SURGICARE INC/DE
Form PREM14A
February 13, 2004

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.
x 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:

Common Stock, $0.005 par value per share

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

61,169,520 shares of Common Stock (determined on a pre-reverse-split basis)

(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):

$0.58 (based on the average of the high and low prices at which the common stock traded on February 9, 2004)

(4) Proposed maximum aggregate value of transaction:

$35,478,322

(5) Total fee paid:

$4,495.10

o 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:

, 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 Kimberly Lane, Suite 200, Houston, Texas 77024 on May 4, 2004 at 5:30 p.m. local time.

The board of directors of SurgiCare has approved the acquisition by SurgiCare of Integrated Physician Solutions, Inc. (IPS), Dennis Cain Physician Solutions, Ltd. (DCPS), and Medical Billing Services, Inc. (MBS), and the agreements into which SurgiCare has entered to consummate the acquisitions. Assuming various conditions to the agreements are met, SurgiCare will acquire (a) IPS by merging a newly-formed SurgiCare subsidiary with and into IPS, with IPS as the surviving corporation in the merger, and (b) DCPS and MBS by merging a newly-formed SurgiCare subsidiary with and into MBS, with MBS as the surviving corporation in the merger, and then merging DCPS with and into MBS, with MBS as the surviving corporation in the merger (DCPS/MBS). In connection with the acquisitions, we will amend and restate our certificate of incorporation to effect a one-for-ten reverse stock split, redesignate our outstanding common stock as Class A Common Stock , establish two new classes of common stock entitled Class B Common Stock and Class C Common Stock and change our name to Orion HealthCorp, Inc.

Unless otherwise indicated, the share numbers in this letter and the proxy statement reflect the reverse stock split, as well as certain other assumptions described in the proxy statement. Following the acquisitions, IPS and DCPS/MBS will be wholly-owned subsidiaries of SurgiCare. In connection with the acquisition of IPS, we will issue an aggregate of 4,364,072 shares of Class A Common Stock (subject to adjustment as described in more detail in the proxy statement) to the stockholders of IPS and certain debtholders of IPS. We will issue an aggregate of 1,212,122 shares of Class C Common Stock (or 1,406,061 shares of Class C Common Stock, 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) to the equityholders of DCPS and MBS in connection with the acquisition of DCPS/MBS, subject to retroactive adjustment, and will reserve 75,758 shares of Class A Common Stock for issuance pursuant to that acquisition. The DCPS and MBS equityholders will also receive a cash payment and a promissory note from us at closing and may receive additional consideration, after the acquisition, including shares of Class A Common Stock, if certain conditions are met. The board has also approved an equity financing transaction, and the agreement SurgiCare entered into with Brantley Partners IV, L.P. (Brantley IV), pursuant to which SurgiCare will issue 9,084,395 shares of Class B Common Stock (subject to adjustment as described in more detail in the proxy statement) to Brantley IV to effect such equity financing.

Upon closing of the acquisitions and the equity financing and assuming the price of our common stock at the closing of the acquisitions and the equity financing will be $0.531 per share, stockholders of IPS and certain debtholders of IPS will own approximately 20.8% of our capital stock on a fully-diluted basis, DCPS and MBS equity holders will own approximately 8.4% (which includes the maximum number of additional shares of Class A Common Stock issuable pursuant to the earn-out provisions of the DCPS/MBS merger agreement) of our capital stock on a fully-diluted basis and Brantley IV will own approximately 49.9% of our capital stock on a fully-diluted basis. These percentages will vary depending on the actual price of our common stock at the closing of the acquisitions and the equity financing. For purposes of calculating the percentages on a fully-diluted basis, we have assumed the cashless exercise of all options and warrants having an exercise price of less than $0.55, 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 exchange of all our Series AA preferred stock for common stock as described in the proxy statement.

Your board of directors is giving this proxy statement to you to solicit your proxy to vote on the following proposals:

1. Approval of our amended and restated certificate of incorporation. We propose to amend and restate our certificate of incorporation to (a) effect a reverse stock split of all of the outstanding shares of our common stock at a ratio of one-for-ten, (b) 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 preferred shares at 20 million, (c) reclassify the common stock as Class A Common Stock , $0.001 par value per share, (d) establish a new class of common stock entitled Class B Common Stock , $0.001 par value per share, (e) establish a new class of common stock entitled Class C Common Stock , $0.001 par value per share, and (f) change the name of the corporation to Orion HealthCorp, Inc.

2. Approval of the issuance of shares of Class A Common Stock pursuant to, and in connection with, (a) an amended and restated merger agreement dated as of February 9, 2004, among SurgiCare, IPS Acquisition, Inc. (which is a new SurgiCare subsidiary created to implement the merger) and IPS, and (b) an amended and restated debt exchange agreement dated as of February 9, 2004, among SurgiCare, Brantley Venture Partners III, L.P. and Brantley Capital Corporation.

3. Approval of the issuance of shares of Class C Common Stock and Class A Common Stock pursuant to, and in connection with, a merger agreement dated as of February 9, 2004, among SurgiCare, DCPS/MBS Acquisition, Inc. (which is a new SurgiCare subsidiary created to implement the merger), DCPS, MBS and the selling equityholders party thereto.

4. Approval of the issuance of shares of Class B Common Stock to Brantley IV pursuant to an amended and restated stock subscription agreement dated as of February 9, 2004 between SurgiCare and Brantley IV.

5. Approval of the issuance of up to ten million shares (prior to giving effect to the one-for-ten reverse stock split) of our common stock in exchange for our Series AA preferred stock.

6. 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 in the proxy statement.

7. Approval of the Orion HealthCorp, Inc. 2004 Incentive Plan to replace our 2001 Stock Option Plan.

8. Approval of the issuance of warrants to the current members of our board of directors.

9. Approval of such other business as may lawfully come before the meeting.

Our board of directors unanimously recommends that SurgiCare stockholders vote FOR each proposal.

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 to make sure that your shares are represented at the special meeting. To vote your shares, please complete 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 Kimberly Lane, Suite 200
Houston, Texas 77024
(713) 973-6675

NOTICE OF SPECIAL MEETING IN LIEU OF ANNUAL MEETING OF STOCKHOLDERS

DATE:	**May 4, 2004**	**PLACE:**	**12727 Kimberly 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:

1. The adoption of an amended and restated certificate of incorporation to (a) 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, (b) 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, (c) reclassify SurgiCare common stock as Class A Common Stock , $0.001 par value per share, (d) establish a new class of common stock entitled Class B Common Stock , $0.001 par value per share, (e) establish a new class of common stock entitled Class C Common Stock , $0.001 par value per share, and (f) change the name of SurgiCare, Inc. to Orion HealthCorp, Inc. ;

2. 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;

3. 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, Inc., DCPS/MBS Acquisition, Inc., Dennis Cain Physician Solutions, Ltd. (DCPS), Medical Billing Services, Inc. (MBS) and the sellers party thereto (the DCPS/MBS Sellers);

4. The issuance of shares of Class B Common Stock to Brantley Partners IV, L.P. (Brantley IV) pursuant to an amended and restated subscription agreement dated as of February 9, 2004 between SurgiCare and Brantley IV;

5. The issuance of up to ten million shares (prior to giving effect to the one-for-ten reverse stock split) of our common stock in exchange for our Series AA preferred stock;

6. 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;

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

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

9. 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 March 15, 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 proposal described above regarding the adoption of an amended and restated 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 items one through seven 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

**FOR IPS MERGER,
DCPS/MBS MERGER
AND
EQUITY FINANCING**

This brief 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. In this proxy statement, references to SurgiCare , we , our , us and our company refer to SurgiCare, Inc. and all its subsidiaries. We refer to Integrated Physician Solutions, Inc. as IPS , to Dennis Cain Physician Solutions, Ltd. as DCPS , to Medical Billing Services, Inc., as MBS and to our new DCPS and MBS subsidiary as DCPS/MBS . In addition, we refer to the merger agreement between IPS and SurgiCare, as amended to date, as the IPS Merger Agreement and the related merger as the IPS Merger , and we refer to the merger agreement between DCPS, MBS and SurgiCare as the DCPS/MBS Merger Agreement and the related acquisitions as the DCPS/MBS Merger . We refer to the IPS Merger and the DCPS/MBS Merger collectively as the Acquisitions or the Mergers . We refer to IPS Merger Agreement, the DCPS/MBS Merger Agreement, the Stock Subscription Agreement (defined below) and the Debt Exchange Agreement (defined below) collectively as the Transaction Documents , and the transactions contemplated thereby as the Transactions .

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

Overview

On November 18, 2003, we entered into an agreement and plan of merger, which we amended and restated on February 9, 2004, relating to the merger of our wholly-owned subsidiary, IPS Acquisition, Inc., with and into IPS, with IPS as the surviving corporation, and a debt exchange agreement, which we also amended and restated on February 9, 2004, with Brantley Venture Partners III, L.P. and Brantley Capital Corporation, each of which is a debtholder of IPS and an affiliate of Brantley IV (as amended to date, the Debt Exchange Agreement). See The Transactions beginning on page 14 and The Transactions The IPS Merger beginning on page 19.

On February 9, 2004, we entered into an agreement and plan of merger relating to the merger of our wholly-owned subsidiary, 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. See The Transactions beginning on page 14 and The Transactions The DCPS/MBS Merger beginning on page 30.

On November 18, 2003, we entered into a stock subscription agreement with Brantley IV, which we amended and restated on February 9, 2004 (as amended to date, the Stock Subscription Agreement), pursuant to which Brantley IV will purchase shares of Class B Common Stock by surrendering for cancellation promissory notes issued by SurgiCare and IPS to a wholly-owned subsidiary of Brantley IV (the Bridge Notes) and contributing cash in an amount equal to $6 million minus (a) the amount by which the aggregate principal amount of the Bridge Notes issued by SurgiCare (the SurgiCare Bridge Notes) surrendered for cancellation exceeds $490,000, (b) the amount by which the aggregate principal amount of the Bridge Notes issued by IPS (the IPS Bridge Notes) surrendered for cancellation exceeds $790,000, and (c) the accrued but unpaid interest on such excesses. As of January 31, 2004, the aggregate principal amount of the outstanding Bridge Notes was $2.055 million, and the aggregate amount of these excesses and accrued interest was $778,950. See The Transactions beginning on page 14 and The Transactions The Equity Financing beginning on page 43.

We are seeking your approval of our amended and restated certificate of incorporation. We are proposing to amend and restate our certificate of incorporation to:

effect a one-for-ten reverse stock split of all of the outstanding shares of our common stock;

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;

reclassify SurgiCare common stock as Class A Common Stock, $0.001 par value;

establish two new classes of common stock entitled Class B Common Stock and Class C Common Stock ; and

change the name of the corporation to Orion HealthCorp, Inc.

We cannot complete the Transactions unless the amended and restated certificate of incorporation is approved at the special meeting. Please see the section entitled Proposal One Amended and Restated Certificate of Incorporation beginning on page 96.

We are seeking your approval to authorize the issuance of shares of our Class A Common Stock in connection with the IPS Merger and the Debt Exchange Agreement, in compliance with American Stock Exchange rules. We cannot complete the Transactions unless this issuance of our Class A Common Stock is approved at the special meeting. Please see the section entitled Proposal Two Issuance of Shares of Class A Common Stock in connection with the IPS Merger beginning on page 104.

We are seeking your approval to authorize the issuance of shares of our Class C Common Stock and Class A Common Stock in connection with the DCPS/MBS Merger, in compliance with American Stock Exchange rules. We cannot complete the Transactions unless this issuance of our Class C Common Stock and Class A Common Stock is approved at the special meeting. Please see the section entitled Proposal Three Issuance of Shares of Class C Common Stock in connection with the MBS/DCPS Merger beginning on page 105.

We are seeking your approval to authorize the issuance of shares of our Class B Common Stock pursuant to the Stock Subscription Agreement (the Equity Financing), in compliance with American Stock Exchange rules. We cannot complete the Transactions unless the issuance of our Class B Common Stock is approved at the special meeting. Please see the section entitled Proposal Four Issuance of Shares of Class B Common Stock in Connection with the Equity Financing beginning on page 106.

We are seeking your approval to authorize 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, in compliance with American Stock Exchange rules. Please see the section entitled Proposal Five Issuance of Shares of Class A Common Stock in Exchange for Series AA Preferred Stock beginning on page 108.

We are seeking your approval for the reelection of our current directors (who will serve until the closing of the Transactions) and for election of the seven new nominees for directors to serve on the board of Orion HealthCorp, Inc. (Orion) beginning upon the consummation of the Transactions. The Transaction Documents require that the nominees for the board of directors of Orion be elected by our stockholders. However, such requirement may be waived upon receipt of the necessary consents under the Transaction Documents. Please see the section entitled Proposal Six Election of Directors beginning on page 109.

We are seeking your approval for our 2004 Incentive Plan. The Transaction Documents and the American Stock Exchange rules require that the 2004 Incentive Plan be approved by our stockholders. However, such requirement may be waived upon receipt of the necessary consents

under the Transaction Documents. Please see the section entitled Proposal Seven Approval of New Incentive Plan beginning on page 119.

We are seeking your approval to authorize the issuance of warrants to the current members of our board of directors, in compliance with the American Stock Exchange rules. Please see the section entitled Proposal Eight Approval of Warrant Issuances to the Directors beginning on page 125.

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, in order to arrive at the values to include 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 $0.531 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 for the five trading days ending on January 30, 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 outstanding on a fully-diluted basis, assuming exchange of our Series AA preferred stock for shares of our common stock and 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 43,640,717 (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 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 January 31, 2004, based on a price of $0.55 per share. 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 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, exercise of in-the-money options and warrants as 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 20,936,418 (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 there will be no dissenting IPS stockholders.

That there will be no dissenting DCPS or MBS equityholders.

The Companies (See Pages 54, 68 and 83)

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 Kimberly 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 14)

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. We believe 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 pro forma revenues for the combined entities, which will become Orion HealthCorp, Inc., for the year ended December 31, 2002 and nine months ended September 30, 2003, are in excess of $42.4 million and $31.8 million, respectively. 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 comprehensive, multi-dimensional, alternative site healthcare delivery system. 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.

Interests of Directors and Executive Officers in the Transactions (See Page 16)

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. The current members of our board of directors will receive warrants upon the effectiveness of the Transactions. Finally, two of the nominees to become directors after the Transactions are affiliated with Brantley Partners and its affiliates.

Certain Brantley Partners affiliates have outstanding loans to SurgiCare and IPS and will receive shares of Class A Common Stock pursuant to the Debt Exchange Agreement or Class B Common Stock pursuant to the Stock Subscription Agreement.

The Special Meeting (See Page 11)

Our stockholders meeting will be held at the offices of SurgiCare at 12727 Kimberly Lane, Suite 200, Houston, Texas 77024 on May 4, 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 IPS Merger (See Page 19)

Summary

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.

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 4,364,072 shares of Class A Common Stock (representing approximately 20.8% of the Fully-Diluted Orion Shares).

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.

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.

Regulatory Approvals

We are not aware of any governmental approvals or actions that are required to complete the IPS Merger, apart from standard regulatory notifications and approvals in connection with the transfer of health care businesses. We plan to provide appropriate regulatory notification, seek any required governmental approval, and take any other necessary action to consummate the IPS Merger.

SurgiCare will file two additional listing applications with the American Stock Exchange. One additional listing application will cover the Reverse Stock Split 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 in connection with the IPS Merger and the other 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 American Stock Exchange, subject to official notice of issuance, as a condition to closing.

Tax Consequences

SurgiCare stockholders generally will not recognize taxable gain or loss as a result of the IPS Merger. See The Transactions The IPS Merger Certain Material U.S. Federal Income Tax Consequences of the IPS Merger below for a more detailed discussion of the tax considerations that may be relevant.

Accounting Treatment

The IPS Merger will be treated as a reverse acquisition for accounting purposes, with IPS treated as the acquiring party for accounting purposes. 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. See The Transactions The IPS Merger Accounting Treatment of the IPS Merger below for additional information regarding the accounting treatment.

Overview of the IPS Merger Agreement (See Page 21)

Conditions to the Completion of the IPS Merger. IPS s and our company s obligations to complete the IPS Merger are subject to the satisfaction or waiver of certain conditions specified in the IPS Merger Agreement, including the approval by our stockholders of the issuance of our Class A Common Stock in connection with the IPS Merger (Proposal Two) and certain of the other proposals contained in this proxy statement (Proposal One and Proposal Three through Proposal Seven).

Termination of the IPS Merger Agreement. The IPS Merger Agreement may be terminated in a number of circumstances, including the following:

- by mutual consent of each of SurgiCare and IPS;
- by either party, if the IPS Merger is not completed by May 14, 2004;
- by either party, if the required stockholder approvals are not obtained; or
- by either party, if any governmental authority issues a final and non-appealable order 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 the merger agreement resulted in such order).

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.

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.

Completion and Effectiveness of the IPS Merger. We will complete the IPS Merger when all of the conditions to completion of the IPS Merger are satisfied or waived in accordance with the IPS Merger Agreement. The IPS Merger will become effective when we file a certificate of merger with the Delaware Secretary of State. We expect to complete the IPS Merger promptly after the meeting of our stockholders.

The DCPS/MBS Merger (See Page 30)

Summary

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.

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 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 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). The purchase price is subject to retroactive increase (including issuance of up to 465,000 shares of Class A Common Stock) 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, including the fair market value of our common stock being less than $0.70, and assuming the maximum retroactive increase in purchase price, the DCPS/MBS equityholders will own approximately 8.4% of the Fully-Diluted Orion Shares. 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 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.

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 DCPS/MBS Merger, apart from standard regulatory notifications and approvals in connection with the transfer of health care businesses. We plan to provide appropriate regulatory notification, seek any required governmental approval, and take any other necessary action.

SurgiCare will file two additional listing applications with the American Stock Exchange. One additional listing application will cover the Reverse Stock Split 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 C Common Stock or otherwise pursuant to the DCPS/MBS Merger Agreement and the other 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 American Stock Exchange, subject to official notice of issuance, as a condition to closing.

Tax Consequences

SurgiCare stockholders generally will not recognize taxable gain or loss as a result of the DCPS/MBS Merger. See 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

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.

Overview of the DCPS/MBS Merger Agreement (See Page 32)

Conditions to the Completion of the DCPS/MBS Merger. DCPS s, MBS s and our company s obligation to complete the DCPS/MBS Merger is subject to the satisfaction or waiver of certain conditions specified in the DCPS/MBS Merger Agreement, including the approval by our stockholders of the issuance of our Class C Common Stock in connection with the DCPS/MBS Merger (Proposal Three) and certain of the other proposals contained in this proxy statement (Proposal One, Proposal Two and Proposal Four through Proposal Seven).

Termination of the DCPS/MBS Merger Agreement. The DCPS/MBS Merger Agreement may be terminated in a number of circumstances, including the following:

by consent of each of SurgiCare, DCPS and MBS;

by either SurgiCare or DCPS and MBS, if the DCPS/MBS Merger is not completed by May 14, 2004;

by either SurgiCare or DCPS and MBS, if the required SurgiCare stockholder approvals are not obtained; or

by either SurgiCare or DCPS and MBS, if any governmental authority issues a final and non-appealable order prohibiting 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 merger agreement resulted in such order).

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.

Completion and Effectiveness of the DCPS/MBS Merger. We will complete the DCPS/MBS Merger when all of the conditions to completion of the DCPS/MBS Merger are satisfied or waived in accordance with the DCPS/MBS Merger Agreement. The DCPS/MBS Merger 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 expect to complete the DCPS/MBS Merger promptly after the meeting of our stockholders.

The Equity Financing (See Page 43)

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 January 31, 2004, the aggregate principal amount of the outstanding SurgiCare Bridge Notes is $665,000 and the aggregate principal amount of the IPS Bridge Notes is $1.39 million, which results in an aggregate excess principal amount of $775,000. The accrued interest on this excess was $3,950 as of January 31, 2004.

In exchange for Brantley IV s contribution, and based on the assumptions used in this proxy statement, Brantley IV will receive approximately 9,084,395 shares of Class B Common Stock, which will initially represent, on an as-converted basis, approximately 49.9% 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.

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 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. The IPS stockholders and 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.

Regulatory Approvals

We are not aware of any governmental approvals or actions that are required to complete the Equity Financing, apart from standard regulatory notifications and approvals in connection with the transfer of health care businesses. We plan to provide appropriate regulatory notification, seek any required governmental approval, and take any other necessary action.

SurgiCare will file two additional listing applications with the American Stock Exchange. One additional listing application will cover the Reverse Stock Split 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 Common Stock issued in the Equity Financing and the Class A Common Stock issuable pursuant to the other 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 American Stock Exchange, subject to official notice of issuance, as a condition to closing.

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.

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 American Stock Exchange 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 American Stock Exchange listing status;

the impact of control by Brantley;

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, 2002 and our report on Form 10-QSB for the quarterly period ended September 30, 2003, which are attached as Annex C to this proxy statement.

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 our amended and restated certificate of incorporation. We are proposing to amend and restate our certificate of incorporation to (a) effect a reverse stock split of all of the outstanding shares of our common stock at a ratio of one-for-ten, (b) 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, (c) reclassify our common stock as Class A Common Stock , $0.001 par value per share, (d) establish a new class of common stock entitled Class B Common Stock , $0.001 par value per share, (e) establish a new class of common stock entitled Class C Common Stock , $0.001 par value per share, and (f) change the name of the corporation to Orion HealthCorp, Inc.

Proposal 2. To approve the issuance of shares of Class A Common Stock pursuant to the IPS Merger Agreement and the Debt Exchange Agreement.

Proposal 3. To approve the issuance of shares of Class C Common Stock and Class A Common Stock pursuant to the DCPS/MBS Merger Agreement.

Proposal 4. To approve the issuance of shares of Class B Common Stock to Brantley IV pursuant to the Stock Subscription Agreement.

Proposal 5. 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 6. 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 7. To approve a new incentive plan, the Orion HealthCorp, Inc. 2004 Incentive Plan, to replace our 2001 Stock Option Plan.

Proposal 8. To approve the issuance of warrants to the current members of our board of directors.

Proposal 9. 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 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 Two through Proposal Five.

Who May Attend and Vote?

Stockholders who owned SurgiCare common stock and Series AA preferred stock at the close of business on March 15, 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 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 our amended and restated certificate of incorporation;

2. approving the issuance of shares of Class A Common Stock pursuant to the IPS Merger Agreement and the Debt Exchange Agreement;

3. approving the issuance of shares of Class C Common Stock and Class A Common Stock pursuant to the DCPS/MBS Merger Agreement;

4. approving the issuance of shares of Class B Common Stock to Brantley IV in connection with the financing transactions related to the Acquisitions;

5. 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;

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

7. approving the adoption of the 2004 Incentive Plan;

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

9. 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.

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 than the restatement of 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 charter 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 proposal to amend and restate the charter, 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 Seven 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.

THE TRANSACTIONS

Introduction

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 $2.055 million outstanding as of January 1, 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 January 31, 2003, the aggregate amount of such excesses and accrued interest was $778,950.

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. 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, 2002 and nine months ended September 30, 2003, are in excess of $42.4 million and $31.8 million, respectively. 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. The combined company s strategy will be to develop a comprehensive, multi-dimensional, alternative site healthcare delivery system. 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 board of directors received a written opinion from G. A. Herrera & Co., LLC, 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 and a supplement to the written opinion dated February 12, 2004. The supplement indicated that the changes to the terms of the Transactions since the issuance of the written opinion 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.

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

The board of directors has 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 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. Copies of the opinion and supplement are attached hereto as Annex D.

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.

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 were 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 completed a valuation analysis to compare the net equity value of SurgiCare compared to SurgiCare stockholders value after the Transactions using an income approach, a comparable public company approach, and a comparable private transaction approach. 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.

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 January 31, 2004, and prior to giving effect to the Reverse Stock Split, he owned 80,000 shares (0.3%) of our common stock and warrants to purchase 3,284,616 shares of our common stock. These holdings would convert to approximately 336,461 shares of Class A Common Stock, which together is approximately 1.6% of the Fully-Diluted Orion Shares.

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 December 31, 2003, he owned 200,000 shares (7.1%) of IPS s common stock, which would convert to approximately 14,200 shares of Class A Common Stock, which is approximately 0.07% 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 January 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 3.3% 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 January 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 3.0% 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 3.8% 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).

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 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.

Phillip C. Scott, the current Chief Financial Officer of SurgiCare, owned 80,000 shares (0.3%) of our common stock and warrants to purchase 3,284,616 shares of our common stock as of January 31, 2004 and prior to giving effect to the Reverse Stock Split. These holdings would convert to approximately 336,461 shares of Class A Common Stock, which together is approximately 1.6% of the Fully-Diluted Orion Shares. We are currently negotiating a new employment agreement with Mr. Scott to replace his existing employment agreement.

SurgiCare is seeking approval to issue warrants to purchase 25,000 shares of Class A Common Stock to each of Bruce Miller, Michael A. Mineo, Sherman Nagler and Jeffrey J. Penso, its current directors, as

compensation for their services as directors of SurgiCare. See Proposal Eight Approval of Warrant Issuances. 25,000 shares of Class A Common Stock is approximately 0.1% of the Fully-Diluted Orion Shares.

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.

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 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 in aggregate principal amounts of $665,000 and $1,390,000, respectively, as of January 31, 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 $778,950 as of January 31, 2004.

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 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.

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 54.1% 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. Messrs. Cascio and Finn disclaim beneficial ownership of such shares except to the extent of their pecuniary interests therein.

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, American Stock Exchange 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 amend the terms of the warrants and 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 Acquisition 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 4,364,072 shares of Class A Common Stock (which will represent approximately 20.8% 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 of approximately $3,256,619 and $593,100 of debt in respect of accrued dividends.

Terms of the Class A Common Stock

The terms of the Class A Common Stock, including its rights and preferences, are discussed in Proposal One Amended and Restated Certificate of Incorporation and are governed by the Amended and Restated Certificate of Incorporation attached as Annex L to this proxy statement.

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

The following discussion briefly summarizes certain material U.S. federal income tax considerations relating to the IPS Merger that may be relevant to holders of SurgiCare common stock. The discussion is based upon 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 the 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 related transactions, 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 46 of this proxy statement.

Regulatory Matters

We are not aware of any governmental approvals or actions that are required to complete the IPS Merger, apart from standard regulatory notifications and approvals in connection with transfer of health care businesses. We plan to provide appropriate regulatory notification, seek any required governmental approval, and take any other necessary action. No waiting periods or filing requirements imposed by U.S. federal antitrust laws are applicable to the IPS Merger.

SurgiCare will file two additional listing applications with the American Stock Exchange. One additional listing application will cover the Reverse Stock Split 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 pursuant to the IPS Merger and the other transactions discussed herein. The Transaction Documents require that the shares of Class A Common Stock issuable thereunder be authorized for listing on the American Stock Exchange, subject to official notice of issuance, as a condition to closing.

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 summary of the IPS Merger Agreement 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 4,364,072 shares of our Class A Common Stock (representing approximately 20.8% 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 American Stock Exchange 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). At the effective time, Bank Austria s warrants to purchase IPS stock will be converted to warrants to purchase the number of shares of SurgiCare Class A Common Stock that would have been received by the holder of Bank Austria s warrants if the unexercised portion of those warrants had been exercised immediately prior to the effective time.

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 are entitled to exercise appraisal rights if they:

are holders of issued and outstanding shares of IPS common stock or preferred stock immediately prior to the effective time of the IPS Merger;

have not voted in favor of the IPS Merger nor consented thereto in writing; and

have properly demanded their appraisal rights.

Shares to which appraisal rights are applicable will not be converted into the right to receive shares of our Class A Common Stock unless and until such time as these shares become ineligible for appraisal.

Each IPS stockholder who has not consented to the IPS Merger in writing will receive, within 10 days of the effective date of the IPS Merger, notice that the IPS Merger has been approved and that he or she is entitled to appraisal rights. The notice will attach a copy of Section 262 of the Delaware General Corporation Law (the DGCL) pertaining to the appraisal rights of the IPS stockholders and will include the effective date of the IPS Merger.

Within 20 days of the mailing of the notice, any IPS stockholder who is entitled to appraisal rights must notify us in writing if he or she is demanding appraisal of his or her shares. Within 120 days of the effective date of the IPS Merger, any IPS stockholder who has not consented to the IPS Merger and who has made a written demand for appraisal may file a petition within the Delaware Court of Chancery demanding a determination of the value of the stock of all IPS stockholders entitled to appraisal.

Also within 120 days of the effective date of the IPS Merger and upon written request, any IPS stockholder demanding appraisal rights may request a statement from SurgiCare setting forth the aggregate number of shares not voted in favor of, or consenting to, the IPS Merger and with respect to which demands for appraisal have been received and the aggregate numbers of holders of these shares. This statement will be mailed within 10 days of SurgiCare s receipt of the request for the statement or within 10 days after expiration of the period for delivery of demands, whichever is later.

Within 60 days of the effective date of the IPS Merger, any IPS stockholder may withdraw his or her demand for appraisal and accept shares of our Class A Common Stock and other terms of the IPS Merger by providing written notice to us.

Conditions to Closing. The obligations of SurgiCare and IPS to consummate the IPS Merger are subject to the satisfaction or waiver of a number of conditions, including:

Obtaining all necessary approvals of the SurgiCare and IPS stockholders;

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;

Shares of Class A Common Stock to be issued in the IPS Merger shall have been authorized for listing on the American Stock Exchange, 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 November 18, 2003 which, individually or in the aggregate, have had or would have a material adverse effect, or pose a material risk of having a material and adverse effect, on the business, operations, condition, assets, results of operations or prospects of SurgiCare or IPS;

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, have a material adverse effect on the business, operations, condition, assets, results of operations or prospects of IPS;

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 SurgiCare 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 SurgiCare 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. The IPS Merger Agreement contains representations and warranties by each of the parties. The representations and warranties will not survive the closing of the IPS Merger. See the copy of the agreement attached as Annex A for additional information regarding the representations and warranties included.

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 agent 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;

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 proposed 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 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.

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 the 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), 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, investment bankers, experts and consultants). Except as set forth above, each party to the IPS Merger Agreement will pay its fees and 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 and/or to pay Brantley IV a non-refundable fee of $3 million.

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, American Stock Exchange 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 amend the terms of the warrants and 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.

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 34.

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 will own approximately 8.4% of the Fully-Diluted Orion Shares.

Terms of the Class C Common Stock

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

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

The following discussion briefly summarizes certain material U.S. federal income tax considerations relating to the DCPS/MBS Merger that may be relevant to holders of SurgiCare common stock. The discussion is based upon 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 related transactions, 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 46 of this proxy statement.

Regulatory Matters

We are not aware of any governmental approvals or actions that are required to complete the DCPS/ MBS Merger, apart from standard regulatory notifications and approvals in connection with transfer of health care businesses. We plan to provide appropriate regulatory notification, seek any required governmental approval, and take any other necessary action. No waiting periods or filing requirements imposed by U.S. federal antitrust laws are applicable to the DCPS/MBS Merger.

SurgiCare will file two additional listing applications with the American Stock Exchange. One additional listing application will cover the Reverse Stock Split 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 C Common Stock or otherwise pursuant to the DCPS/MBS Merger Agreement and the other 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 American Stock Exchange, subject to official notice of issuance, as a condition to closing.

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 summary of the DCPS/MBS Merger Agreement 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, and

subordinated promissory notes of SurgiCare 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 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.

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, which will be split equally between the DCPS equityholders and the MBS equityholders:

1) The difference between the actual EBITDA and the Negotiated Amount shall be multiplied by two (2) each year, and such amount shall be called the Additional Consideration Amount.

2) Twenty-five percent (25%) of the Additional Consideration Amount shall be paid by SurgiCare in cash.

3) The DCPS/MBS equityholders shall receive a number of shares of Class A Common Stock equal to seventy-five percent (75%) of the Additional Consideration Amount divided by 7.5.

4) The maximum earn-out to be paid out over the two year period shall consist of an aggregate of up to a maximum of $1,012,500 in cash and up to a maximum of 465,000 additional shares of Class A Common Stock.

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.

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 fully 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 if they:

are holders of issued and outstanding shares of MBS common stock that was entitled to vote on the MBS merger;

have not voted in favor of the MBS merger nor consented thereto in writing; and

have properly demanded their appraisal rights.

Shares to which appraisal rights are applicable will not be converted into the right to receive the applicable merger consideration unless and until such time as these shares become ineligible for appraisal.

The MBS stockholders who have not consented to the MBS merger in writing will receive, within 10 days of the effective date of the MBS merger, notice that the MBS merger has been approved and that he or she is entitled to appraisal rights. The notice will attach a copy of Article 5.12 of the Texas Business Corporation Act pertaining to the appraisal rights of the MBS stockholders and will include the effective date of the MBS merger.

Within 20 days of the mailing of the notice, any MBS stockholder who is entitled to appraisal rights must notify us in writing that he or she is demanding for payment the fair value (as of the date the MBS merger was approved by the shareholders) of his or her shares. The demand shall state the number of shares owned by such dissenting MBS stockholder and the fair value of the shares as estimated by him or her. If within 60 days of the effective date of the MBS merger, MBS and any dissenting MBS stockholder do not reach agreement as to the value of the shares, then such dissenting MBS stockholder who has not consented to the MBS merger and who has made a written demand for appraisal may file a petition in any court of competent jurisdiction in Harris County demanding a determination of the fair value of his or her shares.

Conditions to Closing. The obligations of SurgiCare, DCPS and MBS to consummate the DCPS/MBS Merger are subject to the satisfaction or waiver of a number of specified conditions, including:

Obtaining all necessary approvals of the SurgiCare stockholders;

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;

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 American Stock Exchange, 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, have had or would have a material adverse effect, or pose a material risk of having a material and adverse effect, on the business, operations, condition, assets, results of operations or prospects of SurgiCare and its subsidiaries, taken as a whole, or DCPS and MBS taken as a whole;

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, have a material adverse effect on the business, operations, condition, assets, results of operations or prospects of DCPS and MBS taken as a whole;

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 SurgiCare 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 SurgiCare shall be Mr. Bauer as Chief Executive Officer, Mr. LeBlanc as President, and Stephen H. Murdock as Chief Financial Officer; and

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

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. The DCPS/MBS Merger Agreement contains representations and warranties by each of the parties. The representations and warranties will not survive the closing of the DCPS/MBS Merger. We urge you to read the complete text of such representations and warranties in the DCPS/MBS Merger Agreement attached as Annex B to this proxy statement.

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;

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);

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.

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, American Stock Exchange 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 January 31, 2004, the aggregate principal amount of the outstanding SurgiCare Bridge Notes is $665,000 and the aggregate principal amount of the IPS Bridge Notes is $1.39 million, which results in an aggregate excess principal amount of $775,000. The accrued interest on this excess was $3,950 as of January 31, 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 .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, Brantley IV would receive approximately 9,084,395 shares 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 54.5% 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 49.9% 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.

Terms of the Class B Common Stock

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

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.

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 and/or to pay Brantley IV a non-refundable fee of $3 million.

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

The Stock Subscription Agreement also imposes certain indemnification obligations on SurgiCare and Brantley IV.

Registration Rights Agreement

Brantley IV will also receive the right to register the shares of Class A Common Stock issuable to it upon conversion of the Class B Common Stock pursuant to a registration rights agreement to be executed between Orion and Brantley IV. Pursuant to the agreement, Brantley IV will receive demand registration rights and incidental registration rights for the shares of Class A Common Stock issuable upon conversion of Brantley IV s Class B Common Stock. Such rights allow Brantley IV, or the then holder of such shares, subject to certain conditions, to require that Orion file a registration statement to register such shares or require that such shares be added to a registration statement on which Orion is registering its shares.

The registration rights agreement also makes the holders of shares of Class A Common Stock received pursuant to the IPS Merger Agreement, debt exchange agreement, and DCPS/MBS Merger Agreement (including upon conversion of the Class C Common Stock) third-party beneficiaries. Until the first anniversary of the date of the registration rights agreement, such third-party beneficiaries have the right pursuant to the registration rights agreement to cause Orion to add their shares of Class A Common Stock, including shares of Class A Common Stock issuable upon conversion of shares of Class C Common Stock, to a registration statement on which Brantley IV s shares are being registered.

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

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

The following discussion briefly summarizes certain material U.S. federal income tax considerations relating to the Equity Financing, that may be relevant to holders of SurgiCare common stock. The discussion is based upon 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.

Regulatory Matters

We are not aware of any governmental approvals or actions that are required to complete the Equity Financing, apart from standard regulatory notifications and approvals in connection with transfer of health care businesses. We plan to provide appropriate regulatory notification, seek any required governmental approval, and take any other necessary action. No waiting periods or filing requirements imposed by U.S. federal antitrust laws are applicable to the Equity Financing.

SurgiCare will file two additional listing applications with the American Stock Exchange. One additional listing application will cover the Reverse Stock Split 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 Common Stock issued in the Equity Financing and the Class A Common Stock issuable pursuant to the other 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 American Stock Exchange, subject to official notice of issuance, as a condition to closing.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial statements are presented to illustrate the effect on the historical financial position and operating results as a result of the IPS Merger, with IPS being treated as the acquirer for accounting purposes, and the DCPS/MBS Merger. The following twelve-month unaudited pro forma condensed combined statements of operations are presented using SurgiCare s, IPS s, DCPS s results for the year ended December 31, 2002 and MBS s results for the year ended September 30, 2002. The interim period unaudited pro forma condensed combined statements of operations are presented using SurgiCare s, IPS s, DCPS s and MBS s results for the nine months period ended September 30, 2003.

SurgiCare will account for the IPS Merger as a reverse merger in accordance with generally accepted accounting principles, with IPS being designated as the accounting acquirer. 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 September 30, 2003. The unaudited pro forma condensed combined statements of operations assume that the Mergers and the other transactions contemplated thereby had occurred on January 1, 2002. 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 mergers. The actual financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein because of a variety of factors, including 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 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, 2002 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.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of September 30, 2003

	(A) SurgiCare, Inc. as reported 30-Sep-03	(B) Integrated Physician Solutions, Inc. as reported 30-Sep-03	(C) Medical Billing Services, Inc. as reported 30-Sep-03	(D) Dennis Cain Physicians Solutions, Ltd. as reported 30-Sep-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	$ 113,027	$ 7,392	$ 60,915	$ 325,909	6,000,000 (f)	(3,750,000)(g)	$ 2,757,243
Accounts receivable	812,247	2,008,147	770,760	311,938			3,903,092
Inventory	361,483	148,517					510,000
Prepaid expenses and other current assets	254,308	381,183	26,531				662,022
Total current assets	1,541,065	2,545,239	858,206	637,847	6,000,000	(3,750,000)	7,832,357
Property, Plant & Equipment	2,453,287	398,673	98,551	40,597			2,991,108
Other Long Term Assets							
Intangibles, including goodwill	8,159,133	11,420,350	0	0	6,625,414 (b)	10,590,972 (g)	36,795,869
Real estate	4,000,000				(2,000,000)(b)		2,000,000
Guaranteed receivable on real estate					2,000,000 (b)		2,000,000
Other assets	782,082	83,423	32,445	1,997			899,947
Total other long term assets	12,941,215	11,503,773	32,445	1,997	6,625,414	10,590,972	41,695,816
Total assets	$ 16,935,567	$ 14,447,685	$989,202	$ 680,441	$12,625,414	$ 6,840,972	$ 52,519,281
Current Liabilities							
Accounts payable and accrued expenses	4,032,962	2,833,346	232,486	192,034		(84,850)(g)	7,205,978
Income taxes payable			203,168				203,168
Current portion of long-term-debt and capital lease obligation	8,093,918	7,218,917	14,460		(4,533,061)(a)		10,794,234
Total current liabilities	12,126,880	10,052,263	450,114	192,034	(4,533,001)	(84,850)	18,203,380
Long Term Liabilities							
Long term debt and capital lease obligations	116,693	2,377,272	35,127	0		500,000 (g)	3,029,092
Total long term liabilities	116,693	2,377,272	35,127	0	0	500,000	3,029,092
					(1,225)(e)		
Redeemable Convertible Preferred Stock	2,125	12,126,213			(12,126,213)(c)		900
Stockholders Equity					(2,854)(c)		
					(127,748)(d)	(1,000)(g)	
Common stock, Class A, B and C	124,416	2,854	1,000		8,553 (a)	12,879 (g)	18,100
Capital				(289,881)		289,881 (g)	0
					(4,998,425)(b)		
					4,524,508 (a)		
					11,504,067 (c)		
					127,748 (d)		
					1,225 (e)		

Additional paid-in-capital	16,189,292	9,392,473	114,000		6,000,000 (f)	7,291,311 (g)	50,146,199
Retained earnings (accumulated deficit)	(11,577,271)	(18,878,390)	418,961	778,288	11,577,271 (b) 38,318 (b)	(1,197,249)(g)	(18,878,390)
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	4,689,869	(10,108,063)	503,961	488,407	29,285,913	6,425,822	31,285,909
Total liabilities and stockholders equity	$ 16,935,567	$ 14,447,685	$989,202	$ 680,441	$12,625,414	$ 6,840,972	$ 52,519,281

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

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of September 30, 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 8,552,946 shares of SurgiCare, Inc. common Class A and Class B stock as follows:

Brantley Venture Partners III, LLP (IPS)	$1,673,510
Brantley Capital Corporation (IPS)	2,184,551
Lakepoint Acquisition (IPS and SurgiCare)	675,000
Total Liabilities Converted	$4,533,061

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.

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

		Purchase Price
Market Capitalization of SurgiCare, Inc. at effective date of merger:		
SurgiCare, Inc. outstanding Common Stock Series A	25,793,520	
Market Price per Share	$ 0.40	$10,317,408
Direct merger transaction costs		1,000,000
Total Purchase Price		$11,317,408

Allocated as follows:

	Fair Value
Cash	$ 113,027
Accounts receivable-trade and other	812,247
Inventory	361,483
Other current assets	254,308
Property and equipment	2,453,287
Real Estate	2,000,000
Guaranteed receivable on real estate	2,000,000
Investments/Other	782,082
Goodwill and identifiable intangibles	14,784,547
Debt	(8,210,611)
Accounts payable-trade and accruals	(4,032,962)
Net assets acquired	$11,317,408

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

(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.

(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 condensed combined 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.

As described further in The Equity Financing section of the proxy, the actual cash payment to be received at closing will be reduced by the amount of bridge notes outstanding in excess of $1,280,000.

(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 C (1,287,880 shares)	6,825,764
Liabilities Assumed	592,426
Total Purchase Price	$11,418,190

The DCPS/MBS merger agreement includes contingent future payments if certain post-acquisition earnings targets are achieved. Such contingent consideration is not reflected here.

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

Allocated, as follows:

	Historical NBV			
	DCPS	**MBS**	**Adjustments**	**As Adjusted**
Cash	$ 325,909	$ 60,915 (1)	$ (250,000)	$ 136,824
Accounts receivable-trade and other	311,288	829,736		1,141,024
Total Current Assets	637,197	890,651	(250,000)	1,277,848
Property and equipment	40,597	98,551		139,148
Goodwill, and identifiable intangibles	0	0	10,590,972	10,590,972
Other assets	2,648	0		2,648
Total Assets	680,442	989,202	10,340,972	12,010,616
Accounts payable and accruals	(192,035)	(435,654)(2)	84,850	(542,839)
LT Debt and capital leases		(49,587)		(49,587)
Net assets acquired				$ 11,418,190

(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 purchase price calculation assumes that the fair market value of SurgiCare common stock (based on the daily average of the high and low price per share over the five trading days immediately prior to the closing) is $0.53 per share. 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 shares of SurgiCare common stock Class C issued will be increased by 193,939.

Additionally, if the fair market value of SurgiCare common stock (based on 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 be required to pay MBS owners an additional cash amount on April 1, 2005. Based on the assumed price used in the unaudited pro forma condensed financial statements of $0.53 per share, the cash payment is immaterial, and has not been included in the pro forma adjustments.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF EARNINGS

For the nine-month period ended September 30, 2003

	(A) SurgiCare, Inc. as reported 30-Sep-03	(B) Integrated Physician Solutions, Inc. as reported 30-Sep-03	(C) Medical Billing Services, Inc. as reported 30-Sep-03	(D) Dennis Cain Physicians Solutions, Ltd. as reported 30-Sep-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	$ 5,890,428	$18,266,371	$4,617,290	$3,062,027			$31,836,116
Cost of services	3,377,139	11,463,396	0	0			14,840,535
Gross margin	2,513,289	6,802,975	4,617,290	3,062,027	0	0	16,995,581
General and administrative expenses:							
Salaries and benefits	1,190,560	3,052,861	3,721,439	1,880,323		(705,302)(c)	9,139,881
Facility rent and related costs	957,378	1,041,186	194,534	105,379			2,298,477
Depreciation and amortization	653,374	114,874	38,292	27,074			833,614
Professional and consulting fees	682,118	621,279	55,020	12,972			1,371,389
Insurance	133,201	405,778	17,366	7,537			563,882
Provision for doubtful accounts	311,648	1,494,643					1,806,291
Other	582,675	1,175,686	695,524	375,376			2,829,261
Total general and administrative	4,510,954	7,906,307	4,722,175	2,408,661	0	(705,302)	18,842,795
Operating Income (loss)	(1,997,665)	(1,103,332)	(104,885)	653,366	0	705,302	(1,847,214)
Other income							
Interest expense	(1,375,265)	(550,044)	(4,552)		207,317(b)	(30,000)(d)	(1,752,544)
							0
Interest income			2,227	233			2,460
Gain (loss) on sale of partnership interest	319,086						319,086
Loss on sale of assets	(463,177)		512				(462,665)
Impairment on investment in land	(579,386)						(579,386)
Equity in (earnings) losses of limited partnerships	186,761						186,761
Other income	27,010						27,010
Total other expense, net	(1,884,971)	(550,044)	(1,813)	233	207,317	(30,000)	(2,259,278)
Income(Loss) before income taxes	(3,882,636)	(1,653,376)	(106,698)	653,599	207,317	675,302	(4,106,492)
Income taxes	13,561		36,366				49,927
Net Income(Loss)	$(3,869,075)	$ (1,653,376)	$ (70,332)	$ 653,599	$207,317	$ 675,302	$ (4,056,565)
Preferred stock dividends		(572,785)			572,785(a)		0
Net Income(Loss) attributable to common stockholders	$(3,869,075)	$ (2,226,161)	$ (70,332)	$ 653,599	$780,102	$ 675,302	$ (4,056,565)

See Accompanying Introduction and Notes to Unaudited Pro Forma Condensed Combined Statements of Earnings

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF EARNINGS

For the year ended December 31, 2002

	(A) SurgiCare, Inc. as reported 31-Dec-02	(B) Integrated Physician Solutions, Inc. as reported 31-Dec-02	(C) Medical Billing Services, Inc. as reported 31-Dec-02	(D) Dennis Cain Physicians Solutions, Ltd. as reported 31-Dec-02	(E) SurgiCare/ IPS Pro Forma Adjustments	(F) DCPS/ MBS Pro Forma Adjustments	(G) (A)+(B)+(C) +(D)+(E)+(F) Pro forma combined
Operating revenues	$ 11,552,440	$ 22,203,842	$ 4,827,806	$ 3,767,024			$ 42,351,112
Cost of services	5,378,198	13,935,669	0	0			19,313,867
Gross margin	6,174,242	8,268,173	4,827,806	3,767,024	0	0	23,037,245
General and administrative expenses:							
Salaries and benefits	1,604,562	3,860,027	3,445,310	3,134,655		(1,061,341)(c)	10,983,213
Facility rent and related costs	893,906	1,320,839	224,833	107,213			2,546,791
Depreciation and amortization	745,731	207,667	55,321	67,718			1,076,437
Professional and consulting fees	2,223,374	912,795	64,355	8,337			3,208,861
Insurance	91,995	440,013	16,110	2,137			550,255
Provision for doubtful accounts	5,753,733	1,660,516	333				7,414,582
Other	994,772	1,226,255	891,633	470,060			3,582,720
Total general and administrative	12,308,073	9,628,112	4,697,895	3,790,120	0	(1,061,341)	29,362,859
Operating Income (loss)	(6,133,831)	(1,359,939)	129,911	(23,096)	0	1,061,341	(6,325,614)
Other income							
Interest expense	(1,359,060)	(599,392)	(651)	(1,727)	169,702(b)	(40,000)(d)	(1,831,128)
							0
Interest income			4,515	2,457			6,972
Gain (loss) on terminated acquisition	(1,977,382)						(1,977,382)
Loss on sale of assets	(172,083)						(172,083)
Impairment on investment in land	(1,500,000)						(1,500,000)
Equity in (earnings) losses of limited partnerships	(103,874)						(103,874)
Other income	4,651						4,651
Total other expense, net	(5,107,748)	(599,392)	3,864	730	169,702	(40,000)	(5,572,844)
Income(Loss) before minority interest and income taxes	(11,241,579)	(1,959,331)	133,775	(22,366)	169,702	1,021,341	(11,898,458)
Minority interest in loss of limited partnerships	782,386						782,386
Income(Loss) before income taxes	(10,459,193)	(1,959,331)	133,775	(22,366)	169,702	1,021,341	(11,116,072)
Income taxes	1,609,576	0	(47,578)				1,561,998
Net Income(Loss)	$ (8,849,617)	$ (1,959,331)	$ 86,197	$ (22,366)	$ 169,702	$ 1,021,341	$ (9,554,074)
Preferred stock dividends		(793,000)			793,000(a)		

Net Income(Loss) attributable to common stockholders	$ (8,849,617)	$ (2,752,331)	$ 86,197	$ (22,366)	$962,702	$ 1,021,341	$ (9,554,074)

See Accompanying Introduction and Notes to Unaudited Pro Forma Condensed Combined Statements of Earnings

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED

STATEMENTS OF EARNINGS

(a) To eliminate historical preferred stock dividends on Series A-2 redeemable preferred stock of 1,982,500 and 1,653,000 shares at 12/31/02 and 9/30/03, respectively

Year Ended 12/31/02	Period Ended 9/30/03
$793,000	$572,785

(b) To eliminate historical interest expense on indebtedness converted to SurgiCare common as part of the merger totalling $3,582,345 at 12/31/02 and $4,533,061 at 9/30/03

Year Ended 12/31/02	Period Ended 9/30/03
$169,702	$207,317

(c) To eliminate historical employee compensation in excess of contractual obligations as indicated in the merger agreements

Year Ended 12/31/02	Period Ended 9/30/03
$1,061,341	$705,302

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

Year Ended 12/31/02	Period Ended 9/30/03
$40,000	$30,000

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. 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. 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.

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

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

Bellaire SurgiCare, Inc.

Bellaire owns and operates an ambulatory surgery center located in Houston, Texas. Bellaire has been in operation for 14 years, first as The Institute for Eye Surgery, and since March of 1995, as Bellaire SurgiCare, Inc. 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, and general surgery utilize this facility. The surgeons performing surgery at 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.

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 and reconstructive, and 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.

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.

Tuscawaras Ambulatory Surgery Center, LLC

SurgiCare owns a 51% interest in Tuscawaras Ambulatory Surgery Center, LLC (Tuscawaras) 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 surgery utilize this facility. The surgeons performing surgery at the center generally charge their patients for the professional services they provide, while Tuscawaras only charges the patients for the facility fee.

Industry Overview

Freestanding ambulatory surgery centers 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 ambulatory surgery centers.

SurgiCare believes that the following factors have contributed to the growth of ambulatory surgery centers:

Cost-effective Alternative. Ambulatory surgical centers do not usually have 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 is generally less expensive than hospital inpatient surgery. In addition, SurgiCare believes that surgery performed at a freestanding ambulatory surgery center is also less expensive than hospital-based ambulatory surgery for a number of reasons, including:

Lower facility development costs;

More efficient staffing and space utilization; and

Specialized operating environment focused on cost containment.

SurgiCare believes that interest in ambulatory surgery centers 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 ambulatory surgery centers 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 ambulatory surgery centers. 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 a freestanding ambulatory surgery center 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 ambulatory surgery centers.

Business Philosophy

SurgiCare believes that physician owned and operated surgical centers are typically profitable. This profitability results primarily from the fact that physicians who own and operate 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 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 ambulatory surgical centers 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 cost conscious when they own and manage the ambulatory surgical centers 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.

SurgiCare believes that the profitability of freestanding ambulatory surgery centers 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 ambulatory surgery center, 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 operations and management of ambulatory surgical centers. 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 ambulatory surgery centers, 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 ambulatory surgery centers.

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 ambulatory surgical centers as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of 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. 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 surgery centers. 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. The Acquisitions are consistent with this strategy. Servicing surgery centers with practice management functions may also 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 ambulatory surgery center in partnership with SurgiCare, SurgiCare anticipates that the SurgiCare s 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.

Going forward, SurgiCare anticipates that its ownership interests in most of its freestanding ambulatory surgery centers 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%
Tuscawaras Ambulatory Surgery Center	Dover, Ohio	June 2002	51%

AAAHC Accreditation

Three of SurgiCare s surgery centers are accredited by the Accreditation Association for Ambulatory Health Care Inc. (AAAHC). 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.

Freestanding ambulatory surgery centers, such as those 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 15% of its gross revenues from governmental healthcare programs, including Medicare and Medicaid, in 2002. The Medicare program currently pays ambulatory surgery centers and physicians in accordance with fee schedules, which are prospectively determined.

The Department of Health and Human Services (DHHS) bases its reimbursement system to ambulatory surgery centers on cost surveys. The current payment system is based on a 1986 cost survey. Another survey was completed in 1994, and based on this survey, in 1998, DHHS proposed a new payment methodology for surgery centers. If implemented, this new payment methodology would have adversely affected our revenues by approximately 2%. In May 2002, DHHS listed this proposal as a discontinued action. However, DHHS may propose a new rule at any time that could adversely impact surgery center reimbursement and therefore our financial condition, results of operations and business prospects.

In January 2003, the Medicare Payment Advisory Commission (MedPac) voted to recommend to Congress that the reimbursement by Medicare for procedures performed in surgery centers be no higher than the reimbursement rate for the same procedures performed in hospital outpatient departments. Also, in January 2003, the Office of Inspector General (OIG) issued a report that included a similar recommendation, and a recommendation that DHHS conduct a new cost survey. It is uncertain if Congress will act on either or both recommendations. While the majority of procedures are reimbursed at a higher rate in hospital outpatient departments than in ambulatory surgery centers, several procedures are reimbursed at a higher rate in ambulatory surgery centers. Although there is no certainty that these

recommendations will be implemented, we have determined that, based on our current procedure mix, the MedPac recommendation, if implemented, would have an immaterial effect on revenues.

In addition to payment from governmental programs, ambulatory surgery centers 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 management 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 ambulatory surgery centers. Many of these competitors have greater resources than SurgiCare. The principal competitive factors that affect the ability of SurgiCare and its competitors to acquire surgery centers are price, experience, reputation, and access to capital.

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 facilities for the services provided at those facilities.

Certificates of Need and State Licensing. CON regulations control the development of ambulatory surgery centers in certain states. CONs 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. State CON statutes generally provide that, prior to the construction of new facilities or the introduction of new services, a designated state health-planning agency must determine that a need exists for those facilities or services. SurgiCare expects that its development of ambulatory surgery centers 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.

State licensing of ambulatory surgery centers 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.

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 ambulatory service centers for services rendered to patients in those centers. In order to receive Medicare reimbursement, each ambulatory surgery center 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. Ambulatory surgery centers 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 the 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 shareholder, 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 reduces 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 ambulatory surgical centers 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 the surgery centers. Nonetheless, SurgiCare believes that it is in compliance with the current requirements of applicable federal and state law.

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 and similar 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 SurgiCare therefore, does not believe that ambulatory surgery is otherwise subject to the restrictions set forth in Stark II. Proposed regulations pursuant to Stark II that were published on January 9, 1998 specifically provide that services provided in any ambulatory surgery center and reimbursed under the composite payment rate are not designated health services.

However, unfavorable final Stark II regulations or subsequent adverse court interpretations concerning similar provisions found in recently enacted state statutes could prohibit reimbursement for treatment provided by the physicians affiliated with SurgiCare or its current or future centers to their patients.

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 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.

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. 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 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.

Physician Shareholders

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 Kimberly 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 four of the properties. Pursuant to a December 11, 2002 agreement, American International Industries, Inc. guaranteed a resell 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 $202,000, 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.

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. The case is currently pending. 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.

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 American Stock Exchange and began trading on this exchange at that time. The

following table sets forth the high and low sales prices relating to SurgiCare 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

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

Holders

SurgiCare believes that as of December 31, 2003, 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 2001 Stock Option Plan will be replaced with the proposed 2004 Incentive Plan.

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. There were no changes in the exercise price of outstanding warrants through cancellation and reissuance 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 documents which have been previously filed with the Securities and Exchange Commission and are attached as Annex C to this proxy statement:

Our annual report on Form 10-KSB for the fiscal year ended December 31, 2002, which contains:

Our audited financial statements for the fiscal years ended December 31, 2002 and 2001; and

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

Our quarterly report on Form 10-QSB for the quarterly period ended September 30, 2003, which contains:

Our unaudited financial statements for the nine month periods ended September 30, 2003 and 2002; and

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

INFORMATION ABOUT IPS

Description of Business

Overview

IPS, a Delaware corporation, is a Roswell, Georgia-based holding company. IPS s subsidiary, 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 IntegriMED system includes practice management, billing, scheduling, collections, human resources, payroll and benefits administration, accounting, communication, procurement and electronic medical records applications. These applications are typically provided by third party manufacturers but also include internally developed proprietary applications. IPS 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.

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.

Employees

As of December 31, 2003, IPS had 197 full-time employees with 26 employees based in Roswell, Georgia.

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 2002 and 2001 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, Pediatric Physician Alliance (PPA) and IntegriMED, Inc. (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

Effective March 31, 2002, New Interlachen Pediatrics, Inc. (NIP), a component of PPA in Maitland, Florida, entered into an Asset Purchase Agreement with New Interlachen Pediatrics, P.A, a Florida professional service corporation, 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 goodwill	(530,551)
Goodwill	(1,451,167)
Liabilities	134,410
Net gain on sale	$ 245,438

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 April 1, 2001, a group of physicians responsible for the operations of a component of PPA providing pediatric intensive care unit services in Dallas, Texas (PICU) abandoned the practice disregarding the terms of their MSA. IPS is currently seeking legal remedies against the parties involved. The IPS consolidated financial statements attached as Annex I to this proxy statement include the operations of PICU for the periods prior to April 1, 2001 as a discontinued operation.

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 IPS s 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 requires 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 2002 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 companies to consolidate the results of medical groups with which it has an existing contractual relationship. 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.

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 revenues are based on established billing rates, less estimated allowances for patients covered by Medicare, Medicaid and other contractual reimbursement programs, and discounts from established billing rates. 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. When payments are received, the contractual adjustment is written off against the established reserve for contractual allowances. The historical collection percentage is adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. As pricing changes are made for Medicare, Medicaid or other contractual reimbursement programs, or as contracts with new payors are executed, IPS adjusts the estimated contractual allowance to account for changes in reimbursement.

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. Subscription fee revenues are recognized based on contractual fee schedules in the period the services are provided. Employee benefit administrative fee revenues are recognized in the period the services are provided.

Capitated Contractual Arrangements. For the year ended December 31, 2002 and nine months ended September 30, 2003, approximately 4.9% and 4.6%, 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 its capitated contracts 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 $1,150,142 and $317,387 in 2001 and 2002, respectively.

Goodwill and Other Intangible Assets. In July 2001, the FASB issued Statement of Financial Accounting Standards (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, the amortization of existing goodwill ceased on December 31, 2001. IPS tested its goodwill for impairment under the new standard in the fourth quarter of 2002, determining that no goodwill impairment had occurred, and no events have occurred since to cause a significant change in this assessment.

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 periods 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 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.

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.

	Nine Months Ended September 30,		Twelve Months Ended December 31,	
	2003	**2002**	**2002**	**2001**
Revenues:				
Net patient service revenue	99.2%	99.4%	99.2%	99.8%
IntegriMED revenues	0.8%	0.6%	0.8%	0.2%
Total revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Physician compensation	42.7%	43.2%	43.5%	42.3%
Direct clinical expenses	20.1%	18.7%	19.2%	21.7%
Operating expenses	16.7%	16.9%	17.4%	17.6%
General and administrative expenses	14.2%	14.2%	13.3%	12.7%
Provision for bad debts	8.2%	6.9%	7.5%	7.1%
Professional and consulting fees	3.4%	3.7%	4.1%	4.0%
Depreciation	0.6%	0.9%	0.9%	1.2%
Amortization	0.0%	0.0%	0.0%	2.9%
Total operating expenses	105.9%	104.6%	106.0%	109.6%
Loss from continuing operations before other income (expenses) and income taxes	(5.9)%	(4.6)%	(6.0)%	(9.6)%
Other income (expenses)				
Interest expense	(3.1)%	(2.8)%	(2.7)%	(3.6)%
Other expense	(0.1)%	(0.1)%	(0.1)%	(0.2)%
Total other income (expenses)	(3.2)%	(2.9)%	(2.8)%	(3.8)%
Loss from continuing operations before income taxes	(9.1)%	(7.5)%	(8.8)%	(13.3)%
Income taxes	0.0%	0.0%	0.0%	0.0%
Loss from continuing operations	(9.1)%	(7.5)%	(8.8)%	(13.3)%
Discontinued operations				
Income from operations of discontinued components, including gain on disposal	0.0%	2.7%	2.1%	2.0%
Net loss	(9.1)%	(4.8)%	(6.7)%	(11.3)%
Preferred stock dividends	(3.1)%	(3.4)%	(3.6)%	(3.7)%
Net loss attributable to common stockholders	(12.2)%	(8.1)%	(10.3)%	(15.0)%

Year Ended December 31, 2002 as Compared to Year Ended December 31, 2001

The following table sets forth, for the periods indicated, the consolidated statements of operations of IPS.

	2002	2001	Variance
		(Unaudited)	
Revenues:			
Net patient service revenue	$22,028,924	$21,115,216	$ 913,708
IntegriMED revenues	174,918	36,114	138,804
Total revenues	22,203,842	21,151,330	1,052,512
Operating expenses:			
Physician compensation	9,668,073	8,945,404	722,669
Direct clinical expenses	4,267,596	4,598,246	(330,650)
Operating expenses	3,860,027	3,727,115	132,913
General and administrative expenses	2,956,030	2,680,399	275,631
Provision for bad debts	1,660,516	1,505,469	155,047
Professional and consulting fees	912,795	837,844	74,952
Depreciation	207,667	261,149	(53,482)
Amortization		617,455	(617,455)
Total operating expenses	23,532,704	23,173,080	359,625
Loss from continuing operations before other income (expenses) and income taxes	(1,328,862)	(2,021,750)	692,888
Other income (expenses)			
Interest expense	(599,392)	(759,013)	159,621
Other expense	(31,077)	(41,414)	10,337
Total other income (expenses)	(630,469)	(800,427)	169,958
Loss from continuing operations before income taxes	(1,959,331)	(2,822,177)	862,845
Income taxes			
Loss from continuing operations	(1,959,331)	(2,822,177)	862,845
Discontinued operations			
Income from operations of discontinued components, including gain on disposal of $245,438 in 2002	463,330	431,995	31,335
Net loss	$ (1,496,001)	$ (2,390,182)	$ 894,180
Preferred stock dividends	(793,000)	(793,000)	
Net loss attributable to common stockholders	$ (2,289,001)	$ (3,183,182)	$ 894,180

Net patient service revenue increased $913,708, or 4.3%, to $22,028,924 for the year ended December 31, 2002, as compared with $21,115,216 for the same period in 2001. This increase in net patient service revenue was primarily the result of: (i) price increases implemented by several practices during the year; (ii) improved managed care contract negotiations; (iii) increased patient volume as a result of increased clinic hours; and (iv) additional revenue from allergy and respiratory clinical trials. NIP, which was sold on March 31, 2002, had revenues of

$1,454,807 in 2002 and $5,812,699 in 2001. PICU, which ceased operations on April 1, 2001, had revenue of $652,852 in 2001.

IntegriMED revenues were $36,114 in 2001, increasing 384.4%, or $138,804, to $174,918 for the year ended December 31, 2002. Of the total increase, $64,903 relates to additional net revenue related to the

operations of IntegriMED, as new customer practices were added to the employee benefits programs and electronic medical records applications offered by IntegriMED. The remaining increases are a result of the full-year impact of several new IntegriMED customers added in the last two quarters of 2001.

Pursuant to the terms of the MSA s 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 14.6% of physician medical group net operating income in 2002. Physician compensation increased $722,669, or 8.1%, for the year ended December 31, 2002 to $9,668,073, as compared with $8,945,404 for the year ended December 31, 2001. As a percentage of net patient service revenue, physician compensation increased 1.5% to 43.9% in 2002. The increase in compensation in 2002 was directly related to increases in net patient service revenue, which outpaced the net increase in associated clinical and operating expenses. Physician compensation for NIP, which was sold in 2002, was $334,490 in 2002 and $2,068,018 in 2001, while PICU, which ceased operations in 2001, had physician compensation of $301,955 for 2001.

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, 2002, direct clinical expenses decreased $330,650, or 7.2%, from the same period in 2001 to $4,267,596. The vaccine expense at one of IPS s affiliated medical groups accounted for $169,430 of the decrease. In 2001, a new pneumococcal vaccine was approved by the American Academy of Pediatrics to be administered to infants and children for the prevention of childhood ear infections. This product was actively marketed in 2001, resulting in approximately $260,000 in additional revenue and $169,430 in additional expense in that year. The remainder of the 2002 decrease in direct clinical expenses can be attributed to staff turnover, primarily positions that were open for some portion of the year, as well as overall expense efficiencies at the medical group locations. NIP, which was sold in 2002, had direct clinical expenses of $489,202 and $1,809,012 in 2002 and 2001, respectively. PICU, which ceased operations in 2001, had direct clinical expenses of $21,562 for 2001.

Operating expenses represents the employee-related costs of all non-clinical practice personnel and the IPS corporate staff in Roswell, Georgia. Operating expenses increased $132,913 from $3,727,115 for the year ended December 31, 2001 to $3,860,027 for the year ended December 31, 2002. This increase can be attributed primarily to 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 net patient service revenue these expenses were consistent with the prior year, decreasing 0.2% to 17.5% in 2002. NIP, which was sold in 2002, had operating expenses of $181,844 and $733,110 in 2002 and 2001, respectively. PICU, which ceased operations in 2001, had operating expenses in 2001 of $6,082.

General and administrative expenses were $2,956,030 for the year ended December 31, 2002, which represents an increase of 10.3% over the same period in 2001. The increase was primarily due to: (i) rent increases related to new office locations for two medical group facilities and the corporate office in Roswell, Georgia totaling $140,088; and (ii) a 39.8%, or $97,668, increase in professional liability insurance premiums for affiliated physicians. NIP, which was sold in 2002, had general and administrative expenses in 2002 and 2001 of $168,602 and $610,957, respectively. PICU, which ceased operations in 2001, had general and administrative expenses in 2001 of $17,244.

The provision for bad debts, which is based on management s evaluation of potentially uncollectible accounts, increased from $1,505,469 for the year ended December 31, 2001 to $1,660,516 for the same period in 2002, an increase of $155,047. As a percent of net patient service revenue, bad debt expense was comparable to the prior period, increasing 0.4% to 7.5%. NIP, which was sold in 2002, had bad debt expense of $18,142 in 2002 and $73,386 in 2001. PICU, which ceased operations in 2001, had bad debt expense of $217,669 in 2001.

Professional and consulting fees, while increasing $74,952 to $912,795 for the year ended December 31, 2002, were comparable to 2001 as a percent of net revenue at 4.1%. The increase was

primarily related to additional direct mail and e-mail marketing efforts for IntegriMED and its associated applications. NIP, which was sold in 2002, had professional and consulting fees of $32,267 and $118,120 in 2002 and 2001, respectively. PICU, which ceased operations in 2001, had $18,671 in professional and consulting fees in 2001.

Depreciation was $207,667 in 2002, a decrease of $53,482 from the year ended December 31, 2001. The decrease relates to a number of fixed assets that were fully amortized and/or retired at the affiliated medical groups and corporate office during 2002. Depreciation expense for NIP, which was sold in 2002, was $10,561 in 2002 and $33,149 in 2001.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (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, the amortization of existing goodwill, which totaled $617,455 for the year ended December 31, 2001, ceased at the end of 2001. IPS tested its goodwill for impairment under the new standard beginning in fiscal year 2002, determining that no goodwill impairment had occurred, and no events have occurred since to cause a significant change in this assessment.

Interest expense decreased $159,621, or 21.0%, to $599,392 for the year ended December 31, 2002. This decreases in interest expense from 2001 was primarily the result of: (i) a portion of the proceeds from the sale of NIP on March 31, 2002 was used to pay down the revolving line of credit, lowering the average outstanding balance on which interest is charged; and (ii) the prime rate of interest, which was the basis of the interest rate of the revolving line of credit decreased significantly from the beginning of 2001 to the end of 2002, resulting in interest savings of approximately $95,000 in 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 $793,000 were accrued for the years ended December 31, 2002 and 2001, respectively.

The following table sets forth, for the periods indicated, the consolidated statements of operations of IPS.

