantially all of SurgiCare s stock by a person or entity or by a group of persons or entities acting together, or in the event of a sale of substantially all of SurgiCare s assets or a dissolution or liquidation of SurgiCare, the following rules will apply except as otherwise provided in an Award:

If there is no assumption or substitution of stock options, existing stock options will become fully exercisable prior to the completion of the transaction on a basis that gives the holder of the stock option a reasonable opportunity to exercise the stock option and participate in the transaction as a stockholder.

Existing stock options, unless assumed, will terminate upon completion of the transaction.

Awards of Deferred Stock will be accelerated by the Administrator so that the stock is delivered prior to the completion of the transaction on a basis that gives the holder of the award a reasonable opportunity following issuance of the stock to participate as a stockholder in the transaction.

If there is a surviving or acquiring entity, the Administrator may arrange to have that entity (or an affiliate) assume outstanding awards or grant substitute awards. In the case of shares of restricted stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of those shares in

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connection with the transaction be placed in escrow or otherwise made subject to restrictions determined by the Administrator.

Amendment

The Administrator may at any time or times amend the 2004 Incentive Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the 2004 Incentive Plan as to any future grants of awards. The Administrator may not, however, alter the terms of an Award so as to affect adversely the participant s rights under the Award without the participant s consent, unless the Administrator expressly reserved the right to do so at the time of the Award.

New 2004 Incentive Plan Benefits

The future benefits or amounts that would be received under the 2004 Incentive Plan by executive officers, non-executive directors and non-executive officer employees are discretionary and are therefore not determinable at this time. In addition, the benefits or amounts which would have been received by or allocated to such persons for the last completed fiscal year if the plan had been in effect cannot be determined.

Equity Compensation Plan Information

The following table gives information about SurgiCare common stock that may be issued upon the exercise of options, warrants and rights under all of SurgiCare s existing equity compensation plans as of April 12, 2004. This table does not reflect the Reverse Stock Split.

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	57,538	2.05	1,340,608
Equity compensation plans not approved by security holders	6,855,899	.407	0
Total	6,913,437	.421	1,340,608

Federal Tax Effects

The following discussion summarizes certain federal income tax consequences of the issuance and receipt of options under the 2004 Incentive Plan under the law as in effect on the date of this proxy statement. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with the 2004 Incentive Plan, nor does it cover state, local or non-U.S. taxes.

ISOs

In general, an optionee realizes no taxable income upon the grant or exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise produces ordinary income to the optionee (and a deduction to SurgiCare) equal to the value of the shares at the time of exercise less the exercise price. Any additional gain recognized in the disposition is treated as a capital gain for which SurgiCare is not entitled to a deduction. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which SurgiCare is not entitled to a deduction.

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NSOs

In general, in the case of a NSO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price; a corresponding deduction is available to SurgiCare; and upon a subsequent sale or exchange of the shares, any recognized gain or loss after the date of exercise is treated as capital gain or loss for which SurgiCare is not entitled to a deduction.

In general, an ISO that is exercised by the optionee more than three months after termination of employment is treated as an NSO. ISOs are also treated as NSOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of $100,000.

The Administrator may award stock options that are exercisable for restricted stock. Under Section 83 of the Code, an optionee who exercises an NSO for restricted stock will generally have income only when the stock vests. The income will equal the fair market value of the stock at that time less the exercise price. However, the optionee may make a so-called 83(b) election in connection with the exercise to recognize taxable income at that time. Assuming no other applicable limitations, the amount and timing of the deduction available to SurgiCare will correspond to the income recognized by the optionee. The application of Section 83 to ISOs exercisable for restricted stock is less clear.

Under the so-called golden parachute provisions of the Code, the accelerated vesting of awards in connection with a change in control of SurgiCare may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including income recognized by reason of the grant, vesting or exercise of awards under the 2004 Incentive Plan, may be subject to an additional 20% federal tax and may be nondeductible to SurgiCare.