Nine Months Ended September 30, 2003 as Compared to Nine Months Ended September 30, 2002

	9/30/2003	9/30/2002	Variance
	(Unaudited)	(Unaudited)	
Revenues:			
Net patient service revenue	$18,117,012	$16,912,504	$1,204,508
IntegriMED revenues	149,359	106,415	42,944
Total revenues	18,266,371	17,018,919	1,247,452
Operating expenses:			
Physician compensation	7,795,420	7,353,792	441,628
Direct clinical expenses	3,667,977	3,189,614	478,363
Operating expenses	3,052,861	2,879,747	173,114
General and administrative expenses	2,601,177	2,414,567	186,610
Provision for bad debts	1,494,643	1,176,451	318,192
Professional and consulting fees	621,279	624,446	(3,167)
Depreciation	114,874	161,243	(46,369)
Amortization			
Total operating expenses	19,348,231	17,799,860	1,548,371
Loss from continuing operations before other income (expense) and income taxes	(1,081,860)	(780,941)	(300,919)
Other income (expense)			
Interest expense	(550,044)	(471,147)	(78,897)
Other expense	(21,472)	(25,352)	3,880
Total other income (expense)	(571,516)	(496,499)	(75,017)
Loss from continuing operations before income taxes	(1,653,376)	(1,277,440)	(375,936)
Income taxes			
Loss from continuing operations	(1,653,376)	(1,277,440)	(375,936)
Discontinued operations			
Income from operations of discontinued component, including gain on disposal of $245,438 in 2002		463,330	(463,330)
Net loss	(1,653,376)	(814,110)	(839,266)
Preferred stock dividends	(572,781)	(572,785)	
Net loss attributable to common stockholders	$ (2,226,161)	$ (1,386,895)	$ (839,266)

Net patient service revenue increased $1,204,508, or 7.1%, for the nine months ended September 30, 2003, as compared with $16,912,504 for the same period in 2002. The increase in net patient service revenue was primarily the result of: (i) price increases implemented by several medical groups during the first nine months of the year; (ii) additional providers added in the fourth quarter of 2002 and the first nine months of 2002; (iii) improved managed care contract negotiations; (iv) increased patient volume as a result of lengthened clinic hours; and (v) additional revenue from allergy and respiratory clinical trials. Net patient service revenue for NIP, which was sold in March 2002, was $1,454,807 for the nine-month period ended September 30, 2002.

IntegriMED revenues, which were $106,415 for the first nine months of 2002, increased 40.4%, or $42,944, to $149,359 for the same period in 2003. In the first nine months of 2003, seven new customer practices were added to the employee benefits, electronic medical records, practice management and electronic data interchange applications offered by IntegriMED, which resulted in $30,303 in additional revenue. IntegriMED revenue increases for the nine months ended September 30, 2003 also reflect a nine-

month impact of several new practice management and electronic medical records customers added in the second half of 2002.

Pursuant to the terms of the MSA s 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 14.2% of medical group net operating income for the nine months ended September 30, 2003. Physician compensation increased $441,628, or 6.0%, for the nine months ended September 30, 2003, as compared with $7,353,792 for the nine months ended September 30, 2002. The increase in physician compensation in the first nine months of 2003 was directly related to growth in net patient service revenue, which outpaced the net increase in associated clinical and operating expenses. Physician compensation for NIP, which was sold in 2002, was $334,490 for the nine-month period ended September 30, 2002.

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 nine-month period ended September 30, 2003, direct clinical expenses increased $478,363, or 15.0%, over the same period in 2002. Approximately $250,000 of the increase was the result of additional salary expense related to the hiring of new nurse practitioners and nurses in the fourth quarter of 2002 and the first nine months of 2003 to support the added patient volume associated with extended clinic hours and the addition of new physician providers at several affiliated medical groups. The remaining increase can be attributed to price increases of several key vaccines used by the affiliated medical groups. NIP had direct clinical expenses totaling $489,202 in 2002 prior to its sale in March of that year.

Operating expenses represents the employee-related costs of all non-clinical practice personnel and the IPS corporate staff in Roswell, Georgia. For the first nine months of 2003, operating expenses increased $173,114 to $3,052,861 over the nine months ended September 30, 2002. This increase can be attributed primarily to 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 net patient service revenue, however, these expenses were consistent with the same period in the prior year, decreasing 0.1% to 16.9% for the nine months ended September 30, 2003. NIP, which was sold in March 2002, had operating expenses of $181,844.

For the nine months ended September 30, 2003, general and administrative expenses increased 7.7% over the same period in 2002. The increase was primarily due to: (i) a 33.0%, or $79,663, increase in professional liability premiums for affiliated physicians; (ii) rent expense totaling $8,595 related to a new IntegriMED satellite sales office in Charlotte, North Carolina; (iii) the $41,460 impact of improvements made to the IntegriMED technology infrastructure; and (iv) the $20,184 impact of software licensing costs associated with IntegriMED application partnerships contracted in mid-2002. General and administrative expenses at NIP, which was sold in March 2002, totaled $168,602 for the nine-month period ended September 30, 2002.

The provision for bad debts increased $318,192 for the nine months ended September 30, 2003. This increase is based primarily on an increase in uncollectible patient accounts in IPS s affiliated medical groups based on an analysis of historical collections. NIP, which was sold in March 2002, accounted for bad debt expense totaling $18,142 for the nine-month period ended September 30, 2002.

Professional and consulting fees, which were $621,279 for the nine months ended September 30, 2003, were comparable to the same period of the prior year.

Depreciation expense totaled $114,874 for the first nine months of 2003, a decrease of $46,369 from the nine months ended September 30, 2002. The decrease relates solely to retirements of fixed assets at the affiliated medical groups and corporate office during the last half of 2002 and first nine months of 2003. NIP had depreciation expense totaling $10,561 in 2002 prior to its sale in March of that year.

Interest expense increased $78,897, or 16.7%, to $550,044 for the nine month period ended September 30, 2003. The increase over the same period in 2002 can be explained by the following two 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 redeemed 329,500 shares of the IPS Series A-2 convertible preferred stock in exchange for a convertible debenture in the amount of $1,318,000, bearing interest at 10% per annum.

IPS accounts for its income taxes in accordance with SFAS 109. The effective tax rate is 38%, however, based on uncertainties associated with the future utilization of deferred tax assets, tax benefits have been fully reserved for in each period.

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 $572,785 were accrued for the nine months ended September 30, 2003 and 2002, respectively.

Liquidity and Capital Resources

IPS s plans to merge with SurgiCare include the simultaneous acquisition by SurgiCare of DCPS and MBS. Additionally, SurgiCare s acquisition of DCPS and MBS includes a cash investment in the newly combined entities by Brantley IV. IPS and SurgiCare are negotiating with DVI FS and DVI Business Credit Corporation (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.

Net cash used in operating activities was $2,070,854 for the year ended December 31, 2002 compared to $273,383 in net cash provided by operating activities for the same period in 2001. The increase in net cash used in operations was primarily the result of: (i) the sale of a medical group in 2002 and discontinued operations in 2001, both of which provided cash from operations, with no corresponding decrease in operating expenses to sufficiently offset the loss in operating cash and (ii) an increase in operating expenses related to IntegriMED.

For the nine-month period ended September 30, 2003, net cash used in operating activities was $2,045,713 compared to $1,669,967 in net cash used by operating activities for the same period in 2002. The increase in net cash used in operations was primarily the result of an increase in operating expenses of IntegriMED, along with the loss of cash available from the operating activities of a medical group sold in 2002.

Net cash provided by investing activities was $1,859,736 for the year ended December 31, 2002 compared to $51,245 in net cash used in investing activities for the year ended December 31, 2001. Purchases of property and equipment at the IPS corporate and medical group locations were offset in 2002 by the cash proceeds from the sale of a medical group during the year.

For the nine months ended September 30, 2003, net cash used by investing activities totaled $10,617 compared to $1,783,698 in net cash provided by investing activities for the nine-month period ended September 30, 2002. The sole investing activity for the first nine months of 2003 consisted of purchase of property and equipment, while the net cash provided in the first nine months of 2002 relates solely to the sale of NIP in March 2002 with cash proceeds totaling $1,904,502.

Net cash provided by financing activities was $109,697 for the year ended December 31, 2002 compared to $121,768 in net cash used in financing activities for the same period in 2001. This increase was primarily the result of: (i) a net increase in borrowing on IPS s line of credit in 2002 when compared to 2001; and (ii) debt issuance costs paid in 2001 as part of a refinancing of the IPS line of credit.

Net cash provided by financing activities was $2,055,588 for the nine months ended September 30, 2003 compared to $218,194 in net cash used in financing activities for the same period in 2002. Payments totaling $434,093 on IPS s capital lease obligations and line of credit were made as a part of normal business operations during the first nine months of 2003. Additionally, IPS s five-year $2,075,000 term loan with DVI FS was refinanced with a new $3 million five-year term loan in March 2003.

As of December 31, 2002, IPS had $8,134 of cash and cash equivalents on hand as compared to $109,555 at December 31, 2001. Additionally, IPS had negative working capital of $5,678,301 at December 31, 2002, an improvement of $1,052,485 from the working capital deficit of $6,730,786 at December 31, 2001.

As of September 30, 2003, IPS had $7,392 of cash and cash equivalents on hand as compared to $5,092 at September 30, 2002. Additionally, IPS had negative working capital of $7,507,024 at September 30, 2003 compared to the $4,896,624 working capital deficit at September 30, 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 BC. As of December 31, 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 $1,627,000 and $2,871,920 as of December 31, 2002, and September 30, 2003, 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 based on a prime-based rate, and interest is payable monthly. The Term Loan and RLOC contain certain affirmative and negative covenants. Amounts outstanding under the RLOC totaled approximately $2.6 million and $2.27 million at December 31, 2002 and September 30, 2003, respectively, and are classified as short-term in the company s consolidated balance sheet.

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. IPS is in the process of pursuing alternative debt financing.

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.

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, is approximately $45,000 and $11,705 as of December 31, 2002 and September 30, 2003, respectively.

Contractual Obligations

IPS has been authorized to issue 772,900 shares of Series A convertible preferred stock (Series A), 71,028 shares of Series A-1 convertible preferred stock (Series A-1), 2.2 million shares of Series A-2 convertible preferred stock (Series A-2), 474,375 shares of Series B convertible preferred stock (Series B), and 190,000 shares of Series C 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 acquisition of the physician practices described in Note 3, IPS entered into an agreement to redeem 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.

At December 31, 2002, 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 shares 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 shares per share or (b) cash at the annual rate of $.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 $.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, 2002.

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 $.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 $.05 per share for each share or (b) cash at the annual rate of $.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 or 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. No such redemption has been requested.

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 of $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 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.

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.

	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	$ 6,068,434	$4,846,133	$1,222,301	$	$
Future capital lease minimum payments	179,558	88,021	90,982	555	
Minimum annual rental commitments under noncancelable operating leases with terms in excess of one year	4,406,103	1,021,406	2,278,400	444,615	661,682
Total	$10,654,095	$5,955,560	$3,591,683	$445,170	$661,682

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.
- 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
- Pathologists
- Radiologists
- Hospital Labs
- Imaging Centers
- Comprehensive Breast Centers
- Cardio-Thoracic Surgeons

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.

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 clients 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

As of January 15, 2004, DCPS employed approximately 52 persons, all of whom were full-time employees.

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.

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.

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.

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

There are several companies that compete with MBS, including Per Se Technologies, Inc., RMI, and Houston Medical Records. Many of these competitors have greater resources than MBS. The principal competitive factors that affect the ability of MBS and its competitors to provide such services are price, experience, reputation, and access to capital.

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 MBS by controlling reimbursement to MBS clients and thus to MBS for the services it provides as well as regulations regarding patient privacy and submission of fraudulent claims.

Reimbursement. MBS 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 the DHHS relating to the type of specialty, as well as compliance 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. Because MBS s revenues depend on reimbursement payments to MBS s clients, changes in reimbursement to MBS s clients will have a direct impact on MBS s revenues.

Administrative Simplification and Privacy Requirements. There are currently numerous legislative and regulatory initiatives at the state and federal levels addressing patient privacy concerns, and MBS 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 MBS 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. 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. MBS 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, MBS is contractually bound to adhere to some or all of these regulations through written agreements with clients who are directly regulated by such regulations. MBS believes that the cost of compliance with its clients requirements arising from these regulations will not have a material adverse effect on its business, financial position or results of operations. If MBS 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, MBS s clients, and therefore MBS 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. MBS may itself also be subject to certain federal and state privacy laws.

MBS cannot predict whether other regulatory or statutory provisions will be enacted by federal or state authorities which would prohibit or otherwise regulate relationships which MBS 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. MBS 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.

MBS is subject to state and federal laws that govern the submission of claims for reimbursement because MBS s customers are regulated by these laws and MBS 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 MBS 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 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 MBS 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

As of January 15, 2004, MBS employed approximately 91 persons, 87 of whom were full-time employees and four of whom were part-time employees.

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, 2002 and December 31, 2001 and related notes thereto appearing in Annex J to this proxy statement.

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, 2002 and December 31, 2001 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 the collection of its customers receivables. DCPS s revenues are recognized during the period in which its customers receive the collections.

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 2002 or 2001.

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.

	Nine Months Ended September 30		Twelve Months Ended December 31	
	2003	**2002**	**2002**	**2001**
Revenues	100.0%	100.0%	100.0%	100.0%
Operating Expenses	97.9%	96.3%	100.6%	95.5%
Income From Operations	2.1%	3.7%	(0.6)%	4.5%
Other Income (Expense)				
Interest expense	0.0%	(0.1)%	0.0%	0.0%
Interest income	0.0%	0.1%	0.1%	0.3%
Total Other Income (Expense)	0.0%	0.0%	0.0%	0.2%
Net Income	2.1%	3.7%	(0.6)%	4.7%

Year Ended December 31, 2002 as Compared to Year Ended December 31, 2001

The following table sets forth, for the periods indicated, the statements of operations of DCPS.

	Twelve Months Ended December 31		
	2002	**2001**	**Variance**
Revenues	$3,767,024	$3,180,811	$ 586,213
Operating Expenses	3,790,120	3,037,499	752,621
Income From Operations	(23,096)	143,312	(166,408)
Other Income (Expense)			
Interest expense	(1,727)	(1,533)	(194)
Interest income	2,457	9,149	(6,692)

Total Other Income (Expense)	730	7,616	(6,886)
Net Income	$ (22,366)	$ 150,928	$(173,294)

Net revenues increased $586,213, or 18.4%, to $3,767,024 for the year ended December 31, 2002, as compared with $3,180,811 for the same period in 2001. 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 increased $752,621, or 24.8%, to $3,790,120 for the year ended December 31, 2002, as compared to $3,037,499 for the same period in 2001. Of this increase, approximately $560,000 was due to the increased revenue and the costs associated with generating that revenue. This increase was also

related to the growing costs associated with benefits offered to DCPS employees, as well as cost of living adjustments and increases in employee compensation.

Interest expense was $1,727 for the year ended December 31, 2002, compared to $1,533 for the previous year. The interest is related to a working capital line of credit.

Nine-Months Ended September 30, 2003 as Compared to Nine-Months Ended September 30, 2002

The following table sets forth, for the periods indicated, the statements of operations of DCPS.

	Nine Months Ended September 30		
	2003	**2002**	**Variance**
Revenues	$3,062,027	$2,803,271	$258,756
Operating Expenses	2,998,205	2,700,747	297,458
Income From Operations	63,822	102,524	(38,702)
Other Income (Expense)			
Interest expense		(1,569)	1,569
Interest income	233	2,445	(2,212)
Total Other Income (Expense)	233	876	(643)
Net Income	$ 64,055	$ 103,400	$ (39,345)

Net revenues increased $258,756, or 9.2%, to $3,062,027 for the nine-month period ended September 30, 2003, as compared with $2,803,271 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 increased $297,458, or 11.0%, to $2,998,205 for the nine-month period ended September 30, 2003, as compared to $2,700,747 for the same period in 2002. Of this increase, approximately $250,000 was due to the increased revenue and the costs associated with generating that revenue. This increase was also related to the growing costs associated with benefits offered to DCPS employees, as well as cost of living adjustments and increases in employee compensation.

DCPS incurred no interest expense for the nine-month period ended September 30, 2003 compared to $1,569 for the previous period in 2002. The working capital line of credit was paid off prior to the beginning of 2003.

Liquidity and Capital Resources

Net cash provided by operating activities was $94,749 for the year ended December 31, 2002 compared to $255,764 in net cash provided by operating activities for the same period in 2001. The decrease in net cash provided by operations was primarily the result of the increased operating expenses. Net cash provided by operating activities was $75,248 for the nine-month period ended September 30, 2003 compared to $134,252 in net cash provided by operating activities for the same period in 2002. The decrease in net cash provided by operations was primarily the result of an increase in accounts receivable.

Net cash used in investing activities was $104,752 for the year ended December 31, 2002 compared to $45,465 in net cash used in investing activities for the year ended December 31, 2001. Purchases of property and equipment at the DCPS corporate office increased in 2002 to handle the increased clients. Net cash used in investing activities was $3,639 for the nine-month period ended September 30, 2003 compared to $33,458

in net cash used in investing activities for the nine-month period ended September 30, 2002. Purchases of property and equipment at the DCPS corporate office increased in 2002 to handle increased clients.

Net cash used in financing activities was $195,850 for the year ended December 31, 2002 compared to $84,000 in net cash provided in financing activities for the same period in 2001. This was due to a payoff of the line of credit and member distributions. Net cash provided by financing activities was $8,810 for the nine-month period ended September 30, 2003 compared to $438,110 in net cash used in financing activities for the same period in 2002. This was due to a payoff of the line of credit and member distributions.

As of December 31, 2002, DCPS had $238,211 of cash and cash equivalents on hand as compared to $444,064 at December 31, 2001. Additionally, DCPS had positive working capital of $352,158 at December 31, 2002, a decrease of $171,450 from the working capital of $523,608 at December 31, 2001. As of September 30, 2003, DCPS had $325,910 of cash and cash equivalents on hand as compared to $173,664 at September 30, 2002. Additionally, DCPS had positive working capital of $445,163 at September 30, 2003, an increase of $147,921 from the working capital of $297,242 at September 30, 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.

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 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.

PROPOSAL ONE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to amend and restate our certificate of incorporation. We are proposing to amend and restate our certificate of incorporation to (1) 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, (2) 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 leave the number of authorized shares of preferred stock at 20 million, (3) reclassify 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 the corporation to Orion HealthCorp, Inc. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. We cannot complete the Transactions unless this proposal to amend and restate our certificate of incorporation is approved at the special meeting. This proposal is described in detail below.

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 proposed amendment and restatement of our certificate of incorporation. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the proposed amendment and restatement, 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 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 and Reclassification

The amended and restated certificate of incorporation will effect a reverse stock split and reclassification 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) and reclassifying such shares of SurgiCare common stock as Class A Common Stock. 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 American Stock Exchange. The board of directors has determined that the continued listing of our common stock on the American Stock Exchange is in the best interests of SurgiCare and its stockholders. In considering whether a security warrants continued trading and/or listing, the American Stock Exchange, pursuant to Section 1001 of the American Stock Exchange 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 American Stock Exchange 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. The Board believes that this risk is outweighed by the benefits of the continued listing of our common stock on the American Stock Exchange. 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 26,984,585 shares of SurgiCare common stock outstanding as of January 31, 2004, 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%	2,698,459

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

As of January 31, 2004, there were approximately 26,984,585 shares of SurgiCare common stock issued and outstanding. 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. 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 the amended and restated certificate of incorporation is approved by our stockholders, 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 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 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 shareholders equity will remain unchanged.

Certain Material United States Federal Income Tax Consequences of the Reverse Stock Split

The following is a summary of certain 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. The discussion is based on 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 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.

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, 25 million shares will be designated as Class B Common Stock and 2 million shares will be designated as Class C Common Stock, after giving effect to the Reverse Stock Split.

The board of directors is 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 4,904,830 shares of our Class A Common Stock (in addition to the shares outstanding immediately after the Reverse Stock Split), 9,084,395 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 issuance of additional authorized shares of our common stock (other than through a stock split or a stock dividend) may dilute the voting power and equity interest of present stockholders.

Class B Common Stock and Class C Common Stock

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 January 31, 2004, the aggregate principal amount of the outstanding SurgiCare Bridge Notes is $665,000 and the aggregate principal amount of the IPS Bridge Notes is $1.39 million, which results in an aggregate excess principal amount of $775,000. The accrued interest on this excess was $3,950 as of January 31, 2004. In exchange for Brantley IV s contribution, based on the

assumptions used in this proxy statement, it will receive approximately 9,084,395 shares of Class B Common Stock, which will initially represent, on an as-converted basis, approximately 49.9% of the Fully-Diluted Orion Shares.

In connection with the DCPS/MBS Merger, which is more fully described under Transactions DCPS/MBS Merger, DCPS and MBS equity holders will receive, in addition to other consideration, shares of Class C Common Stock.

The amended and restated certificate of incorporation authorizes the Class B Common Stock and the Class C Common Stock. The following summary of the proposed terms of our 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 for the below, the Class B Common Stock and the 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 B Common Stock and Class C Common Stock is entitled to a number of votes with respect to each share of Class B Common Stock and each share of Class C Common Stock held by such holder based on the conversion factor applicable to such share as in effect as of the applicable record date of a vote. 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.

Initially, the conversion factor allocates 1.15 votes per share of Class B Common Stock and one vote per share of Class C Common Stock, in each case, 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 B Common Stock or Class C Common Stock. In addition, the prices at which the Class A Common Stock trades and the 9% per annum accrual with respect to the Class B Common Stock described below will cause adjustments to the number of votes each share of Class B Common Stock will be allocated.

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 the Corporation.

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.

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), 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 1.15 (one share of Class B Common Stock converts into approximately 1.15 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 49.9% 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. The Class A Common Stock to be issued to Brantley Venture Partners III, L.P. and Brantley Capital Corporation, as 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 54.1% of the Fully-Diluted Orion Shares, it 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 and 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.

No Dissenter s Rights

Under the DGCL, our stockholders are not entitled to dissenter s rights with respect to the adoption of the amended and restated certificate of incorporation, and we will not independently provide stockholders with any such right.

Stockholder Approval of Amended and Restated Certificate of Incorporation

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 proposed amendment and restatement of our certificate of incorporation. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL TWO ISSUANCE OF SHARES OF CLASS A COMMON STOCK

IN CONNECTION WITH THE IPS MERGER

Section 712 of the American Stock Exchange s Company Guide requires American Stock Exchange-listed companies to obtain stockholder approval in connection with an acquisition (or series of closely related acquisitions) where the issuance of common stock (or securities convertible into common stock) could result in a 20% or greater increase in the outstanding common stock of such companies. This rule would apply to the Class A Common Stock to be issued in the acquisitions of IPS, DCPS and MBS. The aggregate shares of Class A Common Stock to be issued in the Acquisitions would exceed the 20% threshold.

The stockholders and certain debtholders of IPS, based on the assumptions used in this proxy statement, will receive consideration consisting of approximately 4,364,072 shares of our Class A Common Stock in connection with the IPS Merger. The partners of DCPS and stockholders of MBS will receive, or direct the issuance of, up to a maximum of 1,946,819 shares of our Class A and Class C Common Stock in connection with the DCPS/MBS Merger. Such maximum amount includes the shares of Class C Common Stock issuable (a) only 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, and (b) upon the maximum retroactive increase in purchase price under the DCPS/MBS Merger Agreement. As a result, such stockholders and debtholders of IPS, and MBS stockholders, DCPS partners and their respective designees, would own a maximum of, on an as-converted basis, approximately 29.9% of the Fully-Diluted Orion Shares (as adjusted for the shares of Class A Common Stock issuable upon conversion of the additional shares of Class C Common Stock that are issuable at closing only if the fair market value of the SurgiCare common stock equals or exceeds $0.70). Accordingly, the Board is seeking your approval of the issuances of the shares of our Class A Common Stock in connection with the IPS Merger. We cannot complete the Transactions unless this proposal to issue shares of our Class A Common Stock in connection with the IPS Merger is approved at the special meeting.

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, is required to approve the issuance of the shares of Class A Common Stock in connection with the IPS Merger. As such, abstentions and broker non-votes will have no effect on the outcome. The Transaction Documents require that we obtain the approval of this proposal 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.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSAL TO ISSUE SHARES OF SURGICARE CLASS A COMMON STOCK IN CONNECTION WITH THE IPS MERGER.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL THREE ISSUANCE OF SHARES OF CLASS C COMMON STOCK AND CLASS A COMMON STOCK IN CONNECTION WITH THE DCPS/MBS MERGER

Section 712 of the American Stock Exchange s Company Guide requires American Stock Exchange-listed companies to obtain stockholder approval in connection with an acquisition (or series of closely related acquisitions) where the issuance of common stock (or securities convertible into common stock) could result in a 20% or greater increase in the outstanding common stock of such companies. This rule would apply to the common stock to be issued in the acquisitions of IPS, DCPS and MBS. The issuance of shares of SurgiCare common stock in the Acquisitions would exceed the 20% threshold.

The partners of DCPS and stockholders of MBS and their designees will receive consideration consisting, in part, of up to a maximum of 1,946,819 shares of our Class C Common Stock and Class A Common Stock in connection with the DCPS/MBS Merger. Such maximum amount includes the shares of Class C Common Stock issuable (a) only 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, and (b) upon the maximum retroactive increase in purchase price under the DCPS/MBS Merger Agreement. The stockholders and certain debtholders of IPS, based on the assumptions used in this proxy statement, will receive consideration consisting of approximately 4,364,072 shares of our Class A Common Stock in connection with the IPS Merger. As a result, such MBS and DCPS equityholders and designees and IPS stockholders and debtholders, will own, on an as-converted basis, approximately 29.9% of the Fully-Diluted Orion Shares (as adjusted for the shares of Class A Common Stock issuable upon conversion of the additional shares of Class C Common Stock that are issuable at closing only if the fair market value of the SurgiCare common stock equals or exceeds $0.70). Accordingly, the Board is seeking your approval of the issuances of the shares of our Class C Common Stock and Class A Common Stock in connection with the DCPS/MBS Merger. We cannot complete the Transactions unless this proposal to issue shares of our Class C Common Stock and Class A Common Stock in connection with the DCPS/MBS Merger is approved at the special meeting.

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, is required to approve the issuance of the shares of Class C Common Stock and Class A Common Stock in connection with the DCPS/MBS Merger. As such, abstentions and broker non-votes will have no effect on the outcome. The Transaction Documents require that we obtain the approval of this proposal 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.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSAL TO ISSUE SHARES OF CLASS C COMMON STOCK IN CONNECTION WITH THE DCPS/MBS MERGER.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL FOUR ISSUANCE OF SHARES OF CLASS B COMMON STOCK

IN CONNECTION WITH THE EQUITY FINANCING

Section 713 of the American Stock Exchange s Company Guide requires American Stock Exchange-listed companies to obtain stockholder approval in connection with a transaction involving the sale or issuance of common stock (or securities convertible into common stock) equal to 20% or more of the presently outstanding common stock of such companies at a price less than the greater of book or market value of such common stock or convertible securities. This rule would apply to the Class B Common Stock to be issued to Brantley IV in pursuant to the Stock Subscription Agreement, which is described in The Transactions The Financing. The issuance of shares of our Class B Common Stock would exceed the 20% threshold and will likely be at a price that would constitute a discount to the market value.

Brantley IV, based on the assumptions used in this proxy statement, will receive approximately 9,171,445 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. These shares of Class B Common Stock are initially convertible into 10,455,394 shares of our Class A Common Stock. As a result, Brantley IV will own 100% of the outstanding shares of our Class B Common Stock following the Acquisitions and will initially own, on an as-converted basis, approximately 49.9% of the Fully-Diluted Orion Shares. In addition, the per share price of the Class B Common Stock issued to Brantley IV will be less than the market value of such shares of Class B Common Stock. Accordingly, the Board is seeking your approval of the issuance of the Class B Common Stock to Brantley IV. We cannot complete the Acquisitions unless this proposal to issue shares of our Class B Common Stock to Brantley IV is approved at the special meeting.

The Class B Common Stock issued to Brantley IV will initially represent, on an as-converted basis, approximately 49.9% 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 from time to time outstanding, without compounding, from the date the Class B Common Stock was first issued to the date of conversion. The Class A Common Stock to be issued to Brantley Venture Partners III, L.P. and Brantley Capital Corporation, as 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 54.1% of the Fully-Diluted Orion Shares, it 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.

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, is required to approve the issuance of the shares of our Class B Common Stock pursuant to Stock Subscription Agreement. As such, abstentions and broker non-votes will have no effect on the outcome. The Transaction Documents require that we obtain the approval of this proposal 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.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSAL TO ISSUE SHARES OF CLASS B COMMON STOCK.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL FIVE ISSUANCE OF OUR COMMON STOCK

IN EXCHANGE FOR SERIES AA PREFERRED STOCK

Section 713 of the American Stock Exchange s Company Guide requires American Stock Exchange-listed companies to obtain stockholder approval in connection with a transaction involving the sale or issuance of common stock (or securities convertible into common stock) equal to 20% or more of the presently outstanding shares of common stock of such companies at a price less than the greater of book or market value of such common stock or convertible securities. The Transaction Documents include a closing condition that requires that all shares of Series AA preferred stock be redeemed or converted into SurgiCare common stock. We expect to issue up to ten million shares (prior to giving effect to the Reverse Stock Split) of our common stock in exchange for all outstanding shares of our Series AA preferred stock prior to the effectiveness of our amended and restated certificate of incorporation and the consummation of the Transactions.

It is likely that we will issue a number of shares of our common stock in exchange for our Series AA preferred stock that exceeds 20% of the outstanding shares of our common stock prior to the consummation of the Transactions, and that such shares will be issued at a price that is lower than the market value of our common stock. We are therefore seeking your approval to issue up to ten million shares (prior to giving effect to the Reverse Stock Split) of our common stock in exchange for all outstanding shares of our Series AA preferred stock, upon such terms as the board of directors shall approve

The affirmative vote of the majority of the holders of 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, is required to approve the issuance of the shares of our Class A Common Stock in exchange for our Series AA preferred stock. As such, abstentions and broker non-votes will have no effect on the outcome.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSAL TO ISSUE SHARES OF CLASS A COMMON STOCK IN EXCHANGE FOR SERIES AA PREFERRED STOCK.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL SIX ELECTION OF DIRECTORS

Our board currently consists of four directors, and three existing board seats are vacant. The four current directors have been nominated for reelection to the board to serve on our board of directors until their successors are elected and qualified. In connection with the Transactions, seven new directors have been nominated for election to the board to begin serving on the board of directors of Orion upon the closing of the acquisition and until their successors are elected and qualified. Accordingly, upon the closing of the Transactions, the current members of the board will cease to be directors and the seven new directors will constitute the board of directors of Orion.

Voting

Signed proxies received will be voted for the election of the nominees listed in this proxy statement for the terms specified herein, and all of the nominees have agreed to serve if elected. Should any of the nominees become unavailable at the time of the meeting to accept nomination or election as a director, the proxy holders named in the enclosed proxy will vote for substitute nominees at their discretion. Votes withheld for a nominee will not be counted. As such, abstentions and broker non-votes will have no effect on the outcome. No cumulative voting is allowed.

Nominees for Directors

Proxies solicited by the board of directors will be voted in favor of each nominee unless stockholders specify otherwise in their proxies. The following pages describe the nominees for directors, including their principal occupations for the past five years, certain other directorships, age, and length of service on our board.

Pre-Acquisition Nominees

The following is a list of the current members of our board of directors, each of whom has been nominated for reelection to our board. Upon the closing of the Transactions, these directors will cease to be members of the board.

Each nominee has agreed to be named in this proxy statement and to serve as a director if elected. The ages listed are as of January 1, 2004.

Name	Age	Positions Held
Bruce Miller	55	Director
Michael A. Mineo	60	Director
Sherman Nagler	48	Director
Jeffrey J. Penso	49	Director and Vice President

Pre-Acquisition Nominee Profiles

Dr. Bruce Miller, D.P.M. was elected as director of SurgiCare, Inc. on July 26, 2000. Dr. Miller has been in private practice for 25 years. He received his undergraduate degree in 1969 at Temple University and then attended the Pennsylvania College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1986.

Dr. Michael A. Mineo D.P.M. was elected as director of SurgiCare, Inc. on July 10, 1999. Dr. Mineo has served as Vice President of Bellaire SurgiCare, Inc. since March of 1995. He has been in private practice for 29 years. He received his undergraduate degree in 1964 from Geneva College, Beaver Falls, PA, and then attended the Ohio College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1979, and a Fellow of the American College of Foot Surgeons since 1980.

Dr. Sherman Nagler D.P.M. was elected as director of SurgiCare, Inc. on July 10, 1999. He has been in private practice for 16 years. He received his undergraduate degree in 1977 at State University of New York at Plattsburgh, and then attended the New York College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1985.

Dr. Jeffery J. Penso D.P.M. was elected as director of SurgiCare, Inc. on July 10, 1999. Dr. Penso has served as Vice President of SurgiCare, Inc. since July 1999 and Vice-President of Bellaire SurgiCare, Inc. since July 1998. He has been in private practice for 16 years. He received his undergraduate degree in 1983 at University of Akron, and then attended the Ohio College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1988.

Post-Acquisition Nominees

The IPS Merger Agreement and the DCPS/MBS Merger Agreement contain provisions for the election of new directors to serve as directors of Orion upon closing of the Transactions. Those agreements provide that at closing, Keith G. LeBlanc, currently President and Chief Executive Officer of SurgiCare, will become a director, Terrence L. Bauer, currently President and Chief Executive Officer of IPS, will become a director, two directors nominated by Brantley IV will become directors, and three independent directors shall be elected. The election of these directors is a condition of closing of the IPS Merger Agreement and DCPS/MBS Merger Agreement.

Each nominee has agreed to be named in this proxy statement and to serve as a director if elected. The ages listed are as of January 1, 2004.

Name	Age	Positions Held
Terrence L. Bauer	47	Nominee for director; President and Chief Executive Officer of IPS
Paul H. Cascio	42	Nominee for director, General Partner of Brantley Venture Partners, L.P.
David Crane	47	Nominee for director
Michael J. Finn	54	Nominee for director, General Partner of Brantley Venture Partners, L.P.
Keith G. LeBlanc	45	Nominee for director, President and Chief Executive Officer of SurgiCare
Gerald M. McIntosh	63	Nominee for director
Joseph M. Valley, Jr.	56	Nominee for director

Post-Acquisition Nominee Profiles

Terrence L. Bauer has served as President, Chief Executive Officer and director of IPS since he co-founded IPS in 1996 and has served as Chairman of the board of directors of IPS since 1999. Prior to co-founding IPS, Mr. Bauer was President and Chief Operating Officer of Allegiant Physician Services, a multi-specialty physician practice management company, from 1995 through mid-1996. Mr. Bauer s tenure with Allegiant involved restructuring Allegiant. From 1991 until 1995, Mr. Bauer served as President and Chief Executive Officer of ATC Healthcare Services, Inc., a national healthcare staffing firm. Mr. Bauer arranged the successful sale of ATC in 1994 and supervised the transition of ATC into a new organizational structure in 1995. From 1987 through 1991, Mr. Bauer held various senior management positions at Critical Care America, a high technology, home infusion therapy company. Mr. Bauer s last position at Critical Care America was Vice President of Sales and Marketing. Mr. Bauer also gained management experience before 1987 at IVAC Corporation, a division of Eli Lilly and Company, and American Hospital Supply Corporation. Mr. Bauer received his undergraduate degree from the University of Arizona.

Paul H. Cascio serves as a general partner of the general partner of Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley Partners IV, L.P. He has been a

director, vice president and secretary of Brantley Capital Corporation since 1998. Mr. Cascio is also a vice president and secretary of Brantley Capital Management, L.L.C., which serves as investment adviser for Brantley Capital Corporation, Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley IV. These Brantley entities are part of a private equity organization having offices in Ohio and California. Since the organization 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. The Brantley affiliates have approximately $300 million of committed capital under management. Prior to joining Brantley Venture Partners II, L.P. and Brantley Venture Partners III, L.P. in May, 1996, Mr. Cascio was a Managing Director and head of the General Industrial Manufacturing and Services Group in the Corporate Finance Department at Dean Witter Reynolds Inc. Mr. Cascio has a wide range of investment banking experience, having completed public debt and equity, private debt and equity, mergers and acquisitions and fairness opinion assignments for a variety of industrial, consumer product and health care related companies. He received his undergraduate degree from Colgate University and his M.B.A. from New York University.

David Crane was appointed to the board of directors of Pediatric Services of America, Inc. in October, 2003. Pediatric Services of America, Inc. is a portfolio company of Brantley Partners that provides a combination of pediatric home health care services through its network of branch offices. Mr. Crane co-founded MedCath Incorporated, a healthcare provider with approximately $550 million in annual revenues, in 1989 and served as its Chief Operating Officer until 1999 and as its President the Chief Executive Officer from 2000 until September, 2003. MedCath Incorporated is primarily focused on physician joint ventured heart hospitals. Mr. Crane also served as a director of MedCath. He received his undergraduate degree from Yale University and his M.B.A. from the Harvard Business School.

Michael J. Finn serves as a general partner of the general partner of Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley IV. Mr. Finn has also been the president of Brantley Capital Corporation since its formation in 1996, and is a manager of Brantley Capital Management, L.L.C., which serves as investment adviser for Brantley Capital Corporation, Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley Partners IV, L.P. Mr. Finn also serves on the board of directors of several portfolio companies in which one or more of Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley Partners IV, L.P. have invested, including Pediatric Services of America, Inc., which provides a combination of pediatric home health care services through its network of branch offices. Mr. Finn was a director of Caredata.com, Inc. (formerly Medirisk, Inc.), which filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code on November 15, 2000. From 1987 to 1995, Mr. Finn served as portfolio manager and vice president of the Venture Capital Group of Sears Investment Management Company in Chicago. In this capacity, Mr. Finn managed the development of a $150 million portfolio of private equity investments, including the investment of over $24 million directly in 25 operating companies. He received his undergraduate degree and his masters degree from Michigan State University.

Keith G. LeBlanc was appointed Chief Executive Officer and President of SurgiCare on November 10, 2002. Mr. LeBlanc previously served as Chief Executive Officer for Gulf Coast Surgery and Endoscopy in Biloxi, Mississippi between 2000 and 2002 and as Chief Executive Officer for Biloxi Regional Hospital between 1998 and 2002. Mr. LeBlanc has extensive healthcare management experience, serving as a hospital Chief Executive Officer for 10 years and as the Chief Executive Officer and founder of The Quest Group, a physician equity MSO joint venture. The Quest Group managed physician practices statewide in Louisiana. Mr. LeBlanc is a registered respiratory therapist and holds a MHS from LSU Medical School.

Gerald M. McIntosh founded Partners/5 West, a charitable research organization, in 1997 in Houston, Texas and has served as the President of Partners/5 West since that time. Mr. McIntosh co-founded Administaff, a staff leasing company which became one of only two hypergrowth companies in the Houston area ($0 to $1 billion revenue per year within 10 years). Administaff was admitted to the NYSE in 1997. Mr. McIntosh currently serves on the board of directors for Partners /5 West, La Sierra

University in Riverside, California, Save Our ER s in Houston, Texas, McCarroll Construction Company in Asheville, North Carolina, and DCL Inc. in Houston, Texas. He received his undergraduate degree from La Sierra University and his MPA from University of Southern California.

Joseph M. Valley, Jr. has served as director of IPS since December 1999. Mr. Valley currently serves as Chief Executive Officer of Seranin Software Corporation, a privately held company based in Dallas, Texas since 2002. Prior to Seranin Software, Mr. Valley served as President and Chief Operations Officer from 2001 to 2002 for QueryObject Systems Corporation, an global business intelligence software company traded on the American Stock Exchange. QueryObject Systems Corporation provides analytical infrastructure solutions for leading international businesses. Prior to QueryObject Systems, Mr. Valley served as Chief Executive Officer and President of MIS USA from 1998 until 2001. While at MIS USA, Mr. Valley was responsible for gaining global recognition and introducing the first solution for collaborative analytical processing. Mr. Valley also currently serves as a director for Agnes.com in Bridgewater, New Jersey. He received his undergraduate degree from St. Joseph s University in Philadelphia, Pennsylvania.

Board of Directors Meetings and Committees

The current board of directors is comprised of four independent directors. The board of directors has determined that they are all independent according to the listing standards of the American Stock Exchange. Upon the closing of the Acquisitions, the board of directors will include at least three independent directors. The board of directors held seven meetings and acted pursuant to written consent on one occasion during the fiscal year ended December 31, 2003. The board of directors currently has two standing committees, the Audit Committee and the Compensation Committee. During fiscal year 2003, each incumbent director attended at least seventy-five percent of the aggregate of (1) the total number of meetings of the board of directors and (2) the total number of meetings held by all committees of the board of directors on which he served.

The Audit Committee held one meeting for the fiscal year ended December 31, 2003. Dr. Miller was and is the sole member of the Audit Committee. The board of directors has determined that Dr. Miller is independent as such term is defined in the listing standards of the American Stock Exchange. However, the board of directors has determined that Dr. Miller is not an audit committee financial expert as such term is defined in the applicable regulations of the Securities and Exchange Commission. The board of directors has not been able to locate new directors who meet the audit committee financial expert standards. Upon the closing of the Acquisitions, the Audit Committee will be composed of three or more independent directors, provided that for any period during which Orion is a small business issuer that files reports under the Securities Exchange Commission Regulation S-B, the Audit Committee will be composed of two or more independent directors. At least one of the directors on the committee will be an audit committee financial expert or will be financially sophisticated as such term is used in the American Stock Exchange Company Guide. In connection with the Acquisitions, the board of directors will adopt a new written charter for the Audit Committee, which is attached as Annex M to this proxy statement.

The Compensation Committee did not meet during the fiscal year ended December 31, 2003. Dr. Nagler, Dr. Mineo and Dr. Penso, each of whom is independent, are the members of the Compensation Committee. The Compensation Committee provides recommendations to, and may act on behalf of, the board of directors regarding compensation matters, and administers SurgiCare s stock option and compensation plans. Upon the closing of the Transactions, Orion will be a controlled company for purposes of the American Stock Exchange Company Guide, because Brantley IV and its affiliates will hold over 50% of the voting power of Orion. As a controlled company, Orion will not be required by the American Stock Exchange to have a compensation committee of independent directors or to have the majority of the independent directors on the board perform the functions of the compensation committee. However, Orion s board of directors may elect to maintain a compensation committee nonetheless.

SurgiCare does not have a nominating committee. The board of directors, all of whom are considered independent according to the listing standards of the American Stock Exchange, perform the nominating

function. Upon the closing of the Transactions, Orion will be a controlled company and will not be required by the American Stock Exchange to maintain a nominating committee or to have the majority of the independent directors on the board perform the functions of a nominating committee, but it may choose to do so.

The board of directors does not have a policy with regard to the consideration of any director candidate recommended by a stockholder of SurgiCare. The board of directors has determined that it is appropriate to not have such a policy given the infrequency of such recommendations being submitted to the board of directors. However, the board of directors will consider any director candidate recommended by a stockholder of SurgiCare when such recommendation is submitted in accordance with the SurgiCare s Bylaws, the procedures described in this proxy statement under Stockholder Proposals and the applicable rules of the Securities and Exchange Commission. The proposed Bylaws for Orion, attached hereto as Annex N, do contain detailed provisions regarding nominations by stockholders.

The board of directors has identified certain qualifications that a director nominee must possess before it recommends said nominee for a position on the board of directors. The board believes that nominees for directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the stockholders of SurgiCare. The board also strives to ensure that the composition of the board of directors at all times adheres to independence requirements of the American Stock Exchange and reflects a range of talents, ages, skills, character, and expertise, particularly in the areas of management, leadership and corporate governance, the healthcare industry and related industries sufficient to provide sound and prudent guidance with respect to the operations and interests of SurgiCare.

The board of directors identifies qualified nominees for directors from among recommendations made by members of the board of directors. The board of directors evaluates such nominees for directors based on the qualifications described above. Because the election of certain directors to the board of directors of SurgiCare is required by the Transaction Documents, the directors nominated to serve upon the closing of the Transactions were selected pursuant to the Transaction Documents, by the parties thereto, rather than via the normal nominating process. However, in the judgment of the board of directors, each of these nominees possesses the qualities that the board feels are necessary and the election of these individuals will achieve the board s goals regarding the composition of the board.

Communications with Stockholders

The board of directors does not currently have a process by which stockholders of our company may send communications to the board of directors. The board of directors believes that it is appropriate not to have such a process because it provides any interested stockholder the opportunity to communicate with the members of the board of directors at the special meeting of stockholders and forwards any emails sent to the investor relations email address on its website that are addressed to the board of directors, or specific members of the board, to the intended recipients.

Director Attendance at the Special Meeting

While SurgiCare does not have a policy requiring the members of the board of directors to attend its annual meetings of stockholders, most of its directors do attend the annual meetings of stockholders. Each of the six SurgiCare directors then in office attended SurgiCare s last annual meeting of stockholders.

Report of the Audit Committee of the Board of Directors

During the fiscal year ended December 31, 2003, Dr. Miller was the sole member of the Audit Committee. Dr. Miller is independent (as defined in the listing standards of the American Stock Exchange).

The Audit Committee has reviewed and discussed with management the financial statements for fiscal year 2002 audited by Weinstein Spira & Company, who were SurgiCare s independent auditors for that

period. The Audit Committee has discussed with Weinstein Spira & Company various matters related to the financial statements, including those matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380). The Audit Committee has also received the written disclosures and the letter from Weinstein Spira & Company required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), and has discussed with Weinstein Spira & Company its independence.

Based upon such review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ending December 31, 2002 be attached to this proxy statement for filing with the Securities and Exchange Commission.

With respect to the above matters, the Audit Committee submits this report.

AUDIT COMMITTEE
Bruce Miller

Compensation of Directors

Following the closing of the Acquisitions, directors of Orion who are not employees of Orion will receive compensation of up to $5,000 per meeting for meetings held in person and up to $500 per meeting for meetings held telephonically. We intend to compensate each of our current directors for his services during the fiscal year ended December 31, 2003 and until the consummation of the Transactions with warrants to purchase 25,000 shares of Class A Common Stock upon the consummation of the Transactions as described in Proposal Nine Approval of Warrant Issuances .

Executive Compensation

The following table lists the compensation paid during each of SurgiCare s last three fiscal years to each of the highest paid executive officers of SurgiCare, Inc. receiving compensation of at least $100,000 and Keith G. LeBlanc, the Chief Executive Officer (our Covered Executives). The information in this table and its footnotes does not reflect the Reverse Stock Split.

		Annual Compensation			Long-Term Compensation Awards
Name and Principal Position(a)	Year(b)	Salary ($)(c)	Bonus ($)(d)	Other Annual Compensation ($)(e)(3)	Securities Underlying Options/SARS (#)(g)
Keith G. LeBlanc, President	2003	188,942		28,828(2)	
and CEO	2002	56,654(1)		3,072(4)	3,244,616
	2001				
Phillip C. Scott, CFO	2003	186,154		11,120(5)	
	2002	56,654(1)		2,017(5)	3,244,616
	2001				

(1) Includes $30,000 paid to Executive Officer as a consultant prior to employment with SurgiCare.

(2) Includes $11,120 for living expenses, $11,372 for moving expenses and $6,336 for auto allowance.

(3) SurgiCare pays premiums for group life term insurance offered to all employees as part of total benefit package through Administaff. Specific costs are not individually specified.

(4) Includes $2,017 for living expenses and $1,055 for auto allowance.

(5) Consists of living expenses.

Options, Warrants, and Stock Appreciation Rights

No grants of stock options or stock appreciation rights were made to our Covered Executives during the fiscal year ended December 31, 2003.

The following table sets forth information concerning option exercises during the fiscal year ended December 31, 2003 and option holdings as of December 31, 2003 with respect to our Covered Executives. No stock appreciation rights were outstanding at the end of the fiscal year. No shares were acquired on exercise of options by our Covered Executives during 2003. The information in this table and its footnotes does not reflect the Reverse Stock Split.

Aggregated Option Exercises in 2003 and Fiscal Year End Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at FYE (#)		Value of Securities Underlying Unexercised Options at FYE ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Keith G. LeBlanc	0		1,729,902	1,554,714	101,394	93,283
Phillip C. Scott	0		1,729,902	1,554,714	101,394	93,283

The securities listed in this table are warrants. The values of the unexercised warrants above are based on the difference between the exercise price of the warrant and the fair market value of SurgiCare common stock at the end of the fiscal year ended December 31, 2003, which was $0.38 per share.

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 January 10, 2004. The information in this table does not reflect the Reverse Stock Split.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) 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	59,392	2.05	1,340,608
Equity compensation plans not approved by security holders	6,855,899	.407	0
Total	6,915,291	.421	1,340,608

Security Ownership Of Certain Beneficial Owners And Management

The following table sets forth, as of December 31, 2003, information with respect to shares beneficially owned by: (a) each person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of SurgiCare common stock or Series AA preferred stock, (b) each of our directors and the executive officers named in the Summary Compensation Table above, and (c) all current directors and executive officers as a group. As of December 31, 2003 there were 27,047,843 shares of SurgiCare common stock outstanding (prior to giving effect to the Reverse Stock Split).

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed beneficially owned by a person if the person has the right to acquire shares (for example, upon conversion of our Series AA preferred stock or the exercise of an option or warrant) within sixty days of the date as of which the information is provided. In computing the percentage ownership of any person,

the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person s actual voting power at any particular date.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of SurgiCare common stock shown as beneficially owned by them. The information in this table and its footnotes does not reflect the Reverse Stock Split.

	Shares Owned Beneficially			
	Common Stock		Series AA Preferred Stock	
Name and Address of Beneficial Owner	Number	Percent(1)	Number	Percent(1)
Keith G. LeBlanc, 12727 Kimberley Lane, Suite 200, Houston, TX 77024	1,945,094(2)	6.73		
Phillip C. Scott, 12727 Kimberley Lane, Suite 200, Houston, TX 77024	1,945,094(2)	6.73		
Jeffery J. Penso, 11006 Westheimer, Houston, TX 77042	930,036	3.43		
International Diversified Corporation, 601 Hanson Road, Kemah, TX 77565	1,709,024	6.32	900,000	100
Michael A. Mineo, 6699 Chimney Rock, Houston, TX 77081	925,530	3.41		
Sherman Nagler, 1200 Binz, Houston, TX 77004	765,356	2.82		
Bruce Miller, 13737 S.W. Freeway, Sugarland, TX 77478	758,892	2.81		
All directors and executive officers as a group (6 persons)	7,270,002	23.42		

(1) Percentages are calculated on the basis of the number of outstanding shares of common stock of such class plus, for each person or group, any shares such person or group has the right to acquire on or prior to February 29, 2004.

(2) Includes 1,825,094 shares issuable upon the exercise of warrants which are currently exercisable.

Employment Agreements

Effective November 10, 2002, SurgiCare entered into employment agreements with its executive officers, Keith G. LeBlanc, Chief Executive Officer, and Phillip C. Scott, Chief Financial Officer. The term of the agreements is three years. The agreements have a base salary of $198,000 for the first year and $298,000 for the following years. Pursuant to the employment agreement, the officers have each also received warrants to purchase 3,244,616 shares (without giving effect to the Reverse Stock Split) of SurgiCare common stock with an exercise price of $0.32 per share that vest over the three year term of the employment agreements and have each purchased other warrants and common stock of SurgiCare. Each agreement provides for payments of two times annual base salary if the executive officer is terminated without cause. All warrants would also vest at that time. We will enter into a new employment agreement with Mr. LeBlanc to replace this employment agreement. We are negotiating an employment agreement with Mr. Scott to replace this employment agreement.

In connection with the Transactions, certain individuals will enter into employment agreements with Orion as described in The Transactions Interest of Certain Persons in the Acquisitions.

Certain Relationships and Related Transactions

Summary of Transactions with Daniel Dror, American International Industries, Inc., and International Diversified Corporation, Ltd., etc.

Daniel Dror is the CEO of American International Industries, Inc. (AII). Elkana Faiwuszewicz is the CEO and owner of International Diversified Corporation, Ltd., (IDC) majority owner of American International Industries, Inc. and brother of Daniel Dror. The share numbers in the following discussion do not reflect the Reverse Stock Split.

Texas Real Estate Enterprises, Inc., a Texas corporation, and MidCity Houston Properties, Inc., a Texas corporation, were wholly-owned subsidiaries of American International Industries, Inc. (AII). In June 2002, SurgiCare acquired five properties from AII, Texas Real Estate Enterprises, Inc. and MidCity Houston Properties, Inc. in exchange for 1.2 million shares of SurgiCare AA preferred stock. The land holdings are undeveloped properties. SurgiCare is currently marketing the properties for sale.

On December 11, 2002, SurgiCare issued 3,658,537 shares of common stock to AII upon the conversion of shares of our Series AA preferred stock pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act. Also on December 11, 2002, SurgiCare issued 2,439,024 shares of common stock to IDC for an aggregate consideration of $1 million pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act. In addition, AII indemnified SurgiCare for any and all broker fees due to Sig Altman and Altman & Associates due from the transaction above. In addition, AII guaranteed a resale price on the land of $4M and agreed to make up any shortfall. The terms of the Preferred AA Series were also modified. Finally, IDC agreed to reimburse SurgiCare $400,000 by January 15, 2003.

SurgiCare declared a breach of the December 2002 agreement and withheld 1,709,024 shares of SurgiCare common stock from IDC. IDC filed suit against SurgiCare for breach of contract related to the withholding of those shares. On August 26, 2003 SurgiCare agreed to release stock certificate # 1214 to IDC in the amount of 1,709,024 shares of common stock of SurgiCare. In addition, IDC was released from its obligation to reimburse SurgiCare $400,000 by January 15, 2003 under Section 6.2 of the December 2002 agreement. In addition, SurgiCare was released from any and all obligations regarding its obligation to raise additional funds for working capital and to refinance debt obligations under Section 7.1 of the December 2002 agreement. IDC agreed to acquire without recourse a promissory note held by SurgiCare in the face amount of $223,177.78 dated September 20, 2002 for $160,000. The makers of the note are Cirrus Ancillary Services Arkansas, L.P., Donald C. Wilson, and Roger S. Clary, collectively Cirrus.

Summary of Transactions with Brantley IV

Paul H. Cascio and Michael J. Finn, each of whom is a nominee to become a director upon the closing of the Transactions, are general partners of the general partner of Brantley IV and limited partners of Brantley IV. Brantley IV has, though a wholly-owned entity, bridge loans outstanding to SurgiCare in the principal amount of $665,000 as of January 31, 2004, which will be contributed to SurgiCare in connection with the Transactions. Upon completion of the Transactions, Brantley IV and its affiliates will hold a majority of the Fully-Diluted Orion Shares. See The Transactions Interests of Certain Persons in the Acquisitions.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 and Securities and Exchange Commission regulations require that our directors, officers, and greater than 10 percent stockholders file reports of ownership and changes in ownership with the SEC and the NASD and furnish us with copies of all such

reports they file. Based on the reports we have received, we believe that the following reports were not filed on a timely basis during 2001, 2002 or 2003:

On November 10, 2002, Keith LeBlanc, our chief executive officer, received warrants to purchase a total of 3,244,616 shares of our common stock under the terms of the employment agreement pursuant to which he became the chief executive officer, which was effective as of that date. The warrants have an exercise price of $0.32 per share, become exercisable in monthly increments over three years, and expire ten years from the date of grant. A Form 3 to report these holdings was required but not filed. On January 31, 2003, Mr. LeBlanc also purchased 80,000 shares of restricted common stock and 40,000 warrants to purchase common stock at an exercise price of $.45 per share, for a total purchase price for the stock and warrants of $36,000, as part of a private placement of our securities. A Form 4 to report this acquisition was required but not filed. Both of these acquisitions were reported in a Form 5 filed with the SEC on February 9, 2004.

On November 10, 2002, Phil Scott, our chief financial officer, received warrants to purchase a total of 3,244,616 shares of our common stock under the terms of the employment agreement pursuant to which he became our chief financial officer, which was effective as of that date. The warrants have an exercise price of $0.32 per share, become exercisable in monthly increments over three years, and expire ten years from the date of grant. A Form 3 to report these holdings was required but not filed. On January 31, 2003, Mr. Scott also purchased 80,000 shares of restricted common stock and 40,000 warrants to purchase common stock at an exercise price of $.45 per share, for a total purchase price for the stock and warrants of $36,000, as part of a private placement of our securities. A Form 4 to report this acquisition was required but not filed. Both of these acquisitions were reported in a Form 5 filed with the SEC on February 9, 2004.

No officers or directors filed Form 5 Annual Statements of Change in Beneficial Ownership of Securities nor written representations that no such reports were necessary for the years ended December 31, 2001 or 2002.

The reports of security holdings of certain beneficial owners and management that are contained in our Form 10-KSB reports for the years ended December 31, 2001 and 2002 also indicate that, since our last stockholders meeting was held, the reported holdings of common stock and derivative securities by some directors and former directors, including current directors Sherman Nagler, Michael Mineo, Jeffrey Penso and Bruce Miller have changed, but we have not received copies of reports under Section 16 of the Securities Exchange Act that give dates or details of the ownership changes by these directors and former directors.

Required Vote

Directors are elected by a plurality of the affirmative votes cast by 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. As such, abstentions and broker non-votes will have no effect on the outcome.

The Transaction Documents also require that we obtain the approval of the nominees for directors 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.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR ELECTION OF THE LISTED NOMINEES FOR DIRECTOR.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL SEVEN APPROVAL OF NEW INCENTIVE PLAN

On , 2004, the board of directors unanimously voted to adopt the Orion Healthcorp., Inc. 2004 Incentive Plan (the 2004 Incentive Plan) and to recommend approval of the 2004 Incentive Plan by stockholders. Section 711 of the American stock Exchange s Company Guide requires American Stock Exchange-listed companies to obtain stockholder approval with respect to the establishment of a stock option plan pursuant to which options or stock may be acquired by officers, directors, employees or consultants.

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.

Description of 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.

The maximum number of shares that may be issued under the 2004 Incentive Plan represents approximately 9.5% of the Fully-Diluted Orion Shares (as adjusted for the shares issuable pursuant to the 2004 Incentive Plan). Approximately 6,915,291 shares (691,529 shares after giving effect to the Reverse Stock Split) remained issuable in connection with outstanding awards under prior SurgiCare plans as of January 10, 2004. The total number of shares issuable under prior SurgiCare plans added together with shares issuable under the proposed 2004 Incentive Plan represent approximately 12.1% of the Fully-Diluted

Orion Shares (as adjusted for the shares issuable pursuant to prior SurgiCare plans and the 2004 Incentive Plan).

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 both 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 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 the American Stock Exchange on January 31, 2004 was $0.65 per share, which corresponds to an implied price of $6.50 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 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 January 10, 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	59,392	2.05	1,340,608
Equity compensation plans not approved by security holders	6,855,899	.407	0
Total	6,915,291	.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.

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.

Stockholder approval of 2004 Incentive Plan

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, is required to approve the 2004 Incentive Plan. As such, abstentions and broker non-votes will have no effect on the outcome. The Transaction Documents require that we obtain the approval of this proposal 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.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR THE 2004 EMPLOYEE INCENTIVE PLAN.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH SEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS.

PROPOSAL EIGHT APPROVAL OF WARRANT ISSUANCES TO THE DIRECTORS

We are seeking your approval to issue warrants to each of the current members of our board of directors to compensate each director for his services during the fiscal year ending December 31, 2003 and until the closing of the Transactions. Section 711 of the American stock Exchange s Company Guide requires American Stock Exchange-listed companies to obtain stockholder approval with respect to the establishment of an equity compensation arrangement pursuant to which options or stock may be acquired by directors.

The proposed warrant issuances would occur upon the effectiveness of the Transactions. Each director would receive warrants to purchase 25,000 shares of Class A Common Stock at an exercise price based on the fair market value as of the date of issuance. The warrants would have a term of five-years, beginning on the date of issuance, and would be fully-vested upon issuance. Cashless exercises of the warrants will not be permitted.

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, is required to approve the issuance of warrants to the directors. As such, abstentions and broker non-votes will have no effect on the outcome.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR THE GRANTS OF THE WARRANTS TO THE DIRECTORS.

PROPOSAL NINE OTHER MATTERS

At the date of mailing this proxy statement, we are unaware of any business to be presented at the special meeting other than those items previously discussed. The proxy is being solicited by the board of directors provides authority for the proxy holder to use their discretion to vote on such other matters as may lawfully come before the meeting, including matters incidental to the conduct of the meeting, and any adjournment thereof.

INDEPENDENT PUBLIC ACCOUNTANTS

We expect that representatives of Mann Frankfort Stein & Lipp LLP (MFSL), our independent public accountants, will not attend the special meeting, will not have an opportunity to make a statement, and will not be available to respond to appropriate questions.

On July 28, 2003, we dismissed Weinstein Spira & Company, P.C. (WSC) as our independent auditors and retained MFSL as its new independent auditors. The decision to change auditors was approved by our board of directors.

WSC prepared a report on our financial statements for each of the fiscal years ended December 31, 2002 and 2001. WSC did not include, in any report on our financial statements, an adverse opinion or a disclaimer of opinion, or a qualification or modification as to uncertainty, audit scope, or accounting principles.

During our two most recent fiscal years ended December 31, 2002, and the subsequent interim period through July 28, 2003, there were no disagreements between us and WSC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to WSC s satisfaction, would have caused WSC to make reference to the subject matter of the disagreement in connection with its reports on our financial statements. WSC s report on our financial statements for the year ended December 31, 2002 was modified by the inclusion of an explanatory paragraph addressing the ability of the Registrant to continue as a going concern.

We authorized WSC to respond fully to the inquiries of MFSL. We provided WSC with the foregoing disclosures. WSC delivered a response letter to the foregoing disclosures on July 31, 2003. In that response letter, WSC agreed with the statements regarding WSC and stated that it had no basis to agree or disagree with the other statements.

During the fiscal years ended December 31, 2001 and December 31, 2002, and the subsequent interim period through September 30, 2003, we did not consult with WSC or MFSL regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-B.

Audit Matters

MFSL has been selected to audit our financial statements for the fiscal year ending December 31, 2003 and to report the results of their examination. No accountant has been selected to audit our financial statements for the fiscal year ending December 31, 2004. We plan to continue using the services of MFSL until the closing of the Transactions, or if the Transactions do not close. But upon closing of the Transactions, the new audit committee of Orion may choose a new independent accountant to audit Orion s financial statements for the fiscal year ending December 31, 2004.

The Audit Committee received the following information regarding the fees for the fiscal year ended December 31, 2003, and has determined that the provision of these services is compatible with maintaining the independence of the independent auditors.

Audit Fees

The aggregate fees billed by MFSL for professional services rendered for the review of financial statements included in SurgiCare s quarterly reports on Form 10-Q for the fiscal year 2003 were $5,365. During fiscal years 2002 and 2003 the aggregate fees billed by WSC totaled $73,776 and $72,434.

Tax Fees

The aggregate fees billed by MFSL during fiscal year 2003 for tax-related services totaled $6,728. The aggregate fees billed by WSC during fiscal years 2002 and 2003 for tax related services totaled $18,167 and $25,900, respectively.

All Other Fees

During fiscal years 2002 and 2003, all other fees billed by WSC totaled $374 and $1,500, which primarily consisted of finance charges and S-8 consents.

STOCKHOLDER PROPOSALS

Stockholder proposals to be considered at the annual meeting of stockholders in 2005 must be received by , 200 , to be considered for inclusion in our proxy materials for that meeting.

Stockholders who wish to make a proposal at the 2005 annual meeting of stockholders, other than proposals included in the proxy materials, must notify us between , 2005 and , 2005. If the stockholder does not notify us by , 2005, the proxies will have discretionary authority to vote on a stockholder s proposal brought before the meeting.

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ANNEX A

AMENDED AND RESTATED

AGREEMENT AND PLAN OF MERGER

by and among

SURGICARE, INC.

IPS ACQUISITION, INC.

and

INTEGRATED PHYSICIAN SOLUTIONS, INC.

Dated as of February 9, 2004

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EXHIBIT K	Form of DCPS/MBS Acquisition Agreement

GLOSSARY OF DEFINED TERMS

Defined Term	Location of Definition
Acquisition Agreement	Section 6.03(c)
Action	Section 3.11
Affiliate or affiliate	Section 9.03
Affiliated Group	Section 3.17(e)
Aggregate Merger Consideration	Section 9.03
Agreement	Preamble
ALTA	Section 3.15(b)
AMEX	Section 3.05(b)
Appraisal Shares	Section 2.01(c)
Bank Austria Warrants	Section 4.03(a)
Board Election	Section 3.04(b)
Brantley III	Recitals
Brantley III Loan Amount	Section 9.03
Brantley III Loan Conversion Shares	Section 9.03
Brantley III Notes	Recitals
Brantley IV	Recitals
Brantley Capital	Recitals
Brantley Capital Loan Amount	Section 9.03
Brantley Capital Loan Conversion Shares	Section 9.03
Brantley Capital Notes	Recitals
Brantley Warrants	Section 2.04
Bridge Notes	Recitals
business day	Section 9.03
Certificate of Merger	Section 1.02(b)
Certificates	Section 2.01(b)
Class A Common Closing Price	Section 9.03
Closing	Section 1.02(a)
Closing Date	Section 1.02(a)
Code	Recitals
Common/Series C Exchange Ratio	Section 2.01(a)
Confidentiality Agreement	Section 6.02
Consent	Section 3.05(b)
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control	Section 9.03
DCPS	Section 9.03
DCPS/MBS Acquisition	Section 9.03
DCPS/MBS Acquisition Agreement	Section 9.03
Debt Financing	Section 4.08
DGCL	Recitals
Effective Time	Section 1.02(b)
Employee Pension Benefit Plan	Section 9.03

Defined Term	Location of Definition
Employee Welfare Benefit Plan	Section 9.03
Environmental Laws	Section 9.03
Environmental Permits	Section 3.14
Equity Financing	Recitals
ERISA	Section 3.12(a)
Exchange Act	Section 3.08
Exchange Agent	Section 2.02
Exchange Fund	Section 2.02
Expenses	Section 8.03(a)
Federal Employee Health Benefit Program	Section 1.07(b)
Fiduciary	Section 9.03
Filed SurgiCare SEC Documents	Section 3.10
Financial Statements	Section 4.08(a)
Five Day Average Price	Section 9.03
Fully-Diluted SurgiCare Shares	Section 9.03
Governmental Entity	Section 3.06(a)
Hazardous Substances	Section 9.03
HIPAA	Section 3.07(d)
HSR Act	Section 3.05(b)
Intellectual Property	Section 9.03
Investment Letters	Section 7.02
IPS	Preamble
IPS Accreditations	Section 4.06(c)
IPS Acquisition Proposal	Section 6.04(b)
IPS Acquisition Transaction	Section 6.04(a)
IPS Balance Sheet	Section 4.08(b)
IPS Board	Recitals
IPS Board Approval	Section 4.04(b)
IPS Bridge Notes	Recitals
IPS By-Laws	Section 4.02
IPS Capital Stock	Recitals
IPS Charter	Section 4.02
IPS Charter Amendment	Recitals
IPS Common/Series C Merger Consideration	Section 9.03
IPS Common Shares	Recitals
IPS Common Stock	Recitals
IPS Disclosure Schedule	Section 9.12
IPS Employee Benefit Plan	Section 9.03
IPS Intellectual Property	Section 4.16(b)
IPS Material Adverse Effect	Section 9.03
IPS Material Contracts	Section 4.13(a)
IPS Option Plan	Section 2.04
IPS Permits	Section 4.06(a)
IPS Real Property	Section 4.15(b)
IPS Senior Preferred Merger Consideration	Section 9.03
IPS Series A	Recitals

Defined Term	Location of Definition
IPS Series A Merger Consideration	Section 9.03
IPS Series A Shares	Section 2.01(a)
IPS Series A-1	Recitals
IPS Series A-1 Merger Consideration	Section 9.03
IPS Series A-1 Shares	Section 2.01(a)
IPS Series A-2	Recitals
IPS Series A-2 Merger Consideration	Section 9.03
IPS Series A-2 Shares	Section 2.01(a)
IPS Series B	Recitals
IPS Series B Merger Consideration	Section 9.03
IPS Series B Shares	Section 2.01(a)
IPS Series C	Recitals
IPS Series C Shares	Section 2.01(a)
IPS Stock Options	Section 2.04
IPS Stockholder Approval	Section 4.04(a)
IPS Stockholders Meeting	Section 6.01(a)
IPS Subsequent Adverse Determination	Section 6.04(c)
IPS Subsidiary	Section 9.03
IPS Superior Proposal	Section 6.04(b)
Judgment	Section 3.05(a)
knowledge	Section 9.03
Lakepoint	Recitals
Law	Section 1.02(b)
Liability	Section 9.03
Liens	Section 3.01(b)
Maximum Premium	Section 6.05(b)
MBS	Section 9.03
Medicaid	Section 3.07(b)
Medicare	Section 3.07(b)
Merger	Recitals
Merger Consideration	Section 2.01(c)
Merger Sub	Preamble
Merger Sub Board	Recitals
Multiemployer Plan	Section 9.03
New Equity Plan	Section 3.04(a)
Order	Section 7.01(b)
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Reverse Stock Split	Recitals
Rule 145 Affiliate	Section 6.08(a)
SEC	Section 3.05(b)

Defined Term	Location of Definition
Securities Act	Section 3.08(a)
Stock Subscription Agreement	Recitals
subsidiary or subsidiaries	Section 9.03
SurgiCare	Preamble
SurgiCare Accreditations	Section 3.06(c)
SurgiCare Acquisition Proposal	Section 6.03(b)
SurgiCare Acquisition Transaction	Section 6.03(a)
SurgiCare Balance Sheet	Section 3.08(b)
SurgiCare Board	Recitals
SurgiCare Board Approval	Section 3.04(b)
SurgiCare Bridge Notes	Recitals
SurgiCare By-Laws	Section 3.02
SurgiCare Capital Stock	Recitals
SurgiCare Charter	Section 3.02
SurgiCare Class A Common Shares	Section 2.01(a)
SurgiCare Class A Common Stock	Recitals
SurgiCare Class B Common Stock	Recitals
SurgiCare Class C Common Stock	Recitals
SurgiCare Disclosure Schedule	Section 9.12
SurgiCare Employee Benefit Plan	Section 9.03
SurgiCare Intellectual Property	Section 3.16(b)
SurgiCare Material Adverse Effect	Section 9.03
SurgiCare Material Contracts	Section 3.13(a)
SurgiCare Old Common Stock	Recitals
SurgiCare Option Plan	Section 3.03(a)
SurgiCare Permits	Section 3.06(a)
SurgiCare Real Property	Section 3.15(b)
SurgiCare Restated Charter	Recitals
SurgiCare SEC Reports	Section 3.08(a)
SurgiCare Series A	Recitals
SurgiCare Series AA	Recitals
SurgiCare Stock Options	Section 3.03(a)
SurgiCare Stockholder Approval	Section 3.04(a)
SurgiCare Stockholders Meeting	Section 6.01(a)
SurgiCare Subsequent Adverse Determination	Section 6.03(c)
SurgiCare Subsidiary	Section 9.03
SurgiCare Superior Proposal	Section 6.03(b)
SurgiCare Warrants	Section 3.03(a)
Surviving Corporation	Section 1.01
Tax or Taxes	Section 9.03
Tax Return	Section 9.03
Trademarks	Section 9.03
Transactions	Section 9.03
TRICARE	Section 3.07(b)
U.S. GAAP	Section 3.08(b)
Voting IPS Debt	Section 4.03(c)

Defined Term	Location of Definition
Voting SurgiCare Debt	Section 3.03(c)

AMENDED AND RESTATED
AGREEMENT AND PLAN OF MERGER

THIS **AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER** dated as of February , 2004 (this Agreement) is by and among **SURGICARE, INC.**, a Delaware corporation (SurgiCare), **IPS ACQUISITION, INC.**, a Delaware corporation and a wholly-owned subsidiary of SurgiCare (Merger Sub), and **INTEGRATED PHYSICIAN SOLUTIONS, INC.**, a Delaware corporation (IPS). The Agreement amends and restates in its entirety the Agreement and Plan of Merger dated as of November 18, 2003 entered into among SurgiCare, Merger Sub and IPS (the Prior Agreement). All terms not otherwise defined herein have the meanings ascribed to them in Section 9.03 hereof.