PROPOSAL ONE REVERSE STOCK SPLIT

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to effect a Reverse Stock Split of all of the outstanding shares of our common stock at a ratio of one share for every ten shares outstanding. If the Reverse Stock Split is approved, we will amend and restate our certificate of incorporation to effect the Reverse Stock Split, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the Reverse Stock Split. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Twelve. We cannot complete the Transactions unless this proposal to effect a Reverse Stock Split is approved at the special meeting. This proposal is described in detail below.

The Reverse Stock Split as reflected in the amended and restated certificate of incorporation does not alter or change the powers, preferences, or special rights of the holders of shares of SurgiCare common stock. The IPS Merger Agreement requires that, unless otherwise agreed by IPS, all outstanding shares of our Series AA preferred stock will be redeemed or converted into SurgiCare common stock as a condition to closing. We have no current intention of issuing additional shares of preferred stock to any person after the Transactions are completed, but the amended and restated certificate of incorporation does give the board of directors authority to issue preferred stock and to establish the terms thereof.

The Reverse Stock Split

The amended and restated certificate of incorporation will effect a Reverse Stock Split of all of our outstanding shares of SurgiCare common stock by reducing the number of outstanding shares of SurgiCare common stock by a one-for-ten ratio (the Split Ratio). The par value of SurgiCare common stock will be changed from $0.005 per share to $0.001 per share in connection with the Reverse Stock Split.

Reasons for the Reverse Stock Split

The purpose of the Reverse Stock Split is to increase the market price of our common stock, which is currently listed on the AMEX. The board of directors has determined that the continued listing of our common stock on the AMEX is in the best interests of SurgiCare and its stockholders. In considering whether a security warrants continued trading and/or listing, the AMEX, pursuant to Section 1001 of the AMEX s Company Guide, looks at the value of the securities and whether the securities have suitable characteristics for auction market trading.

SurgiCare s board believes that the Reverse Stock Split should raise the market price of our common stock to a level that will prevent the AMEX from considering suspending or delisting our common stock. If our common stock were delisted, the board believes that the liquidity in the trading market for our common stock would be significantly decreased, which could reduce the trading price and increase the transaction costs of trading shares of our common stock.

There can be no assurance, however, that the market price of our common stock will rise in proportion to the reduction in the number of outstanding shares resulting from the Reverse Stock Split, that a sufficiently high per share trading price of our common stock can be maintained or that our common stock will not be delisted for other reasons.

Potential Effects of the Reverse Stock Split

Pursuant to the Reverse Stock Split, each holder of SurgiCare common stock immediately prior to the effectiveness of the Reverse Stock Split will become the holder of fewer shares of Class A common stock after consummation of the Reverse Stock Split.

Although the Reverse Stock Split will not, by itself, affect our assets or prospects, the Reverse Stock Split could result in a decrease in the aggregate market value of our common stock and adversely affect share liquidity by reducing the number of shares outstanding after the reverse stock split. The Board believes that this

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risk is outweighed by the benefits of the continued listing of our common stock on the AMEX. If approved, the Reverse Stock Split will result in some stockholders owning odd-lots of less than 100 shares of SurgiCare common stock. Brokerage commissions and other costs of transactions in odd-lots are generally higher than the costs of transactions in round-lots of even multiples of 100 shares. Based on approximately 38,408,685 shares of SurgiCare common stock outstanding as of April 12, 2004 (which assumes issuance of 10 million shares to the holder of our 900,000 outstanding Series AA preferred stock), the following table reflects the approximate percentage reduction in the outstanding shares of SurgiCare common stock and the approximate number of shares of SurgiCare common stock that would be outstanding as a result of the Reverse Stock Split:

Stock Split Ratio	Percentage Reduction	Shares to be Outstanding
1-for-10	90%	3,840,868

The table shows the share amounts immediately after the Reverse Stock Split, but prior to the other proposed amendments to the certificate of incorporation. All outstanding options and warrants to acquire shares of SurgiCare common stock will be appropriately adjusted, as required by their terms, for the Reverse Stock Split automatically on the Effective Date (as defined below). The Reverse Stock Split will not affect any stockholder s proportionate equity interest in SurgiCare except to the extent that the Reverse Stock Split results in any of our stockholders owning fractional shares. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares of SurgiCare common stock not evenly divisible by the Split Ratio will be entitled to receive a cash payment in lieu of fractional shares. Following the Reverse Stock Split, each share of Class A common stock will entitle the holder thereof to one vote per share and will otherwise be identical to SurgiCare common stock in all material respects.