WHEREAS, the boards of directors of SurgiCare (the SurgiCare Board), Merger Sub (the Merger Sub Board) and IPS (the IPS Board) have each determined that it is advisable and in the best interests of their respective stockholders for SurgiCare to enter into a business combination with IPS upon the terms and subject to the conditions set forth herein;

WHEREAS, in furtherance of such combination, the SurgiCare Board, the Merger Sub Board and the IPS Board have each approved the merger (the Merger) of Merger Sub with and into IPS in accordance with the applicable provisions of the Delaware General Corporation Law (the DGCL), and upon the terms and subject to the conditions set forth herein;

WHEREAS, prior to the Merger, (A) SurgiCare will file an Amended and Restated Certificate of Incorporation (the SurgiCare Restated Charter) in the form of Exhibit A hereto with the Secretary of State of the State of Delaware pursuant to which (i) SurgiCare s corporate name will be changed to Orion HealthCorp, Inc. , (ii) the Class B Common Stock, par value $0.001 per share (the SurgiCare Class B Common Stock), and the Class C Common Stock, par value $0.001 per share (the SurgiCare Class C Common Stock), of SurgiCare will be authorized and (iii) SurgiCare will effect a reverse stock split (the Reverse Stock Split) whereby each outstanding share of common stock, par value $0.005 per share (the SurgiCare Old Common Stock), of SurgiCare shall be reclassified and reduced to a fraction of a share of Class A Common Stock, par value $0.001 per share (the SurgiCare Class A Common Stock), of SurgiCare equal to the Reverse Split Fraction (as hereinafter defined), and (B) all outstanding shares of Series A Preferred Stock, $0.001 par value per share (SurgiCare Series A), of SurgiCare and, unless otherwise agreed by IPS, Series AA Preferred Stock, $0.001 par value per share (the SurgiCare Series AA and, collectively with the SurgiCare Old Common Stock and the SurgiCare Series A, the SurgiCare Capital Stock), of SurgiCare shall be converted into shares of SurgiCare Class A Common Stock (the filing of the SurgiCare Restated Charter and the conversion of the SurgiCare Series A and, if applicable, SurgiCare Series AA being referred to herein as the Recapitalization);

WHEREAS, prior to the Merger, IPS will file an amendment to its certificate of incorporation (the IPS Charter Amendment) in form and substance necessary to make Section 2.01 hereof consistent with the terms of such certificate of incorporation;

WHEREAS, prior to the date hereof, Brantley Partners IV, L.P. (Brantley IV) advanced a total of $2,055,000 in loans to Lakepoint Acquisition, Inc., a Delaware corporation (Lakepoint), which in turn advanced $665,000 to SurgiCare pursuant to one or more promissory notes (collectively with any notes evidencing additional loans made by Lakepoint to SurgiCare after such date, the SurgiCare Bridge Notes) and $1,390,000 to IPS pursuant to one or more promissory notes (collectively with any notes evidencing additional loans made by Lakepoint to IPS after such date, the IPS Bridge Notes and, together with the SurgiCare Bridge Notes, the Bridge Notes) to fund certain approved working capital expenses.

WHEREAS, prior to the date hereof, Brantley Venture Partners III, L.P. (Brantley III) has made loans to IPS in the outstanding aggregate principal amount of $1,271,171 evidenced by one or more promissory notes (the Brantley III Notes), and, immediately after giving effect to the Merger, Brantley III, SurgiCare and IPS wish to have the Brantley III Notes exchanged for shares of SurgiCare Class A Common Stock on the terms and conditions set forth in an Amended and Restated Debt Exchange Agreement in substantially the form attached hereto as Exhibit B (the Debt Exchange Agreement ; the transactions contemplated thereby are referred to herein as the Debt Exchange).

WHEREAS, prior to the date hereof, Brantley Capital Corporation (Brantley Capital) has made loans to IPS in the outstanding aggregate principal amount of $1,985,448 evidenced by one or more promissory notes (the Brantley Capital Notes) , and, immediately after giving effect to the Merger, Brantley Capital, SurgiCare and IPS wish to have the Brantley Capital Notes exchanged for shares of SurgiCare Class A Common Stock on the terms and conditions set forth in the Debt Exchange Agreement.

WHEREAS, simultaneously with, and as a condition to, the Merger, Brantley IV will purchase, and SurgiCare will issue and sell to Brantley IV, for consideration consisting of cash and the Bridge Notes, shares of SurgiCare Class B Common Stock on the terms and subject to the conditions set forth in an Amended and Restated Stock Subscription Agreement in substantially the form attached hereto as Exhibit C (the Stock Subscription Agreement ; the transactions contemplated thereby are referred to herein as the Equity Financing).

WHEREAS, simultaneously with, and as a condition to, the Merger, SurgiCare or one of its wholly-owned subsidiaries will consummate the DCPS/MBS Acquisition;

WHEREAS, for United States federal income tax purposes, the Merger is intended to qualify as a reorganization under the provisions of Section 368(a) of the United States Internal Revenue Code of 1986, as amended (the Code);

WHEREAS, pursuant to the Merger, each outstanding share of common stock, par value $0.001 per share, of IPS (IPS Common Stock), Series A Convertible Preferred Stock, par value $0.001 per share, of IPS (IPS Series A), Series A-1 Convertible Preferred Stock, par value $0.001 per share, of IPS (IPS Series A-1), Series A-2 Convertible Preferred Stock, par value $0.001 per share, of IPS (IPS Series A-2), Series B Convertible Preferred Stock, par value $0.001 per share, of IPS (IPS Series B) and Series C Convertible Preferred Stock, par value $0.001 per share, of IPS (IPS Series C and, collectively with the IPS Common Stock, the IPS Series A, the IPS Series A-1, the IPS Series A-2 and the IPS Series B, the IPS Capital Stock)

shall be converted into the right to receive the applicable Merger Consideration (as defined herein), upon the terms and subject to the conditions set forth herein; and

WHEREAS, SurgiCare, Merger Sub and IPS desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements contained in this Agreement and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I
THE MERGER

SECTION 1.01 The Merger. Upon the terms of this Agreement and subject to the conditions set forth in Article VII, and in accordance with the DGCL, at the Effective Time (as defined below), Merger Sub will be merged with and into IPS. As a result of the Merger, the separate corporate existence of Merger Sub will cease and IPS will continue as the surviving corporation of the Merger (the Surviving Corporation) and will continue to be governed by the DGCL.

SECTION 1.02 Closing; Effective Time.

(a) The closing of the Merger (the Closing), the Equity Financing, the Debt Exchange and the DCPS/MBS Acquisition will take place substantially simultaneously (i) at 10:00 a.m. (local time) at the offices of Ropes & Gray LLP, 45 Rockefeller Plaza, New York, New York as soon as practicable, but in any event within three (3) business days after the day on which the last to be fulfilled or waived of the conditions set forth in Article VII (other than those conditions that by their nature are to be fulfilled at the Closing, but subject to the fulfillment or waiver of such conditions) are fulfilled or waived in accordance with this Agreement or (ii) at such other place and time or on such other date as SurgiCare and IPS may agree in writing (the Closing Date). Subject to the provisions of Article VII, failure to consummate the Merger provided for in this Agreement on the date and time and at the place determined pursuant to this Section 1.02 will not result in the termination of this Agreement and will not relieve any party of any obligation under this Agreement.

(b) At the Closing, IPS, SurgiCare and Merger Sub will cause a certificate of merger (the Certificate of Merger) to be duly prepared, executed and filed with the Secretary of State of the State of Delaware as provided in Section 251 of the DGCL and make all other filings or recordings required by applicable statute, law (including common law), legislation, interpretation, ordinance, rule or regulation, domestic or foreign (Law) in connection with the Merger. The Merger will become effective at such time as the Certificate of Merger is duly filed with the Secretary of State of the State of Delaware or at such later time as is specified in the Certificate of Merger (the Effective Time).

SECTION 1.03 Effect of the Merger. At the Effective Time, the effect of the Merger will be as provided in this Agreement, the Certificate of Merger and the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the

property, rights, privileges, powers, authority and franchises, both public and private, all assets and property, real, personal and mixed, and every interest therein, wherever located, of IPS and Merger Sub will vest in the Surviving Corporation, and all debts, liabilities, obligations and duties of IPS and Merger Sub will become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.04 Subsequent Actions. If, at any time after the Effective Time, the Surviving Corporation considers or is advised that any deeds, bills of sale, assignments, assurances or other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of either IPS or Merger Sub or which are to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger, or otherwise to carry out this Agreement, the officers and directors of the Surviving Corporation are authorized to execute and deliver, in the name and on behalf of each of IPS, SurgiCare and Merger Sub, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of IPS, SurgiCare and Merger Sub or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out this Agreement.

SECTION 1.05 Certificate of Incorporation and By-Laws.

(a) At the Effective Time, the IPS Charter will, by virtue of the Merger, be amended and restated to be identical to the certificate of incorporation of Merger Sub, as in effect immediately prior to the Effective Time, except that Article I will state that the name of IPS is Integrated Physician Solutions, Inc. , until duly amended or repealed.

(b) At the Effective Time, the IPS By-Laws will, by virtue of the Merger, be amended and restated to be identical to the by-laws of Merger Sub, as in effect immediately prior to the Effective Time, except that such by-laws, as so amended and restated, will state that the name of IPS is Integrated Physician Solutions, Inc. , until duly amended or repealed.

SECTION 1.06 Directors and Officers. The directors of IPS immediately prior to the Effective Time will be the directors of the Surviving Corporation, each to hold office in accordance with the certificate of incorporation and by-laws of the Surviving Corporation, and the officers of IPS immediately prior to the Effective Time will be the officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

ARTICLE II
CONVERSION OF SECURITIES; EXCHANGE OF CERTIFICATES

SECTION 2.01 Conversion of Securities.

(a) At the Effective Time, by virtue of the Merger and without any action on the part of SurgiCare, Merger Sub, IPS or the holders of any of the following securities:

(i) except as otherwise set forth in Section 2.01(b):

(A) each share of IPS Series A (collectively, the IPS Series A Shares) issued and outstanding immediately prior to the Effective Time (other than any IPS Series A Shares to be canceled pursuant to Section 2.01(a)(ii)) shall be canceled and automatically converted, subject to Section 2.02(e), into the right to receive the number of shares of SurgiCare Class A Common Stock (shares of SurgiCare Class A Common Stock being referred to herein collectively as the SurgiCare Class A Common Shares) equal to the quotient of the IPS Series A Merger Consideration *divided by* the aggregate number of IPS Series A Shares outstanding immediately prior to the Effective Time (assuming for such purpose the exercise of all then outstanding options, warrants, conversion rights, commitments or other rights to acquire IPS Series A Shares, whether vested or unvested):

(B) each share of IPS Series A-1 (collectively, the IPS Series A-1 Shares) issued and outstanding immediately prior to the Effective Time (other than any IPS Series A-1 Shares to be canceled pursuant to Section 2.01(a)(ii)) shall be canceled and automatically converted, subject to Section 2.02(e), into the right to receive the number of SurgiCare Class A Common Shares equal to the quotient of the IPS Series A-1 Merger Consideration *divided by* the aggregate number of IPS Series A-1 Shares outstanding immediately prior to the Effective Time (assuming for such purpose the exercise of all then outstanding options, warrants, conversion rights, commitments or other rights to acquire IPS Series A-1 Shares, whether vested or unvested);

(C) each share of IPS Series A-2 (collectively, the IPS Series A-2 Shares) issued and outstanding immediately prior to the Effective Time (other than any IPS Series A-2 Shares to be canceled pursuant to Section 2.01(a)(ii)) shall be canceled and automatically converted, subject to Section 2.02(e), into the right to receive the number of SurgiCare Class A Common Shares equal to the quotient of the IPS Series A-2 Merger Consideration *divided by* the aggregate number of IPS Series A-2 Shares outstanding immediately prior to the Effective Time (assuming for such purpose the exercise of all then outstanding options, warrants, conversion rights, commitments or other rights to acquire IPS Series A-2 Shares, whether vested or unvested, other than any convertible debt being exchanged pursuant to the Debt Exchange Agreement);

(D) each share of IPS Series B (collectively, the IPS Series B Shares) issued and outstanding immediately prior to the Effective Time (other than any IPS Series B Shares to be canceled pursuant to

Section 2.01(a)(ii)) shall be canceled and automatically converted, subject to Section 2.02(e), into the right to receive the number of SurgiCare Class A Common Shares equal to the quotient of the IPS Series B Merger Consideration divided by the aggregate number of IPS Series B Shares outstanding immediately prior to the Effective Time (assuming for such purpose the exercise of all then outstanding options, warrants, conversion rights, commitments or other rights to acquire IPS Series B Shares, whether vested or unvested); and

(E) each share of IPS Common Stock (collectively, the IPS Common Shares) and each share of IPS Series C (collectively, the IPS Series C Shares) issued and outstanding immediately prior to the Effective Time (other than any IPS Common Shares and IPS Series C Shares to be canceled pursuant to Section 2.01(a)(ii)) shall be canceled and automatically converted, subject to Section 2.02(e), into the right to receive the number of SurgiCare Class A Common Shares equal to the quotient of the IPS Common/Series C Merger Consideration divided by the aggregate number of IPS Common Shares and IPS Series C Shares outstanding immediately prior to the Effective Time (assuming for such purpose the exercise of all then outstanding options, warrants, conversion rights, commitments or other rights to acquire IPS Common Shares or IPS Series C Shares, whether vested or unvested, other than the options canceled pursuant to Section 6.08 hereof and other than the Brantley Warrants, the IPS Series A Shares, the IPS Series A-1 Shares, the IPS Series A-2 Shares, the IPS Series B Shares and, with respect to the IPS Common Shares, the IPS Series C Shares) (such fraction, the Common/Class C Exchange Ratio);

(ii) each share of IPS Capital Stock owned by SurgiCare or any direct or indirect wholly owned subsidiary of SurgiCare or held in treasury by IPS or any Subsidiary of IPS immediately prior to the Effective Time shall be canceled and extinguished without any conversion thereof and no payment or distribution shall be made with respect thereto; and

(iii) each share of common stock, $0.001 par value per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of common stock, $0.001 par value per share, of the Surviving Corporation.

(b) Notwithstanding any provisions of this Agreement to the contrary, shares of IPS Capital Stock which are issued and outstanding immediately prior to the Effective Time and which are held by any Person who has not voted such shares of IPS Capital Stock in favor of the Merger, who has delivered a written demand for appraisal of such shares of IPS Capital Stock in the manner provided by the DGCL and who, as of the Effective Time, has perfected and not effectively withdrawn or lost such right to appraisal (the Appraisal Shares) will not be

converted into or represent a right to receive the applicable Merger Consideration pursuant to this Article II. The holders thereof will be entitled only to such rights as are granted by Section 262 of the DGCL. Each holder of Appraisal Shares who becomes entitled to payment for such shares of IPS Capital Stock pursuant to Section 262 of the DGCL will receive payment therefor from the Surviving Corporation in accordance with the DGCL; provided, however, that (i) if any such holder of Appraisal Shares fails to establish its entitlement to appraisal rights as provided in Section 262 of the DGCL, (ii) if any such holder of Appraisal Shares effectively withdraws its demand for appraisal of such shares of IPS Capital Stock or loses its right to appraisal and payment for its shares of IPS Common Stock under Section 262 of the DGCL, or (iii) if neither any holder of Appraisal Shares nor the Surviving Corporation files a petition demanding a determination of the value of all Appraisal Shares within the time provided in Section 262 of the DGCL, such holder will forfeit the right to appraisal of such shares of IPS Capital Stock and each such share of IPS Capital Stock will be treated as if such share of IPS Capital Stock had been converted, as of the Effective Time, into a right to receive the applicable Merger Consideration, without interest thereon, from the Surviving Corporation as provided in Section 2.01(a). IPS will give SurgiCare prompt notice of any demands received by IPS for appraisal of IPS Capital Stock, and, until the Effective Time, SurgiCare will have the opportunity to participate in all negotiations and proceedings with respect to such demands. IPS will not, except with the prior written consent of SurgiCare, make any payment with respect to, or settle or offer to settle, any such demands.

SECTION 2.02 Exchange of Certificates.

(a) Exchange Agent. SurgiCare shall deposit, or shall cause to be deposited, with Registrar and Transfer Company or such other bank or trust company that may be designated by SurgiCare and is reasonably satisfactory to IPS (the Exchange Agent), for the benefit of the holders of shares of IPS Capital Stock, for exchange in accordance with this Article II through the Exchange Agent, certificates representing SurgiCare Class A Common Shares issuable pursuant to Section 2.01 as of the Effective Time, and cash, from time to time as required to make payments in lieu of any fractional shares pursuant to Section 2.02(e) (the aggregate of such cash and certificates for SurgiCare Class A Common Shares, together with any dividends or distributions with respect thereto, being hereinafter referred to as the Exchange Fund). If requested by the Exchange Agent, SurgiCare and IPS will enter into a mutually acceptable exchange agent agreement which will set forth the duties, responsibilities and obligations of the Exchange Agent. The Exchange Agent shall, pursuant to irrevocable instructions, deliver the SurgiCare Class A Common Shares contemplated to be issued pursuant to Section 2.01, out of the Exchange Fund. Except as contemplated by Section 2.02(f) hereof, the Exchange Fund shall not be used for any other purpose.

(b) Exchange Procedures. As promptly as practicable after the Effective Time (but in any event within five business days after the Effective Time), SurgiCare shall cause the Exchange Agent to mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of IPS Capital Stock (the Certificates) (i) a letter of transmittal (which shall be in customary form and shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing SurgiCare

Class A Common Shares and cash in lieu of any fractional shares. Upon surrender to the Exchange Agent of a Certificate for cancellation, together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may be reasonably required pursuant to such instructions, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing that number of whole SurgiCare Class A Common Shares which such holder has the right to receive in respect of the shares of IPS Capital Stock formerly represented by such Certificate (after taking into account all shares of IPS Capital Stock then held by such holder), cash in lieu of any fractional SurgiCare Class A Common Shares to which such holder is entitled pursuant to Section 2.02(e) and any dividends or other distributions to which such holder is entitled pursuant to Section 2.02(c) (the SurgiCare Class A Common Shares, cash, dividends and distributions being, collectively, the Merger Consideration), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of shares of IPS Capital Stock which is not registered in the transfer records of IPS, the applicable Merger Consideration may be issued to a transferee if the Certificate representing such shares of IPS Capital Stock is properly endorsed and presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence satisfactory to the Surviving Corporation that any applicable share transfer taxes have been paid. Until surrendered as contemplated by this Section 2.02, each Certificate shall be deemed at all times after the Effective Time to represent only the right to receive upon such surrender the applicable Merger Consideration. No interest shall be paid or shall accrue on the cash payable upon surrender of any Certificate.

(c) Distributions with Respect to Unexchanged SurgiCare Class A Common Shares. No dividends or other distributions declared or made after the Effective Time with respect to the SurgiCare Class A Common Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the SurgiCare Class A Common Shares represented thereby, and no cash payment in lieu of any fractional shares shall be paid to any such holder pursuant to Section 2.02(e), until the holder of such Certificate shall surrender such Certificate as provided in Section 2.02(b). Subject to the effect of escheat, tax or other applicable Laws (as defined below), following surrender of any such Certificate, there shall be paid to the holder of the certificates representing whole SurgiCare Class A Common Shares issued in exchange therefor, without interest, (i) promptly (but in any event within five business days after such surrender), the amount of any cash payable with respect to a fractional SurgiCare Class A Common Share to which such holder is entitled pursuant to Section 2.02(e) and the amount of dividends or other distributions with a record date after the Effective Time and theretofore payable with respect to such whole SurgiCare Class A Common Shares, and (ii) at the appropriate payment date, the amount of dividends or other distributions, with a record date after the Effective Time but prior to surrender and a payment date occurring after surrender, payable with respect to such whole SurgiCare Class A Common Shares.

(d) No Further Rights in IPS Capital Stock. All SurgiCare Class A Common Shares issued (and represented by certificates delivered) upon conversion of the shares of IPS Capital Stock in accordance with the terms hereof (including any cash paid pursuant to Section 2.02(c) or (e)) shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of IPS Capital Stock.

(e) No Fractional Shares. No certificates or scrip representing fractional SurgiCare Class A Common Shares shall be issued upon the surrender for exchange of Certificates, no dividend or distribution with respect to SurgiCare Class A Common Shares shall be payable on or with respect to any fractional share and such fractional share interests will not entitle the owner thereof to any rights of a stockholder of SurgiCare. In lieu of any such fractional share, each holder of IPS Capital Stock who would otherwise have been entitled to a fraction of a SurgiCare Class A Common Share upon surrender of Certificates for exchange shall be paid upon such surrender cash (without interest) determined by multiplying (i) the fractional share interest to which such holder would otherwise be entitled (after taking into account all shares of IPS Capital Stock held at the Effective Time by such holder) times (ii) the Class A Common Closing Price. As soon as practical after determining the amount of cash, if any, to be paid to holders of IPS Capital Stock with respect to any fractional share interests, the Exchange Agent shall promptly pay such amounts to such holders of IPS Capital Stock. SurgiCare will make available to the Exchange Agent the cash necessary for this purpose.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of shares of IPS Capital Stock for twelve months after the Effective Time shall be delivered to SurgiCare, upon demand, and any holders of shares of IPS Capital Stock who have not theretofore complied with this Article II shall thereafter look only to SurgiCare for the applicable Merger Consideration. Any portion of the Exchange Fund remaining unclaimed by holders of shares of IPS Capital Stock as of a date which is immediately prior to such time as such amounts would otherwise escheat to or become property of any government entity shall, to the extent permitted by applicable Law, become the property of SurgiCare free and clear of any claims or interest of any person previously entitled thereto.

(g) No Liability. None of SurgiCare, Merger Sub, IPS or the Surviving Corporation shall be liable to any holder of shares of IPS Capital Stock for any such shares of IPS Capital Stock (or dividends or distributions with respect thereto) or cash delivered to a public official pursuant to any abandoned property, escheat or similar Law.

(h) Withholding Rights. Each of the Surviving Corporation, SurgiCare and the Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of IPS Capital Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax Law. To the extent that amounts are so withheld by the Surviving Corporation, SurgiCare or the Exchange Agent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of IPS Capital Stock in respect of which such deduction and withholding was made by the Surviving Corporation, SurgiCare or the Exchange Agent, as the case may be.

(i) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond, in such reasonable amount as the Surviving Corporation may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the

Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate, the applicable Merger Consideration.

SECTION 2.03 Stock Transfer Books. At the Effective Time, the stock transfer books of IPS shall be closed and there shall be no further registration of transfers of shares of IPS Capital Stock thereafter on the records of IPS. From and after the Effective Time, the holders of Certificates representing shares of IPS Capital Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares of IPS Capital Stock, except as otherwise provided in this Agreement or by Law. On or after the Effective Time, any Certificates presented to the Exchange Agent or SurgiCare for any reason shall be converted into the applicable Merger Consideration.

SECTION 2.04 Stock Options and Warrants. Effective immediately after the Effective Time, (a) all outstanding options (the IPS Stock Options) under IPS 1996 Long-Term Incentive Plan (the IPS Option Plan) shall be cancelled without the payment of any consideration in accordance with Section 6.08 hereof and (b) the Bank Austria Warrants, to the extent not exercised prior to the Effective Time, shall thereafter represent the right to purchase the number of SurgiCare Class A Common Shares that would have been received by the holder of the Bank Austria Warrants if the unexercised portion of those warrants had been exercised immediately prior to the Effective Time.

SECTION 2.05 Closing Certificates. At the Closing, (a) SurgiCare shall deliver to IPS a certificate, in form and substance satisfactory to IPS and signed by its Chief Executive Officer and Chief Financial Officer, certifying in reasonable detail the calculation of the amount of Fully-Diluted SurgiCare Shares on the Closing Date, together with all supporting materials used in such calculation, and (b) IPS shall deliver to SurgiCare a certificate, signed by its Chief Executive Officer and Chief Financial Officer, certifying in reasonable detail the calculation of (i) the aggregate number of IPS Series A Shares, IPS Series A-1 Shares, IPS Series A-2 Shares, IPS Series B Shares, IPS Series C Shares and IPS Common Shares outstanding immediately prior to the Effective Time (assuming for such purpose the exercise of all then outstanding options, warrants, conversion rights, commitments or other rights to acquire shares of IPS Capital Stock, whether vested or unvested, other than the options canceled pursuant to Section 6.08 hereof and other than the Brantley Warrants, the IPS Series A Shares, the IPS Series A-1 Shares, the IPS Series A-2 Shares, the IPS Series B Shares and the IPS Series C Shares) and (ii) the IPS Series A Merger Consideration, the IPS Series A-1 Merger Consideration, the IPS Series A-2 Merger Consideration and the IPS Series B Merger Consideration, together with all supporting materials used in such calculation.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SURGICARE AND MERGER SUB

SurgiCare and Merger Sub, jointly and severally, hereby represent and warrant to IPS that:

SECTION 3.01 Organization and Qualification; Subsidiaries.

(a) SurgiCare and each SurgiCare Subsidiary is a corporation or other legal entity duly organized, validly existing and in good standing (where such concept is applicable) under the laws of the jurisdiction of its incorporation or formation and has all requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to do so would not have a SurgiCare Material Adverse Effect. Each of SurgiCare and the SurgiCare Subsidiaries is duly qualified or licensed as a foreign corporation or organization to do business, and is in good standing (where such concept is applicable), in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to do so would not have a SurgiCare Material Adverse Effect.

(b) Section 3.01(b) of the SurgiCare Disclosure Schedule lists each SurgiCare Subsidiary, its jurisdiction of organization and all trade names currently used or used at any time during the past two years by such SurgiCare Subsidiary. All of the outstanding shares of capital stock or other equity interests of each SurgiCare Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable and, except as set forth in Section 3.01(b) of the SurgiCare Disclosure Schedule, are owned by SurgiCare, free and clear of all pledges, liens, charges, mortgages, encumbrances and security interests of any kind or nature whatsoever (collectively, Liens). Except for its interests in the SurgiCare Subsidiaries and except for the ownership of interests set forth in Section 3.01(b) of the SurgiCare Disclosure Schedule, SurgiCare does not own, directly or indirectly, or have any outstanding contractual obligation to acquire, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any corporation, partnership, joint venture or other business association or entity.

SECTION 3.02 Certificate of Incorporation and By-Laws. SurgiCare has heretofore provided to IPS a complete and correct copy of SurgiCare s certificate of incorporation, as amended to date (the SurgiCare Charter) and SurgiCare s by-laws, as amended to date (the SurgiCare By-Laws). The SurgiCare Charter and SurgiCare By-Laws are in full force and effect. SurgiCare is not in violation of any of the provisions of the SurgiCare Charter or the SurgiCare By-Laws. SurgiCare has provided to IPS complete copies of the certificate of incorporation, by-laws or other organizational documents (including without limitation partnership agreements or limited liability company agreements) of each SurgiCare Subsidiary and no SurgiCare Subsidiary is in violation of such documents.

SECTION 3.03 Capitalization.

(a) The authorized capital stock of SurgiCare consists of (i) 50,000,000 shares of SurgiCare Old Common Stock, (ii) 1,650,000 shares of SurgiCare Series A and (iii) 1,200,000 shares of SurgiCare Series AA. At the close of business on November 14, 2003 (i) 25,793,520 shares of SurgiCare Old Common Stock were issued and outstanding, (ii) 1,225,100 shares of SurgiCare Series A were issued and outstanding, (iii) 900,000 shares of SurgiCare Series AA were issued and outstanding, (iv) 91,400 shares of SurgiCare Old Common Stock were held in SurgiCare s treasury, (iv) no shares of SurgiCare Series A or SurgiCare Series AA were held in SurgiCare s treasury, (v) 62,706 shares of SurgiCare Old Common Stock were subject to options (the SurgiCare Stock Options) granted pursuant to SurgiCare s 2001 Stock Option Plan (the

SurgiCare Option Plan), (vi) 1,225,100 shares of SurgiCare Old Common Stock were reserved for issuance pursuant to the conversion of the shares of SurgiCare Series A that were issued and outstanding, (vii) 10,975,610 shares of SurgiCare Old Common Stock were reserved for issuance pursuant to the conversion of the shares of SurgiCare Series AA that were issued and outstanding and (viii) 10,789,082 shares of SurgiCare Old Common Stock were reserved for issuance pursuant to the exercise of all outstanding warrants of SurgiCare (the SurgiCare Warrants). Except as set forth above, at the close of business on November 14, 2003 no shares of SurgiCare Capital Stock or other securities of SurgiCare were issued, reserved for issuance or outstanding.

(b) All outstanding shares of SurgiCare Capital Stock are, and all such shares that may be issued prior to the Effective Time will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in material violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the SurgiCare Charter, the SurgiCare By-Laws or any contract, lease, license, indenture, note, bond, mortgage, agreement or other instrument or obligation (Contract) to which SurgiCare is a party or otherwise bound. Each offer or sale by SurgiCare of shares of its capital stock or other securities has been in compliance with all applicable federal and state securities laws or the applicable statute of limitations with respect to such offers or sales has expired.

(c) Except as set forth in Section 3.03(c) of the SurgiCare Disclosure Schedule, there are not any bonds, debentures, notes or other indebtedness of SurgiCare having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of SurgiCare Capital Stock may vote (Voting SurgiCare Debt).

(d) Except as set forth in Section 3.03(a) above, as of the date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which SurgiCare or any SurgiCare Subsidiary is a party or by which any of them is bound (i) obligating SurgiCare or any SurgiCare Subsidiary to issue or sell, or cause to be issued or sold, additional shares of capital stock or other equity interests in, or any security convertible or exchangeable into, or exercisable for, any capital stock of or other equity interest in, SurgiCare or of any SurgiCare Subsidiary or any Voting SurgiCare Debt, (ii) obligating SurgiCare or any SurgiCare Subsidiary to issue, grant, extend or enter into any such option, warrant, right, security, stock appreciation right, stock-based performance unit, commitment, Contract, arrangement or undertaking, or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of SurgiCare Capital Stock. Section 3.03(d) of the SurgiCare Disclosure Schedule sets forth the total number of outstanding SurgiCare Stock Options and Warrants and the exercise prices thereof. SurgiCare has provided IPS with a schedule of all of such SurgiCare Stock Options and SurgiCare Warrants, including the relevant vesting times, exercise prices and exercise periods, and copies of all SurgiCare Warrants and all SurgiCare Option Plans and forms of option certificates granted thereunder.

(e) There are not any outstanding contractual obligations of SurgiCare or of any SurgiCare Subsidiary, contingent or otherwise, to repurchase, redeem or otherwise acquire any shares of capital stock of SurgiCare or, except as set forth in Section 3.03(e)(i) of the

SurgiCare Disclosure Schedule, there are no issued and outstanding shares of SurgiCare Capital Stock that are subject to a repurchase or redemption right in favor of SurgiCare.

(f) The authorized stock of Merger Sub consists of 1,000 shares of common stock, $0.001 par value, all of which are duly authorized, validly issued, fully paid and nonassessable and free of any preemptive rights in respect thereof, and all of which are owned by SurgiCare. The SurgiCare Class A Common Shares to be issued pursuant to the Merger in accordance with Section 2.01(a)(i) will, when issued, be duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive or similar rights created by statute, the Certificate of Incorporation or By-Laws of SurgiCare or any agreement to which the SurgiCare is a party or is bound. Immediately following the Effective Time, and after giving effect to the Merger, the Equity Financing, the Debt Exchange, the DCPS/MBS Acquisition and the Recapitalization, the authorized, issued and outstanding capital stock of SurgiCare shall be as set forth in Schedule 3.03(f) of the SurgiCare Disclosure Schedule.

SECTION 3.04 Authority Relative to this Agreement.

(a) Each of SurgiCare and Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery by each of SurgiCare and Merger Sub of this Agreement and the consummation by each of SurgiCare and Merger Sub of the Transactions have been duly authorized by all necessary corporate action on the part of each of SurgiCare and Merger Sub, subject to the approval of the issuance of SurgiCare Class A Common Shares in the Merger and the Debt Exchange, as well as the DCPS/MBS Acquisition, the Recapitalization, the Equity Financing, the election of each of the individuals listed in Section 7.03(o) to the SurgiCare Board effective as of the Effective Time (the Board Election) and the Orion HealthCorp, Inc. 2003 Incentive Plan in the form set forth as Exhibit D hereto (the New Equity Plan) by the holders of (i) not less than a majority of the outstanding shares of SurgiCare Capital Stock, voting together as a class, (ii) not less than a majority of the outstanding shares of SurgiCare Old Common Stock, (iii) not less than a majority of the outstanding shares of SurgiCare Series A and (iv) not less than a majority of the outstanding shares of SurgiCare Series AA (the SurgiCare Stockholder Approval). Each of SurgiCare and Merger Sub has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

(b) On or prior to the date of this Agreement, the SurgiCare Board duly adopted resolutions (the SurgiCare Board Approval) at a meeting duly called and held or by unanimous written consent and such resolutions have not been subsequently rescinded or modified in any way in accordance with the DGCL, (i) approving, authorizing and adopting this Agreement, the Merger (including to the extent required by Section 203 of the DGCL in order that the consummation of the Transactions is not limited or restricted by such Law), the New Equity Plan and the other Transactions, (ii) determining that the Merger is advisable and in the best interests of SurgiCare and the SurgiCare stockholders, (iii) determining that the Transactions are fair to the SurgiCare stockholders and (iv) recommending that the SurgiCare stockholders approve and adopt this Agreement and directing that this Agreement, the Merger,

the New Equity Plan and the other Transactions be submitted for consideration by the SurgiCare stockholders at the SurgiCare Stockholders Meeting.

(c) Except for Section 203 of the DGCL, no fair price , moratorium , control share acquisition or other similar anti-takeover statute or regulation is applicable, by reason of SurgiCare s being a party to this Agreement, the Merger or the other Transactions. Neither SurgiCare nor any of the SurgiCare Subsidiaries is a party to any stockholder rights plan or any similar anti-takeover plan or device.

SECTION 3.05 No Conflict; Required Filings and Consents.

(a) Except as set forth in Section 3.05(a) of the SurgiCare Disclosure Schedule, the execution and delivery by each of SurgiCare and Merger Sub of this Agreement and the other transaction documents referenced hereby does not, and the consummation of the Transactions and compliance with the terms hereof will not, result in any material violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or require any offer to purchase or any prepayment of any debt, or result in the creation of any Lien upon any of the properties or assets of SurgiCare or any SurgiCare Subsidiary under, any provision of (i) the SurgiCare Charter, the SurgiCare By-Laws or the comparable charter, by-law or other organizational documents of any SurgiCare Subsidiary, (ii) any SurgiCare Material Contract or SurgiCare Employee Benefit Plan, or (iii) subject to the filings and other matters referred to in Section 3.05(b), any judgment, order, injunction or decree, domestic or foreign (Judgment), or Law, applicable to SurgiCare or any SurgiCare Subsidiary or their respective properties or assets.

(b) Except as set forth in Section 3.05(a) of the SurgiCare Disclosure Schedule, no consent, approval, certificate, license, permit, order or authorization (Consent) of, or registration, declaration, notification or filing with, any Governmental Entity or third party is required to be obtained or made by or with respect to SurgiCare or any SurgiCare Subsidiary in connection with the execution, delivery and performance of this Agreement or the consummation of the Transactions, other than (i) if required, compliance with and filing of a pre-merger notification report under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), (ii) compliance with the applicable requirements of states securities or blue sky laws, the Securities Act and the Exchange Act and the rules and regulations of the American Stock Exchange (the AMEX), (iii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of the other jurisdictions in which SurgiCare is qualified to do business (the foregoing clauses (b)(i) through (iii) being referred to collectively as the Required Consents), and (iv) such other items that would not have a SurgiCare Material Adverse Effect.

SECTION 3.06 Permits; Accreditation.

(a) Except as set forth in Section 3.06(a) of the SurgiCare Disclosure Schedule, SurgiCare has all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any federal, national, state,

provincial, municipal or local government, any instrumentality, subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or any other governmental or quasi-governmental authority, whether of the U.S., or another jurisdiction (a Governmental Entity), necessary or advisable for SurgiCare or any SurgiCare Subsidiary to own, lease and operate its properties or to carry on its business as it is now being conducted, including without limitation all licenses and permits required to operate a health care facility under applicable legal requirements of each jurisdiction, all licenses required for the practice of medicine and the provision of medical or technical services in connection with the business of SurgiCare and each SurgiCare Subsidiary, certificates of need, provider and supplier numbers, and reassignments of supplier and provider billing rights as applicable to each health care facility or operation of SurgiCare and each SurgiCare Subsidiary (the SurgiCare Permits), other than such SurgiCare Permits as, individually and in the aggregate, are not material to the business of either SurgiCare or any SurgiCare Subsidiary and the lack of which would not result in a SurgiCare Material Adverse Effect. Except as disclosed in Section 3.06(a) of the SurgiCare Disclosure Schedule, each of SurgiCare and the SurgiCare Subsidiaries is in possession of all SurgiCare Permits in good standing, neither SurgiCare nor any SurgiCare Subsidiary is in breach of, or in default or violation under any of the SurgiCare Permits, and no suspension, violation, revocation, limitation or cancellation of or default under any of the SurgiCare Permits is pending or, to the knowledge of SurgiCare, threatened, except as would not have a SurgiCare Material Adverse Effect. Neither SurgiCare nor any SurgiCare Subsidiary has received any written notices of violation, default or deficiency with respect to any SurgiCare Permit that remains uncured. No SurgiCare Permit will be materially affected by, or terminate or lapse by reason of, the Transactions.

(b) Except as disclosed in Section 3.06(b) of the SurgiCare Disclosure Schedule, each employee and agent of SurgiCare and each SurgiCare Subsidiary, including without limitation each physician and other health care professional employed by or performing services on behalf of SurgiCare or any SurgiCare Subsidiary, has all licenses, permits and approvals required for the performance of his or her duties for SurgiCare or SurgiCare Subsidiary, except where the failure to have such approvals would not have a SurgiCare Material Adverse Effect; and no such employee or agent of SurgiCare or any SurgiCare Subsidiary is in violation of any such license, permit, or approval or any term or condition thereof, except for such violations as would not have a SurgiCare Material Adverse Effect.

(c) Section 3.06(c) of the SurgiCare Disclosure Schedule sets forth a list of all health care facility accreditations held by or awarded to SurgiCare and each SurgiCare Subsidiary and to each health care facility owned or operated by SurgiCare or a SurgiCare Subsidiary (the SurgiCare Accreditations). Except as disclosed in Section 3.06(c) of the SurgiCare Disclosure Schedule, each of the SurgiCare Accreditations is in good standing, and no suspension, revocation, limitation, or cancellation of any of the SurgiCare Accreditations is pending or, to the knowledge of SurgiCare, threatened. Neither SurgiCare nor any SurgiCare Subsidiary has received any written notices of violation, default, or deficiency with respect to any SurgiCare Accreditation that remains uncured. No SurgiCare Accreditation will be materially affected by, or terminate or lapse by reason of, the Transactions.

SECTION 3.07 Compliance with Laws.

(a) Except as disclosed in the Filed SEC Documents or in Section 3.07(a) of the SurgiCare Disclosure Schedule, SurgiCare and the SurgiCare Subsidiaries are, and have been, in compliance with each Law applicable to SurgiCare or any SurgiCare Subsidiary or by which any property or asset of SurgiCare or any SurgiCare Subsidiary is bound or affected, except where failure to be in such compliance would not have a SurgiCare Material Adverse Effect. Except as set forth in the Filed SEC Documents or in Section 3.07(a) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary has received any communication from a Governmental Entity that alleges that SurgiCare or a SurgiCare Subsidiary is not or was not in compliance with any applicable Law.

(b) Without limiting the generality of the foregoing, except as set forth in Section 3.07(b) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary, nor, to the Knowledge of SurgiCare, any of the officers, directors, employees, and agents of SurgiCare or any SurgiCare Subsidiary, has engaged in any activity that (i) would constitute a violation of, or that would serve as cause for criminal or civil penalties under, the statutes pertaining to the federal Medicare and Medicaid programs (as defined below), or the federal statutes applicable to health care fraud and abuse, kickbacks and self-referrals, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn and the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*., related or similar statutes pertaining to the Federal Employee Health Benefit Program (5 U.S.C. § 8901 *et seq*.) (the Federal Employee Health Benefit Program), the TRICARE program (10 U.S.C. § 1071 *et seq*.) (TRICARE) or any other federal health care program, or the regulations promulgated pursuant to any of such federal statutes, or any analogous or similar state statutes pertaining to Medicaid or any state statutes or regulations pertaining to commercial health care or health insurance programs or the regulations promulgated pursuant to such statutes or regulations, (ii) would serve as cause for mandatory or permissive exclusion from Medicare (Soc. Sec. Act of 1965, Title VIII, P.L. 89-97, as amended, 42 U.S.C. 1395 *et seq*.) (Medicare), Medicaid (Soc. Sec. Act of 1965, Title XIX, P.L. 89-97, as amended, 42 U.S.C. 1396 *et seq*.) (Medicaid), the Federal Employee Health Benefit Program, TRICARE, or any other federal or state health care program or any other governmental or commercial third party payor program, or (iii) would prohibit billing under Medicare or Medicaid, the Federal Employee Health Benefit Program, TRICARE, or any state-funded health care or private health insurance program.

(c) Except as set forth in Section 3.07(c) of the SurgiCare Disclosure Schedule, neither SurgiCare, nor any of the SurgiCare Subsidiaries, nor any of their respective officers, directors, or managing employees, nor, to the knowledge of SurgiCare, any Person with a direct or indirect ownership, partnership, or equity interest in SurgiCare or a SurgiCare Subsidiary has (i) received notice of any action pending, nor been party to any action, to terminate the participation of such entity, or to exclude such entity from participation, in Medicare, Medicaid, TRICARE, the Federal Employee Health Benefits Program, or any other federal health care program, or any state or private third party health plan, insurance program, or managed care plan; (ii) received notice of any action pending or investigation initiated, or been subject to a civil monetary penalty assessed against it, under Section 1128A of the Social Security Act, (iii) been excluded from participation under Medicare, Medicaid or any other federal health care program, (iv) been convicted (as that term is defined in 42 C.F.R. § 1001.2) of any offenses described in Sections 1128(a) and 1128(b)(1), (2), (3) of the Social Security Act, or (v) received notice of any action pending or investigation initiated, or been subject to fines,

under any applicable state fraud and abuse statutes or regulations or any federal health care fraud and abuse, kickbacks and self-referrals statutes or regulations, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn or the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*.

(d) SurgiCare and each SurgiCare Subsidiary operates in compliance with all federal and state Laws relating to the privacy, security and electronic interchange of individually identifiable health information, including without limitation the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996, Title II, Subtitle F and the final regulations promulgated thereunder (collectively, HIPAA). On or before October 16, 2003, SurgiCare and each SurgiCare Subsidiary will be prepared to comply and will comply with regulations promulgated under HIPAA with respect to electronic data interchange and standard transactions and code sets.

(e) SurgiCare, on behalf of itself and each SurgiCare Subsidiary, has implemented and maintains a corporate compliance program that incorporates each element set forth in the U.S. Sentencing Commission Guidelines Manual and is consistent with applicable guidance set forth by the Office of Inspector General of the Department of Health and Human Services; and the business of SurgiCare and its Subsidiaries has been conducted in all material respects in accordance with the terms of such corporate compliance program.

(f) SurgiCare, on behalf of itself and each SurgiCare Subsidiary, has implemented and maintains credentialing policies and procedures applicable to each physician and other health care provider who provides professional or health care services in a health care facility or site owned or operated by SurgiCare or a SurgiCare Subsidiary, which policies and procedures represent commercially reasonable efforts to assure legal compliance by such physicians and other health care professionals.

SECTION 3.08 SEC Filings; Financial Statements.

(a) Except as disclosed in Section 3.08(a) of the SurgiCare Disclosure Schedule, SurgiCare has timely filed all forms, reports and documents required to be filed by it with the SEC since August 20, 1999, including (i) all Annual Reports on Form 10-K, (ii) all Quarterly Reports on Form 10-Q, (iii) all proxy statements relating to meetings of stockholders (whether annual or special), (iv) all Reports on Form 8-K, (v) all other reports or registration statements, and (vi) all amendments, exhibits and supplements to all such reports and registration statements (collectively, the SurgiCare SEC Reports). The SurgiCare SEC Reports, including all forms, reports and documents to be filed by SurgiCare with the SEC after the date hereof and prior to the Effective Time, (i) were and, in the case of SurgiCare SEC Reports filed after the date hereof, will be prepared in all material respects in accordance with the applicable requirements of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), and the published rules and regulations of the SEC thereunder, and (ii) did not as of the time they were filed, and in the case of such forms, reports and documents filed by SurgiCare with the SEC after the date of this Agreement, will not as of the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were and will be made, not

misleading. No SurgiCare Subsidiary is subject to the periodic reporting requirements of the Exchange Act. There is no unresolved violation of the Exchange Act or the published rules and regulations of the SEC asserted by the SEC or any other Governmental Entity with respect to the SurgiCare SEC Reports.

(b) Each of the consolidated financial statements (including any notes thereto) contained in the SurgiCare SEC Reports was prepared in accordance with the rules and regulations of the SEC and United States generally accepted accounting principles (U.S. GAAP) applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by Form 10-Q under the Exchange Act) and each presented fairly or, in the case of SurgiCare SEC Reports filed after the date hereof, will present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of SurgiCare and the consolidated SurgiCare Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject, in the case of unaudited statements, to normal and recurring year-end adjustments which have not been and are not expected to be material, individually or in the aggregate). The balance sheet of SurgiCare contained in the SurgiCare SEC Reports as of December 31, 2002 is hereinafter referred to as the SurgiCare Balance Sheet.

(c) The Chief Executive Officer and Chief Financial Officer of SurgiCare have each executed, delivered and filed with applicable SurgiCare SEC Reports the certificates required under Section 302 and 906 of the Sarbanes-Oxley Act of 2002.

(d) SurgiCare is eligible to file with the SEC registration statements on Form S-3 for offerings to be made on a continuous basis pursuant to Rule 415 under the Securities Act.

SECTION 3.09 Undisclosed Liabilities. Except for those Liabilities that are fully reflected or reserved against on the SurgiCare Balance Sheet (or in the notes thereto) or as set forth in Section 3.09 of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary has outstanding any Liability (including without limitation any Liability under any federal, state, or private health care, health benefit, or managed care plan or program for any refund, overpayment, discount and adjustment required by U.S. GAAP to be set forth on a consolidated balance sheet of SurgiCare and the SurgiCare Subsidiaries or in the notes thereto), except for Liabilities which have been incurred since the date of the SurgiCare Balance Sheet in the ordinary course of business, consistent with past practice, and which would not have a SurgiCare Material Adverse Effect.

SECTION 3.10 Absence of Certain Changes or Events. Except as disclosed in the SurgiCare SEC Reports filed and publicly available on the SEC s EDGAR database prior to the date of this Agreement (the Filed SurgiCare SEC Documents) or in Section 3.10 of the SurgiCare Disclosure Schedule, from the date of the SurgiCare Balance Sheet, SurgiCare and each SurgiCare Subsidiary has conducted its business only in the ordinary course consistent with past practice, and during such period there has not been:

(a) any event, damage, change, effect, destruction, loss or development that would have a SurgiCare Material Adverse Effect;

(b) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any SurgiCare Capital Stock or any repurchase or redemption for value by SurgiCare of any SurgiCare Capital Stock;

(c) any split, combination or reclassification of any SurgiCare Capital Stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of SurgiCare Capital Stock, other than pursuant to the Recapitalization;

(d) any issuance by SurgiCare or any SurgiCare Subsidiary of any capital stock or other equity securities or any securities convertible, exchangeable or exercisable into any capital stock or other equity securities, except for the issuance of any shares of SurgiCare Old Common Stock pursuant to the exercise of any stock options outstanding on the date hereof pursuant to the SurgiCare Option Plans or the issuance of shares of SurgiCare Class A Common Stock pursuant to the Recapitalization;

(e) any incurrence, assumption or guaranty by SurgiCare or any SurgiCare Subsidiary of any indebtedness for borrowed money or issuance by SurgiCare or any SurgiCare Subsidiary of any debt securities or assumption, guarantee or endorsement of the obligations of any Person by SurgiCare or any SurgiCare Subsidiary, or any making of loans or advances by SurgiCare or any SurgiCare Subsidiary, or any creation or other incurrence by SurgiCare or any SurgiCare Subsidiary of any Lien;

(f) (i) any grant by SurgiCare or any SurgiCare Subsidiary to any current or former director, officer or employee of SurgiCare or any SurgiCare Subsidiary of any increase in their compensation, except to the extent required under employment agreements in effect as of the date of the SurgiCare Balance Sheet, or with respect to employees (other than directors, officers or key employees) in the ordinary course of business consistent with past practice and except for SurgiCare Stock Options that are reflected as outstanding in clause (v) of Section 3.03(a), (ii) any grant by SurgiCare or any SurgiCare Subsidiary to any current or former director, officer or employee of any increase in severance or termination pay, except as was required under any employment, severance or termination policy, practice or agreements in effect as of the date of the SurgiCare Balance Sheet or (iii) any entry by SurgiCare or any SurgiCare Subsidiary into, or any amendment of, any employment, severance or termination agreement with any such director, officer or employee, except for such agreements or amendments with employees (other than directors, officers or key employees) that were entered into in the ordinary course of business consistent with past practice;

(g) any termination of employment or departure of any officer or other key employee of SurgiCare or any SurgiCare Subsidiary;

(h) any entry by SurgiCare or any SurgiCare Subsidiary into any commitment or transaction, or any contract or agreement entered into by SurgiCare or any SurgiCare Subsidiary, relating to SurgiCare s or any SurgiCare Subsidiary s assets or business, or any relinquishment by SurgiCare or any SurgiCare Subsidiary of any contract or other right, material to SurgiCare and the SurgiCare Subsidiaries taken as a whole;

(i) any material revaluation by SurgiCare of any material asset (including any writing off of notes or accounts receivable);

(j) any change in accounting methods, principles or practices by SurgiCare or any SurgiCare Subsidiary materially affecting the consolidated assets, liabilities or results of operations of SurgiCare, except insofar as may have been required by a change in U.S. GAAP;

(k) any elections with respect to Taxes by SurgiCare or any SurgiCare Subsidiary or settlement or compromise by SurgiCare or any SurgiCare Subsidiary of any material Tax Liability or refund; or

(l) any agreement by SurgiCare or any SurgiCare Subsidiary to take any action described in this Section 3.10 except as expressly contemplated by this Agreement.

SECTION 3.11 Absence of Litigation. Except as specifically disclosed in the Filed SurgiCare SEC Documents or in Section 3.11 of the SurgiCare Disclosure Schedule, (i) there is no litigation, arbitration, suit, claim, action, adjudication, appeal, proceeding or investigation (an Action) pending or, to the knowledge of SurgiCare, threatened against SurgiCare or any SurgiCare Subsidiary, or any property or asset of SurgiCare or any SurgiCare Subsidiary, before any court, arbitrator or Governmental Entity, domestic or foreign, or in connection with any appeal or dispute resolution process with a third party payor for health care services, that would have a SurgiCare Material Adverse Effect and (ii) there is no Judgment, consent decree or other Order outstanding against SurgiCare or any SurgiCare Subsidiary.

SECTION 3.12 Employee Benefit Matters.

(a) Section 3.12(a) of the SurgiCare Disclosure Schedule lists each SurgiCare Employee Benefit Plan, other than those set forth in Section 3.13(a)(ii) of the SurgiCare Disclosure Schedule. SurgiCare has delivered to IPS correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service for each Employee Pension Benefit Plan or Employee Welfare Benefit Plan trust, the Form 5500 Annual Reports and Form 990 Annual Reports that were filed for the last three years, all related trust agreements, insurance contracts (including stop loss policies and fiduciary policies), and other funding agreements which implement each such SurgiCare Employee Benefit Plan, and all other forms and information relating to the administration of the SurgiCare Employee Benefits Plans and no promise or commitment to amend or improve any SurgiCare Employee Benefit Plan for the benefit of any current or former director, officer, or employee of SurgiCare or any SurgiCare Subsidiary which is not reflected in the documentation provided to IPS has been made.

(1) Each SurgiCare Employee Benefit Plan (and each related trust, insurance contract, or fund) (A) complies in form and in operation with the applicable requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA)), the Code, and other applicable Laws, and (B) has been operated in accordance with its terms, except in either case where failure to do so would not have a SurgiCare Material Adverse Effect.

(2) All required reports and descriptions (including Form 5500 Annual Reports, Summary Annual Reports, PBGC-l s, and Summary Plan Descriptions) have been timely and appropriately filed or distributed with respect to each SurgiCare Employee Benefit Plan, except where the failure to do so would not have a SurgiCare Material Adverse Effect.

(3) All contributions (including all employer contributions and employee salary reduction contributions) which are due have been paid by the due date thereof (taking into account any extensions) to each such SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan and all contributions for any period ending on or before the Closing Date which are not yet due have been paid to each such Employee Pension Benefit Plan or accrued in accordance with the past custom and practice of SurgiCare and disclosed on SurgiCare s consolidated financial statements contained in the SurgiCare SEC Reports. All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each such SurgiCare Employee Benefit Plan which is an Employee Welfare Benefit Plan.

(4) Each SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan intended to be qualified under Code Section 401(a) is so qualified.

(5) All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each SurgiCare Employee Benefit Plan which is an Employee Welfare Benefit Plan. Each trust holding assets used to fund an Employee Welfare Benefit Plan that is intended to be qualified under Code Section 501(c)(9) is so qualified. The requirements of Part 6 of Subtitle B of Title I of ERISA and of Code Section 4980B have been met with respect to each such SurgiCare Employee Benefit Plan which is an Employee Welfare Benefit Plan subject to such Part.

(b) No SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan is or ever has been subject to Title IV of ERISA and none of SurgiCare or any SurgiCare Subsidiary has incurred or has any reason to expect that any of SurgiCare or the SurgiCare Subsidiaries will incur, any Liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal Liability) or under the Code with respect to any such SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan.

(c) There have been no Prohibited Transactions with respect to any SurgiCare Employee Benefit Plan. No Fiduciary has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such SurgiCare Employee Benefit Plan. No action, suit, proceeding, hearing, examination, or investigation with respect to the administration or the investment of the assets of any such SurgiCare Employee Benefit Plan (other than routine claims for benefits) is pending or, to the knowledge of SurgiCare, threatened. No SurgiCare Employee Benefit Plan is, or in the last three years has been, the subject of a government sponsored voluntary correction, amnesty, or similar program.

(d) None of SurgiCare or any SurgiCare Subsidiary contributes to, has ever contributed to, or has ever been required to contribute to any Multiemployer Plan or has any Liability (including withdrawal Liability) under any Multiemployer Plan.

(e) None of SurgiCare or any SurgiCare Subsidiary maintains or ever has maintained or contributes, or ever has contributed or has been required to contribute to, any Employee Welfare Benefit Plan providing medical, health, or life insurance or other welfare-type benefits for current or future retired or terminated employees, their spouses, or their dependents (other than in accordance with Code Section 4980B).

(f) The Transactions will not result in any payment or acceleration of, or vesting or increase in benefits under, any SurgiCare Employee Benefit Plan.

SECTION 3.13 Material Contracts.

(a) Section 3.13(a) of the SurgiCare Disclosure Schedule contains a list (organized by subsections corresponding to the subsections identified below) of the following contracts, agreements and arrangements (including all amendments thereto) to which SurgiCare or a SurgiCare Subsidiary is currently a party, other than those contracts, agreements and arrangements listed as exhibits in SurgiCare s Form 10-K for the year ended December 31, 2002 (such contracts, agreements and arrangements required to be set forth in Section 3.13(a) of the SurgiCare Disclosure Schedule or listed as exhibits in SurgiCare s Form 10-K for the year ended December 31, 2002, the SurgiCare Material Contracts), except for this Agreement and the other agreements referenced hereby related to the Transactions:

(1) each contract and agreement or group of related agreements which (A) is likely to involve consideration of more than $100,000 in the aggregate, during the years ending December 31, 2003 or December 31, 2004, (B) is likely to involve consideration of more than $250,000 in the aggregate over the remaining term of such contract, or (C) cannot be canceled by SurgiCare or any SurgiCare Subsidiary without penalty or further payment and on less than 60 days notice;

(2) all employment, consulting, severance, termination or indemnification agreements between SurgiCare or any SurgiCare Subsidiary and any director, officer or employee of SurgiCare or any SurgiCare Subsidiary;

(3) all (A) management contracts (excluding contracts for employment) and (B) contracts with consultants which involve consideration of more than $25,000 or which involve the services of physicians;

(4) all provider participation agreements, reimbursement agreements, and third party payor agreements, whether with a governmental or private health care program, health insurer, managed care organization, self-funded group health plan, or other payor for health care services;

(5) all contracts, credit agreements, indentures and other agreements evidencing indebtedness for borrowed money (including capitalized leases);

(6) all agreements under which SurgiCare or any SurgiCare Subsidiary has advanced or loaned, or may be required to advance or loan, any funds;

(7) all guarantees of any obligations in excess of $50,000;

(8) all joint venture or other similar agreements;

(9) all lease agreements with annual lease payments in excess of $50,000;

(10) agreements under which SurgiCare has granted any Person registration rights (including demand and piggy-back registration rights) or any other agreements with respect to the capital stock of SurgiCare or any SurgiCare Subsidiary;

(11) all contracts and agreements that limit the ability of SurgiCare or any SurgiCare Subsidiary to compete in any line of business or with any Person or entity or in any geographic area or during any period of time with respect to any business currently conducted by SurgiCare or any SurgiCare Subsidiary;

(12) all contracts and agreements pursuant to which SurgiCare or any SurgiCare Subsidiary may be required to repurchase or redeem any capital stock or other equity interests;

(13) all contracts and agreements relating to the management or development of ambulatory surgery centers by SurgiCare or any SurgiCare Subsidiary;

(14) all affiliation agreements with hospitals or other health care providers;

(15) all litigation settlement agreements, consent decrees, corporate integrity agreements, and settlements with governmental entities;

(16) all contracts and other agreements with Affiliates; and

(17) any other contracts or agreements that are material to the business, assets, condition (financial or otherwise) or results of operations of SurgiCare and the SurgiCare Subsidiaries taken as a whole.

(b) To the knowledge of SurgiCare, each SurgiCare Material Contract is a legal, valid and binding agreement in full force and effect in accordance with its terms (except that such enforceability (i) may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to the enforcement of creditor s rights and remedies generally, and (ii) is subject to general principals of equity (regardless of whether considered in a proceeding in equity or at law)). Neither SurgiCare nor any SurgiCare Subsidiary is in material violation or default, or has received notice that it is in violation or default, under any SurgiCare Material Contract and, to SurgiCare s knowledge, no other party is in material default under any SurgiCare Material Contract. SurgiCare has provided IPS with copies of all SurgiCare Material Contracts.

SECTION 3.14 Environmental Matters. Except as described in Section 3.14 of the SurgiCare Disclosure Schedule or as would not have a SurgiCare Material Adverse Effect: (a) SurgiCare and the SurgiCare Subsidiaries have not been and are not in violation of any Environmental Law applicable to any of them; (b) none of the properties currently or formerly owned, leased or operated by SurgiCare or the SurgiCare Subsidiaries are contaminated with any Hazardous Substance; (c) neither SurgiCare nor any of the SurgiCare Subsidiaries are liable for any off-site contamination by Hazardous Substances; (d) SurgiCare and the SurgiCare Subsidiaries have all permits, licenses and other authorizations required under any Environmental Law (Environmental Permits); (e) SurgiCare and the SurgiCare Subsidiaries are in compliance in all material respects with their Environmental Permits; and (f) neither the execution of this Agreement nor the consummation of the Transactions will require any investigation, remediation or other action with respect to Hazardous Substances, or any notice to or consent of Governmental Entities or third parties, pursuant to any applicable Environmental Law or Environmental Permit. Except as described in Section 3.14 of the SurgiCare Disclosure Schedule, none of SurgiCare or the SurgiCare Subsidiaries has received notice of a violation of, or any Liability under, any Environmental Law (whether with respect to properties presently or previously owned or used). SurgiCare and the SurgiCare Subsidiaries have made available to IPS all environmental audits, reports and other material environmental documents relating to their properties, facilities or operations which are in their possession or control. Neither SurgiCare nor any SurgiCare Subsidiary has arranged for the disposal or treatment of any substance at any off-site location that has been included in any published U.S. federal, state or local superfund site list or any similar list of hazardous or toxic waste sites published by any Governmental Entity.

SECTION 3.15 Title to Properties; Absence of Liens and Encumbrances.

(a) Except as described in Section 3.15(a) of the SurgiCare Disclosure Schedule, each of SurgiCare and the SurgiCare Subsidiaries has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible personal properties and assets owned, used or held for use in its business, free and clear of any Liens except (i) for Liens imposed by Law for Taxes not yet due and payable or which otherwise are owed to materialmen, workmen, carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, and (ii) as reflected in the financial statements contained in the Filed SurgiCare SEC Documents.

(b) Section 3.15(b) of the SurgiCare Disclosure Schedule sets forth a true, correct and complete list of all real property and improvements (collectively, the SurgiCare Real Property) owned by SurgiCare or any SurgiCare Subsidiary. There are no leases, subleases or other occupancy agreements, either written or oral, granting any Person the right of use or occupancy of any SurgiCare Real Property (or portion thereof). Except as described in Section 3.15(b) of the SurgiCare Disclosure Schedule, SurgiCare (or such SurgiCare Subsidiary as the case may be) has good, clear and marketable title to the SurgiCare Real Property and has furnished to IPS true and complete copies of title insurance reports and title insurance policies with respect to the SurgiCare Real Property. No SurgiCare Real Property is subject to any Lien except (i) for Liens imposed by Law for Taxes not yet due and payable or that otherwise are owed to materialmen, workmen, carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, (ii) as reflected in the financial statements contained in the Filed SurgiCare SEC

Documents, or (iii) as set forth in Section 3.15(b) of the SurgiCare Disclosure Schedule. All title to the SurgiCare Real Property is insurable by a nationally recognized title insurance company, on a standard American Land Title Association (ALTA) title insurance policy with all standard exceptions deleted and otherwise free of all exceptions except for the Liens set forth in Section 3.15(b) of the SurgiCare Disclosure Schedule. Except as set forth on Section 3.15(b) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary leases (as tenant or subtenant) any real property. The real property listed in Section 3.15(b) of the SurgiCare Disclosure Schedule constitutes all of the real property used, leased or occupied by SurgiCare or any SurgiCare Subsidiary as of the date hereof.

(c) The SurgiCare Real Property and all present uses and operations of the SurgiCare Real Property comply with all Laws, covenants, conditions, restrictions, easements, disposition agreements and similar matters affecting the SurgiCare Real Property, except for such failures to comply as would not have a SurgiCare Material Adverse Effect. SurgiCare and the SurgiCare Subsidiaries have obtained all approvals of Governmental Entities (including certificates of use and occupancy, licenses and permits) required in connection with the construction, ownership, use, occupation and operation of the SurgiCare Real Property, except for such approvals the absence of which would not have a SurgiCare Material Adverse Effect. Neither SurgiCare nor any SurgiCare Subsidiary has received any notice of, nor does SurgiCare or any SurgiCare Subsidiary have any knowledge of, any pending or proposed condemnation proceeding, taking, lawsuit or administrative matter with respect to any of the SurgiCare Real Property.

(d) All structures, facilities and improvements owned by SurgiCare or any SurgiCare Subsidiary and all structural, mechanical and other physical systems that constitute a part thereof are free of material defects and are in good operating condition and repair, except as would not have a SurgiCare Material Adverse Effect. No maintenance or repair to the SurgiCare Real Property or such structures, facilities and improvements (including any structural, mechanical or other physical system thereof) has been unreasonably deferred.

SECTION 3.16 Intellectual Property.

(a) Except with respect to the items set forth in Section 3.16(a) of the SurgiCare Disclosure Schedule, SurgiCare and the SurgiCare Subsidiaries own or possess adequate licenses or other valid enforceable rights to use all Intellectual Property used in the conduct of the business of SurgiCare and the SurgiCare Subsidiaries (as currently conducted and contemplated to be conducted), and the consummation of the Transactions will not conflict with, alter or impair SurgiCare or any SurgiCare Subsidiary s rights to any such Intellectual Property.

(b) Section 3.16(b) of the SurgiCare Disclosure Schedule sets forth all of the following Intellectual Property owned or licensed by SurgiCare or any SurgiCare Subsidiary: patents and patent applications, inventions that have been identified as active patent matters but for which applications have not yet been filed, Trademark registrations and applications for Trademark registrations, trade names, registered copyrights and all material license agreements relating to the operations of SurgiCare and the SurgiCare Subsidiaries. All patents, Trademarks, registrations, copyright registrations and license agreements set forth in Section 3.16(b) of the SurgiCare Disclosure Schedule are valid and in full force and effect. To the knowledge of

SurgiCare, neither SurgiCare nor any SurgiCare Subsidiary has interfered with or infringed upon any Intellectual Property rights of third parties in connection with the business of SurgiCare or any SurgiCare Subsidiary. Except as set forth in Section 3.16(b) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary has received any charge, complaint, claim, demand, office action or notice (i) alleging any such interference or infringement, or (ii) challenging the legality, validity, enforceability, use or ownership of any Intellectual Property owned or licensed by SurgiCare or any SurgiCare Subsidiary (SurgiCare Intellectual Property). To the knowledge of SurgiCare, except as set forth in Section 3.16(b) of the SurgiCare Disclosure Schedule, no Person is infringing or otherwise violating the rights of SurgiCare or any of the SurgiCare Subsidiaries with respect to any SurgiCare Intellectual Property.

(c) Except as set forth in Section 3.16(c) of the SurgiCare Disclosure Schedule, SurgiCare has timely paid, or caused to be timely paid, all required maintenance, renewal and other similar fees, and has timely met any applicable legal requirements, with respect to all Intellectual Property that is listed in Section 3.16(b) of the SurgiCare Disclosure Schedule as owned by SurgiCare or any SurgiCare Subsidiary. With respect to Intellectual Property licensed by SurgiCare or any SurgiCare Subsidiary that is listed in Section 3.16(b) of the SurgiCare Disclosure Schedule or is material to SurgiCare or any SurgiCare Subsidiary, SurgiCare and each applicable SurgiCare Subsidiary is in compliance with any applicable license or similar agreement and each such license or agreement is legal, valid, binding and in full force and effect in accordance with its terms, except as would not have a SurgiCare Material Adverse Effect.

(d) Neither SurgiCare nor any SurgiCare Subsidiary has agreed to indemnify any Person for or against any interference, infringement, misappropriation, or any other conflict with respect to the Intellectual Property, except in the ordinary course of business.

(e) All of SurgiCare s information technology systems are in good working order in all material respects and are adequate for the conduct of SurgiCare s and the SurgiCare Subsidiaries business as presently conducted. To the Knowledge of SurgiCare, SurgiCare owns or possesses adequate licenses for all material computer software used in the conduct of SurgiCare s and the SurgiCare Subsidiaries business as presently conducted.

SECTION 3.17 Taxes.

(a) Each of SurgiCare and the SurgiCare Subsidiaries has duly filed or caused to be filed on a timely basis all Tax Returns required to be filed by it with the applicable Governmental Entity. All such Tax Returns were correct and complete in all material respects. All material Taxes owed by SurgiCare or any SurgiCare Subsidiary (whether or not shown on any Tax Return) have been timely paid in full, including pursuant to any extensions that were timely received. SurgiCare and the SurgiCare Subsidiaries currently are not the beneficiary of any extension of time within which to file any Tax Return. SurgiCare has not received notice that any claim has been made by an authority in a jurisdiction where any of SurgiCare and the SurgiCare Subsidiaries does not file Tax Returns that they may be subject to taxation by that jurisdiction.

(b) Each of SurgiCare and the SurgiCare Subsidiaries has complied in all material respects with all reporting requirements and has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) There is no dispute, audit, investigation, proceeding or claim concerning any Liability with respect to Taxes of SurgiCare or the SurgiCare Subsidiaries either (i) claimed or raised by any authority in writing received by SurgiCare or any SurgiCare Subsidiary or (ii) as to which SurgiCare has knowledge based upon contact with any such authority. Except as set forth in Section 3.17 of the SurgiCare Disclosure Schedule, (i) no federal, state, local, and foreign income Tax Returns filed with respect to SurgiCare and the SurgiCare Subsidiaries have been audited, and (ii) none are currently open or the subject of audit. SurgiCare delivered or made available to IPS correct and complete copies of all federal, state, local and foreign income Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by any of SurgiCare and the SurgiCare Subsidiaries for the last three taxable years.

(d) None of SurgiCare or any of the SurgiCare Subsidiaries has waived any statue of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) None of SurgiCare or any of the SurgiCare Subsidiaries is or ever has been a party to any Tax allocation or sharing agreement or a member of an affiliated group within the meaning of Code Section 1504(a) or any similar group defined under a similar provision of state, local, or foreign Law (an Affiliated Group) filing a consolidated federal income Tax Return (other than the Affiliated Group the common parent of which is SurgiCare). SurgiCare does not have any Liability for the Taxes of any Person other than SurgiCare and the SurgiCare Subsidiaries under Treas. Reg. Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by contract, or otherwise.

(f) None of SurgiCare or any of the SurgiCare Subsidiaries has filed a consent under Code Section 341(f) concerning collapsible corporations. None of SurgiCare and the SurgiCare Subsidiaries has made any payments, is obligated to make any payments, or is a party to any Contract (including this Agreement) that under certain circumstances could obligate it to make any payments that will not be deductible under Code Sections 162, 280G or 404 or that will be subject to an excise tax under Code Section 4999.

(g) The unpaid Taxes of SurgiCare and the SurgiCare Subsidiaries (1) did not, as of December 31, 2002, exceed the reserve for Tax Liability (excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the SurgiCare Balance Sheet (rather than in any notes thereto) and (2) will not exceed that reserve as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of SurgiCare and the SurgiCare Subsidiaries in filing their Tax Returns.

(h) Since July 1, 1993, SurgiCare has not had an ownership change within the meaning of Section 382(g) of the Code.

SECTION 3.18 Insurance.

(a) Section 3.18 of the SurgiCare Disclosure Schedule sets forth a complete and accurate list of all insurance policies in force naming SurgiCare, any SurgiCare Subsidiary or directors or employees thereof as a loss payee or for which SurgiCare or any SurgiCare Subsidiary has paid or is obligated to pay all or part of the premiums. Neither SurgiCare nor any SurgiCare Subsidiary has received notice of any pending or threatened cancellation or premium increase (retroactive or otherwise) with respect thereto, and each of SurgiCare and the SurgiCare Subsidiaries is in compliance with all material conditions contained therein.

(b) Each of SurgiCare and the SurgiCare Subsidiaries maintains and has maintained, in full force and effect with financially sound and reputable insurers, general and professional liability insurance coverage with respect to their respective assets and businesses, in such amounts and against such losses and risks as is customarily carried by Persons engaged in the same or similar business and as is required under the terms of any SurgiCare Material Contracts. Neither SurgiCare nor a SurgiCare Subsidiary has been refused such insurance.

(c) SurgiCare and each SurgiCare Subsidiary require physicians and other health care providers who provide professional or health care services in a health care facility or site owned or operated by SurgiCare or a SurgiCare Subsidiary, or who are independent contractors of SurgiCare or a SurgiCare Subsidiary, to maintain professional liability and comprehensive general liability insurance from financially sound and reputable insurers in amounts of, at a minimum, $3,000,000 per occurrence and $5,000,000 in the aggregate.

SECTION 3.19 Opinion of Financial Advisor. The SurgiCare Board has received the written opinion of G.A. Herrerra & Co., LLC dated the date of this Agreement to the effect that, as of the date of this Agreement, the Transactions are fair to the SurgiCare stockholders from a financial standpoint, and a copy of the signed opinion has been provided to IPS.

SECTION 3.20 Brokers. No broker, investment banker, financial advisor or other Person, other than G.A. Herrerra & Co., LLC and Daniel Krzyzanowski, the fees and expenses of which will be paid by SurgiCare and are set forth in Section 3.20 of the SurgiCare Disclosure Schedule, is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of SurgiCare. SurgiCare has delivered to IPS a complete and accurate copy of all agreements pursuant to which G.A. Herrerra & Co., LLC or Daniel Krzyzanowski is entitled to any fees and expenses payable directly or indirectly by SurgiCare or any SurgiCare Subsidiary in connection with any of the Transactions.

SECTION 3.21 Employees. To the knowledge of SurgiCare, except as set forth in Section 3.21 of the SurgiCare Disclosure Schedule, no executive, key employee, or group of employees has any plans to terminate employment with SurgiCare or the SurgiCare Subsidiaries or any affiliates (including, but not limited to, any physician groups). SurgiCare and the SurgiCare Subsidiaries have not experienced any labor disputes or work stoppages due to labor disagreements. SurgiCare and the SurgiCare Subsidiaries are in material compliance with all applicable Laws respecting employment and employment practices and terms and conditions of employment. SurgiCare and the SurgiCare Subsidiaries are not, nor have any of them ever been,

a party to any collective bargaining agreements and, to the knowledge of SurgiCare, none of SurgiCare or any of the SurgiCare Subsidiaries has been the subject of any organizational activity. None of SurgiCare nor any of the SurgiCare Subsidiaries engages in the corporate practice of medicine or employs physicians in violation of the corporate practice of medicine doctrine, as defined or applied under the Laws of Texas or any other applicable jurisdiction.

SECTION 3.22 Transactions with Affiliates. Except as set forth in the Filed SurgiCare SEC Documents, since the date of SurgiCare s last proxy statement filed with the SEC, no event has occurred that would be required to be reported by SurgiCare pursuant to Item 404 of Regulation S-K promulgated by the SEC. Section 3.22 of the SurgiCare Disclosure Schedule identifies each Person who is (or who may be deemed to be) an Affiliate of SurgiCare or any SurgiCare Subsidiary. Without limiting the generality of the foregoing, there are no amounts due or payable by SurgiCare or any SurgiCare Subsidiary to any of the SurgiCare Principal Stockholders or any of their Affiliates or associates in connection with the Transactions or otherwise.

SECTION 3.23 Stockholder Rights Agreement. Neither SurgiCare nor any SurgiCare Subsidiary has an effective stockholder rights agreement or any similar plan or agreement which limits or impairs the ability to purchase, or become the direct or indirect beneficial owner of, shares of SurgiCare Old Common Stock or any other equity or debt securities of SurgiCare or any SurgiCare Subsidiary, other than any stockholder rights plan or stockholder rights agreement that (a) is adopted after the date of this Agreement, (b) does not impair the ability of the parties to consummate the Merger in accordance with the terms of this Agreement, and (c) otherwise does not have an adverse effect on IPS or on the rights of IPS under this Agreement.

SECTION 3.24 DCPS/MBS Acquisition Agreement. To the knowledge of SurgiCare, the DCPS/MBS Acquisition Agreement has been duly executed by all parties thereto and is in full force and effect as of the date hereof.

SECTION 3.25 Offering Valid. Assuming the accuracy of the representations and warranties of the IPS Stockholders contained in the Investment Letters to be delivered pursuant to Section 7.02 hereto, the offer, sale and issuance of the SurgiCare Class A Common Shares in the Merger will be exempt from the registration requirements of the Securities Act, and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws. Neither SurgiCare nor any agent on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of the SurgiCare Class A Common Shares to any Person or Persons so as to bring the sale of such SurgiCare Class A Common Shares by SurgiCare within the registration provisions of the Securities Act or any state securities laws. SurgiCare has made or will, in accordance with all time periods under applicable laws, make all requisite filings and has taken or will take all action necessary to be taken to comply with such state securities or blue sky laws. All prior issuances of SurgiCare s securities have been conducted in conformity with all applicable securities laws.

SECTION 3.26 Certain Payments. Neither SurgiCare nor any SurgiCare Subsidiary, nor to SurgiCare s knowledge, their respective directors, officers, agents, affiliates or employees, nor any other person acting on behalf of SurgiCare or any SurgiCare Subsidiary, has (i) given or

agreed to give any gift or similar benefit having a value of $1,000 or more to any customer, supplier or governmental employee or official or any other person, for the purpose of directly or indirectly furthering the business of SurgiCare or any SurgiCare Subsidiary, (ii) used any corporate funds for contributions, payments, gifts or entertainment, or made any expenditures, relating to political activities to government officials or others in violation of any applicable Law or (iii) received any unlawful contributions, payments, gifts or expenditures in connection with the business of SurgiCare or any SurgiCare Subsidiary.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF IPS

IPS hereby represents and warrants to SurgiCare and Merger Sub that:

SECTION 4.01 Organization and Qualification; Subsidiaries.

(a) IPS and each IPS Subsidiary is a corporation or other legal entity duly organized, validly existing and in good standing (where such concept is applicable) under the laws of the jurisdiction of its incorporation or formation and has all requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to do so would not have an IPS Material Adverse Effect. Each of IPS and the IPS Subsidiaries is duly qualified or licensed as a foreign corporation or organization to do business, and is in good standing (where such concept is applicable), in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to do so would not have an IPS Material Adverse Effect.

(b) Section 4.01(b) of the IPS Disclosure Schedule lists each IPS Subsidiary, its jurisdiction of organization and all trade names currently used, or used at any time during the past two years, by such IPS Subsidiary. All of the outstanding shares of capital stock or other equity interests of each IPS Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable and, except as set forth in Section 4.01(b) of the IPS Disclosure Schedule, are owned by IPS, free and clear of all Liens. Except for its interests in the IPS Subsidiaries and except for the ownership of interests set forth in Section 4.01(b) of the IPS Disclosure Schedule, IPS does not own, directly or indirectly, or have any outstanding contractual obligation to acquire, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any corporation, partnership, joint venture or other business association or entity.

SECTION 4.02 Certificate of Incorporation and By-Laws. IPS has heretofore provided to SurgiCare a complete and correct copy of IPS certificate of incorporation, as amended to date (the IPS Charter) and IPS by-laws, as amended to date (the IPS By-Laws). The IPS Charter and IPS By-Laws are in full force and effect. IPS is not in violation of any of the provisions of the IPS Charter or the IPS By-Laws. IPS has provided to SurgiCare complete copies of the certificate of incorporation, by-laws or other organizational documents (including without limitation partnership agreements or limited liability company agreements) of each IPS Subsidiary and no IPS Subsidiary is in violation of such documents.

SECTION 4.03 Capitalization.

(a) The authorized capital stock of IPS consists of (i) 8,121,875 shares of IPS Common Stock, (ii) 772,900 shares of IPS Series A, (iii) 71,028 shares of IPS Series A-1, (iv) 2,200,000 shares of IPS Series A-2, (v) 474,375 shares of IPS Series B and (vi) 150,000 shares of IPS Series C. As of November 15, 2003, (i) 2,821,499 shares of IPS Common Stock were issued and outstanding, (ii) 175,000 shares of IPS Series A were issued and outstanding, (iii) 71,028 shares of IPS Series A-1 were issued and outstanding, (iv) 1,653,000 shares of IPS Series A-2 were issued and outstanding, (v) 334,375 shares of IPS Series B were issued and outstanding, (vi) no shares of IPS Series C were issued and outstanding, (vii) 1,122,323 shares of IPS Common Stock were held in IPS treasury, (viii) no shares of IPS Series A, IPS Series A-1, IPS Series A-2, IPS Series B or IPS Series C were held in IPS treasury, (ix) 759,111 shares of IPS Common Stock were subject to IPS Stock Options granted pursuant to the IPS Option Plan, (x) 249,375 shares of IPS Common Stock were reserved for issuance pursuant to the conversion of the shares of IPS Series A that were issued and outstanding, (xi) 90,382 shares of IPS Common Stock were reserved for issuance pursuant to the conversion of the shares of IPS Series A-1 that were issued and outstanding, (xii) 2,614,000 shares of IPS Common Stock were reserved for issuance pursuant to the conversion of the shares of IPS Series A-2 that were issued and outstanding, (xiii) 476,484 shares of IPS Common Stock were reserved for issuance pursuant to the conversion of the shares of IPS Series B that were issued and outstanding, (xiv) 100,000 shares of IPS Common Stock were reserved for issuance pursuant to the exercise of warrants held by Brantley Venture Partners III, L.P. and Brantley Capital Corporation (the Brantley Warrants), (xv) 150,000 IPS Series C Shares were reserved for issuance pursuant to the exercise of warrants held by Bank Austria Creditanstalt Corporate Finance, Inc. (the Bank Austria Warrants) and (xvi) 150,000 shares of IPS Common Stock were reserved for issuance pursuant to the conversion of the IPS Series C Shares issuable upon exercise of the Bank Austria Warrants. Except as set forth above, as of November 15, 2003 no shares of IPS Capital Stock or other securities of IPS were issued, reserved for issuance or outstanding.

(b) All outstanding shares of IPS Capital Stock are, and all such shares that may be issued prior to the Effective Time will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in material violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the IPS Charter, the IPS By-Laws or any Contract to which IPS is a party or otherwise bound. Each offer or sale by IPS of shares of its capital stock or other securities has been in compliance with all applicable federal and state securities laws or the applicable statute of limitations with respect to such offers or sales has expired.

(c) Except as set forth in Section 4.03(c) of the IPS Disclosure Schedule, there are not any bonds, debentures, notes or other indebtedness of IPS having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of IPS Capital Stock may vote (Voting IPS Debt).

(d) Except as set forth in Section 3.03(a) above, as of the date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which IPS or any IPS Subsidiary is a

party or by which any of them is bound (i) obligating IPS or any IPS Subsidiary to issue or sell, or cause to be issued or sold, additional shares of capital stock or other equity interests in, or any security convertible or exchangeable into, or exercisable for, any capital stock of or other equity interest in, IPS or of any IPS Subsidiary or any Voting IPS Debt, (ii) obligating IPS or any IPS Subsidiary to issue, grant, extend or enter into any such option, warrant, right, security, stock appreciation right, stock-based performance unit, commitment, Contract, arrangement or undertaking, or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of IPS Capital Stock. Section 4.03(d) of the IPS Disclosure Schedule sets forth the total number of outstanding IPS Stock Options and Warrants and the exercise prices thereof. IPS has provided SurgiCare with a schedule of all of such IPS Stock Options and IPS Warrants, including the relevant vesting times, exercise prices and exercise periods, and copies of all IPS Warrants and the IPS Option Plan and forms of option certificates granted thereunder.

(e) There are not any outstanding contractual obligations of IPS or of any IPS Subsidiary, contingent or otherwise, to repurchase, redeem or otherwise acquire any shares of capital stock of IPS or, except as set forth in Section 4.03(e)(i) of the IPS Disclosure Schedule, any capital stock or other ownership interest in any IPS Subsidiary. Except as set forth in Section 4.03(e)(ii) of the IPS Disclosure Schedule, there are no issued and outstanding shares of IPS Capital Stock that are subject to a repurchase or redemption right in favor of IPS.

SECTION 4.04 Authority Relative to this Agreement.

(a) IPS has all requisite corporate power and authority to execute and deliver this Agreement, consummate the Merger and file the IPS Charter Amendment. The execution and delivery by IPS of this Agreement, the consummation by IPS of the Merger and the filing of the IPS Charter Amendment have been duly authorized by all necessary corporate action on the part of IPS, subject to the approval of this Agreement and the IPS Charter Amendment by the holders of (i) not less than a majority of the outstanding shares of IPS Capital Stock, voting together as a class, (ii) not less than a majority of the outstanding shares of IPS Common Stock, (iii) not less than a majority of the outstanding shares of IPS Series A, (iv) not less than a majority of the outstanding shares of IPS Series A-1, (v) not less than a majority of the outstanding shares of IPS Series A-2 and (vi) not less than a majority of the outstanding shares of IPS Series B (the IPS Stockholder Approval). IPS has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

(b) On or prior to the date of this Agreement, the IPS Board duly adopted resolutions (the IPS Board Approval) at a meeting duly called and held or by unanimous written consent and such resolutions have not been subsequently rescinded or modified in any way in accordance with the DGCL, (i) approving this Agreement, the Merger and the IPS Charter Amendment, (ii) determining that the Merger is advisable and in the best interests of IPS and the IPS stockholders, (iii) determining that this Agreement and the IPS Charter Amendment are fair to the IPS stockholders, and (iv) recommending that the IPS stockholders approve and adopt this Agreement and directing that this Agreement, the Merger and the IPS Charter Amendment be submitted for consideration by the IPS stockholders at the IPS Stockholders Meeting or by written consent.

(c) No fair price , moratorium , control share acquisition or other similar anti-takeover statute or regulation is applicable to IPS, by reason of IPS being a party to the Merger or this Agreement. Neither IPS nor any of the IPS Subsidiaries is a party to any stockholder rights plan or any similar anti-takeover plan or device.

SECTION 4.05 No Conflict; Required Filings and Consents.

(a) Except as set forth in Section 4.05(a) of the IPS Disclosure Schedule, the execution and delivery by IPS of this Agreement does not, and the consummation by IPS of the Merger and compliance with the terms hereof will not, result in any material violation of or default (with or without notice or lapse of time, or both) under, or require any offer to purchase or any prepayment of any debt, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Lien upon any of the properties or assets of IPS or any IPS Subsidiary under, any provision of (i) the IPS Charter, the IPS By-Laws or the comparable charter, by-law or other organizational documents of any IPS Subsidiary, (ii) any IPS Material Contract or IPS Employee Benefit Plan, or (iii) subject to the filings and other matters referred to in Section 3.05(b), any Judgment or Law applicable to IPS or any IPS Subsidiary or their respective properties or assets.

(b) Except as set forth in Section 4.05(a) of the IPS Disclosure Schedule, no Consent of, or registration, declaration, notification or filing with, any Governmental Entity or third party is required to be obtained or made by or with respect to IPS or any IPS Subsidiary in connection with the execution, delivery and performance of this Agreement or the consummation by IPS of the Merger, other than (i) the Required Consents and (ii) such other items that would not have an IPS Material Adverse Effect.

SECTION 4.06 Permits; Accreditation.

(a) Except as set forth in Section 4.06(a) of the IPS Disclosure Schedule, IPS has all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any Governmental Entity necessary or advisable for IPS or any IPS Subsidiary to own, lease and operate its properties or to carry on its business as it is now being conducted, including without limitation all licenses and permits required to operate a health care facility under applicable legal requirements of each jurisdiction, all licenses required for the practice of medicine and the provision of medical or technical services in connection with the business of IPS and each IPS Subsidiary, certificates of need, provider and supplier numbers, and reassignments of supplier and provider billing rights as applicable to each health care facility or operation of IPS and each IPS Subsidiary (the IPS Permits), other than such IPS Permits as, individually and in the aggregate, are not material to the business of either IPS or any IPS Subsidiary and the lack of which would not result in an IPS Material Adverse Effect. Except as disclosed in Section 4.06(a) of the IPS Disclosure Schedule, each of IPS and the IPS Subsidiaries is in possession of all IPS Permits in good standing, neither IPS nor any IPS Subsidiary is in breach of, or in default or violation under any of the IPS Permits, and no suspension, violation, revocation, limitation or cancellation of or default under any of the IPS Permits is pending or, to the knowledge of IPS, threatened, except as would not have an IPS Material Adverse Effect. Neither IPS nor any IPS Subsidiary has received any written notices

of violation, default or deficiency with respect to any IPS Permit that remains uncured. No IPS Permit will be materially affected by, or terminate or lapse by reason of, the Merger.

(b) Except as disclosed in Section 4.06(b) of the IPS Disclosure Schedule, each employee and agent of IPS and each IPS Subsidiary, including without limitation each physician and other health care professional employed by or performing services on behalf of IPS or any IPS Subsidiary, has all licenses, permits and approvals required for the performance of his or her duties for IPS or the IPS Subsidiary, except where the failure to have such approvals would not have an IPS Material Adverse Effect; and no such employee or agent of IPS or any IPS Subsidiary is in violation of any such license, permit, or approval or any term or condition thereof, except for such violations as would not have an IPS Material Adverse Effect.

(c) Section 4.06(c) of the IPS Disclosure Schedule sets forth a list of all health care facility accreditations held by or awarded to IPS and each IPS Subsidiary and to each health care facility owned or operated by IPS or a IPS Facility (the IPS Accreditations). Except as disclosed in Section 4.06(c) of the IPS Disclosure Schedule, each of the IPS Accreditations is in good standing, and no suspension, revocation, limitation, or cancellation of any of the IPS Accreditations is pending or, to the knowledge of IPS, threatened. Neither IPS nor any IPS Subsidiary has received any written notices of violation, default, or deficiency with respect to any IPS Accreditation that remains uncured. No IPS Accreditation will be materially affected by, or terminate or lapse by reason of, the Merger.

SECTION 4.07 Compliance with Laws.

(a) Except as disclosed in Section 4.07(a) of the IPS Disclosure Schedule, IPS and the IPS Subsidiaries are, and have been, in compliance with each Law applicable to IPS or any IPS Subsidiary or by which any property or asset of IPS or any IPS Subsidiary is bound or affected, except where such failure to comply would not have an IPS Material Adverse Effect. Except as set forth in Section 4.07(a) of the IPS Disclosure Schedule, neither IPS nor any IPS Subsidiary has received any communication from a Governmental Entity that alleges that IPS or a IPS Subsidiary is not or was not in compliance with any applicable Law.

(b) Without limiting the generality of the foregoing, except as set forth in Section 4.07(b) of the IPS Disclosure Schedule, neither IPS nor any IPS Subsidiary, nor, to the Knowledge of IPS, any of the officers, directors, employees, and agents of IPS or any IPS Subsidiary, has engaged in any activity that (i) would constitute a violation of, or that would serve as cause for criminal or civil penalties under, the statutes pertaining to the federal Medicare and Medicaid programs (as defined below), or the federal statutes applicable to health care fraud and abuse, kickbacks and self-referrals, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn and the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*., related or similar statutes pertaining to the Federal Employee Health Benefit Program, TRICARE or any other federal health care program, or the regulations promulgated pursuant to any of such federal statutes, or any analogous or similar state statutes pertaining to Medicaid or any state statutes or regulations pertaining to commercial health care or health insurance programs or the regulations promulgated pursuant to such statutes or regulations, (ii) would serve as cause for mandatory or permissive exclusion from Medicare, Medicaid, the Federal Employee Health Benefit Program, TRICARE, or any other federal or state health care program or any

other governmental or commercial third party payor program, or (iii) would prohibit billing under Medicare or Medicaid, the Federal Employee Health Benefit Program, TRICARE, or any state-funded health care or private health insurance program.

(c) Except as set forth in Section 4.07(c) of the IPS Disclosure Schedule, neither IPS, nor any of the IPS Subsidiaries, nor any of their respective officers, directors, or managing employees, nor, to the knowledge of IPS, any Person with a direct or indirect ownership, partnership, or equity interest in IPS or an IPS Subsidiary has (i) received notice of any action pending, nor been party to any action, to terminate the participation of such entity, or to exclude such entity from participation, in Medicare, Medicaid, TRICARE, the Federal Employee Health Benefits Program, or any other federal health care program, or any state or private third party health plan, insurance program, or managed care plan; (ii) received notice of any action pending or investigation initiated, or been subject to a civil monetary penalty assessed against it, under Section 1128A of the Social Security Act, (iii) been excluded from participation under Medicare, Medicaid or any other federal health care program, (iv) been convicted (as that term is defined in 42 C.F.R. § 1001.2) of any offenses described in Sections 1128(a) and 1128(b)(1), (2), (3) of the Social Security Act, or (v) received notice of any action pending or investigation initiated, or been subject to fines, under any applicable state fraud and abuse statutes or regulations or any federal health care fraud and abuse, kickbacks and self-referrals statutes or regulations, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn or the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*.

(d) IPS and each IPS Subsidiary operates in compliance with all federal and state Laws relating to the privacy, security and electronic interchange of individually identifiable health information, including without limitation HIPAA. On or before October 16, 2003, IPS and each IPS Subsidiary will be prepared to comply and will comply with regulations promulgated under HIPAA with respect to electronic data interchange and standard transactions and code sets.

(e) IPS, on behalf of itself and each IPS Subsidiary, has implemented and maintains a corporate compliance program that incorporates each element set forth in the U.S. Sentencing Commission Guidelines Manual and is consistent with applicable guidance set forth by the Office of Inspector General of the Department of Health and Human Services; and the business of IPS and its Subsidiaries has been conducted in all material respects in accordance with the terms of such corporate compliance program.

(f) IPS, on behalf of itself and each IPS Subsidiary, has implemented and maintains credentialing policies and procedures applicable to each physician and other health care provider who provides professional or health care services in a health care facility or site owned or operated by IPS or an IPS Subsidiary, which policies and procedures represent commercially reasonable efforts to assure legal compliance by such physicians and other health care professionals.

SECTION 4.08 Financial Statements.

(a) Attached as Section 4.08(a) of the IPS Disclosure Schedule are (i) the unaudited consolidated balance sheets of IPS and the IPS Subsidiaries as of December 31, 2002

and 2001, together with the related consolidated statements of income and cash flows for the periods then ended , and (ii) the unaudited consolidated balance sheets of IPS and the IPS Subsidiaries as of September 30, 2003 and the related statements of income for the three and ninth month periods then ended (collectively, the financial statements described in clauses (i) and (ii) are referred to herein as the Financial Statements).

(b) Each of the Financial Statements was prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto) and each presents fairly in all material respects the consolidated financial position, results of operations and cash flows of IPS and the consolidated IPS Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject to the absence of complete footnotes and to normal and recurring year-end adjustments which have not been and are not expected to be material, individually or in the aggregate). The balance sheet of IPS contained in the Financial Statements as of December 31, 2002 is hereinafter referred to as the IPS Balance Sheet.

SECTION 4.09 Undisclosed Liabilities. Except for those Liabilities that are fully reflected or reserved against on the IPS Balance Sheet (or in the notes thereto) or as set forth in Section 4.09 of the IPS Disclosure Schedule, neither IPS nor any IPS Subsidiary has outstanding any Liability (including without limitation any Liability under any federal, state, or private health care, health benefit, or managed care plan or program for any refund, overpayment, discount and adjustment required by U.S. GAAP to be set forth on a consolidated balance sheet of IPS and the IPS Subsidiaries or in the notes thereto), except for Liabilities which have been incurred since the date of the IPS Balance Sheet in the ordinary course of business, consistent with past practice, and which would not have an IPS Material Adverse Effect.

SECTION 4.10 Absence of Certain Changes or Events. Except as disclosed in Section 4.10 of the IPS Disclosure Schedule, from the date of the IPS Balance Sheet, IPS and IPS Subsidiary has conducted its business only in the ordinary course consistent with past practice, and during such period there has not been:

(a) any event, damage, change, effect, destruction, loss or development that would have an IPS Material Adverse Effect;

(b) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any IPS Capital Stock or any repurchase or redemption for value by IPS of any IPS Capital Stock;

(c) any split, combination or reclassification of any IPS Capital Stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of IPS Capital Stock;

(d) any issuance by IPS or any IPS Subsidiary of any capital stock or other equity securities or any securities convertible, exchangeable or exercisable into any capital stock or other equity securities, except for the issuance of any shares of IPS Common Stock pursuant to the exercise of any stock options outstanding on the date hereof pursuant to the IPS Option Plan;

(e) any incurrence, assumption or guaranty by IPS or any IPS Subsidiary of any indebtedness for borrowed money or issuance by IPS or any IPS Subsidiary of any debt securities or assumption, guarantee or endorsement of the obligations of any Person by IPS or any IPS Subsidiary, or any making of loans or advances by IPS or any IPS Subsidiary, or any creation or other incurrence by IPS or any IPS Subsidiary of any Lien;

(f) (i) any grant by IPS or any IPS Subsidiary to any current or former director, officer or employee of IPS or any IPS Subsidiary of any increase in their compensation, except to the extent required under employment agreements in effect as of the date of the IPS Balance Sheet, or with respect to employees (other than directors, officers or key employees) in the ordinary course of business consistent with past practice and except for IPS Stock Options that are reflected as outstanding in clause (v) of Section 4.03(a), (ii) any grant by IPS or any IPS Subsidiary to any current or former director, officer or employee of any increase in severance or termination pay, except as was required under any employment, severance or termination policy, practice or agreements in effect as of the date of the IPS Balance Sheet or (iii) any entry by IPS or any IPS Subsidiary into, or any amendment of, any employment, severance or termination agreement with any such director, officer or employee, except for such agreements or amendments with employees (other than directors, officers or key employees) that were entered into in the ordinary course of business consistent with past practice;

(g) any termination of employment or departure of any officer or other key employee of IPS or any IPS Subsidiary;

(h) any entry by IPS or any IPS Subsidiary into any commitment or transaction, or any contract or agreement entered into by IPS or any IPS Subsidiary relating to IPS or any IPS Subsidiary s assets or business, or any relinquishment by IPS or any IPS Subsidiary of any contract or other right, material to IPS and the IPS Subsidiaries taken as a whole;

(i) any material revaluation by IPS of any material asset (including any writing off of notes or accounts receivable);

(j) any change in accounting methods, principles or practices by IPS or any IPS Subsidiary materially affecting the consolidated assets, liabilities or results of operations of IPS, except insofar as may have been required by a change in U.S. GAAP;

(k) any elections with respect to Taxes by IPS or any IPS Subsidiary or settlement or compromise by IPS or any IPS Subsidiary of any material Tax Liability or refund; or

(l) any agreement by IPS or any IPS Subsidiary to take any action described in this Section 4.10 except as expressly contemplated by this Agreement.

SECTION 4.11 Absence of Litigation. Except as disclosed in Section 4.11 of the IPS Disclosure Schedule, (i) there is no Action pending or, to the knowledge of IPS, threatened against IPS or any IPS Subsidiary, or any property or asset of IPS or any IPS Subsidiary, before any court, arbitrator or Governmental Entity, domestic or foreign, or in connection with any appeal or dispute resolution process with a third party payor for health care services that would

have an IPS Material Adverse Effect, and (ii) there is no Judgment, consent decree or other Order outstanding against IPS or any IPS Subsidiary that would have an IPS Material Adverse Effect.

SECTION 4.12 Employee Benefit Matters.

(a) Section 4.12(a) of the IPS Disclosure Schedule lists each IPS Employee Benefit Plan, other than those set forth in Section 4.13(a)(ii) of the IPS Disclosure Schedule. IPS has delivered to SurgiCare correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service for each Employee Pension Benefit Plan or Employee Welfare Benefit Plan trust, the Form 5500 Annual Reports and Form 990 Annual Reports that were filed for the last three years, all related trust agreements, insurance contracts (including stop loss policies and fiduciary policies), and other funding agreements which implement each such IPS Employee Benefit Plan, and all other forms and information relating to the administration of the IPS Employee Benefits Plans and no promise or commitment to amend or improve any IPS Employee Benefit Plan for the benefit of any current or former director, officer, or employee of IPS or any IPS Subsidiary which is not reflected in the documentation provided to SurgiCare has been made.

(1) Each IPS Employee Benefit Plan (and each related trust, insurance contract, or fund) (A) complies in form and in operation with the applicable requirements of ERISA), the Code, and other applicable Laws and (B) has been operated in accordance with its terms, except in either case where failure to do so would not have an IPS Material Adverse Effect.

(2) All required reports and descriptions (including Form 5500 Annual Reports, Summary Annual Reports, PBGC-l s, and Summary Plan Descriptions) have been timely and appropriately filed or distributed with respect to each IPS Employee Benefit Plan, except where the failure to do would not have an IPS Material Adverse Effect.

(3) All contributions (including all employer contributions and employee salary reduction contributions) which are due have been paid by the due date thereof (taking into account any extensions) to each such IPS Employee Benefit Plan which is an Employee Pension Benefit Plan and all contributions for any period ending on or before the Closing Date which are not yet due have been paid to each such Employee Pension Benefit Plan or accrued in accordance with the past custom and practice of IPS and disclosed on the Financial Statements. All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each such IPS Employee Benefit Plan which is an Employee Welfare Benefit Plan.

(4) Each IPS Employee Benefit Plan which is an Employee Pension Benefit Plan intended to be qualified under Code Section 401(a) is so qualified.

(5) All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each IPS Employee Benefit Plan which

is an Employee Welfare Benefit Plan. Each trust holding assets used to fund an Employee Welfare Benefit Plan that is intended to be qualified under Code Section 501(c)(9) is so qualified. The requirements of Part 6 of Subtitle B of Title I of ERISA and of Code Section 4980B have been met with respect to each such IPS Employee Benefit Plan which is an Employee Welfare Benefit Plan subject to such Part.

(b) No IPS Employee Benefit Plan which is an Employee Pension Benefit Plan is or ever has been subject to Title IV of ERISA and none of IPS or any IPS Subsidiary has incurred or has any reason to expect that any of IPS or the IPS Subsidiaries will incur, any Liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal Liability) or under the Code with respect to any such IPS Employee Benefit Plan which is an Employee Pension Benefit Plan.

(c) There have been no Prohibited Transactions with respect to any IPS Employee Benefit Plan. No Fiduciary has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such IPS Employee Benefit Plan. No action, suit, proceeding, hearing, examination, or investigation with respect to the administration or the investment of the assets of any such IPS Employee Benefit Plan (other than routine claims for benefits) is pending or, to the knowledge of IPS, threatened. No IPS Employee Benefit Plan is, or in the last three years has been, the subject of a government sponsored voluntary correction, amnesty, or similar program.

(d) None of IPS or any IPS Subsidiary contributes to, has ever contributed to, or has ever been required to contribute to any Multiemployer Plan or has any Liability (including withdrawal Liability) under any Multiemployer Plan.

(e) None of IPS or any IPS Subsidiary maintains or ever has maintained or contributes, or ever has contributed or has been required to contribute to, any Employee Welfare Benefit Plan providing medical, health, or life insurance or other welfare-type benefits for current or future retired or terminated employees, their spouses, or their dependents (other than in accordance with Code Section 4980B).

(f) The Merger will not result in any payment or acceleration of, or vesting or increase in benefits under, any IPS Employee Benefit Plan.

SECTION 4.13 Material Contracts.

(a) Section 4.13(a) of the IPS Disclosure Schedule contains a list (organized by subsections corresponding to the subsections identified below) of the following contracts, agreements and arrangements (including all amendments thereto) to which IPS or an IPS Subsidiary is currently a party (such contracts, agreements and arrangements required to be set forth in Section 4.13(a) of the IPS Disclosure Schedule, the IPS Material Contracts) , except for this Agreement and the other agreements referenced hereby related to the Transactions:

(1) each contract and agreement or group of related agreements which (A) is likely to involve consideration of more than $100,000 in the aggregate, during the years ending December 31, 2003 or December 31, 2004, (B) is likely to involve consideration of more than $250,000 in the aggregate over the remaining term of such

contract, or (C) cannot be canceled by IPS or any IPS Subsidiary without penalty or further payment and on less than 60 days notice;

(2) all employment, consulting, severance, termination or indemnification agreements between IPS or any IPS Subsidiary and any director, officer or employee of IPS or any IPS Subsidiary;

(3) all (A) management contracts (excluding contracts for employment) and (B) contracts with consultants which involve consideration of more than $25,000 or which involve the services of physicians;

(4) all provider participation agreements, reimbursement agreements, and third party payor agreements, whether with a governmental or private health care program, health insurer, managed care organization, self-funded group health plan, or other payor for health care services;

(5) all contracts, credit agreements, indentures and other agreements evidencing indebtedness for borrowed money (including capitalized leases);

(6) all agreements under which IPS or any IPS Subsidiary has advanced or loaned, or may be required to advance or loan, any funds;

(7) all guarantees of any obligations in excess of $50,000;

(8) all joint venture or other similar agreements;

(9) all lease agreements with annual lease payments in excess of $50,000;

(10) agreements under which IPS has granted any Person registration rights (including demand and piggy-back registration rights) or any other agreements with respect to the capital stock of IPS or any IPS Subsidiary;

(11) all contracts and agreements that limit the ability of IPS or any IPS Subsidiary to compete in any line of business or with any Person or entity or in any geographic area or during any period of time with respect to any business currently conducted by IPS or any IPS Subsidiary;

(12) all contracts and agreements pursuant to which IPS or any IPS Subsidiary may be required to repurchase or redeem any capital stock or other equity interests;

(13) all affiliation agreements with hospitals or other health care providers;

(14) all litigation settlement agreements, consent decrees, corporate integrity agreements, and settlements with governmental entities;

(15) all contracts and other agreements with Affiliates; and

(16) any other contracts or agreements that are material to the business, assets, condition (financial or otherwise) or results of operations of IPS and the IPS Subsidiaries taken as a whole.

(b) To the knowledge of IPS, each IPS Material Contract is a legal, valid and binding agreement in full force and effect in accordance with its terms (except that such enforceability (i) may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to the enforcement of creditor s rights and remedies generally, and (ii) is subject to general principals of equity (regardless of whether considered in a proceeding in equity or at law)). Neither IPS nor any IPS Subsidiary is in material violation or default, or has received notice that it is in violation or default, under any IPS Material Contract and, to IPS knowledge, no other party is in material default under any IPS Material Contract. IPS has provided SurgiCare with copies of all IPS Material Contracts.

SECTION 4.14 Environmental Matters. Except as described in Section 4.14 of the IPS Disclosure Schedule or as would not have an IPS Material Adverse Effect: (a) IPS and the IPS Subsidiaries have not been and are not in violation of any Environmental Law applicable to any of them; (b) none of the properties currently or formerly owned, leased or operated by IPS or the IPS Subsidiaries are contaminated with any Hazardous Substance; (c) neither IPS nor any of the IPS Subsidiaries are liable for any off-site contamination by Hazardous Substances; (d) IPS and the IPS Subsidiaries have all Environmental Permits; (e) IPS and the IPS Subsidiaries are in compliance in all material respects with their Environmental Permits; and (f) neither the execution of this Agreement nor the consummation of the Merger will require any investigation, remediation or other action with respect to Hazardous Substances, or any notice to or consent of Governmental Entities or third parties, pursuant to any applicable Environmental Law or Environmental Permit. Except as described in Section 4.14 of the IPS Disclosure Schedule, none of IPS or the IPS Subsidiaries has received notice of a violation of, or any Liability under, any Environmental Law (whether with respect to properties presently or previously owned or used). IPS and the IPS Subsidiaries have made available to SurgiCare all environmental audits, reports and other material environmental documents relating to their properties, facilities or operations which are in their possession or control. Neither IPS nor any IPS Subsidiary has arranged for the disposal or treatment of any substance at any off-site location that has been included in any published U.S. federal, state or local superfund site list or any similar list of hazardous or toxic waste sites published by any Governmental Entity.

SECTION 4.15 Title to Properties; Absence of Liens and Encumbrances.

(a) Except as described in Section 4.15(a) of the IPS Disclosure Schedule, each of IPS and the IPS Subsidiaries has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible personal properties and assets owned, used or held for use in its business, free and clear of any Liens except (i) for Liens imposed by Law for Taxes not yet due and payable or which otherwise are owed to materialmen, workmen, carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, and (ii) as reflected in the Financial Statements.

(b) Section 4.15(b) of the IPS Disclosure Schedule sets forth a true, correct and complete list of all real property and improvements (collectively, the IPS Real Property) owned by IPS or any IPS Subsidiary. There are no leases, subleases or other occupancy agreements, either written or oral, granting any Person the right of use or occupancy of any IPS Real Property (or portion thereof). Except as described in Section 4.15(b) of the IPS Disclosure Schedule, IPS (or such IPS Subsidiary as the case may be) has good, clear and marketable title to the IPS Real Property and has furnished to SurgiCare true and complete copies of title insurance reports and title insurance policies with respect to the IPS Real Property. No IPS Real Property is subject to any Lien except (i) for Liens imposed by Law for Taxes not yet due and payable or that otherwise are owed to materialmen, workmen, carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, (ii) as reflected in the Financial Statements, or (iii) as set forth in Section 4.15(b) of the IPS Disclosure Schedule. All title to the IPS Real Property is insurable by a nationally recognized title insurance company on a standard ALTA title insurance policy with all standard exceptions deleted and otherwise free of all exceptions except for the Liens set forth in Section 4.15(b) of the IPS Disclosure Schedule. Except as set forth on Section 4.15(b) of the IPS Disclosure Schedule, neither IPS nor any IPS Subsidiary leases (as tenant or subtenant) any real property. The real property listed in Section 4.15(b) of the IPS Disclosure Schedule constitutes all of the real property used, leased or occupied by IPS or any IPS Subsidiary as of the date hereof.

(c) The IPS Real Property and all present uses and operations of the IPS Real Property comply with all Laws, covenants, conditions, restrictions, easements, disposition agreements and similar matters affecting the IPS Real Property, except for such failures to comply as would not have an IPS Material Adverse Effect. IPS and the IPS Subsidiaries have obtained all approvals of Governmental Entities (including certificates of use and occupancy, licenses and permits) required in connection with the construction, ownership, use, occupation and operation of the IPS Real Property, except for such approvals as to which the failure to obtain would not have an IPS Material Adverse Effect. Neither IPS nor any IPS Subsidiary has received any notice of, nor does IPS or any IPS Subsidiary have any knowledge of, any pending or proposed condemnation proceeding, taking, lawsuit or administrative matter with respect to any of the IPS Real Property.

(d) All structures, facilities and improvements owned by IPS or any IPS Subsidiary and all structural, mechanical and other physical systems that constitute a part thereof are free of material defects and are in good operating condition and repair, except as has not had and would not reasonably be expected to have an IPS Material Adverse Effect. No maintenance or repair to the IPS Real Property or such structures, facilities and improvements (including any structural, mechanical or other physical system thereof) has been unreasonably deferred.

SECTION 4.16 Intellectual Property.

(a) Except with respect to the items set forth in Section 4.16(a) of the IPS Disclosure Schedule, IPS and the IPS Subsidiaries own or possess adequate licenses or other valid enforceable rights to use all Intellectual Property used in the conduct of the business of IPS and the IPS Subsidiaries (as currently conducted and contemplated to be conducted), and the consummation of the Merger will not conflict with, alter or impair IPS or any IPS Subsidiary s rights to any such Intellectual Property.

(b) Section 4.16(b) of the IPS Disclosure Schedule sets forth all of the following Intellectual Property owned or licensed by IPS or any IPS Subsidiary: patents and patent applications, inventions that have been identified as active patent matters but for which applications have not yet been filed, Trademark registrations and applications for Trademark registrations, trade names, registered copyrights and all material license agreements relating to the operations of IPS and the IPS Subsidiaries. All patents, Trademarks, registrations, copyright registrations and license agreements set forth in Section 4.16(b) of the IPS Disclosure Schedule are valid and in full force and effect. To the knowledge of IPS, neither IPS nor any IPS Subsidiary has interfered with or infringed upon any Intellectual Property rights of third parties in connection with the business of IPS or any IPS Subsidiary, and, except as set forth in Section 4.16(b) of the IPS Disclosure Schedule, neither IPS nor any IPS Subsidiary has received any charge, complaint, claim, demand, office action or notice (i) alleging any such interference or infringement, or (ii) challenging the legality, validity, enforceability, use or ownership of any Intellectual Property owned or licensed by IPS or any IPS Subsidiary (IPS Intellectual Property). To the knowledge of IPS, except as set forth in Section 4.16(b) of the IPS Disclosure Schedule, no Person is infringing or otherwise violating the rights of IPS or any of the IPS Subsidiaries with respect to any IPS Intellectual Property.

(c) Except as set forth in Section 4.16(c) of the IPS Disclosure Schedule, IPS has timely paid, or caused to be timely paid, all required maintenance, renewal and other similar fees, and has timely met any applicable legal requirements, with respect to all Intellectual Property that is listed in Section 4.16(b) of the IPS Disclosure Schedule as owned by IPS or any IPS Subsidiary. With respect to Intellectual Property licensed by IPS or any IPS Subsidiary that is listed in Section 4.16(b) of the IPS Disclosure Schedule or is material to IPS or any IPS Subsidiary, IPS and each applicable IPS Subsidiary is in compliance with any applicable license or similar agreement and each such license or agreement is legal, valid, binding and in full force and effect in accordance with its terms, except as would not have an IPS Material Adverse Effect.

(d) Neither IPS nor any IPS Subsidiary has agreed to indemnify any Person for or against any interference, infringement, misappropriation, or any other conflict with respect to the Intellectual Property, except in the ordinary course of business.

(e) All of IPS information technology systems are in good working order in all material respects and are adequate for the conduct of IPS and the IPS Subsidiaries business as presently conducted. To the Knowledge of IPS, IPS owns or possesses adequate licenses for all material computer software used in the conduct of IPS and the IPS Subsidiaries business as presently conducted.

SECTION 4.17 Taxes.

(a) Each of IPS and the IPS Subsidiaries has duly filed, or caused to be filed, on a timely basis all Tax Returns required to be filed by it with the applicable Governmental Entity. All such Tax Returns were correct and complete in all material respects. All material Taxes owed by IPS or any IPS Subsidiary (whether or not shown on any Tax Return) have been timely paid in full, including pursuant to any extensions that were timely received. IPS and the IPS Subsidiaries currently are not the beneficiary of any extension of time within which to file

any Tax Return. IPS has not received notice that any claim has been made by an authority in a jurisdiction where any of IPS and the IPS Subsidiaries does not file Tax Returns that they may be subject to taxation by that jurisdiction.

(b) Each of IPS and the IPS Subsidiaries has complied in all material respects with all reporting requirements and has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) There is no dispute, audit, investigation, proceeding or claim concerning any Liability with respect to Taxes of IPS or the IPS Subsidiaries either (i) claimed or raised by any authority in writing received by IPS or any IPS Subsidiary or (ii) as to which IPS has knowledge based upon contact with any such authority. Except as set forth in Section 4.17 of the IPS Disclosure Schedule, (i) no federal, state, local, and foreign income Tax Returns filed with respect to IPS and the IPS Subsidiaries have been audited, and (ii) none are currently open or the subject of audit. IPS delivered or made available to SurgiCare correct and complete copies of all federal, state, local and foreign income Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by any of IPS and the IPS Subsidiaries for the last three taxable years.

(d) None of IPS or any of the IPS Subsidiaries has waived any statue of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) None of IPS or any of the IPS Subsidiaries is or ever has been a party to any Tax allocation or sharing agreement or a member of an Affiliated Group filing a consolidated federal income Tax Return (other than the Affiliated Group the common parent of which is IPS). IPS does not have any Liability for the Taxes of any Person other than IPS and the IPS Subsidiaries under Treas. Reg. Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by contract, or otherwise.

(f) None of IPS or any of the IPS Subsidiaries has filed a consent under Code Section 341(f) concerning collapsible corporations. None of IPS and the IPS Subsidiaries has made any payments, is obligated to make any payments, or is a party to any Contract (including this Agreement) that under certain circumstances could obligate it to make any payments that will not be deductible under Code Sections 162, 280G or 404 or that will be subject to an excise tax under Code Section 4999.

(g) The unpaid Taxes of IPS and the IPS Subsidiaries (1) did not, as of December 31, 2002, exceed the reserve for Tax Liability (excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the IPS Balance Sheet (rather than in any notes thereto) and (2) will not exceed that reserve as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of IPS and the IPS Subsidiaries in filing their Tax Returns.

(h) Since July 1, 1993, IPS has not had an ownership change within the meaning of Section 382(g) of the Code.

SECTION 4.18 Insurance.

(a) Section 4.18 of the IPS Disclosure Schedule sets forth a complete and accurate list of all insurance policies in force naming IPS, any IPS Subsidiary or directors or employees thereof as a loss payee or for which IPS or any IPS Subsidiary has paid or is obligated to pay all or part of the premiums. Neither IPS nor any IPS Subsidiary has received notice of any pending or threatened cancellation or premium increase (retroactive or otherwise) with respect thereto, and each of IPS and the IPS Subsidiaries is in compliance with all material conditions contained therein.

(b) Each of IPS and the IPS Subsidiaries maintains and has maintained, in full force and effect with financially sound and reputable insurers, general and professional liability insurance coverage with respect to their respective assets and businesses, in such amounts and against such losses and risks as is customarily carried by Persons engaged in the same or similar business and as is required under the terms of any IPS Material Contracts. Neither IPS nor an IPS Subsidiary has been refused such insurance.

(c) IPS and each IPS Subsidiary require physicians and other health care providers who provide professional or health care services in a health care facility or site owned or operated by IPS or an IPS Subsidiary, or who are independent contractors of IPS or an IPS Subsidiary, to maintain professional liability and comprehensive general liability insurance from financially sound and reputable insurers in amounts of, at a minimum, $1,000,000 per occurrence and $3,000,000 in the aggregate.

SECTION 4.19 Brokers. No broker, investment banker, financial advisor or other Person, other than Friend & Company, financial advisor to IPS, the fees and expenses of which will be paid by IPS and are set forth in Section 4.19 of the IPS Disclosure Schedule, is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the Merger based upon arrangements made by or on behalf of IPS. IPS has delivered to SurgiCare a complete and accurate copy of all agreements pursuant to which Friend & Company is entitled to any fees and expenses payable directly or indirectly by IPS or any IPS Subsidiary in connection the Merger.

SECTION 4.20 Employees. To the knowledge of IPS, no executive, key employee, or group of employees has any plans to terminate employment with IPS or the IPS Subsidiaries or any affiliates (including, but not limited to, any physician groups). IPS and the IPS Subsidiaries have not experienced any labor disputes or work stoppages due to labor disagreements. IPS and the IPS Subsidiaries are in material compliance with all applicable Laws respecting employment and employment practices and terms and conditions of employment. IPS and the IPS Subsidiaries are not, nor have any of them ever been, a party to any collective bargaining agreements and, to the knowledge of IPS, none of IPS or any of the IPS Subsidiaries has been the subject of any organizational activity. None of IPS nor any of the IPS Subsidiaries engages in the corporate practice of medicine or employs physicians in violation of the corporate practice of medicine doctrine, as defined or applied under the Laws of the State of Georgia or any other applicable jurisdiction.

SECTION 4.21 Transactions with Affiliates. Except as set forth in Section 4.21 of the IPS Disclosure Schedule, since December 31, 2002, no event has occurred that would be required to be reported pursuant to Item 404 of Regulation S-K promulgated by the SEC. Section 4.21 of the IPS Disclosure Schedule identifies each Person who is (or who may be deemed to be) an Affiliate of IPS or any IPS Subsidiary. Without limiting the generality of the foregoing, there are no amounts due or payable by IPS or any IPS Subsidiary to any of the IPS Principal Stockholders or any of their Affiliates or associates in connection with the Merger or otherwise.

SECTION 4.22 Stockholder Rights Agreement. Neither IPS nor any IPS Subsidiary has an effective stockholder rights agreement or any similar plan or agreement which limits or impairs the ability to purchase, or become the direct or indirect beneficial owner of, shares of IPS Common Stock or any other equity or debt securities of IPS or any IPS Subsidiary, other than any stockholder rights plan or stockholder rights agreement that (a) is adopted after the date of this Agreement, (b) does not impair the ability of the parties to consummate the Merger in accordance with the terms of this Agreement, and (c) otherwise does not have an adverse effect on SurgiCare or Merger Sub or on the rights of SurgiCare or Merger Sub under this Agreement.

SECTION 4.23 Opinion of Financial Advisor. The IPS Board has received the written opinion of Friend & Company dated the date of this Agreement to the effect that, as of the date of this Agreement, the consideration offered to the IPS Stockholders in the Merger is fair from a financial point of view, and a copy of the signed opinion has been provided to SurgiCare.

SECTION 4.24 Certain Payments. Neither IPS nor any IPS Subsidiary, nor to IPS knowledge, their respective directors, officers, agents, affiliates or employees, nor any other person acting on behalf of IPS or any IPS Subsidiary, has (i) given or agreed to give any gift or similar benefit having a value of $1,000 or more to any customer, supplier or governmental employee or official or any other person, for the purpose of directly or indirectly furthering the business of IPS or any IPS Subsidiary, (ii) used any corporate funds for contributions, payments, gifts or entertainment, or made any expenditures, relating to political activities to government officials or others in violation of any applicable Law or (iii) received any unlawful contributions, payments, gifts or expenditures in connection with the business of IPS or any IPS Subsidiary.

ARTICLE V

CONDUCT OF BUSINESS PENDING THE MERGER

SECTION 5.01 Conduct of Business by SurgiCare Pending the Merger. SurgiCare agrees that, between the date of this Agreement and the Effective Time, except as set forth in Section 5.01 of the SurgiCare Disclosure Schedule or as specifically required by any other provision of this Agreement, unless IPS otherwise consents in writing (which consent will not be unreasonably withheld):

(a) the businesses of SurgiCare and the SurgiCare Subsidiaries will be conducted only in, and SurgiCare and the SurgiCare Subsidiaries will not take any action except in, the ordinary course of business and in a manner consistent with past practice; and

(b) SurgiCare will use its reasonable best efforts to preserve substantially intact its business organization and goodwill, to keep available the services of the current officers, employees and consultants of SurgiCare and the SurgiCare Subsidiaries (other than termination for cause) and to preserve the current relationships of SurgiCare and the SurgiCare Subsidiaries with members or other customers, employees, suppliers, licensors, licensees and other Persons with which SurgiCare or any SurgiCare Subsidiary has significant business relations.

By way of amplification and not limitation, except (x) as contemplated by this Agreement, (y) for transfers of cash among SurgiCare and the SurgiCare Subsidiaries pursuant to SurgiCare s existing cash management policies or (z) as set forth in Section 5.01 of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary will, between the date of this Agreement and the Effective Time, directly or indirectly, do, or propose to do, any of the following without the prior written consent of IPS (which consent will not be unreasonably withheld):

(1) amend or change its certificate of incorporation or by-laws or equivalent organizational documents (including without limitation the SurgiCare Charter and SurgiCare By-Laws);

(2) issue, sell, pledge or dispose of, or authorize for issuance, sale, pledge or disposal, any shares of its stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such stock, or any other ownership interest (including, without limitation, any phantom interest), of SurgiCare or any SurgiCare Subsidiary (except for the issuance of shares of SurgiCare Old Common Stock pursuant to the SurgiCare Stock Options and SurgiCare Warrants outstanding on the date of this Agreement);

(3) authorize, declare or set aside any dividend payment or other distribution, payable in cash, stock, property or otherwise, with respect to any of its stock;

(4) 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;

(5) acquire or agree to acquire or sell or agree to sell (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any interest in any corporation, partnership, other business organization or any division thereof or any assets constituting a business or a portion of a business, including any shares of any such entities capital stock or any options, warrants or rights to acquire any of its capital stock;

(6) sell, lease, license, encumber or subject to any Lien or otherwise dispose of any SurgiCare Real Property;

(7) 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 SurgiCare s existing

revolving loan agreement, incurred in the ordinary course of business and consistent with past practice, and for 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;

(8) enter into any contracts or agreements requiring the payment, or receipt of payment, of consideration in excess of $250,000, or modify, amend, renew, waive any material provision of, breach or terminate any existing SurgiCare Material Contract;

(9) make or authorize any capital expenditures, other than as set forth in Section 5.01(ix) of the SurgiCare Disclosure Schedule;

(10) except for the acceleration of vesting of unvested SurgiCare Stock Options and SurgiCare Warrants outstanding on the date hereof, waive any stock repurchase or acceleration rights, amend or change the terms of any options, warrants, or restricted stock, or reprice options granted under any SurgiCare Option Plan or warrants or authorize cash payments in exchange for any options, or warrants granted under any such plans;

(11) (a) increase the compensation payable or to become payable to SurgiCare s or any SurgiCare Subsidiary s officers or employees (including without limitation any rights to severance or termination pay), except for increases in salaries or wages of employees (other than directors, officers or key employees) in the ordinary course of business and in accordance with past practices and consistent with current budgets and as described in Section 5.01(xi) of the SurgiCare Disclosure Schedule, (b) grant or amend any rights to severance or termination pay to, or enter into or amend any employment, consulting, retirement, special pay arrangement or severance agreement with, any director, officer or other employee of SurgiCare or any SurgiCare Subsidiary, or with any other persons, except as required by previously existing contractual arrangements or applicable law or (c) forgive any indebtedness of any employee of SurgiCare or any SurgiCare Subsidiary;

(12) 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, the SurgiCare Balance Sheet or incurred in the ordinary course of business and consistent with past practice, 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 SurgiCare or any SurgiCare Subsidiary is a party;

(13) settle any Action other than any settlement which 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;

(14) 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 (including communications with a Governmental Entity) with respect to the computation of Taxes or the preparation of a Tax Return that is inconsistent with past practice;

(15) take any action, other than as required by U.S. GAAP or by the SEC, with respect to accounting principles or procedures, including, without limitation, any revaluation of assets;

(16) except as provided in Section 5.01(b)(10), (i) establish, adopt, enter into, amend, or terminate any collective bargaining agreement or SurgiCare Employee Benefit Plan, other than to the extent required by any SurgiCare Employee Benefit Plan or to comply with applicable Law, (ii) take any action to accelerate any rights or benefits, or (iii) unless consistent with past practice, make any material determinations not in the ordinary course of business, under any collective bargaining agreement or SurgiCare Employee Benefit Plan;

(17) 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 Merger;

(18) agree in writing or otherwise to take any of the actions described in clauses (1) through (17) above; or

(19) take any action (a) that would reasonably be expected to cause any of SurgiCare s or Merger Sub s representations and warranties set forth in Article III that are qualified by materiality to be untrue, (b) that would reasonably be expected to cause any of SurgiCare s or Merger Sub s representations and warranties set forth in Article III that are not qualified by materiality to be untrue in any material respect or (c) that would be reasonably expected to result in the inability of SurgiCare or Merger Sub to satisfy the conditions to closing set forth in Section 7.02.

SECTION 5.02 Conduct of Business by IPS Pending the Merger. IPS agrees that, between the date of this Agreement and the Effective Time, except as set forth in Section 5.02 of the IPS Disclosure Schedule or as specifically required by any other provision of this Agreement, unless SurgiCare otherwise consents in writing (which consent will not be unreasonably withheld):

(a) the businesses of IPS and the IPS Subsidiaries will be conducted only in, and IPS and the IPS Subsidiaries will not take any action except in, the ordinary course of business and in a manner consistent with past practice; and

(b) IPS will use its reasonable best efforts to preserve substantially intact its business organization and goodwill, to keep available the services of the current officers, employees and consultants of IPS and the IPS Subsidiaries (other than termination for cause) and to preserve the current relationships of IPS and the IPS Subsidiaries with members or other

customers, employees, suppliers, licensors, licensees and other Persons with which IPS or any IPS Subsidiary has significant business relations.

By way of amplification and not limitation, except (x) as contemplated by this Agreement, (y) for transfers of cash among IPS and the IPS Subsidiaries pursuant to IPS existing cash management policies or (z) as set forth in Section 5.02 of the IPS Disclosure Schedule, neither IPS nor any IPS Subsidiary will, between the date of this Agreement and the Effective Time, directly or indirectly, do, or propose to do, any of the following without the prior written consent of SurgiCare (which consent will not be unreasonably withheld):

(1) amend or change its certificate of incorporation or by-laws or equivalent organizational documents (including without limitation the IPS Charter and IPS By-Laws);

(2) issue, sell, pledge or dispose of, or authorize for issuance, sale, pledge or disposal, any shares of its stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such stock, or any other ownership interest (including, without limitation, any phantom interest), of IPS or any IPS Subsidiary (except for the issuance of shares of IPS Common Stock pursuant to the IPS Stock Options and IPS Warrants outstanding on the date of this Agreement);

(3) authorize, declare or set aside any dividend payment or other distribution, payable in cash, stock, property or otherwise, with respect to any of its stock;

(4) 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;

(5) acquire or agree to acquire or sell or agree to sell (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any interest in any corporation, partnership, other business organization or any division thereof or any assets constituting a business or a portion of a business, including any shares of such entities capital stock or any options, warrants or rights to acquire any of its capital stock;

(6) sell, lease, license, encumber or subject to any Lien or otherwise dispose of any IPS Real Property;

(7) 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 IPS existing revolving loan agreement, incurred in the ordinary course of business and consistent with past practice, and for 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;

(8) enter into any contracts or agreements requiring the payment, or receipt of payment, of consideration in excess of $250,000, or modify, amend, renew, waive any material provision of, breach or terminate any existing IPS Material Contract;

(9) make or authorize any capital expenditures, other than as set forth in Section 5.02(ix) of the IPS Disclosure Schedule;

(10) except for the acceleration of vesting of unvested IPS Stock Options and IPS Warrants outstanding on the date hereof, waive any stock repurchase or acceleration rights, amend or change the terms of any options, warrants, or restricted stock, or reprice options granted under any IPS Option Plan or warrants or authorize cash payments in exchange for any options, or warrants granted under any such plans;

(11) (a) increase the compensation payable or to become payable to IPS or any IPS Subsidiary s officers or employees (including without limitation any rights to severance or termination pay), except for increases in salaries or wages of employees (other than directors, officers or key employees) in accordance with past practices and consistent with current budgets, (b) grant or amend any rights to severance or termination pay to, or enter into or amend any employment or severance agreement with, any director, officer or other employee of IPS or any IPS Subsidiary or (c) forgive any indebtedness of any employee of IPS or any IPS Subsidiary;

(12) 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, the IPS Balance Sheet or incurred in the ordinary course of business and consistent with past practice, 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 IPS or any IPS Subsidiary is a party;

(13) settle any Action other than any settlement which 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;

(14) 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 (including communications with a Governmental Entity) with respect to the computation of Taxes or the preparation of a Tax Return that is inconsistent with past practice;

(15) take any action, other than as required by U.S. GAAP or by the SEC, with respect to accounting principles or procedures, including, without limitation, any revaluation of assets;

(16) except as provided in Section 5.02(b)(10), (i) establish, adopt, enter into, amend, or terminate any collective bargaining agreement or IPS Employee Benefit Plan, other than to the extent required by any IPS Employee Benefit Plan or to comply with applicable Law, (ii) take any action to accelerate any rights or benefits, or

(iii) unless consistent with past practice, make any material determinations not in the ordinary course of business, under any collective bargaining agreement or IPS Employee Benefit Plan;

(17) 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 Merger;

(18) agree in writing or otherwise to take any of the actions described in clauses (1) through (17) above; or

(19) take any action (a) that would reasonably be expected to cause any of IPS representations and warranties set forth in Article III that are qualified by materiality to be untrue, (b) that would reasonably be expected to cause any of IPS representations and warranties set forth in Article III that are not qualified by materiality to be untrue in any material respect or (c) that would be reasonably expected to result in the inability of IPS to satisfy the conditions to closing set forth in Section 7.03.

SECTION 5.03 Notification of Certain Matters. SurgiCare will give prompt notice to IPS, and IPS will give prompt notice to SurgiCare, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause (A) any representation or warranty contained in this Agreement made by such Person that is qualified by materiality to be untrue or inaccurate, (B) any representation or warranty contained in this Agreement made by such Person that is not qualified by materiality to be untrue or inaccurate in any material respect or (C) any covenant, condition or agreement contained in this Agreement applicable to such Person not to be complied with or satisfied, (ii) any failure of SurgiCare or IPS, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder and (iii) any notices received or provided by SurgiCare under the Stock Subscription Agreement, the Debt Exchange Agreement or the DCPS/MBS Acquisition Agreement; provided, however, that the delivery of any notice pursuant to this Section 5.03 will not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

ARTICLE VI

ADDITIONAL AGREEMENTS

SECTION 6.01 Proxy Statement; Stockholders Meetings.

(a) As promptly as practicable after the execution of this Agreement, SurgiCare shall prepare and file with the SEC a proxy statement (together with any amendments thereof or supplements thereto, the Proxy Statement) in preliminary form (provided that IPS and its counsel will be given reasonable opportunity to review and comment on the Proxy Statement and any amendments thereto prior to each filing with the SEC) relating to the meeting of SurgiCare s stockholders (the SurgiCare Stockholders Meeting) to be held to consider approval of the issuance of SurgiCare Class A Common Shares in the Merger and the Debt Exchange, as well as the DCPS/MBS Acquisition, the Recapitalization, the Equity Financing, the Board Election and the New Equity Plan. Each of SurgiCare and IPS shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect

thereto, and prior to the Effective Time, SurgiCare shall take all or any action required under any applicable federal or state securities laws in connection with the issuance of SurgiCare Class A Common Shares pursuant to the Merger. IPS shall furnish all information concerning IPS as SurgiCare may reasonably request in connection with such actions and the preparation of the Proxy Statement. As promptly as practicable after the definitive Proxy Statement has been filed with the SEC, SurgiCare shall mail the Proxy Statement to its stockholders.

(b) The Proxy Statement shall include a copy of the fairness opinion identified in Section 3.19 and, subject to paragraph (c) of this Section 6.01, the SurgiCare Board Approval.

(c) Nothing in this Agreement shall prevent the SurgiCare Board from withholding, withdrawing, amending or modifying the SurgiCare Board Approval if the SurgiCare Board determines in good faith (after consultation with legal counsel) that the failure to take such action would constitute a breach by the SurgiCare Board of its fiduciary duties to SurgiCare s stockholders under applicable law. Unless this Agreement shall have been terminated in accordance with its terms, nothing contained in this Section 6.01(c) shall limit SurgiCare s obligation to convene and hold the SurgiCare Stockholders Meeting (regardless of whether the SurgiCare Board Approval shall have been withheld, withdrawn, amended or modified).

(d) No amendment or supplement to the Proxy Statement will be made by SurgiCare without the approval of IPS (such approval not to be unreasonably withheld or delayed). Each of SurgiCare and IPS will advise the other, promptly after it receives notice thereof, of any request by the SEC for amendment of the Proxy Statement or comments thereon and responses thereto or requests by the SEC for additional information.

(e) The information supplied by SurgiCare for inclusion in the Proxy Statement shall not, at (i) the time the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to the stockholders of SurgiCare, (ii) the time of the SurgiCare Stockholders Meeting and (iii) the Effective Time, contain any untrue statement of a material fact or fail to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. If, at any time prior to the Effective Time, any event or circumstance relating to SurgiCare or any SurgiCare Subsidiary, or their respective officers or directors, that should be set forth in an amendment or a supplement to the Proxy Statement should be discovered by SurgiCare, SurgiCare shall promptly inform IPS thereof. All documents that SurgiCare is responsible for filing with the SEC in connection with the Merger or the other transactions contemplated by this Agreement will comply as to form and substance in all material respects with the applicable requirements of the Securities Act and the rules and regulations thereunder and the Exchange Act and the rules and regulations thereunder.

(f) The information supplied by IPS for inclusion in the Proxy Statement shall not, at (i) the time the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to the stockholders of SurgiCare, (ii) the time of the SurgiCare Stockholders Meeting and (iii) the Effective Time, contain any untrue statement of a material fact or fail to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. If, at any time prior to

the Effective Time, any event or circumstance relating to IPS or any IPS Subsidiary, or their respective officers or directors, that should be set forth in an amendment or a supplement to the Proxy Statement should be discovered by IPS, IPS shall promptly inform SurgiCare.

(g) SurgiCare and IPS shall call and hold their respective Stockholders Meetings as promptly as practicable and in accordance with applicable laws for the purpose of voting upon the approval of the Merger, this Agreement and the IPS Charter Amendment, in the case of IPS stockholders, and the issuance of SurgiCare Class A Common Shares in the Merger, the DCPS/MBS Acquisition and the Debt Exchange, as well as the Recapitalization, the Equity Financing, the Board Election and the New Equity Plan, in the case of SurgiCare s stockholders, and SurgiCare and IPS shall use their reasonable best efforts to hold the Stockholders Meeting as soon as practicable after the date on which the Proxy Statement is filed with the SEC. SurgiCare shall (a) use its reasonable best efforts to solicit from its stockholders proxies in favor of the approval of the issuance of SurgiCare Class A Common Shares in the Merger and the Debt Exchange, as well as the DCPS/MBS Acquisition, the Recapitalization, the Equity Financing, the Board Election and the New Equity Plan and (b) shall take all other action necessary or advisable to secure the vote or consent of stockholders required by the rules of the AMEX to obtain such approvals. IPS shall use its reasonable best efforts to solicit from its stockholders proxies in favor of the approval of the Merger, this Agreement and the IPS Charter Amendment.

SECTION 6.02 Access to Information; Confidentiality. Subject to applicable law, SurgiCare and IPS each will, and will cause each of their respective Subsidiaries to, afford to the other party, and to the other party s officers, employees, accountants, counsel, financial advisors, financing sources and other representatives, upon reasonable notice, reasonable access during normal business hours during the period prior to the Effective Time to all their respective properties, books, contracts, commitments, personnel and records and, during such period, SurgiCare and IPS each will, and will cause each of their respective Subsidiaries to, furnish promptly to the other party such information concerning its business, properties, assets, customers, consultants and personnel as the other party may reasonably request. SurgiCare and IPS each hereby consents, and will cause each of their respective Subsidiaries to consent, to the other party and the other party s officers, employees, accountants, counsel, financial advisors, financing sources and other representatives contacting, in a reasonable fashion, members, employees, lenders and landlords of SurgiCare or IPS, as the case may be, and such Subsidiaries and will, upon reasonable notice from the other party, request such members, employees, lenders and landlords to cooperate during normal business hours during the period prior to the Effective Time with any reasonable requests made by or on behalf of the other party. Any confidential information provided to SurgiCare or IPS hereunder will be subject to the terms of the Non-Disclosure and Confidentiality Agreement between SurgiCare and IPS dated June 18, 2003 (the Confidentiality Agreement); provided that SurgiCare, Merger Sub and IPS may disclose such information as may be necessary in connection with seeking required statutory approvals. Notwithstanding the foregoing, each of the parties hereto shall not be required to provide any information which it reasonably believes it may not provide to such other party by reason of applicable Law, rules or regulations, which constitutes information protected by attorney/client privilege, or which each of the parties hereto is required to keep confidential by reason of contract, agreement or understanding with third parties; provided that, with respect to any such information, each of the parties hereto shall, or shall cause the relevant Subsidiary to, provide the maximum amount of that information (or shall endeavor to otherwise convey that information in

a manner) that is consistent with the applicable Law, rule or regulation, the maintenance of that privilege or the terms of the relevant contract, as applicable. No investigation pursuant to this Section 6.02 shall affect or be deemed to modify any representation or warranty in this Agreement of any party hereto or any condition to the obligations of the parties hereto.

SECTION 6.03 No Solicitation of Transactions by SurgiCare.