Shares of Common Stock Issued and Outstanding

Based on the outstanding shares as of April 12, 2004 and assuming issuance of 10 million shares to the holder of our 900,000 outstanding shares of Series AA preferred stock, prior to the Reverse Stock Split, the number of shares of common stock authorized, issued and outstanding and reserved for issuance are 50,000,000, 38,408,685, and 11,119,848, respectively. As a result of the Reverse Stock Split, the number of outstanding shares of SurgiCare common stock will decrease by the Split Ratio with fractional shares of SurgiCare common stock paid in cash. After the Reverse Stock Split, but prior to other proposed amendments to our certificate of incorporation, the approximate number of shares of common stock authorized, issued and outstanding, and reserved for issuance will be 5,000,000, 3,840,868 and 1,111,984, respectively, based on the same assumptions as above. It is not anticipated that our financial condition, the percentage ownership of management, the number of our stockholders, or any aspect of our business would materially change as a result of the Reverse Stock Split. We are subject to the periodic reporting and other requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). The proposed Reverse Stock Split will not affect the registration of SurgiCare common stock under the Exchange Act.

Effectiveness of the Reverse Stock Split

If this proposal and the other proposals necessary to consummate the Transactions are approved, the Reverse Stock Split will become effective upon the filing with the Secretary of State of the State of Delaware of the amended and restated certificate of incorporation (the Effective Date). It is expected that such filing will take place immediately prior to the completion of the Transactions.

Commencing on the Effective Date, each SurgiCare common stock certificate will be deemed for all corporate purposes to evidence ownership of the reduced number of shares of Class A common stock (assuming the reclassification of currently outstanding common stock as Class A common stock pursuant to Proposal Three is also approved) resulting from the Reverse Stock Split. As soon as practicable after the Effective Date, transmittal forms will be mailed to each holder of record of SurgiCare common stock, to be used in forwarding such holder s stock certificates for surrender and exchange for certificates evidencing the number of shares of Class A common stock such holder is entitled to receive as a consequence of the Reverse Stock Split. The transmittal forms will be accompanied by instructions specifying other details of the exchange. Upon receipt of such transmittal form, each stockholder who has a certificate should surrender any certificate evidencing shares

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of SurgiCare common stock that the stockholder owned prior to the Reverse Stock Split in accordance with the applicable instructions. Stockholders will not be required to pay any transfer fee or other fee in connection with the exchange of certificates. No new certificates will be issued to a holder of SurgiCare common stock until such stockholder has surrendered such stockholder s outstanding certificate, together with the properly completed and executed letter of transmittal, to the exchange agent. Any SurgiCare common stock submitted for transfer, whether pursuant to a sale, other disposition or otherwise, will automatically be exchanged for Class A common stock appropriately adjusted for the Reverse Stock Split. Stockholders who do not have stock certificates for surrender and exchange will have their accounts automatically adjusted in order to reflect the number of shares they are entitled to receive as a consequence of the Reverse Stock Split.

We intend to use Registrar and Transfer Company as our exchange agent in effecting the Reverse Stock Split. We estimate that our aggregate expenses relating to the Reverse Stock Split will not be material.

Fractional Shares

No fractional certificates will be issued in connection with the Reverse Stock Split. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares of SurgiCare common stock not evenly divisible by the Split Ratio will be entitled to a cash payment in lieu of such fractional shares upon surrender of a certificate representing such shares. The exchange agent will then pay to such holders upon surrender of their certificates to effectuate the Reverse Stock Split, in addition to the number of whole shares to which such holders are entitled, a cash payment in U.S. dollars equal to the product of the fractional share times the average of the high and low trading prices for SurgiCare common stock over the five trading days immediately prior to the closing. The ownership of a fractional interest will not give the holder thereof any voting or other rights except the right to receive the cash payment described above.