(a) After the date hereof and prior to the Effective Time or earlier termination of this Agreement pursuant to Article VIII hereof, except as provided in clause (b) below, SurgiCare will not, and will not permit or cause any of the SurgiCare Subsidiaries to directly or indirectly, initiate, solicit, negotiate, engage in discussions regarding, encourage or provide nonpublic confidential information to facilitate, and SurgiCare will not, and will use its reasonable best efforts to cause any officer, director or employee of SurgiCare or any SurgiCare Subsidiary, or any attorney, accountant, investment banker, financial advisor or other agent retained by it or any of the SurgiCare Subsidiaries 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 SurgiCare or any SurgiCare Subsidiary (which shall include, but not be limited to, a part of the business or properties of SurgiCare or any SurgiCare Subsidiary constituting 10% or more of the net revenues, net income or the assets of SurgiCare and the SurgiCare Subsidiaries or any capital stock of SurgiCare or any SurgiCare Subsidiary) whether by merger, consolidation, recapitalization, purchase of assets, tender offer or otherwise and whether for cash, securities or any other consideration or combination thereof (any such transaction being referred to herein as a SurgiCare Acquisition Transaction). SurgiCare immediately will cease and cause to be terminated all activities, discussions or negotiations with any parties with respect to any SurgiCare Acquisition Transaction, other than the Merger.

(b) Notwithstanding the provisions of clause (a) above, the SurgiCare Board may furnish information to or engage in discussions or negotiations with any Person in response to an unsolicited written offer or proposal with respect to a SurgiCare Acquisition Transaction (a SurgiCare Acquisition Proposal) if and only to the extent that (I) the SurgiCare Board determines, in good faith after consultation with its independent financial advisor and legal counsel, that such SurgiCare Acquisition Proposal would (or reasonably could) constitute a SurgiCare Superior Proposal, (II) the SurgiCare Board determines, in good faith after consultation with legal counsel, that the failure to take such action would constitute a breach by the SurgiCare Board of its fiduciary duties to the SurgiCare stockholders under applicable Law, and (III) the SurgiCare Board 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 than the Confidentiality Agreement. For purposes of this Agreement, SurgiCare Superior Proposal means a *bona fide* SurgiCare Acquisition Proposal (A) made by a third party that the SurgiCare Board determines in its good faith judgment (after consultation with its financial advisor) to be significantly more favorable to the SurgiCare stockholders from a financial point of view than the Merger, taking into account all of the terms of the SurgiCare Acquisition Proposal, including any break-up fees, expense reimbursement provisions, financing requirements and contingencies and conditions to closing, (B) that involves all of the outstanding shares of SurgiCare Capital Stock or assets of SurgiCare and the SurgiCare Subsidiaries, (C) that the SurgiCare Board determines in its good faith judgment is reasonably

likely to be consummated, taking into account all legal and regulatory aspects of the proposal, (D) for which financing, to the extent required, is then committed, and (E) does not contain any due diligence condition. The SurgiCare Board may take and disclose to the SurgiCare stockholders a position required by Rule 14e-2 under the Exchange Act.

(c) Neither the SurgiCare Board nor any committee thereof will, except as expressly permitted by this Section 6.03(c), (i) withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in any manner adverse to IPS, the approval or recommendation of the SurgiCare Board or such committee of the Merger, the issuance of SurgiCare Class A Common Shares in the Merger or this Agreement or otherwise seek in any manner to abandon the Merger or this Agreement, (ii) endorse, approve, recommend or submit to the SurgiCare stockholders, or propose publicly to endorse, approve, recommend or submit to the SurgiCare stockholders, any SurgiCare Acquisition Transaction (other than the Merger), or (iii) cause SurgiCare to enter into any letter of intent, agreement in principle, acquisition agreement, memorandum of understanding or other similar agreement or understanding (each, an Acquisition Agreement) related to or with respect to any SurgiCare Acquisition Transaction. Notwithstanding the foregoing, if SurgiCare has complied fully with this Section 6.03 and the SurgiCare Board determines in good faith, after it has received a SurgiCare Superior Proposal in compliance with this Section 6.03 and after taking into account advice from independent outside legal counsel with respect to its fiduciary duties to SurgiCare stockholders under applicable Law, that such action is required for the SurgiCare Board to comply with its fiduciary obligations to the SurgiCare stockholders under applicable Law, the SurgiCare Board may (subject to this and the following sentences), take any of the actions described in clauses (i) through (iii) of this Section 6.03(c) (each a SurgiCare Subsequent Adverse Determination), but only at a time that is after the fifth business day following IPS receipt of written notice from SurgiCare advising IPS that the SurgiCare Board intends to make a SurgiCare Subsequent Adverse Determination. Such written notice will specify the material terms and conditions of such Superior Proposal (and include a copy thereof with all accompanying documentation), identify the person making such SurgiCare Superior Proposal and state that the SurgiCare Board intends to make a SurgiCare Subsequent Adverse Determination. During such five business day period, SurgiCare will provide a full opportunity for IPS to propose such adjustments to the terms and conditions of this Agreement and the Merger as would enable SurgiCare to proceed with its recommendation to the SurgiCare stockholders without a SurgiCare Subsequent Adverse Determination.

(d) SurgiCare will notify IPS orally within 24 hours and in writing within 48 hours after receipt of any SurgiCare Acquisition Proposal, indication of interest or request for nonpublic information relating to SurgiCare or a SurgiCare Subsidiary in connection with a SurgiCare Acquisition Proposal or for access to the properties, books or records of SurgiCare or any SurgiCare Subsidiary by any Person or other entity or group that informs the SurgiCare Board or the board of directors of any SurgiCare Subsidiary that it is considering making, or has made, a SurgiCare Acquisition Proposal. Such notice to IPS will indicate in reasonable detail the identity of the offeror and the terms and conditions of such proposal, inquiry or contact as well as SurgiCare s intention to furnish information to, or enter into discussions or negotiations with, such Person. SurgiCare will use its reasonable efforts to keep IPS informed of the status and details (including any change to the terms thereof) of any such SurgiCare Acquisition Proposal. In addition to the other requirements and limitations of this Section 6.03, in the event SurgiCare intends to enter into a definitive agreement relating to a SurgiCare Superior Proposal, SurgiCare

will notify IPS in writing at least five business days prior to entering into such definitive agreement, which notice will identify and detail the proposed terms of such SurgiCare Superior Proposal. Unless this Agreement has been terminated in accordance with Section 8.01, SurgiCare will call and hold the SurgiCare Stockholders Meeting for the purpose of seeking the SurgiCare Stockholder Approval whether or not the SurgiCare Board makes a SurgiCare Subsequent Adverse Determination.

SECTION 6.04 No Solicitation of Transactions by IPS.

(a) After the date hereof and prior to the Effective Time or earlier termination of this Agreement pursuant to Article VIII hereof, except as provided in clause (b) below, IPS will not, and will not permit or cause any of the IPS Subsidiaries to directly or indirectly, initiate, solicit, negotiate, engage in discussions regarding, encourage or provide nonpublic confidential information to facilitate, and IPS will not, and will use its reasonable best efforts to cause any officer, director or employee of IPS or any of the IPS Subsidiaries, or any attorney, accountant, investment banker, financial advisor or other agent retained by it or any of the IPS Subsidiaries 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 IPS or any IPS Subsidiary (which shall include, but not be limited to, a part of the business or properties of IPS or any IPS Subsidiary constituting 10% or more of the net revenues, net income or the assets of IPS and the IPS Subsidiaries or any capital stock of IPS or any IPS Subsidiary) whether by merger, consolidation, recapitalization, purchase of assets, tender offer or otherwise and whether for cash, securities or any other consideration or combination thereof (any such being referred to herein as an IPS Acquisition Transaction). IPS immediately will cease and cause to be terminated all activities, discussions or negotiations with any parties with respect to any IPS Acquisition Transaction, other than the Merger.

(b) Notwithstanding the provisions of clause (a) above, the IPS Board may furnish information to or engage in discussions or negotiations with any Person in response to an unsolicited written offer or proposal with respect to an IPS Acquisition Transaction (an IPS Acquisition Proposal) if and only to the extent that (I) the IPS Board determines, in good faith after consultation with its independent financial advisor and legal counsel, that such IPS Acquisition Proposal would (or reasonably could) constitute an IPS Superior Proposal, (II) the IPS Board determines, in good faith after consultation with its legal counsel, that the failure to take such action would constitute a breach by the IPS Board of its fiduciary duties to the IPS stockholders under applicable Law, and (III) the IPS Board 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 IPS than the Confidentiality Agreement. For purposes of this Agreement, IPS Superior Proposal means a *bona fide* IPS Acquisition Proposal (A) made by a third party that the IPS Board determines in its good faith judgment (after consultation with its financial advisor) to be significantly more favorable to the IPS stockholders from a financial point of view than the Merger, taking into account all of the terms of the IPS Acquisition Proposal, including any break-up fees, expense reimbursement provisions, financing requirements, and contingencies and conditions to closing, (B) that involves all of the outstanding shares of IPS Capital Stock or assets of IPS and the IPS Subsidiaries, (C) that the IPS Board determines in its good faith judgment is reasonably likely to be consummated, taking

into account all legal and regulatory aspects of the proposal, (D) for which financing, to the extent required, is then committed, and (E) does not contain any due diligence condition. The IPS Board may take and disclose to the IPS stockholders a position required by Rule 14e-2 under the Exchange Act.

(c) Neither the IPS Board nor any committee thereof will, except as expressly permitted by this Section 6.04(c), (i) withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in any manner adverse to SurgiCare, the approval or recommendation of the IPS Board or such committee of the Merger or this Agreement or otherwise seek in any manner to abandon the Merger or this Agreement, (ii) endorse, approve, recommend or submit to the IPS stockholders, or propose publicly to endorse, approve, recommend or submit to the IPS stockholders, any IPS Acquisition Transaction (other than the Merger), or (iii) cause IPS to enter into any Acquisition Agreement related to or with respect to any IPS Acquisition Transaction. Notwithstanding the foregoing, if IPS has complied fully with this Section 6.04 and the IPS Board determines in good faith, after it has received an IPS Superior Proposal in compliance with this Section 6.04 and after taking into account advice from independent outside legal counsel with respect to its fiduciary duties to IPS stockholders under applicable Law, that such action is required for the IPS Board to comply with its fiduciary obligations to the IPS stockholders under applicable Law, the IPS Board may (subject to this and the following sentences), take any of the actions described in clauses (i) through (iii) of this Section 6.04(c) (each an IPS Subsequent Adverse Determination), but only at a time that is after the fifth business day following SurgiCare s receipt of written notice from IPS advising SurgiCare that the IPS Board intends to make an IPS Subsequent Adverse Determination. Such written notice will specify the material terms and conditions of such IPS Superior Proposal (and include a copy thereof with all accompanying documentation), identify the person making such IPS Superior Proposal and state that the IPS Board intends to make an IPS Subsequent Adverse Determination. During such five business day period, IPS will provide a full opportunity for SurgiCare to propose such adjustments to the terms and conditions of this Agreement and the Merger as would enable IPS to proceed with its recommendation to the IPS stockholders without an IPS Subsequent Adverse Determination.

(d) IPS will notify SurgiCare orally within 24 hours and in writing within 48 hours after receipt of any IPS Acquisition Proposal, indication of interest or request for nonpublic information relating to IPS or an IPS Subsidiary in connection with an IPS Acquisition Proposal or for access to the properties, books or records of IPS or any IPS Subsidiary by any Person or other entity or group that informs the IPS Board or the board of directors of any IPS Subsidiary that it is considering making, or has made, an IPS Acquisition Proposal. Such notice to SurgiCare will indicate in reasonable detail the identity of the offeror and the terms and conditions of such proposal, inquiry or contact as well as IPS intention to furnish information to, or enter into discussions or negotiations with, such Person. IPS will use its reasonable efforts to keep SurgiCare informed of the status and details (including any change to the terms thereof) of any such IPS Acquisition Proposal. In addition to the other requirements and limitations of this Section 6.04, in the event IPS intends to enter into a definitive agreement relating to an IPS Superior Proposal, IPS will notify SurgiCare in writing at least five business days prior to entering into such definitive agreement, which notice will identify and detail the proposed terms of such IPS Superior Proposal. Unless this Agreement has been terminated in accordance with Section 8.01, IPS will call and hold the IPS Stockholders Meeting for the purpose of voting upon

approval of this Agreement and the Merger whether or not the IPS Board makes an IPS Subsequent Adverse Determination.

SECTION 6.05 Directors and Officers Indemnification and Insurance.

(a) SurgiCare and Merger Sub will, to the fullest extent permitted by Law, cause the Surviving Corporation (from and after the Effective Time) to honor all of IPS obligations to indemnify, defend and hold harmless (including any obligations to advance funds for expenses) the current directors and officers of IPS and the IPS Subsidiaries against all losses, claims, damages or liabilities arising out of acts or omissions by any such directors and officers occurring prior to the Effective Time to the maximum extent that such obligations of IPS exist on the date of this Agreement. Without limiting the foregoing, the by-laws of the Surviving Corporation will contain the provisions that are set forth, as of the date of this Agreement, in Paragraphs 9 and 10 of the Certificate of Incorporation of Merger Sub, which provisions will not be amended, repealed or otherwise modified for a period of three years from the Effective Time in any manner that would affect adversely the rights thereunder of individuals who immediately prior to the Effective Time were directors, officers, employees or other agents of IPS.

(b) IPS will maintain, through the Effective Time, IPS existing directors and officers insurance in full force and effect without reduction of coverage. From and after the Effective Time and for a period of three years after the Effective Time, SurgiCare and Merger Sub will cause to be maintained in effect the current policies of directors and officers liability insurance maintained by IPS (provided that SurgiCare and Merger Sub may either (i) substitute therefore policies with reputable and financially sound carriers or (ii) maintain sufficient self insurance or similar arrangements in each case of at least the same coverage and amounts containing terms and conditions which are no less advantageous) with respect to claims arising from or related to facts or events which occurred at or before the Effective Time; provided, however, that SurgiCare and Merger Sub will not be obligated to make aggregate payments for such insurance in excess of $90,000 (the Maximum Premium). If such insurance coverage cannot be obtained at all, or can only be obtained at a cost in excess of the Maximum Premium, SurgiCare and Merger Sub will maintain the most advantageous policies of directors and officers insurance obtainable for the Maximum Premium.

(c) If the Surviving Corporation (or any of its successors or assigns) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision will be made so that the successors and assigns of the Surviving Corporation assume the obligations set forth in this Section 6.05.

SECTION 6.06 Further Action; Consents. Upon the terms and subject to the conditions set forth in this Agreement, each of the parties will use all reasonable efforts to take, or cause to be taken, all reasonable actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things reasonably necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Transactions, including without limitation (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities and the making of all necessary registrations and filings (including filings with Governmental Entities, if any) and the taking of all reasonable steps as

may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Transactions, including, when reasonable, seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed, (iv) the complete satisfaction of all respective conditions to closing set forth in Article VII hereof, and (v) the execution and delivery of any additional instruments necessary to consummate the Transactions and to fully carry out the purposes of this Agreement. Without limiting the foregoing, IPS will give SurgiCare and Merger Sub the opportunity to participate in the defense of any stockholder litigation against IPS and/or its directors relating to this Agreement or the Transactions and no settlement will be agreed to without SurgiCare or Merger Sub s consent, which consent will not be unreasonably withheld.

SECTION 6.07 Public Announcements. SurgiCare and Merger Sub, on the one hand, and IPS, on the other hand, will consult with each other a reasonable time before issuing, and provide each other the reasonable opportunity to review and comment upon, any press release or other public statements (including any filings with any federal or state governmental or regulatory agency or with the AMEX) with respect to the Transactions and will not issue any such press release or make any such public statement prior to such consultation. Notwithstanding anything to the contrary herein or in the Confidentiality Agreement, each of the parties hereto (and each employee, representative, or other agent of such parties) may disclose to any Person, without limitation of any kind, the tax treatment and tax structure of the Transactions and all materials (including opinions or other tax analyses) that are provided to such party relating to such tax treatment and tax structure.

SECTION 6.08 IPS Stock Options. Prior to the Effective Time, the IPS Board (or, if appropriate, any committee thereof) shall adopt appropriate resolutions and take all other actions necessary to (i) accelerate the exercisability of all outstanding IPS Stock Options, (ii) provide for the cancellation, effective immediately following the Effective Time, of all outstanding IPS Stock Options not exercised prior to the Effective Time, without any payment therefor, and (iii) terminate the IPS Option Plan as of immediately following the Effective Time.

SECTION 6.09 AMEX Listing. SurgiCare shall use its best efforts to continue the listing of the SurgiCare Old Common Stock on the AMEX during the term of this Agreement.

SECTION 6.10 Listing of SurgiCare Class A Common Shares. SurgiCare shall use its best efforts to cause the SurgiCare Class A Common Shares to be issued in the Merger to be approved for listing, upon official notice of issuance, on the AMEX.

SECTION 6.11 Amendment or Waiver of Agreements. After the date hereof and prior to the Effective Time or earlier termination of this Agreement, SurgiCare shall not amend or waive, or agree to any amendment to or waiver of, any material provision of the DCPS/MBS Acquisition Agreement, the Stock Subscription Agreement or the Debt Exchange Agreement without the prior written consent of IPS.

SECTION 6.12 Form S-3 Eligibility. SurgiCare shall use its best efforts to maintain eligibility to file with the SEC registration statements on Form S-3 for offerings made on a

continuous basis pursuant to Rule 415 under the Securities Act during the term of this Agreement.

SECTION 6.13 IPS Audited Financial Statements. As soon as reasonably practicable following the date of this Agreement, IPS shall deliver to SurgiCare the audited consolidated balance sheets of IPS and the IPS Subsidiaries as of December 31, 2002 and 2001, together with the related consolidated statements of income and cash flows for the periods then ended, all certified by BDO Seidman, LLP, IPS independent public accountants and Arthur Andersen LLP, IPS former independent public accountants, respectively.

ARTICLE VII

CONDITIONS TO THE MERGER

SECTION 7.01 Conditions to the Obligations of Each Party. The obligations of IPS, SurgiCare and Merger Sub to consummate the Merger pursuant to Section 1.02 hereof are subject to the satisfaction or waiver (where permissible) of the following conditions:

(a) Stockholder Approvals. The SurgiCare Stockholder Approval and the IPS Stockholder Approval shall have been obtained.

(b) No Order. No Governmental Entity or court of competent jurisdiction shall have enacted, threatened, issued, promulgated, enforced or entered any Law, rule, regulation, judgment, decree, injunction, executive order or award (an Order) that is then in effect, pending or threatened and has, or would have, the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger, the Debt Exchange, the Equity Financing, the Recapitalization or the DCPS/MBS Acquisition; provided that the party relying on a failure of this condition has complied with its obligations under Section 6.06.

(c) Antitrust Waiting Periods. Any waiting period (and any extension thereof) applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated or obtained.

(d) DCPS/MBS Acquisition. The DCPS/MBS Acquisition shall have been consummated concurrently with the Merger.

(e) Equity Financing. The Equity Financing shall have been consummated concurrently with the Merger.

(f) Debt Exchange. The Debt Exchange shall have been consummated concurrently with the Merger.

SECTION 7.02 Conditions to the Obligations of SurgiCare and Merger Sub. The obligations of SurgiCare and Merger Sub to consummate the Merger are subject to the satisfaction or, where permissible, the waiver by SurgiCare of the following additional conditions:

(a) Representations and Warranties. Each of the representations and warranties of IPS contained in this Agreement shall be true and correct in all material respects as

of the Effective Time, as though made at and as of the Effective Time, except that those 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 (provided, that any representation or warranty that is qualified by materiality (including, without limitation, by reference to a Material Adverse Effect) shall be true in all respects as of the Closing Date, or as of such particular date, as the case may be), and SurgiCare and Merger Sub shall have received a certificate of the Chief Executive Officer or Chief Financial Officer of IPS to that effect.

(b) Agreements and Covenants. IPS shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time and SurgiCare and Merger Sub shall have received a certificate of the Chief Executive Officer or Chief Financial Officer of IPS to that effect.

(c) Consents. All material consents, approvals and authorizations (including, without limitation, the Required Consents) legally required to be obtained to consummate the Merger shall have been obtained from and made with all Governmental Entities and all consents from third parties under any IPS Material Contract or other material agreement, contract, license, lease or other instrument to which IPS or any IPS Subsidiary is a party or by which it is bound required as a result of the transactions contemplated by this Agreement or the Merger shall have been obtained.

(d) Material Adverse Effect. Since the date of this Agreement, there shall have been no circumstances, events, occurrences, changes or effects that have had or would have an IPS Material Adverse Effect.

(e) Actions. No Action shall have been brought, be pending or have been threatened by any Governmental Entity or other Person that (i) seeks to prevent or delay the consummation of the Transactions, (ii) seeks to restrain or prohibit SurgiCare s or Merger Sub s full rights of ownership or operation of any portion of the business or assets of IPS, or to compel SurgiCare or Merger Sub to dispose of or hold separate all or any portion of the business or assets of IPS, (iii) seeks to impose limitations on the ability of SurgiCare or Merger Sub to exercise full rights of ownership of the shares of IPS Capital Stock acquired pursuant to the Merger, including, without limitation, the right to vote any shares of IPS Capital Stock acquired or owned by SurgiCare or Merger Sub on all matters properly presented to the IPS stockholders, (iv) seeks to require divestiture by SurgiCare or Merger Sub of any shares of IPS Capital Stock, or (v) that otherwise would have an IPS Material Adverse Effect.

(f) Certified Copies. At the Closing, IPS shall have delivered certified copies of (i) the resolutions duly adopted by the IPS Board authorizing the execution, delivery and performance of this Agreement and the other agreements contemplated hereby applicable to it and the Transactions, (ii) the IPS Charter and IPS By-Laws and (iii) the tabulation of the stockholder vote taken at the IPS Stockholders Meeting.

(g) Director Resignations. At the Closing, except as otherwise mutually agreed by IPS and SurgiCare, IPS shall have delivered signed letters of resignation from each director of IPS and of each IPS Subsidiary, pursuant to which each such director resigns from his

position as a director of IPS and of each IPS Subsidiary and makes such resignation effective at or prior to the Effective Time.

(h) Documents and Proceedings. All documents that IPS delivers and all proceedings of IPS shall be in form and substance reasonably satisfactory to SurgiCare and its counsel.

(i) Appraisal Shares. No more than 15% of the shares of IPS Capital Stock shall be Appraisal Shares.

(j) Employment Agreements. Each of Terrence Bauer and Steve Murdock shall have entered into an employment agreement with SurgiCare in substantially the form attached hereto as Exhibit E and all other employment agreements with such individuals shall have been terminated. Such new employment agreements shall be in full force and effect as of the Effective Time and such individuals shall be in the employ of IPS immediately prior to the Effective Time and no such individual shall have indicated his intention to terminate his employment with the Surviving Corporation or SurgiCare following the Effective Time.

(k) Opinion. SurgiCare shall have received an opinion of Morris, Manning & Martin, LLP, counsel to IPS, in form and substance as set forth on Exhibit F hereto.

(l) Registration Rights. All existing registration rights of holders of IPS Capital Stock shall have been terminated and SurgiCare and Merger Sub shall have received a certificate to such effect signed on behalf of IPS by the President or Chief Financial Officer of IPS.

(m) Investment Letters. There shall not be more than 30 holders of IPS Capital Stock immediately prior to the Effective Time that have not delivered to SurgiCare executed investment letters (the Investment Letters) in substantially the form set forth on Exhibit G hereto with each of question 3 and any clause of question 4 thereof answered in the affirmative.

(n) No Alternative Transactions. No tender offer, exchange offer, merger or other transaction in respect of shares of IPS Capital Stock or material assets of IPS or any IPS Subsidiary shall have been commenced by any Person.

SECTION 7.03 Conditions to the Obligations of IPS. The obligations of IPS to consummate the Merger are subject to the satisfaction or, where permissible, the waiver by IPS of the following additional conditions:

(a) Representations and Warranties. Each of the representations and warranties of SurgiCare and Merger Sub contained in this Agreement shall be true and correct in all material respects as of the Effective Time, as though made on and as of the Effective Time, except that those 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 (provided, that any representation or warranty that is qualified by materiality shall be true in all respects as of the Effective Time, or as of such particular date, as the case may be), and IPS shall have received a

certificate of the Chief Executive Officer or Chief Financial Officer of SurgiCare and Merger Sub to that effect.

(b) Agreements and Covenants. Each of SurgiCare and Merger Sub shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time and IPS shall have received a certificate of the Chief Executive Officer or Chief Financial Officer of SurgiCare and Merger Sub to that effect.

(c) Consents. All material consents, approvals and authorizations (including, without limitation, the Required Consents) legally required to be obtained to consummate the Merger shall have been obtained from and made with all Governmental Entities and all consents from third parties under any SurgiCare Material Contract or other material agreement, contract, license, lease or other instrument to which SurgiCare or any SurgiCare Subsidiary is a party or by which it is bound required as a result of the transactions contemplated by this Agreement or the Merger shall have been obtained.

(d) Material Adverse Effect. Since the date of this Agreement, there shall have been no circumstances, events, occurrences, changes or effects that have had or would have a SurgiCare Material Adverse Effect.

(e) Actions. No Action shall have been brought, be pending or have been threatened by any Governmental Entity or other Person that (i) seeks to prevent or delay the consummation of the Transactions, (ii) seeks to restrain or prohibit SurgiCare s or Merger Sub s full rights of ownership or operation of any portion of the business or assets of IPS, or to compel SurgiCare or Merger Sub to dispose of or hold separate all or any portion of the business or assets of IPS, (iii) seeks to impose limitations on the ability of SurgiCare or Merger Sub to exercise full rights of ownership of the shares of IPS Capital Stock acquired pursuant to the Merger, including, without limitation, the right to vote any shares of IPS Capital Stock acquired or owned by SurgiCare or Merger Sub on all matters properly presented to the IPS stockholders, (iv) seeks to require divestiture by SurgiCare or Merger Sub of any shares of IPS Capital Stock, or (v) that otherwise would have a SurgiCare Material Adverse Effect.

(f) Employment Agreement. Keith LeBlanc shall have entered into an employment agreement with SurgiCare in substantially the form attached hereto as Exhibit E and all other employment agreements with such individual shall have been terminated. Such new employment agreement shall be in full force and effect as of the Effective Time and such individual shall be in the employ of SurgiCare immediately prior to the Effective Time and such individual shall not have indicated his intention to terminate his employment with SurgiCare following the Effective Time.

(g) Certified Copies. At the Closing, (A) each of SurgiCare and Merger Sub shall have delivered certified copies of (i) the resolutions duly adopted by each of SurgiCare s and Merger Sub s board of directors authorizing the execution, delivery and performance of this Agreement and the other agreements contemplated hereby applicable to it and the Transactions, (ii) the resolutions duly adopted by such Person s stockholders approving this Agreement and the

Transactions and the tabulation of the stockholder vote thereof, and (iii) the certificate of incorporation and the by-laws of each of SurgiCare and Merger Sub.

(h) Opinion. IPS shall have received an opinion of Strasburger & Price, LLP, counsel to SurgiCare and Merger Sub, in form and substance as set forth on Exhibit H hereto.

(i) No Alternative Transactions. No tender offer, exchange offer, merger or other transaction in respect of shares of SurgiCare Capital Stock or material assets of SurgiCare or any SurgiCare Subsidiary shall have been commenced by any Person.

(j) Documents and Proceedings. All documents that the SurgiCare or Merger Sub delivers and all proceedings of SurgiCare and Merger Sub shall be in form and substance reasonably satisfactory to IPS and its counsel.

(k) Resyndication of SurgiCare Subsidiaries. The capital structure of each SurgiCare Subsidiary shall have been resyndicated in a manner satisfactory to IPS.

(l) Filing of SurgiCare Restated Charter. The SurgiCare Restated Charter shall have been filed with the Secretary of State of the State of Delaware and shall continue to be in full force and effect as of the Effective Time.

(m) Amendment of SurgiCare By-Laws. The SurgiCare By-Laws shall have been amended and restated in the form of Exhibit I hereto and shall continue to be in full force and effect as of the Effective Time.

(n) Conversion of SurgiCare Preferred Stock. All shares of SurgiCare Series A and SurgiCare Series AA shall have been redeemed or converted into SurgiCare Class A Common Shares, and no shares of SurgiCare Series A or SurgiCare Series AA shall be outstanding at the Effective Time.

(o) Director Resignations and Elections; Officers. At the Closing, SurgiCare shall have delivered signed letters of resignation from each director of SurgiCare and, except as otherwise mutually agreed by IPS and SurgiCare, of each SurgiCare Subsidiary, pursuant to which each such director resigns from his position as a director of SurgiCare and of each SurgiCare Subsidiary and makes such resignation effective at or prior to the Effective Time. At the Effective Time, the SurgiCare Board shall consist of Terrence Bauer, Keith LeBlanc, two individuals designated by Brantley IV, and three outside directors reasonably satisfactory to IPS, and the officers of SurgiCare shall be as follows:

Terrence Bauer	Chief Executive Officer
Keith LeBlanc	President
Steve Murdock	Chief Financial Officer

(p) No Waivers or Amendments. No amendment to or waiver of any material provision of the Stock Subscription Agreement (including the exhibits thereto), the Debt Exchange Agreement or the DCPS/MBS Acquisition Agreement shall have been made after the date hereof without the written consent of IPS.

(q) Termination of Warrants. The Brantley Warrants shall have been terminated, effective at the Effective Time, pursuant to documentation reasonably satisfactory to IPS.

(r) Settlement of Litigation. All outstanding litigation matters and legal proceedings involving SurgiCare or its Subsidiaries shall have been settled on terms satisfactory to IPS.

(s) Due Diligence. IPS shall have completed and be satisfied in its sole discretion with the results of its legal, accounting, tax, regulatory and business due diligence review of SurgiCare, DCPS and MBS.

(t) AMEX Listing. The SurgiCare Class A Common Shares to be issued in the Merger shall have been authorized for listing on the AMEX, subject to official notice of issuance.

ARTICLE VIII
TERMINATION, AMENDMENT, WAIVER AND EXPENSES

SECTION 8.01 Termination. This Agreement may be terminated and the Merger and the other Transactions may be abandoned at any time prior to the Effective Time, notwithstanding any requisite approval and adoption of this Agreement and the Transactions, as follows:

(a) by mutual written consent duly authorized by the boards of directors of each of SurgiCare and IPS;

(b) by either SurgiCare or IPS, by giving written notice to the other party, if there is any Law or Order of a Governmental Authority which is final and nonappealable preventing the consummation of the Merger; provided, however, that the provisions of this Section 8.01(b) will not be available to any party whose failure to fulfill its obligations hereunder is the cause of, or has resulted in, such Law or Order;

(c) by either SurgiCare or IPS, by giving written notice to the other party, if the Effective Time has not occurred on or before May 14, 2004;

(d) by IPS if (X) the SurgiCare Board (i) has made a SurgiCare Subsequent Adverse Determination, or publicly resolves to make a SurgiCare Subsequent Adverse Determination, (ii) fails to recommend to the SurgiCare stockholders that they approve the issuance of SurgiCare Class A Common Shares in the Merger and give the SurgiCare Stockholder Approval, or (iii) fails to reconfirm the recommendation referred to in clause (ii) above within five business days after IPS requests in writing that such recommendation be reaffirmed, or fails to publicly announce that the SurgiCare Board is not recommending any alternative SurgiCare Acquisition Proposal within five business days after IPS requests in writing that such announcement be made, (Y) SurgiCare has breached its obligations under Section 6.03, or (Z) a tender offer or exchange offer for 10% or more of the outstanding shares of stock of SurgiCare is commenced, and the SurgiCare Board fails to recommend against acceptance of

such tender offer or exchange offer by its stockholders (including by taking no position with respect to the acceptance or rejection of such tender offer or exchange offer by its stockholders);

(e) by SurgiCare if (X) the IPS Board (i) has made an IPS Subsequent Adverse Determination, or publicly resolves to make an IPS Subsequent Adverse Determination, (ii) fails to recommend to the IPS stockholders that they approve this Agreement and the Merger and give the IPS Stockholder Approval, or (iii) fails to reconfirm the recommendation referred to in clause (ii) above within five business days after SurgiCare requests in writing that such recommendation be reaffirmed, or fails to publicly announce that the IPS Board is not recommending any alternative IPS Acquisition Proposal within five business days after SurgiCare requests in writing that such announcement be made, (Y) IPS has breached its obligations under Section 6.04, or (Z) a tender offer or exchange offer for 10% or more of the outstanding shares of stock of IPS is commenced, and the IPS Board fails to recommend against acceptance of such tender offer or exchange offer by its stockholders (including by taking no position with respect to the acceptance or rejection of such tender offer or exchange offer by its stockholders);

(f) by either SurgiCare or IPS, by giving written notice to the other party, if the SurgiCare Stockholder Approval is not obtained at the SurgiCare Stockholders Meeting or any adjournment thereof duly called and held in accordance with Section 6.01(g) hereof;

(g) by either SurgiCare or IPS, by giving written notice to the other party, if the IPS Stockholder Approval is not obtained at the IPS Stockholders Meeting or any adjournment thereof duly called and held in accordance with Section 6.01(g) hereof;

(h) by SurgiCare, by giving written notice to IPS, upon a breach of any representation, warranty, covenant or agreement on the part of IPS set forth in this Agreement, or if any representation or warranty of IPS has become untrue, in either case such that the conditions set forth either in Section 7.02(a) or (b) would not be satisfied, and such breach shall not have been cured within twenty (20) business days following receipt by IPS of written notice of such breach; provided that the right to terminate this Agreement pursuant to this clause shall not be available to SurgiCare if SurgiCare is, at the time, in breach of this Agreement;

(i) by IPS, by giving written notice to SurgiCare, upon a breach of any representation, warranty, covenant or agreement on the part of SurgiCare or Merger Sub set forth in this Agreement, or if any representation or warranty of SurgiCare or Merger Sub has become untrue, in either case such that the conditions set forth either in Section 7.03(a) or (b) would not be satisfied, and such breach shall not have been cured within twenty (20) business days following receipt by SurgiCare of written notice of such breach; provided that the right to terminate this Agreement pursuant to this clause shall not be available to IPS if IPS is, at the time, in breach of this Agreement;

(j) prior to the SurgiCare Stockholders Meeting, by SurgiCare (A) if the SurgiCare Board has authorized SurgiCare, subject to complying with the terms of Section 6.03 of this Agreement, to enter into a definitive agreement with respect to a SurgiCare Superior Proposal and SurgiCare has notified IPS in writing that it intends to enter into such an agreement (which notification will identify the offeror and detail the proposed terms of such SurgiCare

Superior Proposal), and (B) IPS has not made, within five business days of receipt of SurgiCare s written notification of its intention to enter into a definitive agreement with respect to a SurgiCare Superior Proposal, an offer that the SurgiCare Board determines, in good faith after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the stockholders of SurgiCare as the SurgiCare Superior Proposal; provided, however, that such termination pursuant to this clause (j) will not be effective unless and until SurgiCare has paid to IPS the amounts described in Section 8.03 hereof as applicable to this Section 8.01(j);

(k) prior to the IPS Stockholders Meeting, by IPS (A) if the IPS Board has authorized IPS, subject to complying with the terms of Section 6.04 of this Agreement, to enter into a definitive agreement with respect to an IPS Superior Proposal and IPS has notified SurgiCare in writing that it intends to enter into such an agreement (which notification will identify the offeror and detail the proposed terms of such IPS Superior Proposal), and (B) SurgiCare has not made, within five business days of receipt of IPS written notification of its intention to enter into a definitive agreement with respect to an IPS Superior Proposal, an offer that the IPS Board determines, in good faith after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the stockholders of IPS as the IPS Superior Proposal; provided, however, that such termination pursuant to this clause (k) will not be effective unless and until IPS has paid to SurgiCare the amounts described in Section 8.03 hereof as applicable to this Section 8.01(k);

(l) by IPS, by written notice to SurgiCare, if the condition to closing set forth in Section 7.03(i) has not been met;

(m) by SurgiCare, by written notice to IPS, if the condition to closing set forth in Section 7.02(n) has not been met;

(n) prior to the SurgiCare Stockholders Meeting, by SurgiCare if the SurgiCare Board has made a SurgiCare Subsequent Adverse Determination and the SurgiCare Board has determined in good faith (after consultation with legal counsel) that holding the SurgiCare Stockholders Meeting would constitute a breach by the SurgiCare Board of its fiduciary duties to SurgiCare s stockholders under applicable Law; provided, however, that such termination pursuant to this clause (n) will not be effective unless and until SurgiCare has paid to IPS the amounts described in Section 8.03 hereof as applicable to this Section 8.01(n); and

(o) prior to the IPS Stockholders Meeting, by IPS if the IPS Board has made an IPS Subsequent Adverse Determination and the IPS Board has determined in good faith (after consultation with legal counsel) that holding the IPS Stockholders Meeting would constitute a breach by the IPS Board of its fiduciary duties to IPS stockholders under applicable Law; provided, however, that such termination pursuant to this clause (o) will not be effective unless and until IPS has paid to SurgiCare the amounts described in Section 8.03 hereof as applicable to this Section 8.01(o).

SECTION 8.02 Effect of Termination. Except as provided in Section 8.03 or Section 9.01 (which provisions will survive termination of this Agreement), in the event of termination of this Agreement pursuant to Section 8.01, this Agreement will immediately become void, there will be no liability under this Agreement on the part of SurgiCare or Merger Sub or IPS or any of

their respective officers or directors, and all rights and obligations of each party hereto will cease; provided, however, that nothing herein will relieve any party from liability for any pre-termination breach of any of its representations, warranties, covenants or agreements set forth in this Agreement.

SECTION 8.03 Expenses.

(a) Except as set forth below, all Expenses (as defined below) incurred in connection with this Agreement and the Transactions will be paid by the party incurring such expenses. Expenses as used in this Agreement include all reasonable out of pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, financing sources, appraisers, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the due diligence review and analysis, the Merger and the other Transactions, the authorization, preparation, negotiation, execution and performance of this Agreement, the preparation, printing, filing and mailing of the Proxy Statement, the solicitation of the SurgiCare Stockholder Approval, the filing of any required notices under the HSR Act or other similar regulations and all other matters related to the closing of the Merger and the other Transactions.

(b) SurgiCare will reimburse IPS for all Expenses incurred by or on behalf of IPS prior to termination of this Agreement in connection with this Agreement and the Transactions, upon the termination of this Agreement:

(1) by SurgiCare or IPS pursuant to Section 8.01(f);

(2) by IPS pursuant to Section 8.01(d), Section 8.01(i) or Section 8.01(l); or

(3) by SurgiCare pursuant to Section 8.01(j) or Section 8.01(n).

(c) IPS will reimburse SurgiCare for all Expenses incurred by or on behalf of SurgiCare prior to termination of this Agreement in connection with this Agreement and the Transactions, upon the termination of this Agreement:

(1) by SurgiCare or IPS pursuant to Section 8.01(g);

(2) by SurgiCare pursuant to Section 8.01(e), Section 8.01(h) or Section 8.01(m); or

(3) by IPS pursuant to Section 8.01(k) or Section 8.01(o).

(d) Each of SurgiCare and IPS acknowledges that the agreements contained in this Section 8.03 are an integral part of the Transactions, and that, without these agreements, the other party would not enter into this Agreement; accordingly, if either SurgiCare or IPS fails to pay the amounts due pursuant to this Section 8.03, and, in order to obtain any such payment, the other party commences a legal proceeding which results in a judgment against SurgiCare or IPS, as the case may be, for the amounts set forth in this Section 8.03, SurgiCare or IPS, as the case may be, will pay to the other party its costs and expenses (including attorneys fees) in

connection with such proceeding, together with interest on the amounts set forth in this Section 8.03 at the prime rate of Citibank N.A. in effect on the date any such payment was required to be made.

ARTICLE IX
GENERAL PROVISIONS

SECTION 9.01 Non-Survival of Representations, Warranties and Agreements. The representations and warranties in this Agreement and in any certificate delivered pursuant hereto will terminate at the Effective Time. The covenants and agreements in this Agreement will survive the Effective Time in accordance with their terms.

SECTION 9.02 Notices. All notices, requests, claims, demands and other communications hereunder will be in writing and will be deemed given (i) five days after mailing by certified mail (postage prepaid, return receipt requested), (ii) when delivered by hand, (iii) upon confirmation of receipt by facsimile or (iv) one business day after sending by overnight delivery service to the respective parties at the following addresses (or at such other address for a party as is specified in a notice given in accordance with this Section 9.02):

if to SurgiCare or Merger Sub:

SurgiCare, Inc.
12727 Kimberly Lane, Suite 200
Houston, TX 77024
Facsimile No.: (713) 722-0921
Attention: Keith LeBlanc

with a copy to:

Strasburger & Price, LLP
1401 McKinney, Suite 2200
Houston, Texas 77010.4035
Facsimile No.: (713) 951-5660
Attention: Ivan Wood Jr., Esq.

if to IPS:

Integrated Physician Solutions, Inc.
1805 Old Alabama Road, Suite 350
Roswell, GA 30076
Facsimile No.: (678) 832-1888
Attention: Terrence L. Bauer

with a copy to:

Morris, Manning & Martin, LLP
1600 Atlanta Financial Center

3343 Peachtree Road, N.E.
Atlanta, Georgia 30326
Facsimile No.: (404) 365-9532
Attention: David M. Calhoun, Esq.

SECTION 9.03 Certain Definitions. For purposes of this Agreement, the term:

(a) Affiliate or affiliate of a specified Person means a Person who directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with such specified Person.

(b) Aggregate Merger Consideration shall mean a number of shares of SurgiCare Class A Common Stock equal to the Fully-Diluted SurgiCare Shares *minus* the number of Brantley III Loan Conversion Shares *minus* the number of Brantley Capital Loan Conversion Shares.

(c) Assumed Market Price means (x) the greater of $0.55 or the Five Day Average Price, in each case *divided by* (y) the Reverse Split Fraction.

(d) business day means any day on which both the principal offices of the SEC in Washington, D.C. are open to accept filings, or, in the case of determining a date when any payment is due, any day (other than a Saturday or a Sunday) on which banks are not required or authorized to close in The City of New York.

(e) Brantley III Loan Amount means the aggregate principal amount of, and all accrued and unpaid interest on, the Brantley III Notes outstanding immediately prior to the Closing.

(f) Brantley III Loan Conversion Shares means a number of SurgiCare Class A Common Shares equal to the Brantley III Loan Amount *divided by* the Class A Common Closing Price, rounded up to the nearest whole share.

(g) Brantley Capital Loan Amount means the aggregate principal amount of, and all accrued and unpaid interest on, the Brantley Capital Notes outstanding immediately prior to the Closing.

(h) Brantley Capital Loan Conversion Shares means a number of SurgiCare Class A Common Shares equal to the Brantley Capital Loan Amount *divided by* the Class A Common Closing Price, rounded up to the nearest whole share.

(i) Class A Common Closing Price means an amount equal to the Five Day Average Price *divided by* the Reverse Split Fraction.

(j) control (including the terms controlled by and under common control with) means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or credit arrangement or otherwise.

(k) DCPS means Dennis Cain Physician Services, Ltd., a Texas limited partnership.

(l) DCPS/MBS Acquisition means the transactions contemplated by the DCPS/MBS Acquisition Agreement, including without limitation the issuance of shares of SurgiCare Class A Common Stock and SurgiCare Class C Common Stock pursuant thereto.

(m) DCPS/MBS Acquisition Agreement means the Agreement and Plan of Merger dated as of February 9, 2004 among SurgiCare, DCPS/MBS Acquisition, Inc., DCPS, MBS and the Sellers party thereto attached hereto as Exhibit K.

(n) Dilutive Options and Warrants means options and warrants to purchase SurgiCare Class A Common Shares that have an exercise price immediately after giving effect to the filing of the SurgiCare Restated Charter that is equal to or less than the Assumed Market Price.

(o) Employee Pension Benefit Plan has the meaning set forth in ERISA Section 3(2).

(p) Employee Welfare Benefit Plan has the meaning set forth in ERISA Section 3(l).

(q) Environmental Laws means any federal, state, local or foreign Laws relating to (A) releases or threatened releases of Hazardous Substances or materials containing Hazardous Substances; (B) the manufacture, handling, transport, use, treatment, storage or disposal of Hazardous Substances or materials containing Hazardous Substances; or (C) otherwise relating to pollution or protection of the environment.

(r) Fiduciary has the meaning set forth in ERISA Section 3(21).

(s) Five Day Average Price means the average of the daily average of the high and low price per share of the SurgiCare Old Common Stock on the American Stock Exchange, or such other stock exchange or other similar system on which the SurgiCare Old Common Stock shall be listed or quoted at the time, for the five trading days immediately preceding the Closing Date.

(t) Fully-Diluted SurgiCare Shares means the number of SurgiCare Class A Common Shares which would be outstanding on a fully-diluted basis (calculated as set forth in the immediately following sentence) immediately after the effectiveness of the filing of the SurgiCare Restated Charter and the Recapitalization but prior to the Equity Financing, the Merger, the Debt Exchange or the DCPS/MBS Acquisition, rounded up to the nearest whole share. For purposes of this definition, fully-diluted basis shall mean the number of SurgiCare Class A Common Shares that would be outstanding assuming the exercise of all outstanding options, warrants and rights to acquire SurgiCare Class A Common Shares and the conversion or exchange of all securities convertible into, or exchangeable for, SurgiCare Class A Common Shares, whether or not vested or then exercisable, calculated at the maximum number of shares issuable pursuant thereto; provided, however, that all options and warrants that are not Dilutive Options and Warrants will be disregarded for purposes of such calculation, and each Dilutive

Option and Warrant shall be deemed to have been exercised for a number of shares equal to (i) the maximum number of shares issuable pursuant to such Dilutive Option and Warrant multiplied by (ii) a fraction, the numerator of which is the excess of the Assumed Market Price over the exercise price of such Dilutive Option and Warrant, and the denominator of which is the Assumed Market Price.

(u) Hazardous Substances means (i) those substances defined in or regulated under the following federal statutes and their state counterparts and all regulations thereunder: the Hazardous Materials Transportation Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, the Safe Drinking Water Act, the Atomic Energy Act, the Federal Insecticide, Fungicide, and Rodenticide Act and the Clean Air Act; (ii) petroleum and petroleum products, including crude oil and any fractions thereof; (iii) natural gas, synthetic gas, and any mixtures thereof; (iv) polychlorinated biphenyls, asbestos and radon; (v) any other contaminant; and (vi) any substance, material or waste regulated by any federal, state, local or foreign Governmental Entity pursuant to any Environmental Law.

(v) Intellectual Property means the entire right, title and interest in and to all proprietary rights of every kind and nature, including without limitation all rights and interests pertaining to or deriving from:

(1) patents, copyrights, technology, know-how, processes, trade secrets, inventions, domain names, works (whether published or unpublished and whether registered or not), proprietary data, customer data, databases, pricing and cost information, business, sales and marketing methods and plans, formulae, research and development data and computer software programs;

(2) all Trademarks;

(3) all registrations, applications, recordings, licenses, common-law rights and Contracts relating thereto; and

(4) all Actions and rights to sue at law or in equity for any past, present or future infringement or other impairment of any of the foregoing.

(w) IPS Common/Series C Merger Consideration shall mean a number of SurgiCare Class A Common Shares equal to the lesser of (i) the Aggregate Merger Consideration and (ii) the product of 2,000,000 *multiplied by* the Reverse Split Fraction, rounded up to the nearest whole share.

(x) IPS Employee Benefit Plan means any current (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan, (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), (d) Employee Welfare Benefit Plan, material fringe benefit plan or program, or (e) profit sharing, stock option, stock purchase, equity, stock appreciation, bonus, incentive deferred compensation, severance plan or other benefit plan, which covers any current or former employees, officers, directors, independent

contractors (or their dependents or beneficiaries) of IPS or any IPS Subsidiary or for which IPS or any IPS Subsidiary may have any Liability.

(y) IPS Material Adverse Effect means any one or more circumstances, events, occurrences, changes or effects that, individually or in the aggregate with respect to all events, occurrence, changes or effects with respect to which such phrase is used herein, (i) materially and adversely affects, or poses 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 the IPS Subsidiaries taken as a whole, or (ii) is reasonably likely to prevent or delay the consummation of the Merger.

(z) IPS Senior Preferred Merger Consideration means a number of SurgiCare Class A Common Shares equal to the Aggregate Merger Consideration *minus* the IPS Common/Series C Merger Consideration.

(aa) IPS Series A Merger Consideration shall mean the number of SurgiCare Class A Common Shares that would be distributed in respect of all outstanding shares of IPS Series A outstanding at the time of the Merger if the IPS Senior Preferred Merger Consideration were to be distributed to all holders of IPS Series A, IPS Series A-1, IPS Series A-2 and IPS Series B in accordance with the terms of the IPS Charter (as amended by the IPS Charter Amendment).

(bb) IPS Series A-1 Merger Consideration shall mean the number of SurgiCare Class A Common Shares that would be distributed in respect of all outstanding shares of IPS Series A-1 outstanding at the time of the Merger if the IPS Senior Preferred Merger Consideration were to be distributed to all holders of IPS Series A, IPS Series A-1, IPS Series A-2 and IPS Series B in accordance with the terms of the IPS Charter (as amended by the IPS Charter Amendment).

(cc) IPS Series A-2 Merger Consideration shall mean the number of shares of SurgiCare Class A Common Stock that would be distributed in respect of all outstanding shares of IPS Series A-2 outstanding at the time of the Merger if the IPS Senior Preferred Merger Consideration were to be distributed to all holders of IPS Series A, IPS Series A-1, IPS Series A-2 and IPS Series B in accordance with the terms of the IPS Charter (as amended by the IPS Charter Amendment).

(dd) IPS Series B Merger Consideration shall mean the number of shares of SurgiCare Class A Common Stock that would be distributed in respect of all outstanding shares of IPS Series B outstanding at the time of the Merger if the IPS Senior Preferred Merger Consideration were to be distributed to all holders of IPS Series A, IPS Series A-1, IPS Series A-2 and IPS Series B in accordance with the terms of the IPS Charter (as amended by the IPS Charter Amendment).

(ee) IPS Subsidiary means any subsidiary of IPS.

(ff) knowledge means, with respect to IPS, the actual knowledge, after reasonable inquiry, of the chief executive officer and chief financial officer of IPS, and, with

respect to SurgiCare, the actual knowledge, after reasonable inquiry, of the executive officers of SurgiCare.

(gg) Liability means any liability or obligation (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether incurred or consequential and whether due or to become due).

(hh) MBS means Medical Billing Services, Inc., a Texas corporation.

(ii) Multiemployer Plan has the meaning set forth in ERISA Section 3(37).

(jj) PBGC means the Pension Benefit Guaranty Corporation.

(kk) person or Person means an individual, corporation, partnership, limited partnership, syndicate, person (including, without limitation, a person as defined in section 13(d)(3) of the Exchange Act), trust, association or entity or government, political subdivision, agency or instrumentality of a government.

(ll) Prohibited Transaction has the meaning set forth in ERISA Section 406 and Code Section 4975.

(mm) Reverse Split Fraction means a number equal to 0.10.

(nn) subsidiary or subsidiaries of any Person means any corporation, partnership, joint venture or other legal entity of which such Person (either alone or through or together with any other subsidiary) owns, directly or indirectly, 10% or more of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

(oo) SurgiCare Employee Benefit Plan means any current (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan, (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), (d) Employee Welfare Benefit Plan, material fringe benefit plan or program, or (e) profit sharing, stock option, stock purchase, equity, stock appreciation, bonus, incentive deferred compensation, severance plan or other benefit plan, which covers any current or former employees, officers, directors, independent contractors (or their dependents or beneficiaries) of SurgiCare or any SurgiCare Subsidiary or for which SurgiCare or any SurgiCare Subsidiary may have any Liability.

(pp) SurgiCare Material Adverse Effect means any one or more circumstances, events, occurrences, changes or effects that, individually or in the aggregate with respect to all events, occurrence, changes or effects with respect to which such phrase is used herein, (i) materially and adversely affects, or poses 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 the SurgiCare Subsidiaries taken as a whole, or (ii) is reasonably likely to prevent or delay the consummation of the Merger.

(qq) SurgiCare Subsidiary means any subsidiary of SurgiCare.

(rr) Tax or Taxes means all taxes, fees, levies, duties, tariffs, imposts, and governmental impositions or charges of any kind in the nature of (or similar to) taxes, payable to any federal, state, local, or foreign authority, whether disputed or not, including without limitation (i) income, franchise, profits, gross receipts, *ad valorem*, net worth value added, sales, use, service, real or personal property, special assessments, capital stock, license, payroll, withholding, employment, social security (or similar), workers compensation, unemployment compensation, disability, utility, severance, production, excise, stamp, occupation, premiums, windfall profits, environmental (including taxes under Code section 59A), customs duties, registration, alternative and add-on minimum, estimated, transfer and gains taxes, or other tax of any kind whatsoever, and (ii) in all cases, including interest, penalties, additional taxes and additions to tax imposed with respect thereto.

(ss) Tax Return means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule, attachment or amendment thereto.

(tt) Trademarks means all trademarks, service marks, trade names, trade dress, and logos, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith.

(uu) Transactions means the Merger and the other transactions contemplated by this Agreement, including without limitation the Recapitalization, the Debt Exchange the Equity Financing, the Board Election, the adoption of the New Equity Plan and the DCPS/MBS Acquisition.

SECTION 9.04 Amendment. This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; provided, however, that after this Agreement is adopted by the IPS stockholders, no such amendment will be made that reduces the amount or changes the type of consideration into which each share of IPS Capital Stock will be converted upon consummation of the Merger or that otherwise by applicable Law requires the approval of the IPS stockholders without the further approval of the IPS stockholders; provided, further, that the prior written consent of Brantley Partners IV shall be required for any amendment hereto. This Agreement may not be amended, except by an instrument in writing signed by the parties hereto.

SECTION 9.05 Waiver. At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any obligation or other act of any other party hereto, (b) waive any inaccuracy in the representations and warranties contained herein or in any document delivered pursuant hereto, or (c) waive compliance with any agreement or condition contained herein; provided, however, that the prior written consent of Brantley Partners IV shall be required in any such event. Any such extension or waiver will be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby. The failure of any party to this Agreement to assert any of its rights under this Agreement will not constitute a waiver of such rights.

SECTION 9.06 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other conditions and provisions of this Agreement will nevertheless remain in full force and effect as long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto will negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions be consummated as originally contemplated to the fullest extent possible.

SECTION 9.07 Assignment; Binding Effect; Benefit. Neither this Agreement nor any of the rights, interests or obligations hereunder will be assigned by any of the parties hereto (whether by operation of Law or otherwise) without the prior written consent of the other parties, provided, however, that each of SurgiCare and Merger Sub will be entitled to assign this Agreement and any rights, interests or obligations hereunder to any of its Affiliates or, following the Closing, any senior lender of SurgiCare without the consent of IPS. Subject to the preceding sentence, this Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective successors and assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

SECTION 9.08 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties will be entitled to specific performance of the terms hereof, in addition to any other remedy at Law or in equity.

SECTION 9.09 Governing Law; Forum. This Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts executed in and to be performed in that state and without regard to any applicable conflicts of law principles.

SECTION 9.10 Headings. The descriptive headings contained in this Agreement are included for convenience of reference only and will not affect in any way the meaning or interpretation of this Agreement.

SECTION 9.11 Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed and delivered will be deemed to be an original but all of which taken together will constitute one and the same agreement.

SECTION 9.12 Entire Agreement. This Agreement (including the exhibits hereto, the disclosure schedule called for hereunder and furnished by SurgiCare and Merger Sub to IPS prior to the execution of this Agreement (the SurgiCare Disclosure Schedule) and the disclosure schedule called for hereunder and furnished by IPS to SurgiCare and Merger Sub prior to the execution of this Agreement (the IPS Disclosure Schedule)) and the Confidentiality Agreement constitute the entire agreement among the parties hereto with respect to the

subject matter hereof and supersede all prior agreements and understandings among the parties hereto with respect thereto, including without limitation the Prior Agreement, which Prior Agreement is terminated in its entirety. No addition to or modification of any provision of this Agreement will be binding upon any party hereto unless made in writing and signed by all parties hereto.

SECTION 9.13 Waiver of Jury Trial. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, SurgiCare, Merger Sub and IPS have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

SURGICARE, INC.

By: /s/ Keith G. LeBlanc

Name: Keith G. LeBlanc
Title: President and Chief Executive Officer

IPS ACQUISITION, INC.

By: /s/ Keith G. LeBlanc

Name: Keith G. LeBlanc
Title: President

INTEGRATED PHYSICIAN SOLUTIONS, INC.

By: /s/ Terrence L. Bauer

Name: Terrence L. Bauer
Title: President and Chief Executive Officer

[Amended and Restated Agreement and Plan of Merger]

ANNEX B

AGREEMENT AND PLAN OF MERGER

by and among

SURGICARE, INC.

DCPS/MBS ACQUISITION, INC.

DENNIS CAIN PHYSICIAN SOLUTIONS, LTD.

MEDICAL BILLING SERVICES, INC.

And

THE SELLERS PARTY HERETO

Dated as of February 9, 2004

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AGREEMENT AND PLAN OF MERGER

THIS **AGREEMENT AND PLAN OF MERGER** dated as of February , 2004 (this Agreement) is by and among **SURGICARE, INC.**, a Delaware corporation (SurgiCare), **DCPS/MBS ACQUISITION, INC.**, a Texas corporation and a wholly-owned subsidiary of SurgiCare (Newco), **DENNIS CAIN PHYSICIAN SOLUTIONS, LTD.**, a Texas limited partnership (DCPS), **MEDICAL BILLING SERVICES, INC.**, a Texas corporation (MBS), Dennis Cain (Cain), the other persons designated on the signature pages hereto as DCPS Sellers (collectively with Cain, the DCPS Sellers), Tom M. Smith (Smith) and the other persons designated on the signature pages hereto as MBS Sellers (collectively with Smith, the MBS Sellers and, collectively with the DCPS Sellers, the Sellers). All terms not otherwise defined herein have the meanings ascribed to them in Section 9.03 hereof.

WHEREAS, the boards of directors of SurgiCare (the SurgiCare Board), Newco (the Newco Board) and MBS (the MBS Board), and the DCPS Sellers (who constitute the sole general partner and limited partners of DCPS), have each determined that it is advisable and in the best interests of their respective stockholders or partners, as applicable, for SurgiCare to enter into a business combination with DCPS and MBS upon the terms and subject to the conditions set forth herein;

WHEREAS, in furtherance of such combination, the SurgiCare Board, the Newco Board and the MBS Board have each approved the merger (the MBS Merger) of Newco with and into MBS in accordance with the applicable provisions of the Delaware General Corporation Law (the DGCL) and the Texas Business Corporation Act (the TBCA), and the SurgiCare Board, the Newco Board and the DCPS Sellers have each approved the merger (the DCPS Merger and, together with the MBS Merger, the Mergers) of DCPS with and into MBS (immediately following the effectiveness of the MBS Merger) in accordance with the applicable provisions of the DGCL, the TBCA and the Texas Revised Limited Partnership Act (the TRLPA), in each case upon the terms and subject to the conditions set forth herein;

WHEREAS, simultaneously with, and as a condition to, the Mergers, IPS Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of SurgiCare (IPS Merger Sub), will merge with and into Integrated Physician Solutions, Inc., a Delaware corporation (IPS), on the terms and subject to the conditions set forth in the Amended and Restated Agreement and Plan of Merger dated as of February , 2004 among SurgiCare, IPS Merger Sub and IPS (as amended from time to time, the IPS Acquisition Agreement ; the transactions contemplated thereby are referred to herein as the IPS Acquisition);

WHEREAS, prior to the Mergers, (A) SurgiCare will file an Amended and Restated Certificate of Incorporation (the SurgiCare Restated Charter) in the form of Exhibit A hereto with the Secretary of State of the State of Delaware pursuant to which (i) SurgiCare s corporate name will be changed to Orion HealthCorp, Inc. , (ii) the Class B Common Stock, par value $0.001 per share (the SurgiCare Class B Common Stock), of SurgiCare will be authorized, (iii) the Class C Common Stock, par value $0.001 per share (the SurgiCare Class C Common Stock ; shares of SurgiCare Class C Common Stock being referred to herein collectively as the SurgiCare Class C Common Shares), of SurgiCare will be authorized and (iv) SurgiCare will

effect a reverse stock split whereby each outstanding share of common stock, par value $0.005 per share (the SurgiCare Old Common Stock), of SurgiCare shall be reclassified and reduced to a fraction of a share of Class A Common Stock, par value $0.001 per share (the SurgiCare Class A Common Stock ; shares of SurgiCare Class A Common Stock being referred to herein collectively as the SurgiCare Class A Common Shares), of SurgiCare equal to the Reverse Split Fraction (as hereinafter defined), and (B) unless otherwise agreed by IPS, all outstanding shares of Series AA Preferred Stock, $0.001 par value per share (the SurgiCare Series AA and, collectively with the SurgiCare Old Common Stock and the SurgiCare Series A, the SurgiCare Capital Stock), of SurgiCare shall be converted into shares of SurgiCare Class A Common Stock (the filing of the SurgiCare Restated Charter and the conversion, if applicable, of the SurgiCare Series AA being referred to herein as the Recapitalization);

WHEREAS, prior to the date hereof, Brantley Partners IV, L.P. (Brantley IV) advanced a total of $2,055,000 in loans to Lakepoint Acquisition, Inc., a Delaware corporation (Lakepoint), which in turn advanced $665,000 to SurgiCare pursuant to one or more promissory notes (collectively with any notes evidencing additional loans made by Lakepoint to SurgiCare after the date hereof, the SurgiCare Bridge Notes) and $1,390,000 to IPS pursuant to one or more promissory notes (collectively with any notes evidencing additional loans made by Lakepoint to IPS after the date hereof, the IPS Bridge Notes and, together with the SurgiCare Bridge Notes, the Bridge Notes) to fund certain approved working capital expenses;

WHEREAS, prior to the date hereof, Brantley Venture Partners III, L.P. (Brantley III) has made loans to IPS in the outstanding aggregate principal amount of $1,271,171 evidenced by one or more promissory notes (the Brantley III Notes), and, immediately after giving effect to the IPS Acquisition, Brantley III, SurgiCare and IPS wish to have the Brantley III Notes exchanged for shares of SurgiCare Class A Common Stock on the terms and conditions set forth in an Amended and Restated Debt Exchange Agreement dated as of February , 2004 among SurgiCare, Brantley Capital Corporation (Brantley Capital) and Brantley III (as amended from time to time, the Debt Exchange Agreement ; the transactions contemplated thereby are referred to herein as the Debt Exchange);

WHEREAS, prior to the date hereof, Brantley Capital has made loans to IPS in the outstanding aggregate principal amount of $1,985,448 evidenced by one or more promissory notes (the Brantley Capital Notes) , and, immediately after giving effect to the IPS Acquisition, Brantley Capital, SurgiCare and IPS wish to have the Brantley Capital Notes exchanged for shares of SurgiCare Class A Common Stock on the terms and conditions set forth in the Debt Exchange Agreement;

WHEREAS, simultaneously with, and as a condition to, the Mergers, Brantley IV will purchase, and SurgiCare will issue and sell to Brantley IV, for consideration consisting of cash and the Bridge Notes, shares of SurgiCare Class B Common Stock on the terms and subject to the conditions set forth in an Amended and Restated Stock Subscription Agreement dated as of February , 2004 between SurgiCare and Brantley IV (as amended from time to time, the Stock Subscription Agreement ; the transactions contemplated thereby are referred to herein as the Equity Financing);

WHEREAS, for United States federal income tax purposes, each of the DCPS Merger and, assuming the Five Day Average Price is equal to or greater than $0.70, the MBS Merger is intended to qualify as a reorganization under the provisions of Section 368(a) of the United States Internal Revenue Code of 1986, as amended (the Code);

WHEREAS, pursuant to the Mergers, each outstanding share of common stock, par value $1.00 per share, of MBS (MBS Common Stock), and all outstanding Units of Partnership Interest in DCPS (the DCPS Partnership Interests) shall be converted into the right to receive the applicable Merger Consideration (as defined herein), upon the terms and subject to the conditions set forth herein; and

WHEREAS, SurgiCare, Newco, DCPS, MBS and the Sellers desire to make certain representations, warranties, covenants and agreements in connection with the Mergers and also to prescribe various conditions to the Mergers;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements contained in this Agreement and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I
THE MERGERS

SECTION 1.01 The Mergers. Upon the terms of this Agreement and subject to the conditions set forth in Article VII, and in accordance with the TBCA and the TRLPA, at the MBS Effective Time (as defined below), Newco will be merged with and into MBS and, immediately thereafter, at the DCPS Effective Time (as defined below), DCPS will be merged with and into MBS. As a result of the Mergers, the separate existence of each of Newco and DCPS will cease and MBS will continue as the surviving corporation of the Mergers (the Surviving Corporation) and will continue to be governed by the TBCA.

SECTION 1.02 Closing; Effective Times.

(a) The closing of the Mergers (the Closing), the Equity Financing, the Debt Exchange and the IPS Acquisition will take place substantially simultaneously (i) at 10:00 a.m. (local time) at the offices of Ropes & Gray LLP, 45 Rockefeller Plaza, New York, New York as soon as practicable, but in any event within three (3) business days after the day on which the last to be fulfilled or waived of the conditions set forth in Article VII (other than those conditions that by their nature are to be fulfilled at the Closing, but subject to the fulfillment or waiver of such conditions) are fulfilled or waived in accordance with this Agreement or (ii) at such other place and time or on such other date as SurgiCare and the Sellers may agree in writing (the Closing Date). Subject to the provisions of Article VII, failure to consummate the Mergers provided for in this Agreement on the date and time and at the place determined pursuant to this Section 1.02 will not result in the termination of this Agreement and will not relieve any party of any obligation under this Agreement.

(b) At the Closing, DCPS, MBS, SurgiCare and Newco will cause articles or certificates of merger (the Certificates of Merger) to be duly prepared, executed and filed with the Secretary of State of the State of Texas as provided in Section 5.01 of the TBCA and Section

2.11 of the TRLPA and make all other filings or recordings required by applicable statute, law (including common law), legislation, interpretation, ordinance, rule or regulation, domestic or foreign (Law) in connection with the Mergers. The Mergers will become effective at such time as the Certificate of Mergers are duly filed with the Secretary of State of the State of Texas or at such later times as are specified in the Certificates of Merger (the DCPS Effective Time and the MBS Effective Time , respectively; the DCPS Effective Time and the MBS Effective Time, together, are referred to herein as the Effective Times).

SECTION 1.03 Effect of the Mergers. At the Effective Times, the effect of the Mergers will be as provided in this Agreement, the Certificates of Merger, the TBCA and TRLPA, as applicable. Without limiting the generality of the foregoing, and subject thereto, at the Effective Times all the property, rights, privileges, powers, authority and franchises, both public and private, all assets and property, real, personal and mixed, and every interest therein, wherever located, of MBS, DCPS and Newco will vest in the Surviving Corporation, and all debts, liabilities, obligations and duties of MBS, DCPS and Newco will become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.04 Subsequent Actions. If, at any time after the Effective Times, the Surviving Corporation considers or is advised that any deeds, bills of sale, assignments, assurances or other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of any of MBS, DCPS or Newco or which are to be acquired by the Surviving Corporation as a result of, or in connection with, the Mergers, or otherwise to carry out this Agreement, the officers and directors of the Surviving Corporation are authorized to execute and deliver, in the name and on behalf of each of MBS, DCPS and Newco, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of MBS, DCPS and Newco or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out this Agreement.

SECTION 1.05 Certificate of Incorporation and By-Laws. The certificate of incorporation and by-laws of the Surviving Corporation shall be the certificate of incorporation and by-laws of MBS as in effect as of the Effective Times, until duly amended or repealed.

SECTION 1.06 Directors and Officers. The directors of Newco immediately prior to the MBS Effective Time will be the directors of the Surviving Corporation, each to hold office in accordance with the certificate of incorporation and by-laws of the Surviving Corporation, and the officers of Newco immediately prior to the MBS Effective Time will be the officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

ARTICLE II
CONVERSION OF SECURITIES; EXCHANGE OF CERTIFICATES

SECTION 2.01 Conversion of Securities.

(a) MBS. At the MBS Effective Time, by virtue of the MBS Merger and without any action on the part of SurgiCare, Newco, MBS or the holders of any of the following securities:

(i) except as otherwise set forth in Section 2.01(a)(iv), all shares of MBS Common Stock (collectively, the MBS Common Shares) issued and outstanding immediately prior to the MBS Effective Time (other than any MBS Common Shares to be canceled pursuant to Section 2.01(a)(ii)) shall be canceled and automatically converted into the right to receive, in the aggregate:

A. (1) $1,400,000 in cash, if the Five Day Average Price is equal to or greater than $0.70, or (2) $2,000,000 in cash, if the Five Day Average Price is less than $0.70 (the MBS Cash Consideration); and

B. (1) a number of SurgiCare Class C Common Shares equal to the product of 8,000,000 *multiplied by* the Reverse Split Fraction, if the Five Day Average Price is equal to or greater than $0.70, or (2) a number of SurgiCare Class C Common Shares equal to the product of 6,060,606 *multiplied by* the Reverse Split Fraction, if the Five Day Average Price is less than $0.70 (the MBS Share Consideration);

(ii) each share of MBS Common Stock owned by SurgiCare or any direct or indirect wholly owned subsidiary of SurgiCare or held in treasury by MBS or any subsidiary of MBS immediately prior to the MBS Effective Time shall be canceled and extinguished without any conversion thereof and no payment or distribution shall be made with respect thereto; and

(iii) each share of common stock, $0.001 par value per share, of Newco issued and outstanding immediately prior to the MBS Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of common stock, $1.00 per share, of the Surviving Corporation.

(iv) Notwithstanding any provisions of this Agreement to the contrary, MBS Common Shares which are issued and outstanding immediately prior to the MBS Effective Time and which are held by any Person who has not voted such MBS Common Shares in favor of the MBS Merger, who has delivered a written demand for appraisal of such MBS Common Shares in the manner provided by the TBCA and who, as of the MBS Effective Time, has perfected and not effectively withdrawn or lost such right to appraisal (the Appraisal Shares) will not be converted into or represent a right to receive the applicable Merger Consideration pursuant to this Article II. The holders thereof will be entitled only to such rights as are granted by Section 5.11 of the TBCA. Each holder of Appraisal Shares who becomes entitled to payment for such MBS Common Shares pursuant to Section 5.12 of the TBCA will receive payment therefor from the Surviving Corporation in accordance with the TBCA; provided, however, that (i) if any such holder of Appraisal Shares fails to establish its entitlement to appraisal rights as provided in Section 5.12 of the TBCA, (ii) if any such holder of Appraisal Shares effectively withdraws its demand for appraisal of such MBS Common Shares or

loses its right to appraisal and payment for its MBS Common Shares under Section 5.13 of the TBCA, or (iii) if neither any holder of Appraisal Shares nor the Surviving Corporation files a petition demanding a determination of the value of all Appraisal Shares within the time provided in Section 5.12 of the TBCA, such holder will forfeit the right to appraisal of such MBS Common Shares and each such MBS Common Share will be treated as if such MBS Common Share had been converted, as of the MBS Effective Time, into a right to receive the applicable Merger Consideration, without interest thereon, from the Surviving Corporation as provided in Section 2.01(a)(i). MBS will give SurgiCare prompt notice of any demands received by MBS for appraisal of MBS Common Shares, and, until the MBS Effective Time, SurgiCare will have the opportunity to participate in all negotiations and proceedings with respect to such demands. MBS will not, except with the prior written consent of SurgiCare, make any payment with respect to, or settle or offer to settle, any such demands.

(b) DCPS. At the DCPS Effective Time, by virtue of the DCPS Merger and without any action on the part of SurgiCare, Newco, MBS, DCPS or the holders of any of the following securities, all DCPS Partnership Interests issued and outstanding immediately prior to the DCPS Effective Time shall be canceled and automatically converted into the right to receive, in the aggregate:

(i) $1,500,000 in cash (the DCPS Cash Consideration);

(ii) a number of SurgiCare Class C Common Shares equal to the product of 6,060,606 *multiplied by* the Reverse Split Fraction (the DCPS Share Consideration); and

(iii) subordinated promissory notes of SurgiCare, substantially in the form attached hereto as Exhibit B, in the aggregate principal amount of $500,000 (the DCPS Notes).

(c) Allocation of Consideration. The MBS Cash Consideration and MBS Share Consideration, and any additions thereto or subtractions therefrom in accordance with Section 2.07, shall be allocated among the MBS Sellers according to the percentages (the Stockholder Percentages) set forth on Schedule 2.01(c)(i) hereto. The DCPS Cash Consideration, DCPS Share Consideration and DCPS Notes, and any additions thereto or subtractions therefrom in accordance with Section 2.07, shall be allocated among the DCPS Sellers according to the percentages set forth on Schedule 2.01(c)(ii) hereto.

SECTION 2.02 Deliveries at the Closing. At the Closing, (i) SurgiCare will deliver to DCPS and MBS the various certificates, instruments and documents referred to in Section 7.03 below, (ii) DCPS and MBS will deliver to SurgiCare the various certificates, instruments and documents referred to in Section 7.02 below, (iii) each of the Sellers will deliver to SurgiCare certificates (to the extent applicable) representing all of his MBS Common Shares or DCPS Partnership Interests, as applicable, endorsed in blank or accompanied by duly executed assignment documents, (iv) SurgiCare will deliver to Smith (a) certificates representing the MBS Share Consideration and (b) by wire transfer of immediately available funds, to such account as Smith has specified in writing to SurgiCare at least two business days prior to the Closing Date,

the MBS Cash Consideration, and (v) SurgiCare will deliver to Cain (a) certificates representing DCPS Share Consideration, (b) the DCPS Notes and (c) by wire transfer of immediately available funds, to such account as Cain has specified in writing to SurgiCare at least two business days prior to the Closing Date, the DCPS Cash Consideration.

SECTION 2.03 No Further Rights in MBS Common Shares or DCPS Partnership Interests. The Merger Consideration delivered upon conversion of the MBS Common Shares and the DCPS Partnership Interests in accordance with the terms hereof (including any additional Merger Consideration delivered under Section 2.07(c)) shall be deemed to have been issued in full satisfaction of all rights pertaining to such MBS Common Shares and DCPS Partnership Interests.

SECTION 2.04 No Fractional Shares. No certificates or scrip representing less than one SurgiCare Class C Common Share shall be issued to the Sellers in connection with the Mergers, and the portion of the MBS Share Consideration or the DCPS Share Consideration going to each Seller shall be rounded down to the nearest whole share.

SECTION 2.05 Withholding Rights. Each of the Surviving Corporation and SurgiCare shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of MBS Common Shares or DCPS Partnership Interests such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax Law. To the extent that amounts are so withheld by the Surviving Corporation or SurgiCare, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the MBS Common Shares or DCPS Partnership Interests in respect of which such deduction and withholding was made by the Surviving Corporation or SurgiCare, as the case may be.

SECTION 2.06 Transfer Books. At the Effective Times, the stock transfer books of MBS and the partnership interest transfer books of DCPS shall be closed and there shall be no further registration of transfers of MBS Common Shares or DCPS Partnership Interests thereafter on the records of MBS or DCPS. From and after the Effective Times, the holders of certificates representing MBS Common Shares or DCPS Partnership Interests outstanding immediately prior to the Effective Times shall cease to have any rights with respect to such MBS Common Shares or DCPS Partnership Interests, except as otherwise provided in this Agreement or by Law. On or after the Effective Times, any certificates presented to SurgiCare for any reason shall be converted into the applicable Merger Consideration.

SECTION 2.07 Adjustments to Merger Consideration.

(a) Newco EBITDA Statement. With respect to each of the year ended December 31, 2004 and the year ended December 31, 2005, as promptly as practicable, but in no event later than five business days, following the completion of the final audit report in respect of the audited financial statements for such year, SurgiCare will prepare and submit to the Sellers a statement (a Newco EBITDA Statement) setting forth the Newco EBITDA for such year, showing in reasonable detail the calculation of such Newco EBITDA. The Sellers may employ (at their own expense) certified public accountants to audit or review the calculation of Newco EBITDA set forth in such Newco EBITDA Statement. SurgiCare will give the Sellers

and their representatives reasonable access to the books, records and personnel of SurgiCare to the extent requested for purposes of reviewing each Newco EBITDA Statement.

(b) Disputes. If the Sellers dispute SurgiCare s calculation of the Newco EBITDA, as set forth in a Newco EBITDA Statement, the Sellers will notify SurgiCare in writing setting forth their objections in reasonable detail within 30 days after delivery of such Newco EBITDA Statement. If the Sellers do not so notify SurgiCare within such 30-day period, the Sellers will be deemed to have conclusively accepted such Newco EBITDA Statement and the Newco EBITDA set forth thereon. If the Sellers do so notify SurgiCare, SurgiCare and the Sellers will endeavor in good faith to resolve any dispute over the calculation of the Newco EBITDA. If SurgiCare and the Sellers are unable to resolve any such dispute within 30 days of the delivery of the applicable Newco EBITDA Statement, such dispute will be submitted to Pannell Kerr Forster or to another nationally recognized independent accounting firm chosen jointly by SurgiCare and the Sellers (the Accountants). Such submission shall be accompanied by a statement from each of SurgiCare, on the one hand, and the Sellers, on the other hand, setting forth its or their calculation of the amount of Newco EBITDA. The Accountants shall make a selection as to which of the Newco EBITDA calculations presented to them is, in the aggregate, more accurate, which determination will be (A) in writing, (B) furnished to SurgiCare and the Sellers as promptly as practicable after the dispute has been referred to the Accountants (but in no event later than 30 days thereafter), and (C) made in accordance with this Agreement. Nothing herein will be construed to authorize or permit the Accountants to determine any question or matter whatsoever under or in connection with this Agreement, except as set forth in the immediately preceding sentence. The amount of Newco EBITDA resulting from the calculation so determined by the Accountants to be, in the aggregate, more accurate shall for all purposes of this Agreement be the amount of Newco EBITDA for the applicable year and such determination shall be conclusive and binding upon each of the parties. The fees and expenses of the Accountants with respect to the dispute referred to in this Section 2.07(b) shall be paid by the party whose proposed Newco EBITDA calculation is not selected by the Accountants hereunder.

(c) Additional Merger Consideration. The Sellers may be eligible to receive additional Merger Consideration consisting of an aggregate of up to a maximum of $1,012,500 in cash and up to a maximum number of SurgiCare Class A Common Shares equal to 4,650,000 *multiplied* by the Reverse Split Fraction, as set forth in this Section 2.07(c) and subject to Section 2.07(e).

(i) With respect to each of the year ended December 31, 2004 and the year ended December 31, 2005, if Newco EBITDA for such year is greater than $1,600,000 (any such amounts in excess of $1,600,000 being referred to herein as the Newco EBITDA Excess):

A. the MBS Cash Consideration shall be increased by an amount equal to the product of 20% *multiplied by* the Newco EBITDA Excess; provided, however, in no event shall the MBS Cash Consideration be increased by more than an aggregate of $450,000 pursuant to this Section 2.07(c)(i)(A);

B. the DCPS Cash Consideration shall be increased by an amount equal to the product of 25% *multiplied by* the Newco EBITDA Excess; provided, however, in no event shall the DCPS Cash Consideration be increased by more than an aggregate of $562,500 pursuant to this Section 2.07(c)(i)(B);

C. the MBS Share Consideration shall be increased by an amount of SurgiCare Class A Common Shares equal to the product of 80% *multiplied by* a fraction, the numerator of which is the Newco EBITDA Excess, and the denominator of which is the quotient of (1) $0.75 *divided by* (2) the Reverse Split Fraction; provided, however, in no event shall the MBS Share Consideration be increased pursuant to this Section 2.07(c)(i)(C) by more than an aggregate number of SurgiCare Class A Common Shares equal to the product of (x) 2,400,000 *multiplied* by (y) the Reverse Split Fraction; and

D. the DCPS Share Consideration shall be increased by an amount of SurgiCare Class A Common Shares equal to the product of 75% *multiplied by* a fraction, the numerator of which is the Newco EBITDA Excess, and the denominator of which is the quotient of (1) $0.75 *divided by* (2) the Reverse Split Fraction; provided, however, in no event shall the DCPS Share Consideration be increased pursuant to this Section 2.07(c)(i)(D) by more than an aggregate number of SurgiCare Class A Common Shares equal to the product of (x) 2,250,000 *multiplied* by (y) the Reverse Split Fraction.

(ii) Any increase to the MBS Cash Consideration or the DCPS Cash Consideration to be made under this Section 2.07(c) will be paid (or cause to be paid) by SurgiCare, without interest, by wire transfer of immediately available funds to an account or accounts designated by Smith (in the case of the MBS Cash Consideration) or Cain (in the case of the DCPS Cash Consideration), promptly but in no event later than ten days after final determination of the amount of Newco EBITDA for the applicable year (whether by lack of disagreement with the initial determination, resolution of any disagreement with the initial determination by the parties, or resolution through submission of any dispute to the Accountants). Notwithstanding anything to the contrary in this Section 2.07(c), the right of the Sellers to receive any cash payment pursuant to the terms of this Section 2.07(c) shall be subject to the terms of the Subordination Agreement. If payment of all or any portion of any amount due under this Section 2.07(c) is not permitted by the Subordination Agreement, then interest, compounded on an annual basis, will accrue on the unpaid balance at the rate of 8% per annum from the date such payment is due until the date such payment is made, and payment of such amount (together with such interest) shall be made (or caused to be made) by SurgiCare on the earliest date as of which such payment may be made in compliance with the Subordination Agreement. Any increase to the MBS Share Consideration or the DCPS Share Consideration to be made under this Section 2.07(c) will be satisfied by SurgiCare by delivery to Smith (in the case of the MBS Share Consideration) or Cain (in the case of the DCPS Share Consideration), of certificates representing such increase to the MBS Share Consideration or DCPS Share Consideration, in either case promptly but in no event later than ten days after final determination of the amount of Newco EBITDA for the applicable year (whether by lack

of disagreement with the initial determination, resolution of any disagreement with the initial determination by the parties, or resolution through submission of any dispute to the Accountants); provided, however, that any issuance of SurgiCare Class A Common Shares to a Seller hereunder will be conditioned upon SurgiCare receiving from such Seller satisfactory assurances that the representations and warranties set forth in Section 4.24 of this Agreement remain true and correct in all respects with regards to such Seller as of the date of such issuance.

(d) Reduction of Merger Consideration. The Sellers may be required to forfeit a portion of the Merger Consideration, as set forth in this Section 2.07(d) and subject to Section 2.07(e).

(i) With respect to each of the year ended December 31, 2004 and the year ended December 31, 2005, if Newco EBITDA for such year is less than $1,600,000 (the amount of shortfall below $1,600,000 being referred to herein as the Newco EBITDA Shortfall):

A. the MBS Share Consideration (as increased pursuant to Section 2.07(c), if applicable) shall be reduced by an amount of SurgiCare Class C Common Shares which, if converted, would represent a number of Class A Common Shares equal to the quotient of (1) the product (the MBS EBITDA Shortfall Amount) of 1.25 *multiplied by* the Newco EBITDA Shortfall *divided by* (2) the quotient of (a) $0.33 *divided by* (b) the Reverse Split Fraction; provided, however, Smith (on behalf of the MBS Sellers) may elect to pay some or all of the MBS EBITDA Shortfall Amount in cash, in which event the reduction in the MBS Share Consideration hereunder shall be proportionately decreased;

B. the outstanding principal amount of the DCPS Notes (the DCPS Note Balance) shall be reduced by an amount equal to the lesser of (1) the product (the DCPS EBITDA Shortfall Amount) of 1.25 *multiplied by* the Newco EBITDA Shortfall and (2) the DCPS Note Balance, and any interest accrued but unpaid on such reduced principal amount shall be forfeited; and

C. to the extent that the DCPS EBITDA Shortfall Amount is greater than the DCPS Note Balance, upon the written election of SurgiCare, the DCPS Share Consideration (as increased pursuant to Section 2.07(c), if applicable) shall be reduced by an amount of SurgiCare Class C Common Shares which, if converted, would represent a number of Class A Common Shares equal to the quotient of (1) the difference between the DCPS EBITDA Shortfall Amount and the DCPS Note Balance *divided by* (2) the quotient of (a) $0.33 *divided by* (b) the Reverse Split Fraction.

(ii) Any decrease to be made under this Section 2.07(d) to (A) the MBS Share Consideration will be satisfied by Smith by delivery to SurgiCare of certificates representing such decrease to the MBS Share Consideration, endorsed in blank or accompanied by duly executed assignment documents with a medallion signature guarantee, or (B) the DCPS Share Consideration will be satisfied by Cain by

delivery to SurgiCare of certificates representing such decrease to the DCPS Share Consideration, endorsed in blank or accompanied by duly executed assignment documents with a medallion signature guarantee, in either case promptly but in no event later than ten days after final determination of the amount of Newco EBITDA for the applicable year (whether by lack of disagreement with the initial determination, resolution of any disagreement with the initial determination by the parties, or resolution through submission of any dispute to the Accountants). In the event that Smith elects to pay any amounts in cash in accordance with Section 2.07(d)(i)(A), such payment shall be made by Smith by wire transfer of immediately available funds to an account or accounts designated by SurgiCare promptly but in no event later than ten days after final determination of the amount of Newco EBITDA for the applicable year (whether by lack of disagreement with the initial determination, resolution of any disagreement with the initial determination by the parties, or resolution through submission of any dispute to the Accountants).

(iii) Until such time as no decrease to the Merger Consideration received by a Seller can be made pursuant to this Section 2.07(d), (A) such Seller will not, without the prior written consent of SurgiCare, directly or indirectly, sell, transfer, assign, pledge, hypothecate, tender, encumber, engage in a Constructive Sale or otherwise dispose of in any manner any of the SurgiCare Class C Common Shares received by such Seller as part of the Merger Consideration (or SurgiCare Class A Common Shares into which such SurgiCare Class C Common Shares have been converted), or offer, consent or agree to do any of the foregoing, (B) such SurgiCare Class C Common Shares (or SurgiCare Class A Common Shares, if applicable) shall bear a legend disclosing the existence of the restrictions contained herein and (C) SurgiCare may, without the consent of such Seller, deliver stop transfer instructions to SurgiCare s transfer agent with respect to such SurgiCare Class C Common Shares (or SurgiCare Class A Common Shares, if applicable); provided, however, if Newco EBITDA for the year ended December 31, 2004 is equal to or greater than $1,600,000, the restrictions contained in this sentence will cease to apply (effective upon the final determination of the amount of Newco EBITDA for such year (whether by lack of disagreement with the initial determination, resolution of any disagreement with the initial determination by the parties, or resolution through submission of any dispute to the Accountants)) with respect to a number of the SurgiCare Class C Common Shares received by the Sellers as part of the Merger Consideration (the Released Shares) equal to the product of (x) 3,030,303 *multiplied by* (y) the Reverse Split Fraction. The number of shares that shall be deemed Released Shares for each Seller shall be equal to the product of (1) one-half of the total number of Released Shares *multiplied by* the percentage set forth opposite the name of such Seller on Schedule 2.01(c)(i) or Schedule 2.01(ii), as applicable.

(e) Effect of Termination Without Cause or Sale of the Surviving Corporation. Sections 2.07(c) and 2.07(d) are subject to the following provisions in the event that (1) SurgiCare sells (a Newco Sale Event) all of the capital stock, or all or substantially all of the assets, of the Surviving Corporation to an unaffiliated third party (other than in connection with an acquisition of all or substantially all of SurgiCare and other than any sale pursuant to the ROFR granted by Section 6.11 hereof) or (2) the employment of Cain or Smith is terminated by SurgiCare without Cause (as defined in the employment agreements referenced in Section

7.02) (a Qualifying Termination), in either case prior to the second anniversary of the Closing Date.

(i) If a Newco Sale Event or a Qualifying Termination of Smith occurs on or prior to the first anniversary of the Closing Date, (x) the Newco EBITDA for the year ended December 31, 2004 shall be deemed to be $3,850,000 solely for purposes of Sections 2.07(c)(i)(A), 2.07(c)(i)(C), 2.07(d)(i)(A) and 2.07(d)(i)(C), and (y) Section 2.07(d) shall terminate and be of no further force or effect with respect to Smith or the MBS Share Consideration following the date of such Newco Sale Event or Qualifying Termination.

(ii) If a Newco Sale Event or a Qualifying Termination of Cain occurs on or prior to the first anniversary of the Closing Date, (x) the Newco EBITDA for the year ended December 31, 2004 shall be deemed to be $3,850,000 solely for purposes of Sections 2.07(c)(i)(B), 2.07(c)(i)(D), 2.07(d)(i)(B) and 2.07(d)(i)(D), and (y) Section 2.07(d) shall terminate and be of no further force or effect with respect to Cain, the DCPS Notes or the DCPS Share Consideration following the date of such Newco Sale Event or Qualifying Termination.

(iii) If a Newco Sale Event or a Qualifying Termination of Smith occurs after the first anniversary of the Closing Date but on or prior to the second anniversary of the Closing Date, (x) the Newco EBITDA for the year ended December 31, 2005 shall, solely for purposes of Sections 2.07(c)(i)(A), 2.07(c)(i)(C), 2.07(d)(i)(A) and 2.07(d)(i)(C), be determined by annualizing the Newco EBITDA as of the last day of the month in which such Newco Sale Event or Qualifying Termination occurs, and (y) Section 2.07(d) shall terminate and be of no further force or effect with respect to Smith or the MBS Share Consideration following the date of such Newco Sale Event or Qualifying Termination.

(iv) If a Newco Sale Event or a Qualifying Termination of Cain occurs after the first anniversary of the Closing Date but on or prior to the second anniversary of the Closing Date, (x) the Newco EBITDA for the year ended December 31, 2005 shall, solely for purposes of Sections 2.07(c)(i)(B), 2.07(c)(i)(D), 2.07(d)(i)(B) and 2.07(d)(i)(D), be determined by annualizing the Newco EBITDA as of the last day of the month in which such Newco Sale Event or Qualifying Termination occurs, and (y) Section 2.07(d) shall terminate and be of no further force or effect with respect to Cain, the DCPS Notes or the DCPS Share Consideration following the date of such Newco Sale Event or Qualifying Termination.

SECTION 2.08 Additional DCPS Note. Subject to any restrictions imposed by applicable law, if DCPS or Cain is notified by the Internal Revenue Service on or before the 60th day prior to the maturity date of the DCPS Notes that tax-free reorganization treatment is not available for the DCPS Share Consideration and an additional tax is therefore payable in respect of the DCPS Share Consideration, SurgiCare will, at the request of Cain, provide a loan to Cain in the amount of the additional tax due up to a maximum amount of $375,000; provided, however, that SurgiCare shall have no obligation under this Section 2.08 if such tax-free reorganization treatment is unavailable as a result in whole or in part of any action, omission or

circumstance that constitutes a breach of any representation, warranty or covenant of DCPS, MBS or either of the Sellers under this Agreement. Any loan provided under this Section 2.08 will be evidenced by a promissory note, in form and substance satisfactory to SurgiCare, with the same maturity date as the DCPS Notes, and will bear interest at the annual rate of 8% with monthly interest payments.

SECTION 2.09 MBS Representative. Each MBS Seller hereby appoints Smith as the agent, proxy and attorney-in-fact for the MBS Sellers for all purposes under this Agreement (including without limitation full power and authority to act on the MBS Sellers behalf) to take any action, should he elect to do so in his sole discretion, (i) to consummate the transactions contemplated under this Agreement, (ii) in the event of such consummation, to receive on behalf of each MBS Seller such MBS Seller s Stockholder Percentage of the MBS Cash Consideration and the MBS Share Consideration, (iii) to pay to each MBS Seller his, her or its Stockholder Percentage of the MBS Cash Consideration and the MBS Share Consideration, (iv) to execute and deliver, should he elect to do so in his sole discretion, on behalf of the MBS Sellers any amendment to this Agreement so long as such amendment shall apply to all parties to this Agreement, and (v) to take all other actions to be taken by or on behalf of the MBS Sellers and exercise any and all rights which the MBS Sellers are permitted or required to do or exercise under this Agreement.

SECTION 2.10 MBS Tax. If the Five Day Average Price is less than $0.70, on April 1, 2005 SurgiCare will pay (or cause to be paid), by wire transfer of immediately available funds to an account or accounts designated by Smith, cash equal to the quotient of (a) the excess, if any, of (i) the product of the Assumed Incremental Gain *multiplied by* 15%, over (ii) $435,000, *divided by* (b) 85%. For purposes of this section, Assumed Incremental Gain shall mean an amount equal to the excess, if any, of (a) the number of SurgiCare Class C Common Shares issued to the MBS Sellers on the Closing Date *multiplied by* the Class A Common Closing Price, over (b) $100,000. Any payments to Smith hereunder will be allocated and distributed by Smith to the MBS Sellers pro rata based on the respective federal income tax liabilities of the MBS Sellers in respect of the SurgiCare Class C Common Shares issued to the MBS Sellers on the Closing Date.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SURGICARE AND NEWCO

SurgiCare and Newco, jointly and severally, hereby represent and warrant to DCPS and MBS that:

SECTION 3.01 Organization and Qualification; Subsidiaries.

(a) SurgiCare and each SurgiCare Subsidiary is a corporation or other legal entity duly organized, validly existing and in good standing (where such concept is applicable) under the laws of the jurisdiction of its incorporation or formation and has all requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to do so would not have a SurgiCare Material Adverse Effect. Each of SurgiCare and the SurgiCare Subsidiaries is duly qualified or licensed as a foreign corporation or organization to do business,

and is in good standing (where such concept is applicable), in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to do so would not have a SurgiCare Material Adverse Effect.

(b) Section 3.01(b) of the SurgiCare Disclosure Schedule lists each SurgiCare Subsidiary, its jurisdiction of organization and all trade names currently used or used at any time during the past two years by such SurgiCare Subsidiary. All of the outstanding shares of capital stock or other equity interests of each SurgiCare Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable and, except as set forth in Section 3.01(b) of the SurgiCare Disclosure Schedule, are owned by SurgiCare, free and clear of all pledges, liens, charges, mortgages, encumbrances and security interests of any kind or nature whatsoever (collectively, Liens). Except for its interests in the SurgiCare Subsidiaries and except for the ownership of interests set forth in Section 3.01(b) of the SurgiCare Disclosure Schedule, SurgiCare does not own, directly or indirectly, or have any outstanding contractual obligation to acquire, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any corporation, partnership, joint venture or other business association or entity.

SECTION 3.02 Certificate of Incorporation and By-Laws. SurgiCare has heretofore provided to each of DCPS and MBS a complete and correct copy of SurgiCare s certificate of incorporation, as amended to date (the SurgiCare Charter) and SurgiCare s by-laws, as amended to date (the SurgiCare By-Laws). The SurgiCare Charter and SurgiCare By-Laws are in full force and effect. SurgiCare is not in violation of any of the provisions of the SurgiCare Charter or the SurgiCare By-Laws. SurgiCare has provided to each of DCPS and MBS complete copies of the certificate of incorporation, by-laws or other organizational documents (including without limitation partnership agreements or limited liability company agreements) of each SurgiCare Subsidiary and no SurgiCare Subsidiary is in violation of such documents.

SECTION 3.03 Capitalization.

(a) The authorized capital stock of SurgiCare consists of (i) 50,000,000 shares of SurgiCare Old Common Stock, (ii) 1,650,000 shares of Series A Preferred Stock, $0.001 par value per share (SurgiCare Series A), and (iii) 1,200,000 shares of SurgiCare Series AA. At the close of business on January 29, 2004 (i) 27,141,359 shares of SurgiCare Old Common Stock were issued and outstanding, (ii) no shares of SurgiCare Series A were issued and outstanding, (iii) 900,000 shares of SurgiCare Series AA were issued and outstanding, (iv) 91,400 shares of SurgiCare Old Common Stock were held in SurgiCare s treasury, (iv) no shares of SurgiCare Series A or SurgiCare Series AA were held in SurgiCare s treasury, (v) 59,392 shares of SurgiCare Old Common Stock were subject to options (the SurgiCare Stock Options) granted pursuant to SurgiCare s 2001 Stock Option Plan (the SurgiCare Option Plan), (vi) 10,000,000 shares of SurgiCare Old Common Stock were reserved for issuance pursuant to the conversion or exchange of the shares of SurgiCare Series AA that were issued and outstanding, (vii) 9,591,591 shares of SurgiCare Old Common Stock were reserved for issuance pursuant to the exercise of all outstanding warrants of SurgiCare (the SurgiCare Warrants) and (viii) 1,342,857 shares of SurgiCare Old Common Stock were reserved for issuance pursuant to the conversion of a

$470,000 10% Debenture. Except as set forth above, at the close of business on January 29, 2004 no shares of SurgiCare Capital Stock or other securities of SurgiCare were issued, reserved for issuance or outstanding. Immediately following the Effective Times, and after giving effect to the Mergers, the Equity Financing, the Debt Exchange, the IPS Acquisition and the Recapitalization, the authorized, issued and outstanding capital stock of SurgiCare shall be as set forth in Schedule 3.03(a) of the SurgiCare Disclosure Schedule.

(b) All outstanding shares of SurgiCare Capital Stock are, and all such shares that may be issued prior to the Effective Times will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in material violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the SurgiCare Charter, the SurgiCare By-Laws or any contract, lease, license, indenture, note, bond, mortgage, agreement or other instrument or obligation (Contract) to which SurgiCare is a party or otherwise bound. Each offer or sale by SurgiCare of shares of its capital stock or other securities has been in compliance with all applicable federal and state securities laws or the applicable statute of limitations with respect to such offers or sales has expired.

(c) Except as set forth in Section 3.03(c) of the SurgiCare Disclosure Schedule, there are not any bonds, debentures, notes or other indebtedness of SurgiCare having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of SurgiCare Capital Stock may vote (Voting SurgiCare Debt).

(d) Except as set forth in Section 3.03(a) above, as of the date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which SurgiCare or any SurgiCare Subsidiary is a party or by which any of them is bound (i) obligating SurgiCare or any SurgiCare Subsidiary to issue or sell, or cause to be issued or sold, additional shares of capital stock or other equity interests in, or any security convertible or exchangeable into, or exercisable for, any capital stock of or other equity interest in, SurgiCare or of any SurgiCare Subsidiary or any Voting SurgiCare Debt, (ii) obligating SurgiCare or any SurgiCare Subsidiary to issue, grant, extend or enter into any such option, warrant, right, security, stock appreciation right, stock-based performance unit, commitment, Contract, arrangement or undertaking, or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of SurgiCare Capital Stock. Section 3.03(d) of the SurgiCare Disclosure Schedule sets forth the total number of outstanding SurgiCare Stock Options and Warrants and the exercise prices thereof. SurgiCare has provided each of DCPS and MBS with a schedule of all of such SurgiCare Stock Options and SurgiCare Warrants, including the relevant vesting times, exercise prices and exercise periods, and copies of all SurgiCare Warrants and all SurgiCare Option Plans and forms of option certificates granted thereunder.

(e) There are not any outstanding contractual obligations of SurgiCare or of any SurgiCare Subsidiary, contingent or otherwise, to repurchase, redeem or otherwise acquire any shares of capital stock of SurgiCare or, except as set forth in Section 3.03(e)(i) of the SurgiCare Disclosure Schedule, any capital stock or other ownership interest in any SurgiCare Subsidiary. Except as set forth in Section 3.03(e)(ii) of the SurgiCare Disclosure Schedule, there

are no issued and outstanding shares of SurgiCare Capital Stock that are subject to a repurchase or redemption right in favor of SurgiCare.

(f) The authorized stock of Newco consists of 1,000 shares of common stock, $0.001 par value, all of which are duly authorized, validly issued, fully paid and nonassessable and free of any preemptive rights in respect thereof, and all of which are owned by SurgiCare. The SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) to be issued pursuant to the Mergers in accordance with Section 2.01(a)(i) will, when issued, be duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive or similar rights created by statute, the Certificate of Incorporation or By-Laws of SurgiCare or any agreement to which the SurgiCare is a party or is bound.

SECTION 3.04 Authority Relative to this Agreement.

(a) Each of SurgiCare and Newco has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery by each of SurgiCare and Newco of this Agreement and the consummation by each of SurgiCare and Newco of the Transactions have been duly authorized by all necessary corporate action on the part of each of SurgiCare and Newco, subject to the approval of the issuance of SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) in the Mergers, the IPS Acquisition and the Debt Exchange, as well as the Recapitalization, the Equity Financing, the election of each of the individuals listed in Section 7.03(m) to the SurgiCare Board effective as of the Effective Times (the Board Election) and the Orion HealthCorp, Inc. 2004 Incentive Plan in the form set forth as Exhibit C hereto (the New Equity Plan) by the holders of (i) not less than a majority of the outstanding shares of SurgiCare Capital Stock, voting together as a class, (ii) not less than a majority of the outstanding shares of SurgiCare Old Common Stock, and (iii) not less than a majority of the outstanding shares of SurgiCare Series AA (the SurgiCare Stockholder Approval). Each of SurgiCare and Newco has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

(b) On or prior to the date of this Agreement, the SurgiCare Board duly adopted resolutions (the SurgiCare Board Approval) at a meeting duly called and held or by unanimous written consent and such resolutions have not been subsequently rescinded or modified in any way in accordance with the DGCL, (i) approving, authorizing and adopting this Agreement, the Mergers (including to the extent required by Section 203 of the DGCL in order that the consummation of the Transactions is not limited or restricted by such Law), the New Equity Plan and the other Transactions, (ii) determining that the Mergers are advisable and in the best interests of SurgiCare and the SurgiCare stockholders, (iii) determining that the Transactions are fair to the SurgiCare stockholders and (iv) recommending that the SurgiCare stockholders approve and adopt this Agreement and directing that this Agreement, the Mergers, the New Equity Plan and the other Transactions be submitted for consideration by the SurgiCare stockholders at the SurgiCare Stockholders Meeting.

(c) Except for Section 203 of the DGCL, no fair price , moratorium , control share acquisition or other similar anti-takeover statute or regulation is applicable, by

reason of SurgiCare s being a party to this Agreement, the Mergers or the other Transactions. Neither SurgiCare nor any of the SurgiCare Subsidiaries is a party to any stockholder rights plan or any similar anti-takeover plan or device.

SECTION 3.05 No Conflict; Required Filings and Consents.

(a) Except as set forth in Section 3.05(a) of the SurgiCare Disclosure Schedule, the execution and delivery by each of SurgiCare and Newco of this Agreement and the other transaction documents referenced hereby does not, and the consummation of the Transactions and compliance with the terms hereof will not, result in any material violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or require any offer to purchase or any prepayment of any debt, or result in the creation of any Lien upon any of the properties or assets of SurgiCare or any SurgiCare Subsidiary under, any provision of (i) the SurgiCare Charter, the SurgiCare By-Laws or the comparable charter, by-law or other organizational documents of any SurgiCare Subsidiary, (ii) any SurgiCare Material Contract or SurgiCare Employee Benefit Plan, or (iii) subject to the filings and other matters referred to in Section 3.05(b), any judgment, order, injunction or decree, domestic or foreign (Judgment), or Law, applicable to SurgiCare or any SurgiCare Subsidiary or their respective properties or assets.

(b) Except as set forth in Section 3.05(a) of the SurgiCare Disclosure Schedule, no consent, approval, certificate, license, permit, order or authorization (Consent) of, or registration, declaration, notification or filing with, any Governmental Entity or third party is required to be obtained or made by or with respect to SurgiCare or any SurgiCare Subsidiary in connection with the execution, delivery and performance of this Agreement or the consummation of the Transactions, other than (i) if required, compliance with and filing of a pre-merger notification report under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), (ii) compliance with the applicable requirements of states securities or blue sky laws, the Securities Act and the Exchange Act and the rules and regulations of the American Stock Exchange (the AMEX), (iii) the filing of the Certificates of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of the other jurisdictions in which SurgiCare is qualified to do business (the foregoing clauses (b)(i) through (iii) being referred to collectively as the Required Consents), and (iv) such other items that would not have a SurgiCare Material Adverse Effect.

SECTION 3.06 Permits; Accreditation.

(a) Except as set forth in Section 3.06(a) of the SurgiCare Disclosure Schedule, SurgiCare has all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any federal, national, state, provincial, municipal or local government, any instrumentality, subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or any other governmental or quasi-governmental authority, whether of the U.S., or another jurisdiction (a Governmental Entity), necessary or advisable for SurgiCare or any SurgiCare Subsidiary to own, lease and operate its properties or

to carry on its business as it is now being conducted, including without limitation all licenses and permits required to operate a health care facility under applicable legal requirements of each jurisdiction, all licenses required for the practice of medicine and the provision of medical or technical services in connection with the business of SurgiCare and each SurgiCare Subsidiary, certificates of need, provider and supplier numbers, and reassignments of supplier and provider billing rights as applicable to each health care facility or operation of SurgiCare and each SurgiCare Subsidiary (the SurgiCare Permits), other than such SurgiCare Permits as, individually and in the aggregate, are not material to the business of either SurgiCare or any SurgiCare Subsidiary and the lack of which would not result in a SurgiCare Material Adverse Effect. Except as disclosed in Section 3.06(a) of the SurgiCare Disclosure Schedule, each of SurgiCare and the SurgiCare Subsidiaries is in possession of all SurgiCare Permits in good standing, neither SurgiCare nor any SurgiCare Subsidiary is in breach of, or in default or violation under any of the SurgiCare Permits, and no suspension, violation, revocation, limitation or cancellation of or default under any of the SurgiCare Permits is pending or, to the knowledge of SurgiCare, threatened, except as would not have a SurgiCare Material Adverse Effect. Neither SurgiCare nor any SurgiCare Subsidiary has received any written notices of violation, default or deficiency with respect to any SurgiCare Permit that remains uncured. No SurgiCare Permit will be materially affected by, or terminate or lapse by reason of, the Transactions.

(b) Except as disclosed in Section 3.06(b) of the SurgiCare Disclosure Schedule, each employee and agent of SurgiCare and each SurgiCare Subsidiary, including without limitation each physician and other health care professional employed by or performing services on behalf of SurgiCare or any SurgiCare Subsidiary, has all licenses, permits and approvals required for the performance of his or her duties for SurgiCare or SurgiCare Subsidiary, except where the failure to have such approvals would not have a SurgiCare Material Adverse Effect; and no such employee or agent of SurgiCare or any SurgiCare Subsidiary is in violation of any such license, permit, or approval or any term or condition thereof, except for such violations as would not have a SurgiCare Material Adverse Effect.

(c) Section 3.06(c) of the SurgiCare Disclosure Schedule sets forth a list of all health care facility accreditations held by or awarded to SurgiCare and each SurgiCare Subsidiary and to each health care facility owned or operated by SurgiCare or a SurgiCare Subsidiary (the SurgiCare Accreditations). Except as disclosed in Section 3.06(c) of the SurgiCare Disclosure Schedule, each of the SurgiCare Accreditations is in good standing, and no suspension, revocation, limitation, or cancellation of any of the SurgiCare Accreditations is pending or, to the knowledge of SurgiCare, threatened. Neither SurgiCare nor any SurgiCare Subsidiary has received any written notices of violation, default, or deficiency with respect to any SurgiCare Accreditation that remains uncured. No SurgiCare Accreditation will be materially affected by, or terminate or lapse by reason of, the Transactions.

SECTION 3.07 Compliance with Laws.

(a) Except as disclosed in the Filed SurgiCare SEC Documents or in Section 3.07(a) of the SurgiCare Disclosure Schedule, SurgiCare and the SurgiCare Subsidiaries are, and have been, in compliance with each Law applicable to SurgiCare or any SurgiCare Subsidiary or by which any property or asset of SurgiCare or any SurgiCare Subsidiary is bound or affected, except where failure to be in such compliance would not have a SurgiCare Material Adverse

Effect. Except as set forth in the Filed SurgiCare SEC Documents or in Section 3.07(a) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary has received any communication from a Governmental Entity that alleges that SurgiCare or a SurgiCare Subsidiary is not or was not in compliance with any applicable Law.

(b) Without limiting the generality of the foregoing, except as set forth in Section 3.07(b) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary, nor, to the knowledge of SurgiCare, any of the officers, directors, employees, and agents of SurgiCare or any SurgiCare Subsidiary, has engaged in any activity that (i) would constitute a violation of, or that would serve as cause for criminal or civil penalties under, the statutes pertaining to the federal Medicare and Medicaid programs (as defined below), or the federal statutes applicable to health care fraud and abuse, kickbacks and self-referrals, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn and the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*., related or similar statutes pertaining to the Federal Employee Health Benefit Program (5 U.S.C. § 8901 *et seq*.) (the Federal Employee Health Benefit Program), the TRICARE program (10 U.S.C. § 1071 *et seq*.) (TRICARE) or any other federal health care program, or the regulations promulgated pursuant to any of such federal statutes, or any analogous or similar state statutes pertaining to Medicaid or any state statutes or regulations pertaining to commercial health care or health insurance programs or the regulations promulgated pursuant to such statutes or regulations, (ii) would serve as cause for mandatory or permissive exclusion from Medicare (Soc. Sec. Act of 1965, Title VIII, P.L. 89-97, as amended, 42 U.S.C. 1395 *et seq*.) (Medicare), Medicaid (Soc. Sec. Act of 1965, Title XIX, P.L. 89-97, as amended, 42 U.S.C. 1396 *et seq*.) (Medicaid), the Federal Employee Health Benefit Program, TRICARE, or any other federal or state health care program or any other governmental or commercial third party payor program, or (iii) would prohibit billing under Medicare or Medicaid, the Federal Employee Health Benefit Program, TRICARE, or any state-funded health care or private health insurance program.

(c) Except as set forth in Section 3.07(c) of the SurgiCare Disclosure Schedule, neither SurgiCare, nor any of the SurgiCare Subsidiaries, nor any of their respective officers, directors, or managing employees, nor, to the knowledge of SurgiCare, any Person with a direct or indirect ownership, partnership, or equity interest in SurgiCare or a SurgiCare Subsidiary has (i) received notice of any action pending, nor been party to any action, to terminate the participation of such entity, or to exclude such entity from participation, in Medicare, Medicaid, TRICARE, the Federal Employee Health Benefits Program, or any other federal health care program, or any state or private third party health plan, insurance program, or managed care plan; (ii) received notice of any action pending or investigation initiated, or been subject to a civil monetary penalty assessed against it, under Section 1128A of the Social Security Act, (iii) been excluded from participation under Medicare, Medicaid or any other federal health care program, (iv) been convicted (as that term is defined in 42 C.F.R. § 1001.2) of any offenses described in Sections 1128(a) and 1128(b)(1), (2), (3) of the Social Security Act, or (v) received notice of any action pending or investigation initiated, or been subject to fines, under any applicable state fraud and abuse statutes or regulations or any federal health care fraud and abuse, kickbacks and self-referrals statutes or regulations, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn or the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*.

(d) SurgiCare and each SurgiCare Subsidiary operates in compliance with all federal and state Laws relating to the privacy, security and electronic interchange of individually identifiable health information, including without limitation the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996, Title II, Subtitle F and the final regulations promulgated thereunder (collectively, HIPAA). SurgiCare and each SurgiCare Subsidiary comply with all regulations promulgated under HIPAA with respect to electronic data interchange and standard transactions and code sets.

(e) SurgiCare, on behalf of itself and each SurgiCare Subsidiary, has implemented and maintains a corporate compliance program that incorporates each element set forth in the U.S. Sentencing Commission Guidelines Manual and is consistent with applicable guidance set forth by the Office of Inspector General of the Department of Health and Human Services; and the business of SurgiCare and its Subsidiaries has been conducted in all material respects in accordance with the terms of such corporate compliance program.

(f) SurgiCare, on behalf of itself and each SurgiCare Subsidiary, has implemented and maintains credentialing policies and procedures applicable to each physician and other health care provider who provides professional or health care services in a health care facility or site owned or operated by SurgiCare or a SurgiCare Subsidiary, which policies and procedures represent commercially reasonable efforts to assure legal compliance by such physicians and other health care professionals.

SECTION 3.08 SEC Filings; Financial Statements.

(a) Except as disclosed in Section 3.08(a) of the SurgiCare Disclosure Schedule, SurgiCare has timely filed all forms, reports and documents required to be filed by it with the SEC since August 20, 1999, including (i) all Annual Reports on Form 10-K, (ii) all Quarterly Reports on Form 10-Q, (iii) all proxy statements relating to meetings of stockholders (whether annual or special), (iv) all Reports on Form 8-K, (v) all other reports or registration statements, and (vi) all amendments, exhibits and supplements to all such reports and registration statements (collectively, the SurgiCare SEC Reports). The SurgiCare SEC Reports, including all forms, reports and documents to be filed by SurgiCare with the SEC after the date hereof and prior to the Effective Times, (i) were and, in the case of SurgiCare SEC Reports filed after the date hereof, will be prepared in all material respects in accordance with the applicable requirements of the Securities Act of 1933, as amended (the Securities Act), the Securities Exchange Act of 1934, as amended (the Exchange Act), and the published rules and regulations of the SEC thereunder, and (ii) did not as of the time they were filed, and in the case of such forms, reports and documents filed by SurgiCare with the SEC after the date of this Agreement, will not as of the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were and will be made, not misleading. No SurgiCare Subsidiary is subject to the periodic reporting requirements of the Exchange Act. There is no unresolved violation of the Exchange Act or the published rules and regulations of the SEC asserted by the SEC or any other Governmental Entity with respect to the SurgiCare SEC Reports.

(b) Each of the consolidated financial statements (including any notes thereto) contained in the SurgiCare SEC Reports was prepared in accordance with the rules and regulations of the SEC and United States generally accepted accounting principles (U.S. GAAP) applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by Form 10-Q under the Exchange Act) and each presented fairly or, in the case of SurgiCare SEC Reports filed after the date hereof, will present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of SurgiCare and the consolidated SurgiCare Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject, in the case of unaudited statements, to normal and recurring year-end adjustments which have not been and are not expected to be material, individually or in the aggregate). The balance sheet of SurgiCare contained in the SurgiCare SEC Reports as of December 31, 2002 is hereinafter referred to as the SurgiCare Balance Sheet.

(c) The Chief Executive Officer and Chief Financial Officer of SurgiCare have each executed, delivered and filed with applicable SurgiCare SEC Reports the certificates required under Section 302 and 906 of the Sarbanes-Oxley Act of 2002.

SECTION 3.09 Undisclosed Liabilities. Except for those Liabilities that are fully reflected or reserved against on the SurgiCare Balance Sheet (or in the notes thereto) or as set forth in Section 3.09 of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary has outstanding any Liability (including without limitation any Liability under any federal, state, or private health care, health benefit, or managed care plan or program for any refund, overpayment, discount and adjustment required by U.S. GAAP to be set forth on a consolidated balance sheet of SurgiCare and the SurgiCare Subsidiaries or in the notes thereto), except for Liabilities which have been incurred since the date of the SurgiCare Balance Sheet in the ordinary course of business, consistent with past practice, and which would not have a SurgiCare Material Adverse Effect.

SECTION 3.10 Absence of Certain Changes or Events. Except as disclosed in the SurgiCare SEC Reports filed and publicly available on the SEC s EDGAR database prior to the date of this Agreement (the Filed SurgiCare SEC Documents) or in Section 3.10 of the SurgiCare Disclosure Schedule, from the date of the SurgiCare Balance Sheet, SurgiCare and each SurgiCare Subsidiary has conducted its business only in the ordinary course consistent with past practice, and during such period there has not been:

(a) any event, damage, change, effect, destruction, loss or development that would have a SurgiCare Material Adverse Effect;

(b) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any SurgiCare Capital Stock or any repurchase or redemption for value by SurgiCare of any SurgiCare Capital Stock;

(c) any split, combination or reclassification of any SurgiCare Capital Stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu

of or in substitution for shares of SurgiCare Capital Stock, other than pursuant to the Recapitalization;

(d) any issuance by SurgiCare or any SurgiCare Subsidiary of any capital stock or other equity securities or any securities convertible, exchangeable or exercisable into any capital stock or other equity securities, except for the issuance of any shares of SurgiCare Old Common Stock pursuant to the exercise of any stock options outstanding on the date hereof pursuant to the SurgiCare Option Plans or any warrants outstanding on the date hereof or the issuance of shares of SurgiCare Class A Common Stock pursuant to the Recapitalization;

(e) any incurrence, assumption or guaranty by SurgiCare or any SurgiCare Subsidiary of any indebtedness for borrowed money or issuance by SurgiCare or any SurgiCare Subsidiary of any debt securities or assumption, guarantee or endorsement of the obligations of any Person by SurgiCare or any SurgiCare Subsidiary, or any making of loans or advances by SurgiCare or any SurgiCare Subsidiary, or any creation or other incurrence by SurgiCare or any SurgiCare Subsidiary of any Lien;

(f) (i) any grant by SurgiCare or any SurgiCare Subsidiary to any current or former director, officer or employee of SurgiCare or any SurgiCare Subsidiary of any increase in their compensation, except to the extent required under employment agreements in effect as of the date of the SurgiCare Balance Sheet, or with respect to employees (other than directors, officers or key employees) in the ordinary course of business consistent with past practice and except for SurgiCare Stock Options that are reflected as outstanding in clause (v) of Section 3.03(a), (ii) any grant by SurgiCare or any SurgiCare Subsidiary to any current or former director, officer or employee of any increase in severance or termination pay, except as was required under any employment, severance or termination policy, practice or agreements in effect as of the date of the SurgiCare Balance Sheet or (iii) any entry by SurgiCare or any SurgiCare Subsidiary into, or any amendment of, any employment, severance or termination agreement with any such director, officer or employee, except for such agreements or amendments with employees (other than directors, officers or key employees) that were entered into in the ordinary course of business consistent with past practice;

(g) any termination of employment or departure of any officer or other key employee of SurgiCare or any SurgiCare Subsidiary;

(h) any entry by SurgiCare or any SurgiCare Subsidiary into any commitment or transaction, or any contract or agreement entered into by SurgiCare or any SurgiCare Subsidiary, relating to SurgiCare s or any SurgiCare Subsidiary s assets or business, or any relinquishment by SurgiCare or any SurgiCare Subsidiary of any contract or other right, material to SurgiCare and the SurgiCare Subsidiaries taken as a whole;

(i) any material revaluation by SurgiCare of any material asset (including any writing off of notes or accounts receivable);

(j) any change in accounting methods, principles or practices by SurgiCare or any SurgiCare Subsidiary materially affecting the consolidated assets, liabilities or results of operations of SurgiCare, except insofar as may have been required by a change in U.S. GAAP;

(k) any elections with respect to Taxes by SurgiCare or any SurgiCare Subsidiary or settlement or compromise by SurgiCare or any SurgiCare Subsidiary of any material Tax Liability or refund; or

(l) any agreement by SurgiCare or any SurgiCare Subsidiary to take any action described in this Section 3.10 except as expressly contemplated by this Agreement.

SECTION 3.11 Absence of Litigation. Except as specifically disclosed in the Filed SurgiCare SEC Documents or in Section 3.11 of the SurgiCare Disclosure Schedule, (i) there is no litigation, arbitration, suit, claim, action, adjudication, appeal, proceeding or investigation (an Action) pending or, to the knowledge of SurgiCare, threatened against SurgiCare or any SurgiCare Subsidiary, or any property or asset of SurgiCare or any SurgiCare Subsidiary, before any court, arbitrator or Governmental Entity, domestic or foreign, or in connection with any appeal or dispute resolution process with a third party payor for health care services, that would have a SurgiCare Material Adverse Effect and (ii) there is no Judgment, consent decree or other Order outstanding against SurgiCare or any SurgiCare Subsidiary.

SECTION 3.12 Employee Benefit Matters.

(a) Section 3.12(a) of the SurgiCare Disclosure Schedule lists each SurgiCare Employee Benefit Plan, other than those set forth in Section 3.13(a)(ii) of the SurgiCare Disclosure Schedule. SurgiCare has delivered to each of DCPS and MBS correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service for each Employee Pension Benefit Plan or Employee Welfare Benefit Plan trust, the Form 5500 Annual Reports and Form 990 Annual Reports that were filed for the last three years, all related trust agreements, insurance contracts (including stop loss policies and fiduciary policies), and other funding agreements which implement each such SurgiCare Employee Benefit Plan, and all other forms and information relating to the administration of the SurgiCare Employee Benefits Plans and no promise or commitment to amend or improve any SurgiCare Employee Benefit Plan for the benefit of any current or former director, officer, or employee of SurgiCare or any SurgiCare Subsidiary which is not reflected in the documentation provided to DCPS and MBS has been made.

(i) Each SurgiCare Employee Benefit Plan (and each related trust, insurance contract, or fund) (A) complies in form and in operation with the applicable requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA)), the Code, and other applicable Laws, and (B) has been operated in accordance with its terms, except in either case where failure to do so would not have a SurgiCare Material Adverse Effect.

(ii) All required reports and descriptions (including Form 5500 Annual Reports, Summary Annual Reports, PBGC-l s, and Summary Plan Descriptions) have been timely and appropriately filed or distributed with respect to each SurgiCare Employee Benefit Plan, except where the failure to do so would not have a SurgiCare Material Adverse Effect.

(iii) All contributions (including all employer contributions and employee salary reduction contributions) which are due have been paid by the due date thereof (taking into account any extensions) to each such SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan and all contributions for any period ending on or before the Closing Date which are not yet due have been paid to each such Employee Pension Benefit Plan or accrued in accordance with the past custom and practice of SurgiCare and disclosed on SurgiCare s consolidated financial statements contained in the SurgiCare SEC Reports. All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each such SurgiCare Employee Benefit Plan which is an Employee Welfare Benefit Plan.

(iv) Each SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan intended to be qualified under Code Section 401(a) is so qualified.

(v) All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each SurgiCare Employee Benefit Plan which is an Employee Welfare Benefit Plan. Each trust holding assets used to fund an Employee Welfare Benefit Plan that is intended to be qualified under Code Section 501(c)(9) is so qualified. The requirements of Part 6 of Subtitle B of Title I of ERISA and of Code Section 4980B have been met with respect to each such SurgiCare Employee Benefit Plan which is an Employee Welfare Benefit Plan subject to such Part.

(b) No SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan is or ever has been subject to Title IV of ERISA and none of SurgiCare or any SurgiCare Subsidiary has incurred or has any reason to expect that any of SurgiCare or the SurgiCare Subsidiaries will incur, any Liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal Liability) or under the Code with respect to any such SurgiCare Employee Benefit Plan which is an Employee Pension Benefit Plan.

(c) There have been no Prohibited Transactions with respect to any SurgiCare Employee Benefit Plan. No Fiduciary has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such SurgiCare Employee Benefit Plan. No action, suit, proceeding, hearing, examination, or investigation with respect to the administration or the investment of the assets of any such SurgiCare Employee Benefit Plan (other than routine claims for benefits) is pending or, to the knowledge of SurgiCare, threatened. No SurgiCare Employee Benefit Plan is, or in the last three years has been, the subject of a government sponsored voluntary correction, amnesty, or similar program.

(d) None of SurgiCare or any SurgiCare Subsidiary contributes to, has ever contributed to, or has ever been required to contribute to any Multiemployer Plan or has any Liability (including withdrawal Liability) under any Multiemployer Plan.

(e) None of SurgiCare or any SurgiCare Subsidiary maintains or ever has maintained or contributes, or ever has contributed or has been required to contribute to, any Employee Welfare Benefit Plan providing medical, health, or life insurance or other welfare-type

benefits for current or future retired or terminated employees, their spouses, or their dependents (other than in accordance with Code Section 4980B).

(f) The Transactions will not result in any payment or acceleration of, or vesting or increase in benefits under, any SurgiCare Employee Benefit Plan.

SECTION 3.13 Material Contracts.

(a) Section 3.13(a) of the SurgiCare Disclosure Schedule contains a list (organized by subsections corresponding to the subsections identified below) of the following contracts, agreements and arrangements (including all amendments thereto) to which SurgiCare or a SurgiCare Subsidiary is currently a party, other than those contracts, agreements and arrangements listed as exhibits in SurgiCare s Form 10-K for the year ended December 31, 2002 (such contracts, agreements and arrangements required to be set forth in Section 3.13(a) of the SurgiCare Disclosure Schedule or listed as exhibits in SurgiCare s Form 10-K for the year ended December 31, 2002, the SurgiCare Material Contracts), except for this Agreement and the other agreements referenced hereby related to the Transactions:

(i) each contract and agreement or group of related agreements which (A) is likely to involve consideration of more than $100,000 in the aggregate, during the years ending December 31, 2003 or December 31, 2004, (B) is likely to involve consideration of more than $250,000 in the aggregate over the remaining term of such contract, or (C) cannot be canceled by SurgiCare or any SurgiCare Subsidiary without penalty or further payment and on less than 60 days notice;

(ii) all employment, consulting, severance, termination or indemnification agreements between SurgiCare or any SurgiCare Subsidiary and any director, officer or employee of SurgiCare or any SurgiCare Subsidiary;

(iii) all (A) management contracts (excluding contracts for employment) and (B) contracts with consultants which involve consideration of more than $25,000 or which involve the services of physicians;

(iv) all provider participation agreements, reimbursement agreements, and third party payor agreements, whether with a governmental or private health care program, health insurer, managed care organization, self-funded group health plan, or other payor for health care services;

(v) all contracts, credit agreements, indentures and other agreements evidencing indebtedness for borrowed money (including capitalized leases);

(vi) all agreements under which SurgiCare or any SurgiCare Subsidiary has advanced or loaned, or may be required to advance or loan, any funds;

(vii) all guarantees of any obligations in excess of $50,000;

(viii) all joint venture or other similar agreements;

(ix) all lease agreements with annual lease payments in excess of $50,000;

(x) agreements under which SurgiCare has granted any Person registration rights (including demand and piggy-back registration rights) or any other agreements with respect to the capital stock of SurgiCare or any SurgiCare Subsidiary;

(xi) all contracts and agreements that limit the ability of SurgiCare or any SurgiCare Subsidiary to compete in any line of business or with any Person or entity or in any geographic area or during any period of time with respect to any business currently conducted by SurgiCare or any SurgiCare Subsidiary;

(xii) all contracts and agreements pursuant to which SurgiCare or any SurgiCare Subsidiary may be required to repurchase or redeem any capital stock or other equity interests;

(xiii) all contracts and agreements relating to the management or development of ambulatory surgery centers by SurgiCare or any SurgiCare Subsidiary;

(xiv) all affiliation agreements with hospitals or other health care providers;

(xv) all litigation settlement agreements, consent decrees, corporate integrity agreements, and settlements with governmental entities;

(xvi) all contracts and other agreements with Affiliates; and

(xvii) any other contracts or agreements that are material to the business, assets, condition (financial or otherwise) or results of operations of SurgiCare and the SurgiCare Subsidiaries taken as a whole.

(b) To the knowledge of SurgiCare, each SurgiCare Material Contract is a legal, valid and binding agreement in full force and effect in accordance with its terms (except that such enforceability (i) may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to the enforcement of creditor s rights and remedies generally, and (ii) is subject to general principals of equity (regardless of whether considered in a proceeding in equity or at law)). Neither SurgiCare nor any SurgiCare Subsidiary is in material violation or default, or has received notice that it is in violation or default, under any SurgiCare Material Contract and, to SurgiCare s knowledge, no other party is in material default under any SurgiCare Material Contract. SurgiCare has provided each of DCPS and MBS with copies of all SurgiCare Material Contracts.

SECTION 3.14 Environmental Matters. Except as described in Section 3.14 of the SurgiCare Disclosure Schedule or as would not have a SurgiCare Material Adverse Effect: (a) SurgiCare and the SurgiCare Subsidiaries have not been and are not in violation of any Environmental Law applicable to any of them; (b) none of the properties currently or formerly owned, leased or operated by SurgiCare or the SurgiCare Subsidiaries are contaminated with any Hazardous Substance; (c) neither SurgiCare nor any of the SurgiCare Subsidiaries are liable for

any off-site contamination by Hazardous Substances; (d) SurgiCare and the SurgiCare Subsidiaries have all permits, licenses and other authorizations required under any Environmental Law (Environmental Permits); (e) SurgiCare and the SurgiCare Subsidiaries are in compliance in all material respects with their Environmental Permits; and (f) neither the execution of this Agreement nor the consummation of the Transactions will require any investigation, remediation or other action with respect to Hazardous Substances, or any notice to or consent of Governmental Entities or third parties, pursuant to any applicable Environmental Law or Environmental Permit. Except as described in Section 3.14 of the SurgiCare Disclosure Schedule, none of SurgiCare or the SurgiCare Subsidiaries has received notice of a violation of, or any Liability under, any Environmental Law (whether with respect to properties presently or previously owned or used). SurgiCare and the SurgiCare Subsidiaries have made available to each of DCPS and MBS all environmental audits, reports and other material environmental documents relating to their properties, facilities or operations which are in their possession or control. Neither SurgiCare nor any SurgiCare Subsidiary has arranged for the disposal or treatment of any substance at any off-site location that has been included in any published U.S. federal, state or local superfund site list or any similar list of hazardous or toxic waste sites published by any Governmental Entity.

SECTION 3.15 Title to Properties; Absence of Liens and Encumbrances.

(a) Except as described in Section 3.15(a) of the SurgiCare Disclosure Schedule, each of SurgiCare and the SurgiCare Subsidiaries has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible personal properties and assets owned, used or held for use in its business, free and clear of any Liens except (i) for Liens imposed by Law for Taxes not yet due and payable or which otherwise are owed to materialmen, workmen, carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, and (ii) as reflected in the financial statements contained in the Filed SurgiCare SEC Documents.

(b) Section 3.15(b) of the SurgiCare Disclosure Schedule sets forth a true, correct and complete list of all real property and improvements (collectively, the SurgiCare Real Property) owned by SurgiCare or any SurgiCare Subsidiary. There are no leases, subleases or other occupancy agreements, either written or oral, granting any Person the right of use or occupancy of any SurgiCare Real Property (or portion thereof). Except as described in Section 3.15(b) of the SurgiCare Disclosure Schedule, SurgiCare (or such SurgiCare Subsidiary as the case may be) has good, clear and marketable title to the SurgiCare Real Property and has furnished to each of DCPS and MBS true and complete copies of title insurance reports and title insurance policies with respect to the SurgiCare Real Property. No SurgiCare Real Property is subject to any Lien except (i) for Liens imposed by Law for Taxes not yet due and payable or that otherwise are owed to materialmen, workmen, carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, (ii) as reflected in the financial statements contained in the Filed SurgiCare SEC Documents, or (iii) as set forth in Section 3.15(b) of the SurgiCare Disclosure Schedule. All title to the SurgiCare Real Property is insurable by a nationally recognized title insurance company, on a standard American Land Title Association (ALTA) title insurance policy with all standard exceptions deleted and otherwise free of all exceptions except for the Liens set forth in Section 3.15(b) of the SurgiCare Disclosure Schedule. Except as set forth on Section 3.15(b) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any

SurgiCare Subsidiary leases (as tenant or subtenant) any real property. The real property listed in Section 3.15(b) of the SurgiCare Disclosure Schedule constitutes all of the real property used, leased or occupied by SurgiCare or any SurgiCare Subsidiary as of the date hereof.

(c) The SurgiCare Real Property and all present uses and operations of the SurgiCare Real Property comply with all Laws, covenants, conditions, restrictions, easements, disposition agreements and similar matters affecting the SurgiCare Real Property, except for such failures to comply as would not have a SurgiCare Material Adverse Effect. SurgiCare and the SurgiCare Subsidiaries have obtained all approvals of Governmental Entities (including certificates of use and occupancy, licenses and permits) required in connection with the construction, ownership, use, occupation and operation of the SurgiCare Real Property, except for such approvals the absence of which would not have a SurgiCare Material Adverse Effect. Neither SurgiCare nor any SurgiCare Subsidiary has received any notice of, nor does SurgiCare or any SurgiCare Subsidiary have any knowledge of, any pending or proposed condemnation proceeding, taking, lawsuit or administrative matter with respect to any of the SurgiCare Real Property.

(d) All structures, facilities and improvements owned by SurgiCare or any SurgiCare Subsidiary and all structural, mechanical and other physical systems that constitute a part thereof are free of material defects and are in good operating condition and repair, except as would not have a SurgiCare Material Adverse Effect. No maintenance or repair to the SurgiCare Real Property or such structures, facilities and improvements (including any structural, mechanical or other physical system thereof) has been unreasonably deferred.

SECTION 3.16 Intellectual Property.

(a) Except with respect to the items set forth in Section 3.16(a) of the SurgiCare Disclosure Schedule, SurgiCare and the SurgiCare Subsidiaries own or possess adequate licenses or other valid enforceable rights to use all Intellectual Property used in the conduct of the business of SurgiCare and the SurgiCare Subsidiaries (as currently conducted and contemplated to be conducted), and the consummation of the Transactions will not conflict with, alter or impair SurgiCare or any SurgiCare Subsidiary s rights to any such Intellectual Property.

(b) Section 3.16(b) of the SurgiCare Disclosure Schedule sets forth all of the following Intellectual Property owned or licensed by SurgiCare or any SurgiCare Subsidiary: patents and patent applications, inventions that have been identified as active patent matters but for which applications have not yet been filed, Trademark registrations and applications for Trademark registrations, trade names, registered copyrights and all material license agreements relating to the operations of SurgiCare and the SurgiCare Subsidiaries. All patents, Trademarks, registrations, copyright registrations and license agreements set forth in Section 3.16(b) of the SurgiCare Disclosure Schedule are valid and in full force and effect. To the knowledge of SurgiCare, neither SurgiCare nor any SurgiCare Subsidiary has interfered with or infringed upon any Intellectual Property rights of third parties in connection with the business of SurgiCare or any SurgiCare Subsidiary. Except as set forth in Section 3.16(b) of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary has received any charge, complaint, claim, demand, office action or notice (i) alleging any such interference or infringement, or (ii) challenging the legality, validity, enforceability, use or ownership of any Intellectual Property

owned or licensed by SurgiCare or any SurgiCare Subsidiary (SurgiCare Intellectual Property). To the knowledge of SurgiCare, except as set forth in Section 3.16(b) of the SurgiCare Disclosure Schedule, no Person is infringing or otherwise violating the rights of SurgiCare or any of the SurgiCare Subsidiaries with respect to any SurgiCare Intellectual Property.

(c) Except as set forth in Section 3.16(c) of the SurgiCare Disclosure Schedule, SurgiCare has timely paid, or caused to be timely paid, all required maintenance, renewal and other similar fees, and has timely met any applicable legal requirements, with respect to all Intellectual Property that is listed in Section 3.16(b) of the SurgiCare Disclosure Schedule as owned by SurgiCare or any SurgiCare Subsidiary. With respect to Intellectual Property licensed by SurgiCare or any SurgiCare Subsidiary that is listed in Section 3.16(b) of the SurgiCare Disclosure Schedule or is material to SurgiCare or any SurgiCare Subsidiary, SurgiCare and each applicable SurgiCare Subsidiary is in compliance with any applicable license or similar agreement and each such license or agreement is legal, valid, binding and in full force and effect in accordance with its terms, except as would not have a SurgiCare Material Adverse Effect.

(d) Neither SurgiCare nor any SurgiCare Subsidiary has agreed to indemnify any Person for or against any interference, infringement, misappropriation, or any other conflict with respect to the Intellectual Property, except in the ordinary course of business.

(e) All of SurgiCare s information technology systems are in good working order in all material respects and are adequate for the conduct of SurgiCare s and the SurgiCare Subsidiaries business as presently conducted. To the knowledge of SurgiCare, SurgiCare owns or possesses adequate licenses for all material computer software used in the conduct of SurgiCare s and the SurgiCare Subsidiaries business as presently conducted.

SECTION 3.17 Taxes.

(a) Each of SurgiCare and the SurgiCare Subsidiaries has duly filed or caused to be filed on a timely basis all Tax Returns required to be filed by it with the applicable Governmental Entity. All such Tax Returns were correct and complete in all material respects. All material Taxes owed by SurgiCare or any SurgiCare Subsidiary (whether or not shown on any Tax Return) have been timely paid in full, including pursuant to any extensions that were timely received. SurgiCare and the SurgiCare Subsidiaries currently are not the beneficiary of any extension of time within which to file any Tax Return. SurgiCare has not received notice that any claim has been made by an authority in a jurisdiction where any of SurgiCare and the SurgiCare Subsidiaries does not file Tax Returns that they may be subject to taxation by that jurisdiction.

(b) Each of SurgiCare and the SurgiCare Subsidiaries has complied in all material respects with all reporting requirements and has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) There is no dispute, audit, investigation, proceeding or claim concerning any Liability with respect to Taxes of SurgiCare or the SurgiCare Subsidiaries either (i) claimed

or raised by any authority in writing received by SurgiCare or any SurgiCare Subsidiary, (ii) as to which SurgiCare has knowledge based upon contact with any such authority, or (iii) as a result of any internal investigation by any officer, outside professional or consultant to SurgiCare or any SurgiCare Subsidiary. Except as set forth in Section 3.17 of the SurgiCare Disclosure Schedule, (i) no federal, state, local, and foreign income Tax Returns filed with respect to SurgiCare and the SurgiCare Subsidiaries have been audited, and (ii) none are currently open or the subject of audit. SurgiCare delivered or made available to each of DCPS and MBS correct and complete copies of all federal, state, local and foreign income Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by any of SurgiCare and the SurgiCare Subsidiaries for the last three taxable years.

(d) None of SurgiCare or any of the SurgiCare Subsidiaries has waived any statue of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) None of SurgiCare or any of the SurgiCare Subsidiaries is or ever has been a party to any Tax allocation or sharing agreement or a member of an affiliated group within the meaning of Code Section 1504(a) or any similar group defined under a similar provision of state, local, or foreign Law (an Affiliated Group) filing a consolidated federal income Tax Return (other than the Affiliated Group the common parent of which is SurgiCare). SurgiCare does not have any Liability for the Taxes of any Person other than SurgiCare and the SurgiCare Subsidiaries under Treas. Reg. Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by contract, or otherwise.

(f) None of SurgiCare or any of the SurgiCare Subsidiaries has filed a consent under Code Section 341(f) concerning collapsible corporations. None of SurgiCare and the SurgiCare Subsidiaries has made any payments, is obligated to make any payments, or is a party to any Contract (including this Agreement) that under certain circumstances could obligate it to make any payments that will not be deductible under Code Sections 162, 280G or 404 or that will be subject to an excise tax under Code Section 4999.

(g) The unpaid Taxes of SurgiCare and the SurgiCare Subsidiaries (1) did not, as of December 31, 2002, exceed the reserve for Tax Liability (excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the SurgiCare Balance Sheet (rather than in any notes thereto) and (2) will not exceed that reserve as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of SurgiCare and the SurgiCare Subsidiaries in filing their Tax Returns.

(h) Since July 1, 1993, SurgiCare has not had an ownership change within the meaning of Section 382(g) of the Code.

SECTION 3.18 Insurance.

(a) Section 3.18 of the SurgiCare Disclosure Schedule sets forth a complete and accurate list of all insurance policies in force naming SurgiCare, any SurgiCare Subsidiary or directors or employees thereof as a loss payee or for which SurgiCare or any SurgiCare

Subsidiary has paid or is obligated to pay all or part of the premiums. Neither SurgiCare nor any SurgiCare Subsidiary has received notice of any pending or threatened cancellation or premium increase (retroactive or otherwise) with respect thereto, and each of SurgiCare and the SurgiCare Subsidiaries is in compliance with all material conditions contained therein.

(b) Each of SurgiCare and the SurgiCare Subsidiaries maintains and has maintained, in full force and effect with financially sound and reputable insurers, general and professional liability insurance coverage with respect to their respective assets and businesses, in such amounts and against such losses and risks as is customarily carried by Persons engaged in the same or similar business and as is required under the terms of any SurgiCare Material Contracts. Neither SurgiCare nor a SurgiCare Subsidiary has been refused such insurance.

(c) SurgiCare and each SurgiCare Subsidiary require physicians and other health care providers who provide professional or health care services in a health care facility or site owned or operated by SurgiCare or a SurgiCare Subsidiary, or who are independent contractors of SurgiCare or a SurgiCare Subsidiary, to maintain professional liability and comprehensive general liability insurance from financially sound and reputable insurers in amounts of, at a minimum, $3,000,000 per occurrence and $5,000,000 in the aggregate.

SECTION 3.19 Opinion of Financial Advisor. The SurgiCare Board has received the written opinion of G.A. Herrerra & Co., LLC dated November 17, 2003 to the effect that, as of such date, the Transactions are fair to the SurgiCare stockholders from a financial standpoint, and a copy of the signed opinion has been provided to each of DCPS and MBS.