Stockholders should be aware that, under the escheat laws of the various jurisdictions where stockholders reside, where we are domiciled and where the funds will be deposited, sums due for fractional interests that are not timely claimed after the effectiveness of the Reverse Stock Split may be required to be paid to the designated agent for each such jurisdiction. Thereafter, stockholders otherwise entitled to receive such funds may have to seek to obtain them directly from the state to which they were paid.

Accounting Consequences

The par value of SurgiCare common stock will be changed from $0.005 per share to $0.001 per share in connection with the Reverse Stock Split and reclassification. The common stock account will be reduced with the difference credited to additional paid in capital . Total stockholders equity will remain unchanged.

Material United States Federal Income Tax Consequences of the Reverse Stock Split

The following is a summary of the material United States federal income tax consequences of the Reverse Stock Split on holders of SurgiCare common stock and does not purport to be a complete discussion of all of the possible United States federal income tax consequences of the Reverse Stock Split. Further, it does not address any state, local or foreign income or other tax consequences. Also, it does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. We have not obtained, and do not intend to obtain, an IRS ruling or a legal opinion regarding the equity financing or the other Transactions described herein. This discussion is based upon advice we have received regarding the provisions of the United States federal income tax law as of the date hereof, which is subject to change retroactively as well as prospectively. This summary assumes that the other Transactions described herein occur in the manner described and also assumes that the SurgiCare common stock was, and the Class A common stock will be, held as a capital asset, as defined in the Code (i.e., generally, property held for investment).

The tax treatment of a holder of SurgiCare common stock may vary depending upon the particular facts and circumstances of such stockholder. Each holder of SurgiCare common stock is urged to consult with such stockholder s own tax advisor with respect to the tax consequences of the Reverse Stock Split.

Other than with respect to cash payments received for fractional shares, no gain or loss should be recognized by a stockholder upon such stockholder s exchange of SurgiCare common stock for Class A common stock pursuant to the Reverse Stock Split. The aggregate tax basis of the Class A common stock received in the Reverse Stock Split (including any fraction of a share of Class A common stock, deemed to have been received prior to redemption as described below) will be the same as the stockholder s aggregate tax basis in the SurgiCare common stock exchanged in the Reverse Stock Split.

In general, stockholders who receive cash in respect of their fractional share interests in the Class A common stock as a result of the Reverse Stock Split will recognize gain or loss determined by reference to their adjusted basis in their fractional share interests. The stockholder s holding period for the Class A common stock will include the period during which the stockholder held the SurgiCare common stock surrendered in the Reverse Stock Split.

No Dissenter s Rights

Under the DGCL, our stockholders are not entitled to dissenter s rights with respect to the Reverse Stock Split, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Reverse Stock Split

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and Series AA preferred stock entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the Reverse Stock Split and the proposed amendment and restatement of our certificate of incorporation to effect the Reverse Stock Split. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the Reverse Stock Split, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE REVERSE STOCK SPLIT.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH TWELVE IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH TWELVE.

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PROPOSAL TWO INCREASE THE NUMBER OF SHARES OF AUTHORIZED COMMON STOCK

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to increase the number of shares of authorized common stock from 5 million shares to 90 million shares, after giving effect to the Reverse Stock Split, and to leave the number of authorized shares of preferred stock at 20 million. If the increase in the number of shares of authorized common stock is approved, we will amend and restate our certificate of incorporation to effect the increase, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the increase in the number of shares of authorized common stock. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Twelve. We cannot complete the Transactions unless this proposal to effect the increase in the number of shares of authorized common stock is approved at the special meeting.

The increase in the number of shares of authorized common stock as reflected in the amended and restated certificate of incorporation does not alter or change the powers, preferences, or special rights of the holders of shares of SurgiCare common stock.

Increase in the Number of Shares of Authorized Common Stock

The amended and restated certificate of incorporation will increase the number of shares of authorized SurgiCare common stock from 5 million shares to 90 million shares, of which 63 million shares will be designated Class A common stock (see Proposal Three), 25 million shares will be designated as Class B common stock (see Proposal Four) and 2 million shares will be designated as Class C common stock (see Proposal Five), after giving effect to the Reverse Stock Split.

The board of directors recommends increasing the number of authorized shares of our common stock in order to have a sufficient number of shares of our common stock available to pay the consideration due under the IPS Merger Agreement and the DCPS/MBS Merger Agreement and in connection with the equity financing. Assuming the Transactions are approved, we will be obligated to issue up to 4,901,330 shares of our Class A common stock (in addition to the shares outstanding immediately after the Reverse Stock Split), 9,077,110 shares of our Class B common stock and up to 1,406,061 shares of our Class C common stock. We would be unable to issue all of these shares based on the current number of authorized and unissued shares of our common stock available to us, after giving effect to the Reverse Stock Split. In addition, we must also have shares available for issuance in connection with previously granted stock options and other stock based awards as well as any future grants under our 2004 Incentive Plan and our other option plans.

The following table provides details regarding the approximate number of shares of our common stock authorized, issued and outstanding and reserved as of the periods indicated.

			Post-Transactions(5)		
Period	**April 12, 2004(1)**	**Post-Reverse Split(3)**	**Class A Common Stock**	**Class B Common Stock**	**Class C Common Stock**
Authorized	50,000,000	5,000,000	63,000,000	25,000,000	2,000,000
Issued and outstanding	28,408,685	3,840,868	8,277,198	9,077,110	1,406,061
Reserved	21,119,848(2)	1,111,983(4)	16,193,908(6)	0	0

(1) Share numbers are prior to giving effect to the Reverse Stock Split, and do not include the up to 10 million shares which we propose to issue in exchange for the 900,000 outstanding shares of our Series AA preferred stock.

(2) Shares are reserved for exercise of outstanding options and warrants and conversion of Series AA preferred stock and convertible debentures.

(3) Shares numbers are after giving effect to the Reverse Stock Split, but prior to any other amendments of our Certificate of Incorporation, and prior to the effectiveness of the Transactions. Share numbers assume

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issuance of all 10 million shares of common stock reserved for issuance to holders of our Series AA preferred stock immediately prior to the Reverse Stock Split.

(4) Shares are reserved for exercise of outstanding options and warrants and conversion of convertible debentures.

(5) Share numbers are based on the assumptions contained in this proxy, but assume the maximum initial issuance of shares in the DCPS/MBS Merger.

(6) Shares are reserved for issuance upon conversion of the Class B common stock and Class C common stock and pursuant to the DCPS/MBS Merger Agreement, the 2004 Incentive Plan, exercise of existing SurgiCare warrants, exercise of vested stock options under SurgiCare s already existing employee stock option plan, conversion of existing convertible debentures and the exercise of 100,000 warrants that we propose to issue to our current directors.

SurgiCare has recently entered into a Settlement Agreement with Sig Altman to resolve a lawsuit surrounding a Finders Fee Agreement between SurgiCare and Mr. Altman. SurgiCare has agreed to issue Mr. Altman 540,000 shares of stock registered on Form S-8 as payment in full for the claims under the Finders Fee Agreement. American International Industries has indemnified SurgiCare for this cost.

In November, 2003, SurgiCare issued a $470,000 convertible debenture. The holders of the debenture can convert to common stock at $0.25 per share or a total of 1,000,000 shares if fully converted.

In addition, SurgiCare has outstanding options and warrants that could be exercised for common stock. The following table summarizes the outstanding options and warrants.

Type	Expiration Date	Issued To	Number	Exercisable (as of 03/31/04)	Exercise Price
Options	10/05/11	Employee	62,706	41,804	2.05
Warrants	10/05/11	Former Employee	191,667	191,667	1.90
Warrants	04/02/07	Former Employee	175,000	175,000	2.00
Warrants	11/12/12	Officers	6,489,232		0.32
Warrants	04/01/07	DUI	200,000		3.00
Warrants	06/01/07	TASC Shareholders	35,000	35,000	0.01
Warrants	03/01/05	Consultant	50,000	50,000	1.00
Warrants	09/15/07	Aspen Shareholders	336,786	336,786	0.32
Warrants	11/12/07	Odyssey Capital	526,531		