SECTION 3.20 Brokers. No broker, investment banker, financial advisor or other Person, other than G.A. Herrerra & Co., LLC, Daniel Krzyzanowski and Odyssey Capital, LLC, the fees and expenses of which will be paid by SurgiCare and are set forth in Section 3.20 of the SurgiCare Disclosure Schedule, is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of SurgiCare. SurgiCare has delivered to each of DCPS and MBS a complete and accurate copy of all agreements pursuant to which G.A. Herrerra & Co., LLC, Daniel Krzyzanowski or Odyssey Capital, LLC is entitled to any fees and expenses payable directly or indirectly by SurgiCare or any SurgiCare Subsidiary in connection with any of the Transactions.

SECTION 3.21 Employees. To the knowledge of SurgiCare, except as set forth in Section 3.21 of the SurgiCare Disclosure Schedule, no executive, key employee, or group of employees has any plans to terminate employment with SurgiCare or the SurgiCare Subsidiaries or any affiliates (including, but not limited to, any physician groups). SurgiCare and the SurgiCare Subsidiaries have not experienced any labor disputes or work stoppages due to labor disagreements. SurgiCare and the SurgiCare Subsidiaries are in material compliance with all applicable Laws respecting employment and employment practices and terms and conditions of employment. SurgiCare and the SurgiCare Subsidiaries are not, nor have any of them ever been, a party to any collective bargaining agreements and, to the knowledge of SurgiCare, none of SurgiCare or any of the SurgiCare Subsidiaries has been the subject of any organizational activity. None of SurgiCare nor any of the SurgiCare Subsidiaries engages in the corporate practice of medicine or employs physicians in violation of the corporate practice of medicine doctrine, as defined or applied under the Laws of Texas or any other applicable jurisdiction.

SECTION 3.22 Transactions with Affiliates. Except as set forth in the Filed SurgiCare SEC Documents, since the date of SurgiCare s last proxy statement filed with the SEC, no event has occurred that would be required to be reported by SurgiCare pursuant to Item 404 of Regulation S-K promulgated by the SEC. Section 3.22 of the SurgiCare Disclosure Schedule identifies each Person who is (or who may be deemed to be) an Affiliate of SurgiCare or any SurgiCare Subsidiary. Without limiting the generality of the foregoing, there are no amounts due or payable by SurgiCare or any SurgiCare Subsidiary to any of the SurgiCare Principal Stockholders or any of their Affiliates or associates in connection with the Transactions or otherwise.

SECTION 3.23 Stockholder Rights Agreement. Neither SurgiCare nor any SurgiCare Subsidiary has an effective stockholder rights agreement or any similar plan or agreement which limits or impairs the ability to purchase, or become the direct or indirect beneficial owner of, shares of SurgiCare Old Common Stock or any other equity or debt securities of SurgiCare or any SurgiCare Subsidiary, other than any stockholder rights plan or stockholder rights agreement that (a) is adopted after the date of this Agreement, (b) does not impair the ability of the parties to consummate the Merger in accordance with the terms of this Agreement, and (c) otherwise does not have an adverse effect on any of DCPS, MBS or the Sellers or on the rights of any of DCPS, MBS or the Sellers under this Agreement.

SECTION 3.24 IPS Acquisition Agreement, Stock Subscription Agreement and Debt Exchange Agreement. Each of the IPS Acquisition Agreement, the Stock Subscription Agreement and the Debt Exchange Agreement has been executed by all parties thereto and is in full force and effect as of the date hereof.

SECTION 3.25 Offering Valid. Assuming the accuracy of the representations and warranties of the Sellers contained in Section 4.24, the offer, sale and issuance of the SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) and the DCPS Notes in the Mergers will be exempt from the registration requirements of the Securities Act, and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws. Neither SurgiCare nor any agent on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of the SurgiCare Class C Common Shares, SurgiCare Class A Common Shares or DCPS Notes to any Person or Persons so as to bring the sale of such SurgiCare Class C Common Shares, SurgiCare Class A Common Shares or DCPS Notes by SurgiCare within the registration provisions of the Securities Act or any state securities laws. SurgiCare has made or will, in accordance with all time periods under applicable laws, make all requisite filings and has taken or will take all action necessary to be taken to comply with such state securities or blue sky laws. All prior issuances of SurgiCare s securities have been conducted in conformity with all applicable securities laws.

SECTION 3.26 Certain Payments. Neither SurgiCare nor any SurgiCare Subsidiary, nor to SurgiCare s knowledge, their respective directors, officers, agents, affiliates or employees, nor any other person acting on behalf of SurgiCare or any SurgiCare Subsidiary, has (i) given or agreed to give any gift or similar benefit having a value of $1,000 or more to any customer, supplier or governmental employee or official or any other person, for the purpose of directly or indirectly furthering the business of SurgiCare or any SurgiCare Subsidiary, (ii) used any

corporate funds for contributions, payments, gifts or entertainment, or made any expenditures, relating to political activities to government officials or others in violation of any applicable Law or (iii) received any unlawful contributions, payments, gifts or expenditures in connection with the business of SurgiCare or any SurgiCare Subsidiary.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF DCPS, MBS AND THE SELLERS

DCPS and the DCPS Sellers hereby jointly and severally represent and warrant (solely with respect to DCPS) to SurgiCare and Newco, and MBS and the MBS Sellers hereby jointly and severally represent and warrant (solely with respect to MBS) to SurgiCare and Newco, that:

SECTION 4.01 Organization and Qualification; Subsidiaries.

(a) MBS is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of the State of Texas and has all requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to do so would not have a DCPS/MBS Material Adverse Effect. DCPS is a limited partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of the State of Texas and has all requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to do so would not have a DCPS/MBS Material Adverse Effect. Each of DCPS and MBS is duly qualified or licensed as a foreign corporation or organization to do business, and is in good standing (where such concept is applicable), in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to do so would not have a DCPS/MBS Material Adverse Effect. Section 4.01(a) of the DCPS/MBS Disclosure Schedule lists all trade names used or used at any time during the past five years by either of DCPS or MBS.

(b) Neither MBS nor DCPS has any subsidiaries. Except for the ownership of interests set forth in Section 4.01(b) of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS owns, directly or indirectly, or has any outstanding contractual obligation to acquire, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any corporation, partnership, joint venture or other business association or entity.

SECTION 4.02 Certificate of Incorporation and By-Laws. MBS has heretofore provided to SurgiCare a complete and correct copy of MBS certificate of incorporation, as amended to date (the MBS Charter) and MBS by-laws, as amended to date (the MBS By-Laws). The MBS Charter and MBS By-Laws are in full force and effect. MBS is not in violation of any of the provisions of the MBS Charter or the MBS By-Laws. DCPS has heretofore provided to SurgiCare a complete and correct copy of DCPS partnership agreement, as amended to date (the DCPS Partnership Agreement). The DCPS Partnership Agreement is in full force and effect. DCPS is not in violation of any of the provisions of the DCPS Partnership Agreement.

SECTION 4.03 Capitalization.

(a) The authorized capital stock of MBS consists of 2,000 shares of MBS Common Stock. As of the date hereof, (i) 1,000 MBS Common Shares are issued and outstanding and held by the MBS Sellers in the percentages set forth on Schedule 2.01(a)(i) and (ii) no MBS Common Shares are held in MBS treasury. Except as set forth above, as of the date hereof no shares of capital stock or other securities of MBS are issued, reserved for issuance or outstanding. As of the date hereof, 990 Units of Limited Partnership Interest in DCPS and 10 Units of General Partnership Interest of DCPS are issued and outstanding. Except as set forth above, as of the date hereof no DCPS Partnership Interests or other securities of DCPS are issued, reserved for issuance or outstanding.

(b) All outstanding MBS Common Shares are, and all such shares that may be issued prior to the Effective Times will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in material violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the TBCA, the MBS Charter, the MBS By-Laws or any Contract to which MBS is a party or otherwise bound. Each offer or sale by MBS of shares of its capital stock or other securities has been in compliance with all applicable federal and state securities laws or the applicable statute of limitations with respect to such offers or sales has expired. All outstanding DCPS Partnership Interests are duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in material violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the TRLPA, the DCPS Partnership Agreement or any Contract to which DCPS is a party or otherwise bound. Each offer or sale by DCPS of DCPS Partnership Interests or other securities has been in compliance with all applicable federal and state securities laws or the applicable statute of limitations with respect to such offers or sales has expired.

(c) Except as set forth in Section 4.03(c) of the DCPS/MBS Disclosure Schedule, there are not any bonds, debentures, notes or other indebtedness of DCPS or MBS having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of MBS Common Shares or DCPS Partnership Interests may vote (Voting DCPS/MBS Debt).

(d) Except as set forth in Section 4.03(a) above, as of the date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which either of DCPS or MBS is a party or by which either of them is bound (i) obligating DCPS or MBS to issue or sell, or cause to be issued or sold, additional shares of capital stock or other equity interests in, or any security convertible or exchangeable into, or exercisable for, any capital stock of or other equity interest in, DCPS or MBS or any Voting DCPS/MBS Debt, (ii) obligating DCPS or MBS to issue, grant, extend or enter into any such option, warrant, right, security, stock appreciation right, stock-based performance unit, commitment, Contract, arrangement or undertaking, or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of MBS Common Shares or DCPS Partnership Interests.

(e) There are not any outstanding contractual obligations of DCPS or MBS, contingent or otherwise, to repurchase, redeem or otherwise acquire any shares of capital stock

or other ownership interests of DCPS or MBS. Except as set forth in Section 4.03(e) of the DCPS/MBS Disclosure Schedule, there are no issued and outstanding MBS Common Shares or DCPS Partnership Interests that are subject to a repurchase or redemption right in favor of MBS or DCPS.

(f) Each Seller is the record and beneficial owner of, and owns good and marketable title to, the number of MBS Common Shares or DCPS Partnership Interests set forth on Section 4.03(f) of the DCPS/MBS Disclosure Schedule, free and clear of all Liens, and each Seller has complete and unrestricted power to sell, assign and deliver to SurgiCare unencumbered marketable title to the MBS Common Shares or DCPS Partnership Interests owned by such Seller.

SECTION 4.04 Authority Relative to this Agreement.

(a) Each of DCPS, MBS and the Sellers has all requisite power and authority (corporate or otherwise) to execute and deliver this Agreement and consummate the applicable Merger. The execution and delivery by each of DCPS and MBS of this Agreement and the consummation by each of DCPS and MBS of the applicable Merger have been duly authorized by all necessary action (corporate or otherwise) on the part of each of DCPS and MBS. Each of DCPS, MBS and the Sellers has duly executed and delivered this Agreement, and this Agreement constitutes the legal, valid and binding obligation of DCPS, MBS and the Sellers, enforceable against them in accordance with its terms.

(b) No fair price , moratorium , control share acquisition or other similar anti-takeover statute or regulation is applicable to either DCPS or MBS, by reason of DCPS or MBS being a party to the Mergers or this Agreement. Neither DCPS nor MBS is a party to any stockholder rights plan or any similar anti-takeover plan or device.

SECTION 4.05 No Conflict; Required Filings and Consents.

(a) Except as set forth in Section 4.05(a) of the DCPS/MBS Disclosure Schedule, the execution and delivery by each of DCPS, MBS and the Sellers of this Agreement does not, and the consummation by each of DCPS, MBS and the Sellers of the applicable Merger and compliance with the terms hereof will not, result in any material violation of or default (with or without notice or lapse of time, or both) under, or require any offer to purchase or any prepayment of any debt, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Lien upon any of the properties or assets of DCPS, MBS or any Seller under, any provision of (i) the MBS Charter, the MBS By-Laws or the DCPS Partnership Agreement, (ii) any DCPS/MBS Material Contract or DCPS/MBS Employee Benefit Plan, or (iii) subject to the filings and other matters referred to in Section 3.05(b), any Judgment or Law applicable to DCPS, MBS or any Seller or their respective properties or assets.

(b) Except as set forth in Section 4.05(a) of the DCPS/MBS Disclosure Schedule, no Consent of, or registration, declaration, notification or filing with, any Governmental Entity or third party is required to be obtained or made by or with respect to

DCPS or MBS in connection with the execution, delivery and performance of this Agreement or the consummation by either of DCPS or MBS of the applicable Merger, other than (i) the Required Consents and (ii) such other items that would not have a DCPS/MBS Material Adverse Effect.

SECTION 4.06 Permits; Accreditation.

(a) Except as set forth in Section 4.06(a) of the DCPS/MBS Disclosure Schedule, DCPS and MBS have all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any Governmental Entity necessary or advisable for DCPS or MBS to own, lease and operate its properties or to carry on its business as it is now being conducted (the DCPS/MBS Permits), other than such DCPS/MBS Permits as, individually and in the aggregate, are not material to the business of either DCPS or MBS and the lack of which would not result in a DCPS/MBS Material Adverse Effect. Except as disclosed in Section 4.06(a) of the DCPS/MBS Disclosure Schedule, each of DCPS and MBS is in possession of all DCPS/MBS Permits in good standing, neither DCPS nor MBS is in breach of, or in default or violation under any of the DCPS/MBS Permits, and no suspension, violation, revocation, limitation or cancellation of or default under any of the DCPS/MBS Permits is pending or, to the knowledge of the Sellers, threatened, except as would not have a DCPS/MBS Material Adverse Effect. Neither DCPS nor MBS has received any written notices of violation, default or deficiency with respect to any DCPS/MBS Permit that remains uncured. No DCPS/MBS Permit will be materially affected by, or terminate or lapse by reason of, the Mergers.

(b) Except as disclosed in Section 4.06(b) of the DCPS/MBS Disclosure Schedule, each employee and agent of DCPS and MBS has all licenses, permits and approvals required for the performance of his or her duties for DCPS or MBS, except where the failure to have such approvals would not have a DCPS/MBS Material Adverse Effect; and no such employee or agent of DCPS or MBS is in violation of any such license, permit, or approval or any term or condition thereof, except for such violations as would not have a DCPS/MBS Material Adverse Effect.

SECTION 4.07 Compliance with Laws.

(a) Except as disclosed in Section 4.07(a) of the DCPS/MBS Disclosure Schedule, DCPS and MBS are, and have been, in compliance with each Law applicable to DCPS or MBS or by which any property or asset of DCPS or MBS is bound or affected, except where such failure to comply would not have a DCPS/MBS Material Adverse Effect. Except as set forth in Section 4.07(a) of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS has received any communication from a Governmental Entity that alleges that DCPS or MBS is not or was not in compliance with any applicable Law.

(b) Without limiting the generality of the foregoing, except as set forth in Section 4.07(b) of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS, nor, to the knowledge of the Sellers, any of the officers, directors, employees, and agents of DCPS or MBS, has engaged in any activity that (i) would constitute a violation of, or that would serve as cause for criminal or civil penalties under, the statutes pertaining to the federal Medicare and Medicaid

programs (as defined below), or the federal statutes applicable to health care fraud and abuse, kickbacks and self-referrals, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn and the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*., related or similar statutes pertaining to the Federal Employee Health Benefit Program, TRICARE or any other federal health care program, or the regulations promulgated pursuant to any of such federal statutes, or any analogous or similar state statutes pertaining to Medicaid or any state statutes or regulations pertaining to commercial health care or health insurance programs or the regulations promulgated pursuant to such statutes or regulations, (ii) would serve as cause for mandatory or permissive exclusion from Medicare, Medicaid, the Federal Employee Health Benefit Program, TRICARE, or any other federal or state health care program or any other governmental or commercial third party payor program, or (iii) would prohibit billing under Medicare or Medicaid, the Federal Employee Health Benefit Program, TRICARE, or any state-funded health care or private health insurance program.

(c) Except as set forth in Section 4.07(c) of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS, nor any of their respective officers, directors, or managing employees, nor, to the knowledge of the Sellers, any Person with a direct or indirect ownership, partnership, or equity interest in DCPS or MBS has (i) received notice of any action pending, nor been party to any action, to terminate the participation of such entity, or to exclude such entity from participation, in Medicare, Medicaid, TRICARE, the Federal Employee Health Benefits Program, or any other federal health care program, or any state or private third party health plan, insurance program, or managed care plan; (ii) received notice of any action pending or investigation initiated, or been subject to a civil monetary penalty assessed against it, under Section 1128A of the Social Security Act, (iii) been excluded from participation under Medicare, Medicaid or any other federal health care program, (iv) been convicted (as that term is defined in 42 C.F.R. § 1001.2) of any offenses described in Sections 1128(a) and 1128(b)(1), (2), (3) of the Social Security Act, or (v) received notice of any action pending or investigation initiated, or been subject to fines, under any applicable state fraud and abuse statutes or regulations or any federal health care fraud and abuse, kickbacks and self-referrals statutes or regulations, including without limitation 42 U.S.C. § 1320a-7a, 42 U.S.C. § 1320a-7b, 42 U.S.C. § 1395nn or the federal Civil False Claims Act, 31 U.S.C. § 3729 *et seq*.

(d) Each of DCPS and MBS operates in substantial compliance with all federal and state Laws relating to the privacy, security and electronic interchange of individually identifiable health information, including without limitation HIPAA. DCPS and MBS substantially comply with all regulations promulgated under HIPAA with respect to electronic data interchange and standard transactions and code sets.

(e) Each of DCPS and MBS has implemented and maintains a corporate compliance program that incorporates each element set forth in the U.S. Sentencing Commission Guidelines Manual and is consistent with applicable guidance set forth by the Office of Inspector General of the Department of Health and Human Services; and the businesses of DCPS and MBS have been conducted in all material respects in accordance with the terms of such corporate compliance program.

SECTION 4.08 Financial Statements.

(a) Attached as Section 4.08(a) of the DCPS/MBS Disclosure Schedule are (i) the audited balance sheets of DCPS as of December 31, 2002 and 2001, together with the related statements of income and cash flows for the periods then ended, all certified by Mann Frankfort Stein & Lipp, DCPS independent public accountants (ii) the audited balance sheets of MBS as of September 30, 2003, 2002 and 2001, together with the related statements of income and cash flows for the periods then ended, all certified by Mann Frankfort Stein & Lipp, MBS independent public accountants, and (iii) the unaudited balance sheets of DCPS as of September 30, 2003 and the related statements of income for the three and ninth month periods then ended (collectively, the financial statements described in clauses (i), (ii) and (iii) are referred to herein as the Financial Statements).

(b) Each of the Financial Statements was prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto) and each presents fairly in all material respects the financial position, results of operations and cash flows of DCPS or MBS, as applicable, as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject to the absence of complete footnotes and to normal and recurring year-end adjustments which have not been and are not expected to be material, individually or in the aggregate). The balance sheets of DCPS contained in the Financial Statements as of December 31, 2002 and the balance sheets of MBS contained in the Financial Statements as of September 30, 2003 are hereinafter referred to as the DCPS/MBS Balance Sheets.

SECTION 4.09 Undisclosed Liabilities. Except for those Liabilities that are fully reflected or reserved against on the DCPS/MBS Balance Sheets (or in the notes thereto) or as set forth in Section 4.09 of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS has outstanding any Liability (including without limitation any Liability under any federal, state, or private health care, health benefit, or managed care plan or program for any refund, overpayment, discount and adjustment required by U.S. GAAP to be set forth on a balance sheet of DCPS or MBS, as applicable, or in the notes thereto), except for Liabilities which have been incurred since the date of the DCPS/MBS Balance Sheets in the ordinary course of business, consistent with past practice, and which would not have an DCPS/MBS Material Adverse Effect.

SECTION 4.10 Absence of Certain Changes or Events. Except as disclosed in Section 4.10 of the DCPS/MBS Disclosure Schedule, from the date of the DCPS/MBS Balance Sheets, each of DCPS and MBS has conducted its business only in the ordinary course consistent with past practice, and during such period there has not been:

(a) any event, damage, change, effect, destruction, loss or development that would have a DCPS/MBS Material Adverse Effect;

(b) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any MBS Common Shares or DCPS Partnership Interests or any repurchase or redemption for value by MBS of any MBS Common Shares or by DCPS of any DCPS Partnership Interests;

(c) any split, combination or reclassification of any MBS Common Shares DCPS Partnership Interests or any issuance or the authorization of any issuance of any other

securities in respect of, in lieu of or in substitution for MBS Common Shares or DCPS Partnership Interests;

(d) any issuance by MBS or DCPS of any capital stock or other equity securities or any securities convertible, exchangeable or exercisable into any capital stock or other equity securities;

(e) any incurrence, assumption or guaranty by DCPS or MBS of any indebtedness for borrowed money or issuance by DCPS or MBS of any debt securities or assumption, guarantee or endorsement of the obligations of any Person by DCPS or MBS, or any making of loans or advances by DCPS or MBS, or any creation or other incurrence by DCPS or MBS of any Lien;

(f) (i) any grant by DCPS or MBS to any current or former director, officer or employee of DCPS or MBS of any increase in their compensation, except to the extent required under employment agreements in effect as of the date of the DCPS/MBS Balance Sheets, or with respect to employees (other than directors, officers or key employees) in the ordinary course of business consistent with past practice, (ii) any grant by DCPS or MBS to any current or former director, officer or employee of any increase in severance or termination pay, except as was required under any employment, severance or termination policy, practice or agreements in effect as of the date of the DCPS/MBS Balance Sheets or (iii) any entry by DCPS or MBS into, or any amendment of, any employment, severance or termination agreement with any such director, officer or employee, except for such agreements or amendments with employees (other than directors, officers or key employees) that were entered into in the ordinary course of business consistent with past practice;

(g) any termination of employment or departure of any officer or other key employee of DCPS or MBS;

(h) any entry by DCPS or MBS into any commitment or transaction, or any contract or agreement entered into by DCPS or MBS relating to DCPS or MBS assets or business, or any relinquishment by DCPS or MBS of any contract or other right, material to DCPS and MBS taken as a whole;

(i) any material revaluation by DCPS or MBS of any material asset (including any writing off of notes or accounts receivable);

(j) any change in accounting methods, principles or practices by DCPS or MBS materially affecting the assets, liabilities or results of operations of DCPS or MBS, except insofar as may have been required by a change in U.S. GAAP;

(k) any elections with respect to Taxes by DCPS or MBS or settlement or compromise by DCPS or MBS of any material Tax Liability or refund; or

(l) any agreement by DCPS or MBS to take any action described in this Section 4.10 except as expressly contemplated by this Agreement.

SECTION 4.11 Absence of Litigation. Except as disclosed in Section 4.11 of the DCPS/MBS Disclosure Schedule, (i) there is no Action pending or, to the knowledge of the Sellers, threatened against DCPS or MBS, or any property or asset of DCPS or MBS, before any court, arbitrator or Governmental Entity, domestic or foreign, or in connection with any appeal or dispute resolution process with a third party payor for health care services that would have a DCPS/MBS Material Adverse Effect, and (ii) there is no Judgment, consent decree or other Order outstanding against DCPS or MBS that would have an DCPS/MBS Material Adverse Effect.

SECTION 4.12 Employee Benefit Matters.

(a) Section 4.12(a) of the DCPS/MBS Disclosure Schedule lists each DCPS/MBS Employee Benefit Plan, other than those set forth in Section 4.13(a)(ii) of the DCPS/MBS Disclosure Schedule. DCPS and MBS have delivered to SurgiCare correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service for each Employee Pension Benefit Plan or Employee Welfare Benefit Plan trust, the Form 5500 Annual Reports and Form 990 Annual Reports that were filed for the last three years, all related trust agreements, insurance contracts (including stop loss policies and fiduciary policies), and other funding agreements which implement each such DCPS/MBS Employee Benefit Plan, and all other forms and information relating to the administration of the DCPS/MBS Employee Benefits Plans and no promise or commitment to amend or improve any DCPS/MBS Employee Benefit Plan for the benefit of any current or former director, officer, or employee of DCPS or MBS which is not reflected in the documentation provided to SurgiCare has been made.

(i) Each DCPS/MBS Employee Benefit Plan (and each related trust, insurance contract, or fund) (A) complies in form and in operation with the applicable requirements of ERISA), the Code, and other applicable Laws and (B) has been operated in accordance with its terms, except in either case where failure to do so would not have a DCPS/MBS Material Adverse Effect.

(ii) All required reports and descriptions (including Form 5500 Annual Reports, Summary Annual Reports, PBGC-l s, and Summary Plan Descriptions) have been timely and appropriately filed or distributed with respect to each DCPS/MBS Employee Benefit Plan, except where the failure to do would not have a DCPS/MBS Material Adverse Effect.

(iii) All contributions (including all employer contributions and employee salary reduction contributions) which are due have been paid by the due date thereof (taking into account any extensions) to each such DCPS/MBS Employee Benefit Plan which is an Employee Pension Benefit Plan and all contributions for any period ending on or before the Closing Date which are not yet due have been paid to each such Employee Pension Benefit Plan or accrued in accordance with the past custom and practice of DCPS or MBS, as applicable, and disclosed on the Financial Statements. All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each such DCPS/MBS Employee Benefit Plan which is an Employee Welfare Benefit Plan.

(iv) Each DCPS/MBS Employee Benefit Plan which is an Employee Pension Benefit Plan intended to be qualified under Code Section 401(a) is so qualified.

(v) All premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each DCPS/MBS Employee Benefit Plan which is an Employee Welfare Benefit Plan. Each trust holding assets used to fund an Employee Welfare Benefit Plan that is intended to be qualified under Code Section 501(c)(9) is so qualified. The requirements of Part 6 of Subtitle B of Title I of ERISA and of Code Section 4980B have been met with respect to each such DCPS/MBS Employee Benefit Plan which is an Employee Welfare Benefit Plan subject to such Part.

(b) No DCPS/MBS Employee Benefit Plan which is an Employee Pension Benefit Plan is or ever has been subject to Title IV of ERISA and neither DCPS nor MBS has incurred or has any reason to expect that either of DCPS or MBS will incur, any Liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal Liability) or under the Code with respect to any such DCPS/MBS Employee Benefit Plan which is an Employee Pension Benefit Plan.

(c) There have been no Prohibited Transactions with respect to any DCPS/MBS Employee Benefit Plan. No Fiduciary has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such DCPS/MBS Employee Benefit Plan. No action, suit, proceeding, hearing, examination, or investigation with respect to the administration or the investment of the assets of any such DCPS/MBS Employee Benefit Plan (other than routine claims for benefits) is pending or, to the knowledge of the Sellers, threatened. No DCPS/MBS Employee Benefit Plan is, or in the last three years has been, the subject of a government sponsored voluntary correction, amnesty, or similar program.

(d) Neither DCPS nor MBS contributes to, has ever contributed to, or has ever been required to contribute to any Multiemployer Plan or has any Liability (including withdrawal Liability) under any Multiemployer Plan.

(e) Neither DCPS nor MBS maintains or ever has maintained or contributes, or ever has contributed or has been required to contribute to, any Employee Welfare Benefit Plan providing medical, health, or life insurance or other welfare-type benefits for current or future retired or terminated employees, their spouses, or their dependents (other than in accordance with Code Section 4980B).

(f) The Mergers will not result in any payment or acceleration of, or vesting or increase in benefits under, any DCPS/MBS Employee Benefit Plan.

SECTION 4.13 Material Contracts.

(a) Section 4.13(a) of the DCPS/MBS Disclosure Schedule contains a list (organized by subsections corresponding to the subsections identified below) of the following contracts, agreements and arrangements (including all amendments thereto) to which DCPS or MBS is currently a party (such contracts, agreements and arrangements required to be set forth in Section 4.13(a) of the DCPS/MBS Disclosure Schedule, the DCPS/MBS Material Contracts) ,

except for this Agreement and the other agreements referenced hereby related to the Transactions:

(i) each contract and agreement or group of related agreements which (A) is likely to involve consideration of more than $50,000 in the aggregate, during the years ending December 31, 2003 or December 31, 2004, (B) is likely to involve consideration of more than $125,000 in the aggregate over the remaining term of such contract, or (C) cannot be canceled by DCPS or MBS without penalty or further payment and on less than 60 days notice;

(ii) all employment, consulting, severance, termination or indemnification agreements between DCPS or MBS and any director, officer or employee of DCPS or MBS;

(iii) all (A) management contracts (excluding contracts for employment) and (B) contracts with consultants which involve consideration of more than $10,000;

(iv) all contracts, credit agreements, indentures and other agreements evidencing indebtedness for borrowed money (including capitalized leases);

(v) all agreements under which DCPS or MBS has advanced or loaned, or may be required to advance or loan, any funds;

(vi) all guarantees of any obligations in excess of $25,000;

(vii) all joint venture or other similar agreements;

(viii) all lease agreements with annual lease payments in excess of $25,000;

(ix) agreements under which DCPS or MBS has granted any Person registration rights (including demand and piggy-back registration rights) or any other agreements with respect to the capital stock or other ownership interests of DCPS or MBS;

(x) all contracts and agreements that limit the ability of DCPS or MBS to compete in any line of business or with any Person or entity or in any geographic area or during any period of time with respect to any business currently conducted by DCPS or MBS;

(xi) all contracts and agreements pursuant to which DCPS or MBS may be required to repurchase or redeem any capital stock or other equity interests;

(xii) all affiliation agreements with hospitals or other health care providers;

(xiii) all litigation settlement agreements, consent decrees, corporate integrity agreements, and settlements with governmental entities;

(xiv) all contracts and other agreements with Affiliates; and

(xv) any other contracts or agreements that are material to the business, assets, condition (financial or otherwise) or results of operations of DCPS and MBS taken as a whole.

(b) To the knowledge of the Sellers, each DCPS/MBS Material Contract is a legal, valid and binding agreement in full force and effect in accordance with its terms (except that such enforceability (i) may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to the enforcement of creditor s rights and remedies generally, and (ii) is subject to general principals of equity (regardless of whether considered in a proceeding in equity or at law)). Neither DCPS nor MBS is in material violation or default, or has received notice that it is in violation or default, under any DCPS/MBS Material Contract and, to the knowledge of the Sellers, no other party is in material default under any DCPS/MBS Material Contract. DCPS and MBS have provided SurgiCare with copies of all DCPS/MBS Material Contracts.

SECTION 4.14 Environmental Matters. Except as described in Section 4.14 of the DCPS/MBS Disclosure Schedule or as would not have a DCPS/MBS Material Adverse Effect: (a) DCPS and MBS have not been and are not in violation of any Environmental Law applicable to any of them; (b) none of the properties currently or formerly owned, leased or operated by DCPS or MBS are contaminated with any Hazardous Substance; (c) neither DCPS nor MBS are liable for any off-site contamination by Hazardous Substances; (d) DCPS and MBS have all Environmental Permits; (e) DCPS and MBS are in compliance in all material respects with their Environmental Permits; and (f) neither the execution of this Agreement nor the consummation of the Mergers will require any investigation, remediation or other action with respect to Hazardous Substances, or any notice to or consent of Governmental Entities or third parties, pursuant to any applicable Environmental Law or Environmental Permit. Except as described in Section 4.14 of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS has received notice of a violation of, or any Liability under, any Environmental Law (whether with respect to properties presently or previously owned or used). DCPS and MBS have made available to SurgiCare all environmental audits, reports and other material environmental documents relating to their properties, facilities or operations which are in their possession or control. Neither DCPS nor MBS has arranged for the disposal or treatment of any substance at any off-site location that has been included in any published U.S. federal, state or local superfund site list or any similar list of hazardous or toxic waste sites published by any Governmental Entity.

SECTION 4.15 Title to Properties; Absence of Liens and Encumbrances.

(a) Except as described in Section 4.15(a) of the DCPS/MBS Disclosure Schedule, each of DCPS and MBS has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible personal properties and assets owned, used or held for use in its business, free and clear of any Liens except (i) for Liens imposed by Law for Taxes not yet due and payable or which otherwise are owed to materialmen, workmen,

carriers, warehousepersons or laborers not in excess of $25,000 in the aggregate, and (ii) as reflected in the Financial Statements.

(b) Neither DCPS nor MBS owns any real property. Except as set forth on Section 4.15(b) of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS leases (as tenant or subtenant) any real property. The real property listed in Section 4.15(b) of the DCPS/MBS Disclosure Schedule (the DCPS/MBS Real Property) constitutes all of the real property used, leased or occupied by DCPS or MBS as of the date hereof.

(c) The DCPS/MBS Real Property and all present uses and operations of the DCPS/MBS Real Property comply with all Laws, covenants, conditions, restrictions, easements, disposition agreements and similar matters affecting the DCPS/MBS Real Property, except for such failures to comply as would not have a DCPS/MBS Material Adverse Effect. DCPS and MBS have obtained all approvals of Governmental Entities (including certificates of use and occupancy, licenses and permits) required in connection with the use, occupation and operation of the DCPS/MBS Real Property, except for such approvals as to which the failure to obtain would not have a DCPS/MBS Material Adverse Effect. Neither DCPS nor MBS has received any notice of, nor do the Sellers have any knowledge of, any pending or proposed condemnation proceeding, taking, lawsuit or administrative matter with respect to any of the DCPS/MBS Real Property.

(d) All structures, facilities and improvements used by DCPS or MBS and all structural, mechanical and other physical systems that constitute a part thereof are free of material defects and are in good operating condition and repair, except as has not had and would not reasonably be expected to have a DCPS/MBS Material Adverse Effect. No maintenance or repair to the DCPS/MBS Real Property or such structures, facilities and improvements (including any structural, mechanical or other physical system thereof) has been unreasonably deferred.

SECTION 4.16 Intellectual Property.

(a) Except with respect to the items set forth in Section 4.16(a) of the DCPS/MBS Disclosure Schedule, DCPS and MBS own or possess adequate licenses or other valid enforceable rights to use all Intellectual Property used in the conduct of the businesses of DCPS and MBS (as currently conducted and contemplated to be conducted), and the consummation of the Mergers will not conflict with, alter or impair DCPS or MBS rights to any such Intellectual Property.

(b) Section 4.16(b) of the DCPS/MBS Disclosure Schedule sets forth all of the following Intellectual Property owned or licensed by DCPS or MBS: patents and patent applications, inventions that have been identified as active patent matters but for which applications have not yet been filed, Trademark registrations and applications for Trademark registrations, trade names, registered copyrights and all material license agreements relating to the operations of DCPS and MBS. All patents, Trademarks, registrations, copyright registrations and license agreements set forth in Section 4.16(b) of the DCPS/MBS Disclosure Schedule are valid and in full force and effect. To the knowledge of the Sellers, neither DCPS nor MBS has interfered with or infringed upon any Intellectual Property rights of third parties in connection

with the business of DCPS or MBS, and, except as set forth in Section 4.16(b) of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS has received any charge, complaint, claim, demand, office action or notice (i) alleging any such interference or infringement, or (ii) challenging the legality, validity, enforceability, use or ownership of any Intellectual Property owned or licensed by DCPS or MBS (DCPS/MBS Intellectual Property). To the knowledge of the Sellers, except as set forth in Section 4.16(b) of the DCPS/MBS Disclosure Schedule, no Person is infringing or otherwise violating the rights of DCPS or MBS with respect to any DCPS/MBS Intellectual Property.

(c) Except as set forth in Section 4.16(c) of the DCPS/MBS Disclosure Schedule, DCPS and MBS have timely paid, or caused to be timely paid, all required maintenance, renewal and other similar fees, and has timely met any applicable legal requirements, with respect to all Intellectual Property that is listed in Section 4.16(b) of the DCPS/MBS Disclosure Schedule as owned by DCPS or MBS. With respect to Intellectual Property licensed by DCPS or MBS that is listed in Section 4.16(b) of the DCPS/MBS Disclosure Schedule or is material to DCPS or MBS, DCPS or MBS is in compliance with any applicable license or similar agreement and each such license or agreement is legal, valid, binding and in full force and effect in accordance with its terms, except as would not have a DCPS/MBS Material Adverse Effect.

(d) Neither DCPS nor MBS has agreed to indemnify any Person for or against any interference, infringement, misappropriation, or any other conflict with respect to the DCPS/MBS Intellectual Property, except in the ordinary course of business.

(e) All of DCPS and MBS information technology systems are in good working order in all material respects and are adequate for the conduct of DCPS and MBS business as presently conducted. To the knowledge of the Sellers, DCPS and MBS own or possess adequate licenses for all material computer software used in the conduct of DCPS and MBS businesses as presently conducted.

SECTION 4.17 Taxes.

(a) Each of DCPS and MBS has duly filed, or caused to be filed, on a timely basis all Tax Returns required to be filed by it with the applicable Governmental Entity. All such Tax Returns were correct and complete in all material respects. All material Taxes owed by DCPS or MBS (whether or not shown on any Tax Return) have been timely paid in full, including pursuant to any extensions that were timely received. DCPS and MBS currently are not the beneficiary of any extension of time within which to file any Tax Return. Neither DCPS nor MBS has received notice that any claim has been made by an authority in a jurisdiction where either of DCPS or MBS does not file Tax Returns that they may be subject to taxation by that jurisdiction.

(b) Each of DCPS and MBS has complied in all material respects with all reporting requirements and has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) There is no dispute, audit, investigation, proceeding or claim concerning any Liability with respect to Taxes of DCPS or MBS either (i) claimed or raised by any authority in writing received by DCPS or MBS or (ii) as to which the Sellers have knowledge based upon contact with any such authority. Except as set forth in Section 4.17 of the DCPS/MBS Disclosure Schedule, (i) no federal, state, local, and foreign income Tax Returns filed with respect to DCPS or MBS have been audited, and (ii) none are currently open or the subject of audit. DCPS and MBS delivered or made available to SurgiCare correct and complete copies of all federal, state, local and foreign income Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by either of DCPS or MBS for the last three taxable years.

(d) Neither DCPS nor MBS has waived any statue of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) Neither DCPS nor MBS is or ever has been a party to any Tax allocation or sharing agreement or a member of an Affiliated Group filing a consolidated federal income Tax Return (other than the Affiliated Group the common parent of which is DCPS or MBS). Neither DCPS nor MBS has any Liability for the Taxes of any Person other than DCPS and MBS under Treas. Reg. Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by contract, or otherwise.

(f) Neither DCPS nor MBS has filed a consent under Code Section 341(f) concerning collapsible corporations. Neither DCPS nor MBS has made any payments, is obligated to make any payments, or is a party to any Contract (including this Agreement) that under certain circumstances could obligate it to make any payments that will not be deductible under Code Sections 162, 280G or 404 or that will be subject to an excise tax under Code Section 4999.

(g) The unpaid Taxes of DCPS and MBS (1) did not, as of December 31, 2002, exceed the reserves for Tax Liability (excluding any reserves for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the DCPS/MBS Balance Sheets (rather than in any notes thereto) and (2) will not exceed those reserves as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of DCPS and MBS in filing their Tax Returns.

(h) Since July 1, 1993, neither DCPS nor MBS has had an ownership change within the meaning of Section 382(g) of the Code.

(i) DCPS has been a validly electing S corporation, within the meaning of Code Sections 1361 and 1362 and for state Tax law purposes, except in those states which do not recognize S corporation status, since August 31, 2003, and has filed all forms and taken all actions necessary to maintain such status. At all times prior to August 31, 2003, DCPS was a partnership for U.S. federal income tax purposes. DCPS has never been, and will not at any time be, a C corporation for U.S. federal income tax purposes. None of DCPS, any predecessor to the DCPS or any stockholder or other equity holder of DCPS has taken any action, or omitted to take any action, which action or omission could result in the loss of S corporation status for any

period prior to the DCPS Effective Time. DCPS will be an S corporation up to and including the Closing Date.

(j) DCPS shall not be liable for any Tax under Code Section 1374 in connection with the transactions contemplated by this Agreement. DCPS has not, since August 31, 2003, (A) acquired assets from another corporation in a transaction in which DCPS Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor, or (b) acquired the stock of any corporation which is or was at any time a qualified subchapter S subsidiary.

(k) The business carried on by DCPS is its historic business within the meaning of Treasury Regulation 1.368-1(d) promulgated under the Code and no assets of DCPS have been acquired, or sold, transferred or otherwise disposed of, in an amount which would prevent SurgiCare (or a member of SurgiCare s qualified group) from (i) continuing the historic business of DCPS, or (ii) using a significant portion of the historic business assets of DCPS in a business following the Mergers. For purposes of this representation, members of SurgiCare s qualified group include corporations in any one or more chains of corporations connected through stock ownership with SurgiCare, but only if SurgiCare owns directly stock meeting the requirements of Section 368(c) of the Code in at least one of such corporations and stock meeting the requirements of Section 368(c) of the Code in each of the other corporations (other than SurgiCare) is owned directly by one of such other corporations.

SECTION 4.18 Insurance.

(a) Section 4.18 of the DCPS/MBS Disclosure Schedule sets forth a complete and accurate list of all insurance policies in force naming DCPS, MBS or directors or employees thereof as a loss payee or for which DCPS or MBS has paid or is obligated to pay all or part of the premiums. Neither DCPS nor MBS has received notice of any pending or threatened cancellation or premium increase (retroactive or otherwise) with respect thereto, and each of DCPS and MBS is in compliance with all material conditions contained therein.

(b) Each of DCPS and MBS maintains and has maintained, in full force and effect with financially sound and reputable insurers, general and professional liability insurance coverage with respect to their respective assets and businesses, in such amounts and against such losses and risks as is customarily carried by Persons engaged in the same or similar business and as is required under the terms of any DCPS/MBS Material Contracts. Neither DCPS nor MBS has been refused such insurance.

SECTION 4.19 Brokers. No broker, investment banker, financial advisor or other Person is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the Mergers based upon arrangements made by or on behalf of DCPS or MBS.

SECTION 4.20 Employees. To the knowledge of the Sellers, no executive, key employee, or group of employees has any plans to terminate employment with DCPS or MBS or any affiliates (including, but not limited to, any physician groups). DCPS and MBS have not experienced any labor disputes or work stoppages due to labor disagreements. DCPS and MBS

are in material compliance with all applicable Laws respecting employment and employment practices and terms and conditions of employment. DCPS and MBS are not, nor have either of them ever been, a party to any collective bargaining agreements and, to the knowledge of the Sellers, neither DCPS nor MBS has been the subject of any organizational activity. Neither DCPS nor MBS engages in the corporate practice of medicine or employs physicians.

SECTION 4.21 Transactions with Affiliates. Except as set forth in Section 4.21 of the DCPS/MBS Disclosure Schedule, since December 31, 2002, no event has occurred that would be required to be reported pursuant to Item 404 of Regulation S-K promulgated by the SEC. Section 4.21 of the DCPS/MBS Disclosure Schedule identifies each Person who is (or who may be deemed to be) an Affiliate of DCPS or MBS. Without limiting the generality of the foregoing, there are no amounts due or payable by DCPS or MBS to any of the Sellers or any of their Affiliates or associates in connection with the Mergers or otherwise.

SECTION 4.22 Stockholder Rights Agreement. Neither DCPS nor MBS has an effective stockholder rights agreement or any similar plan or agreement which limits or impairs the ability to purchase, or become the direct or indirect beneficial owner of, shares of MBS Common Stock or DCPS Partnership Interests or any other equity or debt securities of DCPS or MBS, other than any stockholder rights plan or stockholder rights agreement that (a) is adopted after the date of this Agreement, (b) does not impair the ability of the parties to consummate the Mergers in accordance with the terms of this Agreement, and (c) otherwise does not have an adverse effect on SurgiCare or Newco or on the rights of SurgiCare or Newco under this Agreement.

SECTION 4.23 Certain Payments. Neither DCPS nor MBS, nor to the knowledge of the Sellers, their respective directors, officers, agents, affiliates or employees, nor any other person acting on behalf of DCPS or MBS, has (i) given or agreed to give any gift or similar benefit having a value of $1,000 or more to any customer, supplier or governmental employee or official or any other person, for the purpose of directly or indirectly furthering the business of DCPS or MBS, (ii) used any corporate funds for contributions, payments, gifts or entertainment, or made any expenditures, relating to political activities to government officials or others in violation of any applicable Law or (iii) received any unlawful contributions, payments, gifts or expenditures in connection with the business of DCPS or MBS.

SECTION 4.24 Investment Representations. The Sellers have been advised that neither the SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) constituting the MBS Share Consideration and the DCPS Share Consideration nor the DCPS Notes have been registered under the Securities Act or any state securities laws and, therefore, such SurgiCare Class C Common Shares, SurgiCare Class A Common Shares and DCPS Notes may not be resold unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Sellers are aware that SurgiCare is under no obligation to effect any such registration with respect to such SurgiCare Class C Common Shares, SurgiCare Class A Common Shares or DCPS Notes or to file for or comply with any exemption from registration. Each Seller is receiving the SurgiCare Class C Common Shares, SurgiCare Class A Common Shares and DCPS Notes to be acquired by such Seller hereunder for his own account and not with a view to, or for resale in connection with, the distribution thereof in violation of the Securities Act. Each Seller

has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment and is able to bear the economic risk of such investment for an indefinite period of time. Each Seller is an accredited investor as that term is defined in Regulation D under the Securities Act.

ARTICLE V
CONDUCT OF BUSINESS PENDING THE MERGERS

SECTION 5.01 Conduct of Business by SurgiCare Pending the Mergers. SurgiCare agrees that, between the date of this Agreement and the Effective Times, except as set forth in Section 5.01 of the SurgiCare Disclosure Schedule or as specifically required by any other provision of this Agreement, unless DCPS and MBS otherwise consent in writing (which consent will not be unreasonably withheld):

(a) the businesses of SurgiCare and the SurgiCare Subsidiaries will be conducted only in, and SurgiCare and the SurgiCare Subsidiaries will not take any action except in, the ordinary course of business and in a manner consistent with past practice; and

(b) SurgiCare will use its reasonable best efforts to preserve substantially intact its business organization and goodwill, to keep available the services of the current officers, employees and consultants of SurgiCare and the SurgiCare Subsidiaries (other than termination for cause) and to preserve the current relationships of SurgiCare and the SurgiCare Subsidiaries with members or other customers, employees, suppliers, licensors, licensees and other Persons with which SurgiCare or any SurgiCare Subsidiary has significant business relations.

By way of amplification and not limitation, except (x) as contemplated by this Agreement, (y) for transfers of cash among SurgiCare and the SurgiCare Subsidiaries pursuant to SurgiCare s existing cash management policies or (z) as set forth in Section 5.01 of the SurgiCare Disclosure Schedule, neither SurgiCare nor any SurgiCare Subsidiary will, between the date of this Agreement and the Effective Times, directly or indirectly, do, or propose to do, any of the following without the prior written consent of DCPS and MBS (which consent will not be unreasonably withheld):

(i) amend or change its certificate of incorporation or by-laws or equivalent organizational documents (including without limitation the SurgiCare Charter and SurgiCare By-Laws);

(ii) issue, sell, pledge or dispose of, or authorize for issuance, sale, pledge or disposal, any shares of its stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such stock, or any other ownership interest (including, without limitation, any phantom interest), of SurgiCare or any SurgiCare Subsidiary (except for the issuance of shares of SurgiCare Old Common Stock pursuant to the SurgiCare Stock Options and SurgiCare Warrants outstanding on the date of this Agreement);

(iii) authorize, declare or set aside any dividend payment or other distribution, payable in cash, stock, property or otherwise, with respect to any of its stock;

(iv) 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;

(v) acquire or agree to acquire or sell or agree to sell (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any interest in any corporation, partnership, other business organization or any division thereof or any assets constituting a business or a portion of a business, including any shares of any such entities capital stock or any options, warrants or rights to acquire any of its capital stock;

(vi) sell, lease, license, encumber or subject to any Lien or otherwise dispose of any SurgiCare Real Property;

(vii) 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 (A) revolving indebtedness under SurgiCare s existing revolving loan agreement, incurred in the ordinary course of business and consistent with past practice, (B) indebtedness under additional SurgiCare Bridge Notes and (C) 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;

(viii) enter into any contracts or agreements requiring the payment, or receipt of payment, of consideration in excess of $250,000, or modify, amend, renew, waive any material provision of, breach or terminate any existing SurgiCare Material Contract;

(ix) make or authorize any capital expenditures, other than as set forth in Section 5.01(ix) of the SurgiCare Disclosure Schedule;

(x) except for the acceleration of vesting of unvested SurgiCare Stock Options and SurgiCare Warrants outstanding on the date hereof, waive any stock repurchase or acceleration rights, amend or change the terms of any options, warrants, or restricted stock, or reprice options granted under any SurgiCare Option Plan or warrants or authorize cash payments in exchange for any options, or warrants granted under any such plans;

(xi) (a) increase the compensation payable or to become payable to SurgiCare s or any SurgiCare Subsidiary s officers or employees (including without limitation any rights to severance or termination pay), except for increases in salaries or wages of employees (other than directors, officers or key employees) in the ordinary course of business and in accordance with past practices and consistent with current budgets and as described in Section 5.01(xi) of the SurgiCare Disclosure Schedule, (b) grant or amend any rights to severance or termination pay to, or enter into or amend any employment, consulting, retirement, special pay arrangement or severance agreement

with, any director, officer or other employee of SurgiCare or any SurgiCare Subsidiary, or with any other persons, except as required by previously existing contractual arrangements or applicable law or (c) forgive any indebtedness of any employee of SurgiCare or any SurgiCare Subsidiary;

(xii) 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, the SurgiCare Balance Sheet or incurred in the ordinary course of business and consistent with past practice, 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 SurgiCare or any SurgiCare Subsidiary is a party;

(xiii) settle any Action other than any settlement which 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;

(xiv) 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 (including communications with a Governmental Entity) with respect to the computation of Taxes or the preparation of a Tax Return that is inconsistent with past practice;

(xv) take any action, other than as required by U.S. GAAP or by the SEC, with respect to accounting principles or procedures, including, without limitation, any revaluation of assets;

(xvi) except as provided in Section 5.01(b)(x), (i) establish, adopt, enter into, amend, or terminate any collective bargaining agreement or SurgiCare Employee Benefit Plan, other than to the extent required by any SurgiCare Employee Benefit Plan or to comply with applicable Law, (ii) take any action to accelerate any rights or benefits, or (iii) unless consistent with past practice, make any material determinations not in the ordinary course of business, under any collective bargaining agreement or SurgiCare Employee Benefit Plan;

(xvii) 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 Mergers;

(xviii) agree in writing or otherwise to take any of the actions described in clauses (i) through (xvii) above; or

(xix) take any action (a) that would reasonably be expected to cause any of SurgiCare s or Newco s representations and warranties set forth in Article III that are qualified by materiality to be untrue, (b) that would reasonably be expected to cause any

of SurgiCare s or Newco s representations and warranties set forth in Article III that are not qualified by materiality to be untrue in any material respect or (c) that would be reasonably expected to result in the inability of SurgiCare or Newco to satisfy the conditions to closing set forth in Section 7.02.

SECTION 5.02 Conduct of Business by DCPS and MBS Pending the Mergers. DCPS and MBS agree that, between the date of this Agreement and the Effective Times, except as set forth in Section 5.02 of the DCPS/MBS Disclosure Schedule or as specifically required by any other provision of this Agreement, unless SurgiCare otherwise consents in writing (which consent will not be unreasonably withheld):

(a) the businesses of DCPS and MBS will be conducted only in, and DCPS and MBS will not take any action except in, the ordinary course of business and in a manner consistent with past practice; and

(b) DCPS and MBS will use their reasonable best efforts to preserve substantially intact their respective business organizations and goodwill, to keep available the services of the current officers, employees and consultants of DCPS and MBS (other than termination for cause) and to preserve the current relationships of DCPS and MBS with members or other customers, employees, suppliers, licensors, licensees and other Persons with which DCPS or MBS has significant business relations.

By way of amplification and not limitation, except (x) as contemplated by this Agreement or (y) as set forth in Section 5.02 of the DCPS/MBS Disclosure Schedule, neither DCPS nor MBS will, between the date of this Agreement and the Effective Times, directly or indirectly, do, or propose to do, any of the following without the prior written consent of SurgiCare (which consent will not be unreasonably withheld):

(i) amend or change its certificate of incorporation or by-laws or equivalent organizational documents (including without limitation the MBS Charter, the MBS By-Laws and the DCPS Partnership Agreement);

(ii) issue, sell, pledge or dispose of, or authorize for issuance, sale, pledge or disposal, any shares of its stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such stock, or any other ownership interest (including, without limitation, any phantom interest), of DCPS or MBS;

(iii) authorize, declare or set aside any dividend payment or other distribution, payable in cash, stock, property or otherwise, 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 Date to the extent that (A) DCPS or MBS, as applicable, is able to maintain its operations in the ordinary course of business, (B) as of the Effective Time DCPS or MBS, as applicable, has sufficient cash to fulfill its cash flow needs for at least one month following the Closing and (C) solely with respect to DCPS, the aggregate amount of such distributions is less than 10% of the net assets of DCPS and less than 30% of the gross assets of DCPS;

(iv) 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;

(v) acquire or agree to acquire or sell or agree to sell (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any interest in any corporation, partnership, other business organization or any division thereof or any assets constituting a business or a portion of a business, including any shares of such entities capital stock or any options, warrants or rights to acquire any of its capital stock;

(vi) sell, lease, license, encumber or subject to any Lien or otherwise dispose of any DCPS/MBS Real Property;

(vii) 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 DCPS and MBS, incurred in the ordinary course of business and consistent with past practice, and for other indebtedness with a maturity of not more than one year and in a principal amount not, in the aggregate, in excess of $25,000;

(viii) enter into any contracts or agreements requiring the payment, or receipt of payment, of consideration in excess of $100,000, or modify, amend, renew, waive any material provision of, breach or terminate any existing DCPS/MBS Material Contract;

(ix) make or authorize any capital expenditures, other than as set forth in Section 5.02(ix) of the DCPS/MBS Disclosure Schedule;

(x) 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;

(xi) (a) increase the compensation payable or to become payable to DCPS or MBS officers or employees (including without limitation any rights to severance or termination pay), except for increases in salaries or wages of employees (other than directors, officers or key employees) in accordance with past practices and consistent with current budgets, (b) grant or amend any rights to severance or termination pay to, or enter into or amend any employment or severance agreement with, any director, officer or other employee of DCPS or MBS or (c) forgive any indebtedness of any employee of DCPS or MBS;

(xii) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in excess of $50,000 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, the DCPS/MBS Balance Sheets or incurred in the ordinary course of business and consistent with past practice, or cancel any indebtedness in excess of $50,000 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 DCPS or MBS is a party;

(xiii) settle any Action other than any settlement which 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;

(xiv) 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 (including communications with a Governmental Entity) with respect to the computation of Taxes or the preparation of a Tax Return that is inconsistent with past practice;

(xv) take any action, other than as required by U.S. GAAP or by the SEC, with respect to accounting principles or procedures, including, without limitation, any revaluation of assets;

(xvi) (i) establish, adopt, enter into, amend, or terminate any collective bargaining agreement or DCPS/MBS Employee Benefit Plan, other than to the extent required by any DCPS/MBS Employee Benefit Plan or to comply with applicable Law, (ii) take any action to accelerate any rights or benefits, or (iii) unless consistent with past practice, make any material determinations not in the ordinary course of business, under any collective bargaining agreement or DCPS/MBS Employee Benefit Plan;

(xvii) 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 Mergers;

(xviii) agree in writing or otherwise to take any of the actions described in clauses (i) through (xvii) above; or

(xix) take any action (a) that would reasonably be expected to cause any of DCPS and MBS representations and warranties set forth in Article IV that are qualified by materiality to be untrue, (b) that would reasonably be expected to cause any of DCPS and MBS representations and warranties set forth in Article IV that are not qualified by materiality to be untrue in any material respect or (c) that would be reasonably expected to result in the inability of DCPS or MBS to satisfy the conditions to closing set forth in Section 7.03.

SECTION 5.03 Notification of Certain Matters. SurgiCare will give prompt notice to DCPS and MBS, and DCPS and MBS will give prompt notice to SurgiCare, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause (A) any representation or warranty contained in this Agreement made by such Person that is qualified by materiality to be untrue or inaccurate, (B) any representation or warranty contained in this Agreement made by such Person that is not qualified by materiality to be untrue or inaccurate in any material respect or (C) any covenant, condition or agreement contained in

this Agreement applicable to such Person not to be complied with or satisfied, (ii) any failure of SurgiCare, on the one hand, or DCPS or MBS, on the other hand, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder and (iii) any notices received or provided by SurgiCare under the Stock Subscription Agreement, the Debt Exchange Agreement or the IPS Acquisition Agreement; provided, however, that the delivery of any notice pursuant to this Section 5.03 will not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

ARTICLE VI
ADDITIONAL AGREEMENTS

SECTION 6.01 Proxy Statement; Stockholders Meetings.

(a) As promptly as practicable after the execution of this Agreement, SurgiCare shall prepare and file with the SEC a proxy statement (together with any amendments thereof or supplements thereto, the Proxy Statement) in preliminary form (provided that DCPS, MBS and their counsel will be given reasonable opportunity to review and comment on the Proxy Statement and any amendments thereto prior to each filing with the SEC) relating to the meeting of SurgiCare s stockholders (the SurgiCare Stockholders Meeting) to be held to consider approval of the issuance of SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) in the Mergers, the IPS Acquisition and the Debt Exchange, as well as the Recapitalization, the Equity Financing, the Board Election and the New Equity Plan. Each of SurgiCare, DCPS and MBS shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect thereto, and prior to the Effective Times, SurgiCare shall take all or any action required under any applicable federal or state securities laws in connection with the issuance of SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) pursuant to the Mergers. DCPS and MBS shall furnish all information concerning DCPS and MBS as SurgiCare may reasonably request in connection with such actions and the preparation of the Proxy Statement, including without limitation any audited or unaudited financial statements. As promptly as practicable after the definitive Proxy Statement has been filed with the SEC, SurgiCare shall mail the Proxy Statement to its stockholders.

(b) The Proxy Statement shall include a copy of the fairness opinion identified in Section 3.19 and, subject to paragraph (c) of this Section 6.01, the SurgiCare Board Approval.

(c) Nothing in this Agreement shall prevent the SurgiCare Board from withholding, withdrawing, amending or modifying the SurgiCare Board Approval if the SurgiCare Board determines in good faith (after consultation with legal counsel) that the failure to take such action would constitute a breach by the SurgiCare Board of its fiduciary duties to SurgiCare s stockholders under applicable law. Unless this Agreement shall have been terminated in accordance with its terms, nothing contained in this Section 6.01(c) shall limit SurgiCare s obligation to convene and hold the SurgiCare Stockholders Meeting (regardless of whether the SurgiCare Board Approval shall have been withheld, withdrawn, amended or modified).

(d) No amendment or supplement to the Proxy Statement will be made by SurgiCare without the approval of DCPS and MBS (such approval not to be unreasonably withheld or delayed). Each of SurgiCare, DCPS and MBS will advise the other, promptly after it receives notice thereof, of any request by the SEC for amendment of the Proxy Statement or comments thereon and responses thereto or requests by the SEC for additional information.

(e) The information supplied by SurgiCare for inclusion in the Proxy Statement shall not, at (i) the time the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to the stockholders of SurgiCare, (ii) the time of the SurgiCare Stockholders Meeting and (iii) the Effective Times, contain any untrue statement of a material fact or fail to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. If, at any time prior to the Effective Times, any event or circumstance relating to SurgiCare or any SurgiCare Subsidiary, or their respective officers or directors, that should be set forth in an amendment or a supplement to the Proxy Statement should be discovered by SurgiCare, SurgiCare shall promptly inform DCPS and MBS thereof. All documents that SurgiCare is responsible for filing with the SEC in connection with the Mergers or the other transactions contemplated by this Agreement will comply as to form and substance in all material respects with the applicable requirements of the Securities Act and the rules and regulations thereunder and the Exchange Act and the rules and regulations thereunder.

(f) The written information supplied by DCPS and MBS for inclusion in the Proxy Statement shall not, at (i) the time the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to the stockholders of SurgiCare, (ii) the time of the SurgiCare Stockholders Meeting and (iii) the Effective Times, contain any untrue statement of a material fact or fail to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. If, at any time prior to the Effective Times, any event or circumstance relating to DCPS or MBS, or their respective officers or directors, that should be set forth in an amendment or a supplement to the Proxy Statement should be discovered by DCPS or MBS, DCPS or MBS, as applicable, shall promptly inform SurgiCare.

(g) SurgiCare shall call and hold the SurgiCare Stockholders Meeting as promptly as practicable and in accordance with applicable laws for the purpose of voting upon the approval of the issuance of SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) in the Mergers, the IPS Acquisition and the Debt Exchange, as well as the Recapitalization, the Equity Financing, the Board Election and the New Equity Plan, and SurgiCare shall use its reasonable best efforts to hold the SurgiCare Stockholders Meeting as soon as practicable after the date on which the Proxy Statement is filed with the SEC. SurgiCare shall (a) use its reasonable best efforts to solicit from its stockholders proxies in favor of the approval of the issuance of SurgiCare Class A Common Shares (and, if applicable, SurgiCare Class A Common Shares) in the Mergers, the IPS Acquisition and the Debt Exchange, as well as the Recapitalization, the Equity Financing, the Board Election and the New Equity Plan and (b) shall take all other action necessary or advisable to secure the vote or consent of stockholders required by the rules of the AMEX to obtain such approvals.

SECTION 6.02 Access to Information; Confidentiality. Subject to applicable law, SurgiCare, DCPS and MBS each will, and will cause each of their respective subsidiaries to, afford to the other party, and to the other party s officers, employees, accountants, counsel, financial advisors, financing sources and other representatives, upon reasonable notice, reasonable access during normal business hours during the period prior to the Effective Times to all their respective properties, books, contracts, commitments, personnel and records and, during such period, SurgiCare, DCPS and MBS each will, and will cause each of their respective subsidiaries to, furnish promptly to the other party such information concerning its business, properties, assets, customers, consultants and personnel as the other party may reasonably request. SurgiCare, DCPS and MBS each hereby consents, and will cause each of their respective subsidiaries to consent, to the other party and the other party s officers, employees, accountants, counsel, financial advisors, financing sources and other representatives contacting, in a reasonable fashion, members, employees, lenders and landlords of SurgiCare, DCPS or MBS, as the case may be, and such subsidiaries and will, upon reasonable notice from the other party, request such members, employees, lenders and landlords to cooperate during normal business hours during the period prior to the Effective Times with any reasonable requests made by or on behalf of the other party. Any confidential information provided to SurgiCare, DCPS or MBS hereunder will be subject to the terms of the Non-Disclosure and Confidentiality Agreement between SurgiCare and DCPS dated March 7, 2003 and the Non-Disclosure and Confidentiality Agreement between SurgiCare and MBS dated March 19, 2003, as applicable (the Confidentiality Agreements); provided that SurgiCare, Newco, DCPS and MBS may disclose such information as may be necessary in connection with seeking required statutory approvals. No investigation pursuant to this Section 6.02 shall affect or be deemed to modify any representation or warranty in this Agreement of any party hereto or any condition to the obligations of the parties hereto.

SECTION 6.03 [Intentionally Omitted].

SECTION 6.04 No Solicitation of Transactions by DCPS or MBS. After the date hereof and prior to the Effective Times or earlier termination of this Agreement pursuant to Article VIII hereof, DCPS and MBS will not, 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 (any such being referred to herein as an DCPS/MBS Acquisition Transaction). DCPS and MBS immediately will cease and cause to be terminated all activities, discussions or negotiations with any parties with respect to any DCPS/MBS Acquisition Transaction, other than the Mergers.

SECTION 6.05 Further Action; Consents. Upon the terms and subject to the conditions set forth in this Agreement, each of the parties will use all reasonable efforts to take, or cause to be taken, all reasonable actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things reasonably necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Transactions, including without limitation (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities and the making of all necessary registrations and filings (including filings with Governmental Entities, if any) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Transactions, including, when reasonable, seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed, (iv) the complete satisfaction of all respective conditions to closing set forth in Article VII hereof, and (v) the execution and delivery of any additional instruments necessary to consummate the Transactions and to fully carry out the purposes of this Agreement.

SECTION 6.06 Public Announcements. SurgiCare and Newco, on the one hand, and DCPS and MBS, on the other hand, will consult with each other a reasonable time before issuing, and provide each other the reasonable opportunity to review and comment upon, any press release or other public statements (including any filings with any federal or state governmental or regulatory agency or with the AMEX) with respect to the Transactions and will not issue any such press release or make any such public statement prior to such consultation. Notwithstanding anything to the contrary herein or in the Confidentiality Agreements, each of the parties hereto (and each employee, representative, or other agent of such parties) may disclose to any Person, without limitation of any kind, the tax treatment and tax structure of the Transactions and all materials (including opinions or other tax analyses) that are provided to such party relating to such tax treatment and tax structure.

SECTION 6.07 AMEX Listing. SurgiCare shall use its best efforts to continue the listing of the SurgiCare Old Common Stock on the AMEX during the term of this Agreement.

SECTION 6.08 Listing of SurgiCare Class A Common Shares. SurgiCare shall use its best efforts to cause the SurgiCare Class A Common Shares issuable upon conversion of the SurgiCare Class C Common Shares to be issued in the Mergers, as well as any SurgiCare Class A Common Shares issuable under Section 2.07, to be approved for listing, upon official notice of issuance, on the AMEX.

SECTION 6.09 Form S-3 Eligibility. SurgiCare shall use its best efforts to obtain eligibility to file with the SEC registration statements on Form S-3 for offerings made on a continuous basis pursuant to Rule 415 under the Securities Act.

SECTION 6.10 Outsourcing of Services to the Surviving Corporation; Surgery Center Division. From the period beginning at the Effective Times and ending on such date that no further additional Merger Consideration may be payable under Section 2.07(c) (the Earn-out Period), if billing and collection, contracting or other management services are performed by

the Surviving Corporation for SurgiCare, SurgiCare will pay the Surviving Corporation for such services at a rate that is 10% greater than the minimum amount needed to cover all costs (including overhead) associated with the provision of such services by the Surviving Corporation. In addition, during the Earn-out Period, SurgiCare agrees that it will not purchase any medical billings services that are substantially similar to services provided by the Surviving Corporation from a Person other than the Surviving Corporation at a rate equal to or higher than the rate payable to the Surviving Corporation hereunder. If, during the Earn-out Period, SurgiCare proposes to purchase such services from a Person other than the Surviving Corporation at a rate lower than the rate payable to the Surviving Corporation hereunder, SurgiCare shall notify the Sellers in writing and provide the Sellers with the opportunity to allow SurgiCare to pay such lower rate to the Surviving Corporation. If the Sellers agree to such lower rate in writing within five business days of such notice from SurgiCare, SurgiCare agrees to purchase from the Surviving Corporation, and the Surviving Corporation agrees to provide to SurgiCare, such services at such lower rate. SurgiCare agrees to use reasonable commercial efforts following the Effective Times to assist the Surviving Corporation in the development and marketing of a surgery center division of the Surviving Corporation to provide billing, collection and managed care contracting services for both owned and unaffiliated surgery centers.

SECTION 6.11 Right of First Refusal. SurgiCare hereby grants to the Sellers a right of first refusal (the ROFR) for the purchase of the Surviving Corporation, which right shall be exercised as set forth in this Section 6.11.

(a) Upon SurgiCare s acceptance (subject to the provisions of this Section 6.11) of a bona fide offer from an unaffiliated third-party to purchase all of the capital stock, or all or substantially all of the assets, of the Surviving Corporation (other than in connection with an acquisition of all or substantially all of SurgiCare) prior to the later of (i) the third anniversary of the Closing Date or (ii) the date on which all of the Sellers Notes have been satisfied in full (a Third-Party Offer), SurgiCare will give the Sellers written notice of the terms and conditions under which SurgiCare is willing to sell such capital stock or assets to such third-party (the ROFR Notice). The Sellers may elect to purchase such capital stock or assets under the terms set forth in the ROFR Notice by providing SurgiCare with written notice of exercise of the ROFR within fifteen days after the Sellers receipt of the ROFR Notice. If the Sellers provide such notice to SurgiCare within the fifteen day period, then the parties will enter into a definitive written agreement for the sale of the applicable capital stock or assets of the Surviving Corporation to the Sellers (or the Sellers designee) upon the price and other terms stated in the ROFR Notice, subject to Section 6.11(c) below.

(b) If the Sellers decline the refusal right in response to the ROFR Notice within the fifteen day period, or if the Sellers do not respond within the fifteen day period, then SurgiCare may sell the capital stock or assets of the Surviving Corporation to the third-party who made the offer to SurgiCare at a price equal to at least 95% of the purchase price offered in the Third Party-Offer. SurgiCare may (i) extend the due diligence period or closing date and (ii) make such other modifications that do not materially affect the value of the consideration to be paid for the Surviving Corporation capital stock or assets. Upon the consummation of a sale to such third-party upon such price and terms, the ROFR will terminate.

(c) The capital stock or assets of the Surviving Corporation will be sold to the Sellers upon an exercise of the ROFR on an as-is basis, without representation, warranty or indemnity, with such other terms and conditions as are customarily included in a purchase and sale agreement including provisions (i) as to closing documents and deliveries and (ii) with a closing of the sale to occur no later than the later of (A) forty-five days after the Sellers notice of exercise pursuant to Section 6.11(a) or (B) the date contained in Third-Party Offer, if any. If permitted by applicable law, the Sellers may elect to transfer SurgiCare Class C Common Shares or SurgiCare Class A Common Shares to SurgiCare in satisfaction of all or any portion of the applicable purchase price; provided, however, that the value of any such share transferred to SurgiCare shall be equal to the product of 85% *multiplied by* the average of the daily average of the high and low price per share of the SurgiCare Class A Common Stock on the AMEX, or such other stock exchange or other similar system on which the SurgiCare Class A Common shall be listed or quoted at the time, for the five trading days immediately preceding the closing of the sale (or, if the SurgiCare Class A Common Stock is not listed or quoted on any stock exchange or other similar system at such time, the fair market value of a share of SurgiCare Class A Common Stock as determined in good faith by the SurgiCare Board).

SECTION 6.12 Advisory Board. If, following the Effective Times, SurgiCare in its sole discretion establishes an advisory board, each of Smith and Cain shall have a right to appoint one member to such board so long as he continues to own at least 50% of the SurgiCare Class C Common Shares issued to him as part of the Merger Consideration (or Class A Common Shares into which such Class C Common Shares have converted).

SECTION 6.13 Observer Rights. SurgiCare covenants and agrees that (i) for so long as Smith owns at least 50% of the SurgiCare Class C Common Shares issued to him as part of the Merger Consideration (or Class A Common Shares into which such Class C Common Shares have converted), Smith may be present as an observer at all meetings of the SurgiCare Board or any committee thereof (an Observer), (ii) for so long as Cain owns at least 50% of the SurgiCare Class C Common Shares issued to him as part of the Merger Consideration (or Class A Common Shares into which such Class C Common Shares have converted), Cain may be present as an Observer at all meetings of the SurgiCare Board or any committee thereof, and (iii) SurgiCare shall give each such Observer notice of such meeting not later than the earlier of (a) the same time notice is provided or delivered to the directors for such meeting of the SurgiCare Board or committee and (b) 24 hours prior to the time of such proposed meeting; provided, however, that in the event that the SurgiCare Board or the committee intends to discuss or vote upon any matter in which an Observer has a material business or financial interest (other than by reason of such Observer s interests as a stockholder of SurgiCare), or if all members of management are to be excluded therefrom, such Observer may be excluded therefrom by a vote of the majority of the directors present. Board materials that are sent to the directors prior to a meeting of the SurgiCare Board or a committee thereof shall be sent simultaneously by SurgiCare to the Observer by means reasonably designed to insure timely receipt by the Observer; provided, however, that SurgiCare may exclude from the materials sent to the Observer any materials relating directly and substantially to any matter in which such Observer has a material business or financial interest (other than by reason of such Observer s interests as a stockholder of SurgiCare). SurgiCare shall pay all reasonable expenses including, without limitation, airfare and hotel expenses, but shall not pay any other compensation to an Observer,

in connection with such Observer s attendance at meetings of the SurgiCare Board or any committee thereof.

SECTION 6.14 S Corporation Status. None of DCPS or the DCPS Sellers will revoke the election of DCPS to be taxed as an S corporation within the meaning of Code Sections 1361 and 1362. None of DCPS or the DCPS Sellers will take or allow any action that would result in the termination of DCPS status as a validly electing S corporation within the meaning of Code Sections 1361 and 1362. DCPS and the DCPS Sellers will take all actions necessary to ensure that DCPS is a validly electing S corporation within the meaning of Code Sections 1361 and 1362 at all times during which DCPS is treated as an association taxable as a corporation for U.S. federal income tax purposes.

SECTION 6.15 Reservation of Shares. SurgiCare covenants and agrees to reserve and keep available an aggregate number of Class A Common Shares equal to (a) 757,575 *multiplied by* (b) the Reverse Split Fraction, which shares will be available for issuance following the Closing to such employees, customers or other Persons as are designated by Cain or Smith from time to time, subject to compliance with applicable securities and other laws.

ARTICLE VII
CONDITIONS TO THE MERGER

SECTION 7.01 Conditions to the Obligations of Each Party. The obligations of DCPS, MBS, the Sellers, SurgiCare and Newco to consummate the Mergers pursuant to Section 1.02 hereof are subject to the satisfaction or waiver (where permissible) of the following conditions:

(a) Stockholder Approvals. The SurgiCare Stockholder Approval shall have been obtained.

(b) No Order. No Governmental Entity or court of competent jurisdiction shall have enacted, threatened, issued, promulgated, enforced or entered any Law, rule, regulation, judgment, decree, injunction, executive order or award (an Order) that is then in effect, pending or threatened and has, or would have, the effect of making the Mergers illegal or otherwise prohibiting consummation of the Mergers, the Debt Exchange, the Equity Financing, the Recapitalization or the IPS Acquisition; provided that the party relying on a failure of this condition has complied with its obligations under Section 6.05.

(c) Antitrust Waiting Periods. Any waiting period (and any extension thereof) applicable to the consummation of the Mergers under the HSR Act shall have expired or been terminated or obtained.

(d) IPS Acquisition. The IPS Acquisition shall have been consummated concurrently with the Mergers.

(e) Equity Financing. The Equity Financing shall have been consummated concurrently with the Mergers, and Brantley IV shall have purchased at least $6,000,000 of SurgiCare Class B Common Stock pursuant to such Equity Financing for a combination of cash and Bridge Notes representing the Excess Bridge Amount (as defined in the Stock Subscription Agreement).

(f) Debt Exchange. The Debt Exchange shall have been consummated concurrently with the Mergers.

SECTION 7.02 Conditions to the Obligations of SurgiCare and Newco. The obligations of SurgiCare and Newco to consummate the Mergers are subject to the satisfaction or, where permissible, the waiver by SurgiCare of the following additional conditions:

(a) Representations and Warranties. Each of the representations and warranties of DCPS, MBS and the Sellers contained in this Agreement shall be true and correct in all material respects as of the Effective Times, as though made at and as of the Effective Times, except that those 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 (provided, that any representation or warranty that is qualified by materiality (including, without limitation, by reference to a Material Adverse Effect) shall be true in all respects as of the Effective Times, or as of such particular date, as the case may be), and SurgiCare and Newco shall have received a certificate of the Sellers and of the Chief Executive Officer or Chief Financial Officer of each of DCPS and MBS to that effect.

(b) Agreements and Covenants. DCPS and MBS shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them on or prior to the Effective Times and SurgiCare and Newco shall have received a certificate of the Sellers and of the Chief Executive Officer or Chief Financial Officer of each of DCPS and MBS to that effect.

(c) Consents. All material consents, approvals and authorizations (including, without limitation, the Required Consents) legally required to be obtained to consummate the Mergers shall have been obtained from and made with all Governmental Entities and all consents from third parties under any DCPS/MBS Material Contract or other material agreement, contract, license, lease or other instrument to which DCPS or MBS is a party or by which it is bound required as a result of the transactions contemplated by this Agreement or the Mergers shall have been obtained.

(d) Material Adverse Effect. Since the date of this Agreement, there shall have been no circumstances, events, occurrences, changes or effects that have had or would have a DCPS/MBS Material Adverse Effect.

(e) Actions. No Action shall have been brought, be pending or have been threatened by any Governmental Entity or other Person that (i) seeks to prevent or delay the consummation of the Transactions, (ii) seeks to restrain or prohibit SurgiCare s or Newco s full rights of ownership or operation of any portion of the business or assets of DCPS or MBS, or to compel SurgiCare or Newco to dispose of or hold separate all or any portion of the business or assets of DCPS or MBS, (iii) seeks to impose limitations on the ability of SurgiCare or Newco to exercise full rights of ownership of the MBS Common Shares and DCPS Partnership Interests acquired pursuant to the Mergers, (iv) seeks to require divestiture by SurgiCare or Newco of any MBS Common Shares or DCPS Partnership Interests, or (v) that otherwise would have a DCPS/MBS Material Adverse Effect.

(f) Certified Copies. At the Closing, MBS shall have delivered certified copies of the resolutions duly adopted by the MBS Board and the stockholders of MBS authorizing the execution, delivery and performance of this Agreement and the other agreements contemplated hereby applicable to MBS and certified copies of the MBS Charter and MBS By-Laws, and DCPS shall have delivered certified copies of the resolutions duly adopted by the DCPS Sellers authorizing the execution, delivery and performance of this Agreement and the other agreements contemplated hereby applicable to DCPS and certified copies of the DCPS Partnership Agreement.

(g) Documents and Proceedings. All documents that DCPS, MBS and the Sellers deliver and all proceedings of DCPS, MBS and the Sellers shall be in form and substance reasonably satisfactory to SurgiCare and its counsel.

(h) Employment Agreements. Each of Dennis Cain and Tom M. Smith shall have entered into an employment agreement with SurgiCare in substantially the form attached hereto as Exhibit D and all other employment agreements with such individuals shall have been terminated. Such new employment agreements shall be in full force and effect as of the Effective Times and such individuals shall be in the employ of DCPS or MBS immediately prior to the Effective Times and no such individual shall have indicated his intention to terminate his employment with the Surviving Corporation or SurgiCare following the Effective Times.

(i) Opinion. SurgiCare shall have received an opinion of Fant & Burman, L.L.P., counsel to MBS, and an opinion of Peter Workin, P.C., each in form and substance as set forth on Exhibit E hereto and containing customary qualifications.

(j) Registration Rights. All existing registration rights of holders of MBS Common Shares or DCPS Partnership Interests shall have been terminated and SurgiCare and Newco shall have received a certificate to such effect signed by the Sellers and by the President or Chief Financial Officer of each of DCPS and MBS.

(k) Termination of Obligations and Agreements. All loans, guarantees or other obligations of DCPS or MBS to each other or to any of their Affiliates shall 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.

(l) Subordination Agreement. Each of the 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 (the Subordination Agreement).

(m) Appraisal Shares. No MBS Common Shares shall be Appraisal Shares.

SECTION 7.03 Conditions to the Obligations of DCPS, MBS and the Sellers. The obligations of DCPS, MBS and the Sellers to consummate the Mergers are subject to the satisfaction or, where permissible, the waiver by DCPS, MBS and the Sellers of the following additional conditions:

(a) Representations and Warranties. Each of the representations and warranties of SurgiCare and Newco contained in this Agreement shall be true and correct in all material respects as of the Effective Times, as though made on and as of the Effective Times, except that those 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 (provided, that any representation or warranty that is qualified by materiality (including, without limitation, by reference to a Material Adverse Effect) shall be true in all respects as of the Effective Times, or as of such particular date, as the case may be), and DCPS and MBS shall have received a certificate of the Chief Executive Officer or Chief Financial Officer of SurgiCare and Newco to that effect.

(b) Agreements and Covenants. Each of SurgiCare and Newco shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Times and DCPS and MBS shall have received a certificate of the Chief Executive Officer or Chief Financial Officer of SurgiCare and Newco to that effect.

(c) Consents. All material consents, approvals and authorizations (including, without limitation, the Required Consents) legally required to be obtained to consummate the Merger shall have been obtained from and made with all Governmental Entities and all consents from third parties under any SurgiCare Material Contract or other material agreement, contract, license, lease or other instrument to which SurgiCare or any SurgiCare Subsidiary is a party or by which it is bound required as a result of the transactions contemplated by this Agreement or the Merger shall have been obtained.

(d) Material Adverse Effect. Since the date of this Agreement, there shall have been no circumstances, events, occurrences, changes or effects that have had or would have a SurgiCare Material Adverse Effect.

(e) Actions. No Action shall have been brought, be pending or have been threatened by any Governmental Entity or other Person that (i) (i) seeks to prevent or delay the consummation of the Transactions, (ii) seeks to restrain or prohibit SurgiCare s or Newco s full rights of ownership or operation of any portion of the business or assets of DCPS or MBS, or to compel SurgiCare or Newco to dispose of or hold separate all or any portion of the business or assets of DCPS or MBS, (iii) seeks to impose limitations on the ability of SurgiCare or Newco to exercise full rights of ownership of the MBS Common Shares and DCPS Partnership Interests acquired pursuant to the Mergers, (iv) seeks to require divestiture by SurgiCare or Newco of any MBS Common Shares or DCPS Partnership Interests, or (v) that otherwise would have a SurgiCare Material Adverse Effect.

(f) Employment Agreement. Keith LeBlanc shall have entered into an employment agreement with SurgiCare in substantially the form attached hereto as Exhibit D and all other employment agreements with such individual shall have been terminated. Such new employment agreement shall be in full force and effect as of the Effective Times and such individual shall be in the employ of SurgiCare immediately prior to the Effective Times and such individual shall not have indicated his intention to terminate his employment with SurgiCare following the Effective Times.

(g) Certified Copies. At the Closing, (A) each of SurgiCare and Newco shall have delivered certified copies of (i) the resolutions duly adopted by each of SurgiCare s and Newco s board of directors authorizing the execution, delivery and performance of this Agreement and the other agreements contemplated hereby applicable to it and the Transactions, (ii) the resolutions duly adopted by such Person s stockholders approving this Agreement and the Transactions and the tabulation of the stockholder vote thereof, and (iii) the certificate of incorporation and the by-laws of each of SurgiCare and Newco.

(h) Opinion. DCPS and MBS shall have received an opinion of Strasburger & Price, LLP, counsel to SurgiCare and Newco, in form and substance as set forth on Exhibit F hereto.

(i) No Alternative Transactions. No tender offer, exchange offer, merger or other transaction in respect of shares of SurgiCare Capital Stock or material assets of SurgiCare or any SurgiCare Subsidiary shall have been commenced by any Person.

(j) Documents and Proceedings. All documents that the SurgiCare or Newco delivers and all proceedings of SurgiCare and Newco shall be in form and substance reasonably satisfactory to DCPS and MBS and their counsel.

(k) Filing of SurgiCare Restated Charter. The SurgiCare Restated Charter shall have been filed with the Secretary of State of the State of Delaware and shall continue to be in full force and effect as of the Effective Times.

(l) Amendment of SurgiCare By-Laws. The SurgiCare By-Laws shall have been amended and restated in the form of Exhibit G hereto and shall continue to be in full force and effect as of the Effective Times.

(m) Director Resignations and Elections; Officers. At the Closing, SurgiCare shall have delivered signed letters of resignation from each director of SurgiCare, pursuant to which each such director resigns from his position as a director of SurgiCare and makes such resignation effective at or prior to the Effective Times. At the Effective Times, the SurgiCare Board shall consist of Terrence Bauer, Keith LeBlanc, two individuals designated by Brantley IV, and three outside directors reasonably satisfactory to DCPS and MBS, and the officers of SurgiCare shall be as follows:

Terrence Bauer	Chief Executive Officer
Keith LeBlanc	President
Steve Murdock	Chief Financial Officer

(n) AMEX Listing. The SurgiCare Class A Common Shares issuable upon conversion of the SurgiCare Class C Common Shares to be issued in the Mergers, as well as any SurgiCare Class A Common Shares issuable under Section 2.07, shall have been authorized for listing on the AMEX, subject to official notice of issuance.

ARTICLE VIII
TERMINATION, AMENDMENT, WAIVER AND EXPENSES

SECTION 8.01 Termination. This Agreement may be terminated and the Mergers and the other transactions contemplated hereby may be abandoned at any time prior to the Effective Times, notwithstanding any requisite approval and adoption of this Agreement and such transactions, as follows:

(a) by mutual written consent duly authorized by the SurgiCare Board, the MBS Board and the DCPS Sellers;

(b) 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 Law or Order of a Governmental Authority which is final and nonappealable preventing the consummation of the Mergers; provided, however, that the provisions of this Section 8.01(b) will not be available to any party whose failure to fulfill its obligations hereunder is the cause of, or has resulted in, such Law or Order;

(c) by either SurgiCare, on the one hand, or DCPS and MBS, on the other hand, by giving written notice to the other party, if the Effective Time has not occurred on or before May 14, 2004;

(d) by either SurgiCare, on the one hand, or DCPS and MBS, on the other hand, by giving written notice to the other party, if the SurgiCare Stockholder Approval is not obtained at the SurgiCare Stockholders Meeting or any adjournment thereof duly called and held in accordance with Section 6.01(g) hereof;

(e) 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 this Agreement, or if any representation or warranty of DCPS and MBS has become untrue, in either case such that the conditions set forth either in Section 7.02(a) or (b) would not be satisfied, and such breach shall not have been cured within twenty (20) business days following receipt by DCPS and MBS of written notice of such breach; provided that the right to terminate this Agreement pursuant to this clause shall not be available to SurgiCare if SurgiCare is, at the time, in breach of this Agreement; and

(f) 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 Newco set forth in this Agreement, or if any representation or warranty of SurgiCare or Newco has become untrue, in either case such that the conditions set forth either in Section 7.03(a) or (b) would not be satisfied, and such breach shall not have been cured within twenty (20) business days following receipt by SurgiCare of written notice of such breach; provided that the right to terminate this Agreement pursuant to this clause shall not be available to DCPS and MBS if DCPS or MBS is, at the time, in breach of this Agreement.

SECTION 8.02 Effect of Termination. Except as provided in Section 8.03 or Section 9.01 (which provisions will survive termination of this Agreement), in the event of termination of this Agreement pursuant to Section 8.01, this Agreement will immediately become void, there

will be no liability under this Agreement on the part of SurgiCare, Newco, DCPS, MBS, the Sellers or any of their respective officers or directors, and all rights and obligations of each party hereto will cease; provided, however, that nothing herein will relieve any party from liability for any pre-termination breach of any of its representations, warranties, covenants or agreements set forth in this Agreement.

SECTION 8.03 Expenses.

(a) Except as set forth below, all Expenses (as defined below) incurred in connection with this Agreement and the Transactions will be paid by the party incurring such expenses. Expenses as used in this Agreement include all reasonable out of pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, financing sources, appraisers, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the due diligence review and analysis, the Mergers and the other Transactions, the authorization, preparation, negotiation, execution and performance of this Agreement, the preparation, printing, filing and mailing of the Proxy Statement, the solicitation of the SurgiCare Stockholder Approval, the filing of any required notices under the HSR Act or other similar regulations and all other matters related to the closing of the Mergers and the other Transactions.

(b) SurgiCare will reimburse DCPS and MBS for all Expenses incurred by or on behalf of DCPS or MBS prior to termination of this Agreement in connection with this Agreement and the Transactions, upon the termination of this Agreement by SurgiCare, on the one hand, or DCPS and MBS, on the other hand, pursuant to Section 8.01(d).

(c) SurgiCare acknowledges that the agreements contained in this Section 8.03 are an integral part of the Transactions, and that, without these agreements, DCPS and MBS would not enter into this Agreement; accordingly, if SurgiCare fails to pay the amounts due pursuant to this Section 8.03, and, in order to obtain any such payment, DCPS or MBS commences a legal proceeding which results in a judgment against SurgiCare for the amounts set forth in this Section 8.03, SurgiCare will pay to DCPS and MBS their costs and expenses (including attorneys fees) in connection with such proceeding, together with interest on the amounts set forth in this Section 8.03 at the prime rate of Citibank N.A. in effect on the date any such payment was required to be made.

ARTICLE IX
GENERAL PROVISIONS

SECTION 9.01 Non-Survival of Representations, Warranties and Agreements. The representations and warranties in this Agreement and in any certificate delivered pursuant hereto will terminate at the Effective Time. The covenants and agreements in this Agreement will survive the Effective Time in accordance with their terms.

SECTION 9.02 Notices. All notices, requests, claims, demands and other communications hereunder will be in writing and will be deemed given (i) five days after mailing by certified mail (postage prepaid, return receipt requested), (ii) when delivered by hand, (iii) upon confirmation of receipt by facsimile or (iv) one business day after sending by overnight

delivery service to the respective parties at the following addresses (or at such other address for a party as is specified in a notice given in accordance with this Section 9.02):

if to SurgiCare or Newco:

SurgiCare, Inc.
12727 Kimberly Lane, Suite 200
Houston, TX 77024
Facsimile No.: (713) 722-0921
Attention: Keith LeBlanc

with a copy to:

Strasburger & Price, LLP
1401 McKinney, Suite 2200
Houston, Texas 77010.4035
Facsimile No.: (713) 951-5660
Attention: Ivan Wood Jr., Esq.

if to MBS or the MBS Sellers:

Medical Billing Services, Inc.
10700 Richmond Avenue
Suite 320
Houston, TX 77042
Facsimile No.: (713) 432-0221
Attention: Tom M. Smith

with a copy to:

Fant & Burman, L.L.P.
3D/International Tower
1900 West Loop South, Suite 1100
Houston, Texas 77027
Facsimile No.: (713) 961-3260
Attention: Darryl M. Burman, Esq.

if to DCPS or the DCPS Sellers:

Dennis Cain Physician Solutions, Ltd.
714 FM 1960 West
Suite 206
Houston, TX 77090
Facsimile No.: (281) 880-6994
Attention: Dennis Cain

with a copy to:

Peter Workin, P.C.
7500 San Felipe
Suite 777
Houston, TX 77063
Facsimile No.: (713) 963-8338

SECTION 9.03 Certain Definitions. For purposes of this Agreement, the term:

(a) Affiliate or affiliate of a specified Person means a Person who directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with such specified Person.

(b) Assumed Market Price means (x) the greater of $0.55 or the Five Day Average Price, in each case *divided by* (y) the Reverse Split Fraction.

(c) business day means any day on which both the principal offices of the SEC in Washington, D.C. are open to accept filings, or, in the case of determining a date when any payment is due, any day (other than a Saturday or a Sunday) on which banks are not required or authorized to close in The City of New York.

(d) Class A Common Closing Price means an amount equal to the Five Day Average Price *divided by* the Reverse Split Fraction.

(e) Constructive Sale means, with respect to any security, a short sale with respect to such security, entering into or acquiring an offsetting derivative contract with respect to such security, entering into or acquiring a futures or forward contract to deliver such security or entering into any transaction that has substantially the same effect as any of the foregoing.

(f) control (including the terms controlled by and under common control with) means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or credit arrangement or otherwise.

(g) Dilutive Options and Warrants means options and warrants to purchase SurgiCare Class A Common Shares that have an exercise price immediately after giving effect to the filing of the SurgiCare Restated Charter that is equal to or less than the Assumed Market Price.

(h) Employee Pension Benefit Plan has the meaning set forth in ERISA Section 3(2).

(i) Employee Welfare Benefit Plan has the meaning set forth in ERISA Section 3(l).

(j) Environmental Laws means any federal, state, local or foreign Laws relating to (A) releases or threatened releases of Hazardous Substances or materials containing

Hazardous Substances; (B) the manufacture, handling, transport, use, treatment, storage or disposal of Hazardous Substances or materials containing Hazardous Substances; or (C) otherwise relating to pollution or protection of the environment.

(k) Fiduciary has the meaning set forth in ERISA Section 3(21).

(l) Five Day Average Price means the average of the daily average of the high and low price per share of the SurgiCare Old Common Stock on the American Stock Exchange, or such other stock exchange or other similar system on which the SurgiCare Old Common Stock shall be listed or quoted at the time, for the five trading days immediately preceding the Closing Date.

(m) Hazardous Substances means (i) those substances defined in or regulated under the following federal statutes and their state counterparts and all regulations thereunder: the Hazardous Materials Transportation Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, the Safe Drinking Water Act, the Atomic Energy Act, the Federal Insecticide, Fungicide, and Rodenticide Act and the Clean Air Act; (ii) petroleum and petroleum products, including crude oil and any fractions thereof; (iii) natural gas, synthetic gas, and any mixtures thereof; (iv) polychlorinated biphenyls, asbestos and radon; (v) any other contaminant; and (vi) any substance, material or waste regulated by any federal, state, local or foreign Governmental Entity pursuant to any Environmental Law.

(n) Intellectual Property means the entire right, title and interest in and to all proprietary rights of every kind and nature, including without limitation all rights and interests pertaining to or deriving from:

(i) patents, copyrights, technology, know-how, processes, trade secrets, inventions, domain names, works (whether published or unpublished and whether registered or not), proprietary data, customer data, databases, pricing and cost information, business, sales and marketing methods and plans, formulae, research and development data and computer software programs;

(ii) all Trademarks;

(iii) all registrations, applications, recordings, licenses, common-law rights and Contracts relating thereto; and

(iv) all Actions and rights to sue at law or in equity for any past, present or future infringement or other impairment of any of the foregoing.

(o) DCPS/MBS Employee Benefit Plan means any current (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan, (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), (d) Employee Welfare Benefit Plan, material fringe benefit plan or program, or (e) profit sharing, stock option, stock purchase, equity, stock appreciation, bonus, incentive deferred compensation, severance plan or

other benefit plan, which covers any current or former employees, officers, directors, independent contractors (or their dependents or beneficiaries) of DCPS or MBS or for which DCPS or MBS may have any Liability.

(p) DCPS/MBS Material Adverse Effect means any one or more circumstances, events, occurrences, changes or effects that, individually or in the aggregate with respect to all events, occurrence, changes or effects with respect to which such phrase is used herein, (i) materially and adversely affects, or poses 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 DCPS and MBS taken as a whole, or (ii) is reasonably likely to prevent or delay the consummation of the Mergers.

(q) Fully-Diluted SurgiCare Shares means the number of SurgiCare Class A Common Shares which would be outstanding on a fully-diluted basis (calculated as set forth in the immediately following sentence) immediately after the effectiveness of the filing of the SurgiCare Restated Charter and the Recapitalization but prior to the Equity Financing, the Mergers, the Debt Exchange or the IPS Acquisition, rounded up to the nearest whole share. For purposes of this definition, fully-diluted basis shall mean the number of SurgiCare Class A Common Shares that would be outstanding assuming the exercise of all outstanding options, warrants and rights to acquire SurgiCare Class A Common Shares and the conversion or exchange of all securities convertible into, or exchangeable for, SurgiCare Class A Common Shares, whether or not vested or then exercisable, calculated at the maximum number of shares issuable pursuant thereto; provided, however, that all options and warrants that are not Dilutive Options and Warrants will be disregarded for purposes of such calculation, and each Dilutive Option and Warrant shall be deemed to have been exercised for a number of shares equal to (i) the maximum number of shares issuable pursuant to such Dilutive Option and Warrant multiplied by (ii) a fraction, the numerator of which is the excess of the Assumed Market Price over the exercise price of such Dilutive Option and Warrant, and the denominator of which is the Assumed Market Price.

(r) knowledge means, with respect to the Sellers, the actual knowledge, after reasonable inquiry, of Smith and Cain, and, with respect to SurgiCare, the actual knowledge, after reasonable inquiry, of the executive officers of SurgiCare.

(s) Liability means any liability or obligation (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether incurred or consequential and whether due or to become due).

(t) Merger Consideration means the MBS Cash Consideration, the DCPS Cash Consideration, the MBS Share Consideration, the DCPS Share Consideration and the DCPS Notes.

(u) Multiemployer Plan has the meaning set forth in ERISA Section 3(37).

(v) Newco EBITDA means, with respect to any fiscal year of the Surviving Corporation, the total of Newco Net Income for such fiscal year, plus all amounts (without

duplication), to the extent actually deducted in computing Newco Net Income for such fiscal year, in respect of: (A) income tax expense; (B) interest expense; (C) depreciation and amortization expense; and (D) management fees required to be paid by the Surviving Corporation to SurgiCare.

(w) Newco Net Income means, with respect to any fiscal year of the Surviving Corporation, the net income (or loss) of the Surviving Corporation for such fiscal year, determined in accordance with the audited financial statements of SurgiCare for such year, prepared in accordance with GAAP; provided, however, that with respect to the year ended December 31, 2004, the Surviving Corporation shall be deemed to have been formed by the combination of DCPS and MBS on December 31, 2003, and the pro forma combined net income (or loss) of DCPS and MBS for the period from January 1, 2004 through the Closing Date shall be included in the calculation of Newco Net Income for such year; provided, further, that there shall be (1) excluded from any calculation of Newco Net Income any (i) extraordinary or nonrecurring gains and (ii) with respect to the year ended December 31, 2004, the amount of any compensation or other amounts paid to either of the Sellers or their Affiliates prior to the Closing Date in excess of the pro-rated portion of the base salary to be paid to the Sellers in respect of the year ended December 31, 2004 pursuant to the employment agreements contemplated by Section 7.02(h), and (2) included in any calculation of Newco Net Income any amounts paid by SurgiCare to a Person other than the Surviving Corporation during the applicable fiscal year in breach of Section 6.10 of this Agreement.

(x) PBGC means the Pension Benefit Guaranty Corporation.

(y) person or Person means an individual, corporation, partnership, limited partnership, syndicate, person (including, without limitation, a person as defined in section 13(d)(3) of the Exchange Act), trust, association or entity or government, political subdivision, agency or instrumentality of a government.

(z) Prohibited Transaction has the meaning set forth in ERISA Section 406 and Code Section 4975.

(aa) Reverse Split Fraction means a number equal to 0.10.

(bb) subsidiary or subsidiaries of any Person means any corporation, partnership, joint venture or other legal entity of which such Person (either alone or through or together with any other subsidiary) owns, directly or indirectly, 10% or more of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

(cc) SurgiCare Employee Benefit Plan means any current (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan, (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), (d) Employee Welfare Benefit Plan, material fringe benefit plan or program, or (e) profit sharing, stock option, stock purchase, equity, stock appreciation, bonus, incentive deferred compensation, severance plan or

other benefit plan, which covers any current or former employees, officers, directors, independent contractors (or their dependents or beneficiaries) of SurgiCare or any SurgiCare Subsidiary or for which SurgiCare or any SurgiCare Subsidiary may have any Liability.

(dd) SurgiCare Material Adverse Effect means any one or more circumstances, events, occurrences, changes or effects that, individually or in the aggregate with respect to all events, occurrence, changes or effects with respect to which such phrase is used herein, (i) materially and adversely affects, or poses 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 the SurgiCare Subsidiaries taken as a whole, or (ii) is reasonably likely to prevent or delay the consummation of the Merger.

(ee) SurgiCare Subsidiary means any subsidiary of SurgiCare.

(ff) Tax or Taxes means all taxes, fees, levies, duties, tariffs, imposts, and governmental impositions or charges of any kind in the nature of (or similar to) taxes, payable to any federal, state, local, or foreign authority, whether disputed or not, including without limitation (i) income, franchise, profits, gross receipts, *ad valorem*, net worth value added, sales, use, service, real or personal property, special assessments, capital stock, license, payroll, withholding, employment, social security (or similar), workers compensation, unemployment compensation, disability, utility, severance, production, excise, stamp, occupation, premiums, windfall profits, environmental (including taxes under Code section 59A), customs duties, registration, alternative and add-on minimum, estimated, transfer and gains taxes, or other tax of any kind whatsoever, and (ii) in all cases, including interest, penalties, additional taxes and additions to tax imposed with respect thereto.

(gg) Tax Return means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule, attachment or amendment thereto.

(hh) Trademarks means all trademarks, service marks, trade names, trade dress, and logos, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith.

(ii) Transactions means the Mergers and the other transactions contemplated by this Agreement, including without limitation the Recapitalization, the Debt Exchange the Equity Financing, the Board Election, the adoption of the New Equity Plan and the IPS Acquisition.

SECTION 9.04 Amendment. This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors (or, in the case of DCPS, the DCPS Sellers) at any time prior to the Effective Time; provided, however, that the prior written consent of Brantley Partners IV and IPS shall be required for any amendment hereto. This Agreement may not be amended, except by an instrument in writing signed by the parties hereto.

SECTION 9.05 Waiver. At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any obligation or other act of any other party hereto, (b) waive any inaccuracy in the representations and warranties contained herein or in any

document delivered pursuant hereto, or (c) waive compliance with any agreement or condition contained herein; provided, however, that the prior written consent of Brantley Partners IV shall be required in any such event. Any such extension or waiver will be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby. The failure of any party to this Agreement to assert any of its rights under this Agreement will not constitute a waiver of such rights.

SECTION 9.06 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other conditions and provisions of this Agreement will nevertheless remain in full force and effect as long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto will negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions be consummated as originally contemplated to the fullest extent possible.

SECTION 9.07 Assignment; Binding Effect; Benefit. Neither this Agreement nor any of the rights, interests or obligations hereunder will be assigned by any of the parties hereto (whether by operation of Law or otherwise) without the prior written consent of the other parties, provided, however, that each of SurgiCare and Newco will be entitled to assign this Agreement and any rights, interests or obligations hereunder to any of its Affiliates or, following the Closing, any senior lender of SurgiCare without the consent of DCPS, MBS or the Sellers. Subject to the preceding sentence, this Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective successors and assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

SECTION 9.08 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties will be entitled to specific performance of the terms hereof, in addition to any other remedy at Law or in equity.

SECTION 9.09 Governing Law; Forum. This Agreement will be governed by, and construed in accordance with, the laws of the State of Texas applicable to contracts executed in and to be performed in that state and without regard to any applicable conflicts of law principles.

SECTION 9.10 Headings. The descriptive headings contained in this Agreement are included for convenience of reference only and will not affect in any way the meaning or interpretation of this Agreement.

SECTION 9.11 Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed and delivered will be deemed to be an original but all of which taken together will constitute one and the same agreement.

SECTION 9.12 Entire Agreement. This Agreement (including the exhibits hereto, the disclosure schedule called for hereunder and furnished by SurgiCare and Newco to DCPS and MBS prior to the execution of this Agreement (the SurgiCare Disclosure Schedule) and the disclosure schedule called for hereunder and furnished by DCPS and MBS to SurgiCare and Newco prior to the execution of this Agreement (the DCPS/MBS Disclosure Schedule)) and the Confidentiality Agreements constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings among the parties hereto with respect thereto. No addition to or modification of any provision of this Agreement will be binding upon any party hereto unless made in writing and signed by all parties hereto.

SECTION 9.13 Set-Off. Amounts owing by any Seller to SurgiCare or Newco under Section 2.07 of this Agreement may, but shall not be required to, be set-off against any amounts owing by SurgiCare or Newco to the Sellers under any provision of this Agreement (including without limitation Section 2.07) or the DCPS Notes.

SECTION 9.14 Waiver of Jury Trial. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, SurgiCare, Newco, DCPS, MBS and the Sellers have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

SURGICARE: **SURGICARE, INC.**

By: /s/ Keith G. LeBlanc

Name: Keith G. LeBlanc
Title: President and Chief Executive Officer

NEWCO: **DCPS/MBS ACQUISITION, INC.**

By: /s/ Keith G. LeBlanc

Name: Keith G. LeBlanc
Title: President

DCPS: **DENNIS CAIN PHYSICIAN SOLUTIONS, LTD.**

By: /s/ Dennis Cain

Name: Dennis Cain
Title: President

MBS: **MEDICAL BILLING SERVICES, INC.**

By: /s/ Tom M. Smith

Name: Tom M. Smith
Title: President

DCPS SELLERS:

By: /s/ Dennis Cain

Dennis Cain

By: /s/ Valerie Cain

Valerie Cain

DENNIS CAIN MANAGEMENT, L.L.C.

By: /s/ Dennis Cain

Dennis Cain
Managing Member

MBS SELLERS:

By: /s/ Tom M. Smith

Tom M. Smith

By: /s/ John Pruitt

John Pruitt

By: /s/ Jane Barnes

Jane Barnes

[Agreement and Plan of Merger]

Schedule 2.01(c)(i)

MBS Stockholder Percentages

Tom M. Smith	89%*
John Pruitt	5%
Jane Barnes	5%
Brown & Associates	1%*

*It is contemplated that the MBS Common Shares held by Brown & Associates will be transferred to Tom M. Smith prior to the Closing, in which case the Stockholder Percentage of Tom M. Smith will be 90% and the Stockholder Percentage of Brown & Associates will be 0%.

Schedule 2.01(c)(ii)

DCPS Percentages

Dennis Cain	50%
Valerie Cain	50%
Dennis Cain Management, LLC	0%

ANNEX C

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

SURGICARE, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE	**58-1597246**
00(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**
12727 KIMBERLY LN., SUITE 200 HOUSTON,TX (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	**77024 (ZIP CODE)**

ISSUER S TELEPHONE NUMBER: (713) 973-6675
SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	**NAME OF EACH EXCHANGE ON WHICH REGISTERED**
COMMON STOCK, $.005 PAR VALUE SERIES A REDEEMABLE PREFERRED STOCK, $.001 PAR VALUE	**THE AMERICAN STOCK EXCHANGE**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained, and no disclosure will be contained in this form, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

SurgiCare s revenues for fiscal year ended December 31, 2002: $11,552,439.

As of March 31, 2003, 24,752,171 shares of the registrant s common stock were outstanding. The aggregate market value of the shares of common stock (based upon the closing sale price of these shares as reported by the American Stock Exchange) of the registrant held by non-affiliates on March 31, 2003 was approximately $3,196,184, based upon a per share price of $0.36, the closing price per share for the company s common stock on the American Stock Exchange on that day.

SURGICARE, INC.

FORM 10-KSB

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY

SurgiCare, Inc. (SurgiCare, Company, we, us, or our) 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 9,860,000 shares of common stock, par value $.005 per share (Common Stock) and 1,350,000 shares of Series A Redeemable Preferred Stock, par value $.001 per share (Series A Preferred), of SurgiCare to the holders of Bellaire s common stock. For accounting purposes, this reverse acquisition was effective July 1, 1999. As of December 31, 2002, the company owned a majority interest in three surgery centers and a minority interest as general partner in two additional centers. Four of SurgiCare s centers are located in Texas and one is located in Ohio.

SurgiCare is authorized to issue up to 50,000,000 shares of common stock, par value $.005 per share, and 20,000,000 shares of preferred stock, par value $.001 per share.

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

Bellaire SurgiCare, Inc.

Bellaire owns and operates an ambulatory surgery center located in Houston, Texas. Bellaire 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, reconstructive, as well as general surgery, utilize this facility. The surgeons performing surgery at Bellaire generally charge their patients for the professional services they provide, while Bellaire only charges the patients for the facility fee.

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.

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, 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.

Physicians Endoscopy Center, Ltd., RLLP

SurgiCare, through its wholly owned subsidiary Town & Country SurgiCare, Inc., owns a 10% General Partnership interest in Physicians Endoscopy Center, Ltd., RLLP. (Physicians Endoscopy). This center is a single specialty center equipped to do endoscopic procedures. The physicians performing procedures at Physicians Endoscopy generally charge their patients for the professional services they provide, while Physicians Endoscopy only charges the patients for the facility fee.

Tuscawaras Ambulatory Surgery Center, LLC

In May 2002, the Company acquired a 51% interest in Tuscawaras Ambulatory Surgery Center, LLC (Tuscawaras) 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, ENT and general surgery utilize this facility. The surgeons performing surgery at the center generally charge their patients for the professional services they provide, while Tuscawaras only charges the patients for the facility fee.

INDUSTRY OVERVIEW

Freestanding ambulatory surgery centers 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 ambulatory surgery centers.

According to SMG Marketing Group Inc. s Freestanding Outpatient Surgery Center Directory (June 2001), an industry publication, freestanding outpatient surgery centers are one of the fastest growing segments of the healthcare industry and are positioned well to become the premier provider of outpatient surgery. The number of outpatient surgery cases increased 97% from 3.1 million in 1993 to 6.1 million in 2000. As of December 2001, there were over 3,100 freestanding ambulatory surgery centers in the U.S., of which 70% were independently owned.

SurgiCare believes that the following factors have contributed to the growth of ambulatory surgery centers:

COST-EFFECTIVE ALTERNATIVE

Ambulatory surgical centers 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 the hospital settings. Therefore, surgery is generally less expensive than hospital inpatient surgery. In addition, SurgiCare believes that surgery performed at a freestanding ambulatory surgery center is also less expensive than hospital-based ambulatory surgery for a number of reasons, including:

- Lower facility development costs;
- More efficient of staffing and space utilization;
- Specialized operating environment focused on cost containment.

SurgiCare believes that interest in ambulatory surgery centers 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 ambulatory surgery centers 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 ambulatory surgery centers. 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 a freestanding ambulatory surgery center 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 ambulatory surgery centers.

BUSINESS PHILOSOPHY

SurgiCare believes that physician owned and operated surgical centers are typically profitable. This profitability results primarily from the fact that physicians who own and operate 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 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 ambulatory surgical centers 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 when operating physicians own and operate an ambulatory surgical center, they become cost conscious. Without allowing cost consciousness to become detrimental to the patients, it may still have a significant positive effect on the overall profitability of the center.

SurgiCare believes that the profitability of freestanding ambulatory surgery centers 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 ambulatory surgery center, 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 operations and management of ambulatory surgical centers. 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 shareholders 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 shareholders with those of physicians who have previously owned and operated a freestanding center acquired, in whole or in part, by SurgiCare.

SurgiCare therefore expects that with goals and motivations substantially aligned, the profitability of each center in which it acquires an interest can be maintained. There are numerous factors that affect the profitability of ambulatory surgery centers, including regulatory and liability matters. Therefore, there can be no assurance that the profitability of any center or SurgiCare as a whole will be maintained.

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

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 have 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 target 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 physician practice under consideration, ability to contract with payers in the market and state certificate of need (CON) requirements for development of a new center. SurgiCare is in the process of identifying ambulatory surgical centers as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of 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 338 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 less than all of the 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. 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 payers.

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 are targeting imaging centers, surgical hospitals, and practice management. SurgiCare is looking to develop and/or acquire imaging centers that are in conjunction with our surgery centers. This will strategically position us to service medical outpatient needs and enhance the practices of our physician partners. In addition, SurgiCare is evaluating potential expansion of existing surgery centers into surgical hospitals or acquisition or development of surgical hospitals. This is a natural progression of growing centers, but SurgiCare will be conservative in its growth in this area. Finally, SurgiCare is considering expanding into practice management, which is a core discipline that SurgiCare will need to continue to grow and be profitable. In addition, 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 payers in the market and state CON requirements for development of a new center.

In presenting the advantages to physicians of developing a new freestanding ambulatory surgery center in partnership with SurgiCare, SurgiCare anticipates that the SurgiCare s 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 third party managed care contracts.

Going forward, SurgiCare anticipates that its ownership interests in most of its freestanding ambulatory surgery centers 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 shareholders 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, 2002.

SURGERY CENTER LOCATIONS

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%
Physicians Endoscopy Center	Houston, Texas	Jan. 2002[(1)]	10%
Tuscawaras Ambulatory Surgery Center	Dover, Ohio	June 2002	51%

[(1)] Opened in December 2002.

AAAHC ACCREDITATION

Three of SurgiCare s surgery centers are accredited by the Accreditation Association for Ambulatory Health Care Inc. (AAAHC). 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 payers 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.

Freestanding ambulatory surgery centers such as those in which SurgiCare owns and intends to acquire depend upon third-party reimbursement programs, including governmental and private insurance programs, to pay for services rendered to patients. SurgiCare derived approximately 15% of its gross revenues from governmental healthcare programs, including Medicare and Medicaid, in 2002. The Medicare program currently pays ambulatory surgery centers and physicians in accordance with fee schedules, which are prospectively determined.

The Department of Health and Human Services (DHHS) bases its reimbursement system to ambulatory surgery centers on cost surveys. The current payment system is based on a 1986 cost survey. Another survey was completed in 1994, and based on this survey, in 1998, DHHS proposed a new payment methodology for surgery centers. If implemented, this new payment methodology would have adversely affected our revenues by approximately 2%. In May 2002, DHHS listed this proposal as a discontinued action. However, DHHS may propose a new rule at any time that could adversely impact surgery center reimbursement and therefore our financial condition, results of operations and business prospects.

In January 2003, the Medicare Payment Advisory Commission, or MedPac, voted to recommend to Congress that the reimbursement by Medicare for procedures performed in surgery centers be no higher than the reimbursement rate for the same procedures performed in hospital outpatient departments. Also, in January 2003, the Office of Inspector General, or OIG, issued a report that included a similar recommendation, and a recommendation that DHHS conduct a new cost survey. It is uncertain if Congress will act on either or both recommendations. While the majority of procedures are reimbursed at a higher rate in hospital outpatient departments than in ambulatory surgery centers, several procedures are reimbursed at a higher rate in ambulatory surgery centers. Although there is no certainty that these recommendations will be implemented, we have determined that, based on our current procedure mix, the MedPac recommendation, if implemented, would have an immaterial effect on revenues.

In addition to payment from governmental programs, ambulatory surgery centers 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 PPOs, 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 payers, 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 payers, 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 ambulatory surgery centers. Many of these competitors have greater resources than SurgiCare. The principal competitive factors that affect the ability of SurgiCare and its competitors to acquire surgery centers are price, experience, reputation, and access to capital.

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 it provides.

Certificates of Need and State Licensing. CON regulations control the development of ambulatory surgery centers in certain states. CONs 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. State CON statutes generally provide that, prior to the construction of new facilities or the introduction of new services, a designated state health-planning agency must determine that a need exists for those facilities or services. SurgiCare expects that its development of ambulatory surgery centers 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.

State licensing of ambulatory surgery centers 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 capitated payment 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 may in the future enter contracts with managed care organizations, such as HMOs, whereby SurgiCare and its affiliated groups would assume risk in connection with providing healthcare services under capitation arrangements. If SurgiCare or its affiliated groups are considered to be in the business of insurance as a result of entering into such risk sharing 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.

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 it for services rendered to patients in its ambulatory surgery center. In order to receive Medicare reimbursement, each ambulatory surgery center 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. Ambulatory surgery centers undergo periodic on-site Medicare certification surveys. SurgiCare s existing center is certified as a Medicare provider. Although SurgiCare intends for its current center and those, which it may acquire, to participate in Medicare and other government reimbursement programs, there can be no assurance that these centers will continue to qualify for participation.

Since performing surgery is a fundamental part of any surgical practice, the facilities where a surgeon chooses to operate is considered to be an extension of the surgical practice. It is acceptable for certain surgical procedures to be done in a doctor s office; other procedures require a more clinical environment such as that of an ambulatory surgical center, or a hospital. Regardless of the location, when a surgeon performs a procedure, the surgical procedure is part of the surgical practice, and therefore the location is considered to be an extension of the practice.

If an operating physician has a financial interest in a facility through a partnership interest, or as a shareholder, the operating physician has the potential to benefit from the profitability of the facility. Since the facility where a surgeon performs surgery is considered an extension of the surgical practice, profiting from an ownership interest is not considered to be in violation of the anti-kickback statutes of the Medicare-Medicaid Illegal Remuneration Provisions.

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 the 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).

The Regulations set forth two specific exemptions or safe harbors related to investment interests : the first concerning investment interests in large publicly traded companies ($50,000,000 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. SurgiCare believes that it is in compliance with the current requirements of applicable federal and state law.

Notwithstanding SurgiCare s belief that the relationship of physician partners to SurgiCare s surgery center 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 and similar 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 SurgiCare therefore, does not believe that ambulatory surgery is otherwise subject to the restrictions set forth in Stark II. Proposed regulations pursuant to Stark II that were published on January 9, 1998 specifically provide that services provided in any ambulatory surgery center and reimbursed under the composite payment rate are not designated health services.

However, unfavorable final Stark II regulations or subsequent adverse court interpretations concerning similar provisions found in recently enacted state statutes could prohibit reimbursement for treatment provided by the physicians affiliated with SurgiCare or its current or future centers to their patients.

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 are 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 HIPAA, and in August 2002 published revisions to the final rules. These final health privacy regulations generally require 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 have until October 16, 2003 to comply with the regulations. SurgiCare filed extensions for its centers before October 16, 2002, and we anticipate that we will be 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 payers 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. SurgiCare believes that it has procedures in place to ensure the accurate completion of claims forms and requests for payment.

However, 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.

EMPLOYEES

As of December 31, 2002, SurgiCare and its subsidiaries employed approximately 125 persons, 98 of who were full-time employees and 27 of who were part-time employees. Of the above, 12 were employed at SurgiCare s corporate office in Houston, Texas and the remaining employees were employed by SurgiCare s surgery centers. 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). 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 the company.

PHYSICIAN SHAREHOLDERS

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 companies facilities. However, many of the surgeons operating in SurgiCare facilities own either SurgiCare s common stock, preferred stock, or both. Depending on SurgiCare s profitability, the potential exists for all shareholders, both physician and non-physician, to benefit financially.

Surgeons specializing in podiatry, orthopedics, pain management, gynecology, ophthalmology, 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.

ITEM 2. DESCRIPTION OF PROPERTY

SurgiCare s principal office is located at 12727 Kimberly 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 other five surgery centers in operation at December 31, 2002, lease space ranging from 10,000 to 14,000 square feet with remaining lease terms ranging from 6 months to 6 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 1,200,000 shares of Series AA Redeemable 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 Refuse, 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.

ITEM 3. LEGAL PROCEEDINGS

In September 2002, SurgiCare was named as a defendant in a suit entitled Charles Cohen vs. SurgiCare, Inc. and David Blumfield, in the 234th Judicial District Court of Harris County, Texas. Mr. Cohen sued SurgiCare for breach of contract and both defendants for defamation. Mr. Cohen claims that SurgiCare breached his employment agreement when it terminated his employment (although he remains a Director of SurgiCare as of the date of this filing) and that Mr. Blumfield and SurgiCare made defamatory statements about him. Mr. Cohen has made claims for $562,000 for breach of the employment agreement plus additional damages for the defamation claim. SurgiCare intends to vigorously defend this suit.

In February 2003, SurgiCare was named as a defendant in a suit entitled S.E. Altman, individually, and d/b/a Altman & Associates vs. SurgiCare, Inc., in the County Court at Law No. 1, Harris County, Texas. Altman has sued SurgiCare for breach of contract based on a finders fee contract in which Altman claims SurgiCare has not performed. Altman has made claims in the amount of $217,000 plus attorney s fees. SurgiCare intends to vigorously defend this suit.

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 is attempting to arrange for a payment plan to pay the remaining balance.

In April 2003, SurgiCare was named as a defendant in a suit entitled International Diversified Corporation, Limited vs. SurgiCare, Inc. International Diversified Corporation (IDC) has sued for breach of contract in which IDC invested $1,000,000 into SurgiCare. IDC has sued for the rescission of the contract and the return of $1,000,000 or the deliverance of 2,439,024 shares. SurgiCare intends to vigorously defend this suit.

In April 2003, SurgiCare was named as a defendant in a suit entitled Jackson Walker, LLP vs. SurgiCare, Inc. Jackson Walker is claiming damages of $52,247.18 in unpaid invoices for services rendered. SurgiCare is currently attempting to settle the account.

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

None.

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS

MARKET INFORMATION

In April 2000, the company began trading on the OTC Bulletin Board. In July 2001, SurgiCare qualified for listing on the American Stock Exchange and began trading on this exchange at that time. The following table sets forth the high and low sales prices relating to SurgiCare s common stock for the last two fiscal years, and, with respect to prices during the period when it was traded on the OTC Bulletin Board, reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions:

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

FISCAL 2001

	HIGH	LOW
Quarter ended March 31, 2001	$5.88	$3.88
Quarter ended June 30, 2001	$5.50	$2.20
Quarter ended September 30, 2001	$4.95	$1.85
Quarter ended December 31, 2001	$2.93	$1.75

HOLDERS

SurgiCare believes that as of March 31, 2003, there were approximately 416 holders of record of the Company s Common Stock, 14 holders of the Company s Series A Preferred Stock and one holder of the Company s 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 its common shares in the foreseeable future

RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is certain information concerning issuances of securities by SurgiCare during the quarter ended December 31, 2002 and earlier transactions not previously reported during the year ended December 31, 2002, that were not registered under the Securities Act.

On December 11, 2002, SurgiCare issued 3,658,537 shares of common stock to an accredited investor upon the conversion of shares of Series AA Preferred Stock pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act. Also on December 11, 2002, SurgiCare issued 2,439,024 shares of common stock to an accredited investor for an aggregate consideration of $1,000,000 pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act.

On February 4, 2002, SurgiCare issued 91,000 shares of common stock to an accredited investor upon the conversion of shares of Series A Redeemable Preferred Stock pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act.

In March 2002, the Company issued 400,000 shares of its common stock to TCI Voting Trust for $532,000 in a transaction that it believed was exempt from registration pursuant to Section 4(2) of the Securities Act. Management believes that TCI Voting Trust previously sold 400,000 shares to third parties and utilized the sales proceeds there from to purchase these shares from the Company. These two transactions could be deemed a simultaneous transaction, in which case, one could assert that a Section 5 violation occurred under the Securities Act. The existence of such a violation could give rise to a rescission right to the purchaser of the common stock, and could adversely affect other private offerings completed by the Company during the six-month period preceding and following the possible violation.

In March 2002, the Company issued 125,000 shares of common stock upon the exercise of $0.10 warrants by a sophisticated investor for services rendered in connection with a financing pursuant to the exemption provided by Section 4(2) of the Securities Act.

On April 10, 2002, the Company issued 1,500 shares of common stock to a sophisticated investor for services rendered pursuant to the exemption provided by Section 4(2) of the Securities Act.

In May 2002, the Company issued 56,000 shares of common stock to a sophisticated investor in connection with a financing pursuant to the exemption provided by Section 4(2) of the Securities Act.

In May 2002, the Company issued 200,000 shares of its common stock to TCI Voting Trust for $439,000 in a transaction that it believed was exempt from registration pursuant to Section 4(2) of the Securities Act. Management believes that TCI Voting Trust then sold 200,000 shares to a third party and utilized the sales proceeds there from to purchase these shares from the Company. These two transactions could be deemed a simultaneous transaction, in which case, one could assert that a Section 5 violation occurred under the Securities Act. The existence of such a violation could give rise to a rescission right to the purchaser of the common stock, and could adversely affect other private offerings completed by the Company during the six-month period preceding and following the possible violation.

On May 30, 2002, the Company issued 75,000 shares of common stock to a sophisticated investor as partial payment for the acquisition of Aspen Healthcare pursuant to the exemption provided by Section 4(2) of the Securities Act.

On June 14, 2002, the Company issued 88,000 shares of common stock to sophisticated investors for services rendered pursuant to the exemption provided by Section 4(2) of the Securities Act.

On September 13, 2002, the Company issued 40,000 shares of common stock to a sophisticated investor for services rendered in connection with a financing pursuant to the exemption provided by Section 4(2) of the Securities Act.

No underwriters were involved in any of the foregoing sales or issuance of securities. Such sales or issuance were made in reliance upon an exemption from the registration provisions of the Securities Act set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering, or the rules and regulations there under. Each recipient either received adequate information about SurgiCare or had access, through employment or other relationships, to such information, and SurgiCare determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in SurgiCare. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD LOOKING STATEMENTS

The information contained herein contains certain 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, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward looking statements involve risks and uncertainty, including, without limitation, the ability of SurgiCare to continue its expansion strategy, changes in federal or state healthcare laws and regulations or third party payer practices, SurgiCare s historical and current compliance with existing or future healthcare laws and regulations and third party payer requirements, changes in costs of supplies, labor and employee benefits, as well as general market conditions, competition and pricing. Although SurgiCare believes that the assumptions underlying the forward looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward looking statements included in this Form 10-KSB will prove to be accurate. In view of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by SurgiCare or any other person, that the objectives and plans of SurgiCare will be achieved. SurgiCare undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

OVERVIEW

SurgiCare s principal business strategies are to (a) increase physician utilization of existing facilities, (b) increase both the revenue and profits from current cases and procedures being performed in existing facilities (c) achieve growth and expand revenues by pursuing strategic acquisitions of existing, and the development of new, physician owned ambulatory surgical centers, and (d) expand into related healthcare facilities, including imaging, surgical hospitals and practice management.

Surgical supply costs are the single largest cost component of any ambulatory surgical center. Therefore, SurgiCare s goal is to minimize the cost of surgical supplies. Through participation in national buying groups, SurgiCare has been able to negotiate discounts on most of the commonly used surgical supplies. SurgiCare has also implemented a Just in Time approach to inventory. This allows the center to minimize the amount of supplies that it is required to keep in inventory.

SurgiCare is in the process of identifying ambulatory surgical centers, imaging centers, surgical hospitals and practice management companies as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of these organizations. Although there are no commitments, understandings, or agreements with any other potential acquisition targets, talks are ongoing for the acquisition of additional entities. All of such discussions have been tentative in nature and there can be no assurance that SurgiCare will acquire any center with whom discussions have been conducted.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentages of revenues represented by income statement items.

	2002	2001
Revenues, net	100.00%	100.00%
Expenses:		
Direct Cost of Services	46.55%	34.82%
General & Administrative Expenses	106.86%	39.19%
Total Operating Expenses	153.42%	74.01%
Operating Income	-53.42%	25.99%
Other Income (Loss)	-37.12%	-15.75%
Earnings (Loss) Before Federal Income Tax Expense	-90.54%	10.24%
Federal Income Tax Expense (Benefit):		
Current	-1.94%	.02%
Deferred	-11.99%	4.78%
Net Earnings (Loss)	-76.60%	5.73%

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2002 (2002) vs. YEAR ENDED DECEMBER 31, 2001 (2001)

Net Revenue. On a consolidated basis, SurgiCare performed 7,374 cases in 2002 compared to 5,010 cases in 2001, an increase of 47.2%. On a same store basis (which includes unconsolidated centers and pre-acquisition cases), total cases in 2002 were 12,603 compared to 10,926 in 2001, an increase in utilization of 15.3%. New centers accounted for $1,369,696 in revenue in 2002. However, revenue declined 10.5% from $12,912,301 in 2001 to $11,552,439 in 2002 due to a reduction in the Company s estimates for reimbursement from third-party payers. The reduction in reimbursement resulted in the Company increasing its insurance contractual allowances, which offset revenue. Such adjustments were necessary based on the Company s assessment of recent reimbursement activity.

Direct Surgical Expenses. Total direct surgical costs increased to 46.6% of revenue in 2002 from 35.0% in 2001. The increase as a percentage is primarily due to the decrease in revenue dollars resulting from the Company increasing its estimates of insurance contractual allowances and, to a lesser extent, the write-down of obsolete inventory.

General and Administrative Expenses. General and administrative costs increased to 106.9% of revenue in 2002 compared to 40.2% of revenue in 2001. The increased costs are directly related to the increase in our provision for doubtful accounts and additional professional fees incurred in merger and acquisition activities and capital raising efforts. In addition, salaries, rent and other administrative costs increased due to increased infrastructure and the acquisition of Tuscarawas.

Total Operating Expenses. As a percent of revenue, total expenses increased to 153.4% of revenue in 2002 from 75.2% in 2001. The increased costs, expressed both in dollars and as a percentage of revenue, are directly related to the increase in our contractual allowances and provision for doubtful accounts, inventory write-downs and additional professional fees incurred in merger and acquisition activities and capital raising efforts.

Other Income (Loss). Total Other Loss increased to $5,107,748, or 37.1% of revenue in 2002 from $731,655, or 15.0% of revenue in 2001 primarily due to the following:

The loss on sale of assets in 2002 includes the loss of $169,934 incurred on the sale of our 20% interest in Bayside Surgical Partners, LP.

The loss on terminated acquisition includes $1,977,382 of costs associated with the Aspen Healthcare acquisition, which was not completed.

The Company incurred an impairment of its investment in land of $1,500,000 during the third quarter of 2002 to reflect the investment s estimated valuation. The Company is actively marketing this investment for sale within the next twelve months. It is the Company s policy to periodically evaluate impairment of its assets. If the Company is unable to sell the properties for $4,500,000, we may be required to take an additional impairment charge. The maximum charge would be $500,000 due to the guarantee by American International Industries, Inc. of a $4,000,000 resale price.

In 2002, the Company s equity in earnings (losses) from limited partnerships was $(103,874) compared to $76,580 in 2001. The losses incurred are directly attributable to the increase in our contractual allowances, inventory write-downs and increase in our provision for doubtful accounts, which are discussed above.

Interest expense increased to 11.8% of revenue compared to 6.3% of revenue in 2001. This increase is the due to additional borrowings to complete an acquisition, to attempt to acquire Aspen Healthcare, and to finance the Company s working capital.

Minority Interest in Earnings (Losses) of Partnerships. In 2002, the minority interest in (earnings) losses of partnerships was $782,386 compared to $(1,210,674) in 2001. The losses incurred by the partnerships are directly attributable to the increase in our contractual allowances, inventory write-downs and increase in our provision for doubtful accounts discussed above.

Federal Income Tax. In 2002, the Company recorded a tax benefit of $1,609,576, or 15.3% of its pre-tax loss of $10,459,194. The percentage is less than the normally expected rate due to a valuation allowance of $2,679,000 recorded against the Company s deferred tax assets. In 2001, the Company recorded income tax expense of $593,000. or 46.9% of pre-tax income.

Net Earnings (Loss). Net Earnings (Loss) in 2002 decreased to a loss of $8,849,618 compared to earnings of $670,360 in 2001. The losses incurred are primarily attributable to the increases in the Company s provision for doubtful accounts, professional fees incurred in merger and acquisition activities, the expensing of the costs incurred on the acquisition of Aspen Healthcare, the land impairment and the loss on the sale of our interest in Bayside Surgical Partners, L.P.

LIQUIDITY and CAPITAL RESOURCES

Net cash used in operating activities was $462,422 in 2002 compared to cash provided by operating activities of $381,747 in 2001. The primary reason for the decrease in cash from operations was the loss from operations.

Net cash used in investing activities increased to $1,667,443 in 2002 from $103,978 in 2001. The increased use of cash was primarily for the investment in Tuscarawas Surgery Center and Aspen Healthcare.

Net cash provided by (used in) financing activities increased to $2,315,918 in 2002 from $(223,161) in 2001. The increase in cash was primarily due to proceeds received from bank financing and the sale of common stock.

As of December 31, 2002, the Company had cash and cash equivalents of $262,327 and negative working capital of $8,473,955. SurgiCare has a total of $6,043,254 in long-term debt and an additional $1,665,657 in revolving lines of credit currently in default. SurgiCare has defaulted on certain provisions of its Loan and Security Agreement with its senior lender, DVI Business Credit Corporation (DVI). However, DVI has agreed to forbear from taking any action to foreclose on any collateral or place the Company into receivership until June 30, 2003. SurgiCare is in the process of refinancing these agreements as well as its other debt arrangements, but can provide no assurance that it will be successful in its efforts.

In July 2002, the Company closed a $1,000,000 funding which was primarily used to fund the initial payments for the Aspen Healthcare acquisition. The Company issued convertible debentures in the principal amount of $1,000,000 maturing July 14, 2003, bearing interest at a rate of 25% per annum, with principal and interest due upon maturity. The debentures are convertible into common stock at a floor price equal to $1.50 per share.

The Company has financed its growth primarily though the issuance of equity, secured and/or convertible debt. As of December 31, 2002, the Company does not have any credit facilities available with financial institutions or other third parties to provide for working capital shortages. Although the Company believes it will generate cash flow from operations in future quarters, due to its debt load, it is not able to fund its current operations solely from its cash flow.

On March 6, 2003, the Company received a $1.2 million investment from existing physician shareholders, local Houston physicians, and select Houston individuals. The investment was made via a private placement, under which 3,419,137 shares of the company s common stock were issued. The shares are restricted under Rule 144. In addition, the investors received a warrant for every two shares of common stock purchased. The warrants are exercisable for one year and are priced at $0.35. The proceeds of the financing are being used for working capital purposes.

The Company believes that additional sales of debt and/or equity securities will be required to continue operations. The Company is continuing to pursue additional financing of debt and/or equity, but does not currently have firm commitments for the additional sales of debt or equity securities. Any such sales will be made on a best efforts basis. The Company can provide no assurance that it will be successful in any future financing effort to obtain the necessary working capital to support its operations, or fund acquisitions for its anticipated growth. In the event that any future financing efforts are not successful, the Company will be forced to liquidate assets and/or curtail operations.

ITEM 7. FINANCIAL STATEMENTS

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Independent Auditors Report

The Board of Directors
SurgiCare, Inc.
Houston, Texas

We have audited the accompanying Consolidated Balance Sheets of SurgiCare, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related Consolidated Statements of Operations, Shareholders Equity, and Cash Flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SurgiCare, Inc. and Subsidiaries as of December 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that SurgiCare, Inc. and Subsidiaries will continue as a going concern. As described more fully in Note 2 , the Company has incurred operating losses, cash deficits from operations and is in default of certain loan agreements. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plan in regards to these matters is also described in Note 2. The consolidated financial statements do not reflect any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
March 19, 2003

SURGICARE, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	**2001**
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 262,327**	$ 76,274
Accounts Receivable:		
Trade (less allowance for contractual adjustments and doubtful accounts of $6,496,000 and $4,851,000 at December 31, 2002 and 2001, respectively)	**1,324,944**	6,236,455
Other	**398,834**	12,750
Note receivable	**223,178**	
Inventory	**397,772**	583,575
Prepaid expenses	**69,380**	174,082
Other current assets	**76,313**	261,872
Total Current Assets	**2,752,748**	7,345,008
Property and Equipment		
Office furniture and equipment	**378,901**	221,277
Medical and surgical equipment	**3,576,721**	2,388,879
Leasehold improvements	**941,440**	834,795
Computer equipment	**377,495**	188,108
Transportation equipment	**19,015**	49,157
	5,293,572	3,682,216
Less: Accumulated depreciation and amortization	**2,468,662**	1,212,167
	2,824,910	2,470,049
Goodwill (net of amortization of $650,207)	**8,045,735**	7,023,433
Real Estate	**4,579,385**	
Investment in Limited Partnerships	**306,654**	346,325
Prepaid Limited Partner Distributions	**403,748**	
Loan Fees (net of amortization of $108,321 and $34,470 in 2002 and 2001, respectively)	**193,716**	128,030
	$19,106,896	$17,312,845

	December 31,	
	2002	**2001**
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	**$ 6,295,389**	$ 1,789,441
Lines of credit	**1,665,657**	2,140,546
Current portion of capital leases	**313,725**	124,437
Accounts payable	**2,362,378**	1,177,682
Accrued expenses	**472,645**	133,232
Payable to related party	**116,909**	
Federal income tax payable		224,576
Deferred federal income tax		1,385,000
Total Current Liabilities	**11,226,703**	6,974,914
Long-Term Capital Lease Obligations		236,247
Long-Term Debt	**454,328**	2,989,865
Minority Interest in Partnerships		915,584
	11,681,031	11,116,610
SHAREHOLDERS EQUITY		
Preferred Stock, Series A, par value $.001, 1,650,000 authorized; 1,225,100 and 1,316,100 issued and outstanding at December 31, 2002 and 2001; respectively; redemption and liquidation value $6,125,500	**1,225**	1,316
Preferred Stock, Series AA, par value $.001, 1,200,000 authorized; 900,000 issued and outstanding at December 31, 2002	**900**	
Common Stock, par value $.005, 50,000,000 shares authorized; 21,327,131 issued at December 31, 2002; 14,089,320 issued and outstanding at December 31, 2001	**106,635**	70,446
Additional Paid-In Capital	**15,065,801**	4,991,301
Retained Earnings (Deficit)	**(7,708,196)**	1,141,422
Less: Treasury Stock at cost, 75,000 shares	**(32,250)**	
Less: Shareholder receivables	**(8,250)**	(8,250)
	7,425,865	6,196,235
	$19,106,896	$17,312,845

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2002	**2001**
Revenues:		
Surgical, net	**$11,164,043**	$12,278,502
Management fees	**388,396**	362,424
Development fees		271,375
	11,552,439	12,912,301
Direct Cost of Revenues:		
Surgical costs	**2,714,809**	2,572,373
Clinical salaries and benefits	**1,702,718**	1,448,688
Other	**960,671**	501,497
	5,378,198	4,522,558
General and Administrative Expenses:		
Salaries and benefits	**1,604,562**	909,666
Management and affiliation fees	**130,979**	159,966
Rent	**741,124**	485,466
Depreciation and amortization	**745,731**	1,038,644
Professional fees	**2,223,374**	1,181,111
Taxes	**12,020**	125,118
Provision for doubtful accounts	**5,753,734**	576,724
Other	**1,096,549**	707,359
	12,308,073	5,184,054
Total Operating Expenses	**17,686,271**	9,706,612
Operating Income (Loss)	**(6,133,832)**	3,205,689
Other Income (Expense)		
Miscellaneous income	**4,651**	863
Loss on sale of assets	**(172,083)**	
Loss on terminated acquisition	**(1,977,382)**	
Impairment on investment in land	**(1,500,000)**	
Equity in earnings (loss) of limited partnerships	**(103,874)**	76,580
Interest expense	**(1,359,060)**	(809,098)
	(5,107,748)	(731,655)

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	For the Year Ended December 31,	
	2002	**2001**
Earnings (Loss) Before Minority Interest and Federal Income Tax Expense	**(11,241,580)**	2,474,034
Minority Interest in (Earnings) Loss of Partnerships	**782,386**	(1,210,674)
Earnings (Loss) Before Federal Income Tax Expense	**(10,459,194)**	1,263,360
Federal Income Tax Expense (Recovery)		
Current	**(224,576)**	3,000
Deferred	**(1,385,000)**	590,000
	(1,609,576)	593,000
Net Earnings (Loss)	**$ (8,849,618)**	$ 670,360
Net Earnings (Loss) Per Share - Basic	**$ (.56)**	$ .05
Net Earnings (Loss) Per Share - Diluted	**$ (.56)**	$ .04
Weighted Average Common Shares Outstanding		
Basic	**15,831,748**	14,030,570
Diluted	**15,831,748**	15,541,565

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
For the Years Ended December 31, 2002 and 2001

	$.001 Series A Preferred Stock		$.001 Series AA Preferred Stock		$.005 Par Value Common Stock	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Balance - December 31, 2000	1,450,000	$1,450			13,954,320	$ 69,771
Sale of preferred stock	50,000	50				
Collections on shareholder receivables						
Conversion of preferred stock	(135,000)	(135)			135,000	675
Redemption of preferred stock	(48,900)	(49)				
Issuance of warrants						
Net earnings						
Balance - December 31, 2001	1,316,100	1,316			14,089,320	70,446
Issuance of preferred stock for land			1,200,000	$1,200		
Sale of common stock					3,039,024	15,195
Conversion of preferred stock	(91,000)	(91)	(300,000)	(300)	3,749,537	18,748
Exercise of warrants					125,000	625
Issuances of stock for consulting services					136,250	681
Issuances of stock and warrants for acquisitions					188,000	940
Issuances of warrants						
Beneficial conversion feature of debt						
Purchase of treasury stock						
Net loss						
Balance - December 31, 2002	1,225,100	$1,225	900,000	$ 900	21,327,131	$106,635

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Deficit)	Shareholder Receivables	Total Equity
Balance - December 31, 2000	$ 4,710,907		$ 693,997	$ (8,250)	$ **5,467,875**
Sale of preferred stock	22,450			(13,000)	**9,500**
Collections on shareholder receivables				13,000	**13,000**

Conversion of preferred stock	(540)				
Redemption of preferred stock	(21,516)		(222,935)		**(244,500)**
Issuance of warrants	280,000				**280,000**
Net earnings			670,360		**670,360**
Balance - December 31, 2001	4,991,301		1,141,422	(8,250)	**6,196,235**
Issuance of preferred stock for land	5,998,800				**6,000,000**
Sale of common stock	1,955,805				**1,971,000**
Conversion of preferred stock	(18,357)				
Exercise of warrants	11,875				**12,500**
Issuances of stock for consulting services	220,360				**221,041**
Issuances of stock and warrants for acquisitions	770,313				**771,253**
Issuances of warrants	923,114				**923,114**
Beneficial conversion feature of debt	212,590				**212,590**
Purchase of treasury stock		$(32,250)			**(32,250)**
Net loss			(8,849,618)		**(8,849,618)**
Balance - December 31, 2002	$15,065,801	$(32,250)	$(7,708,196)	$ (8,250)	**$ 7,425,865**

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2002	**2001**
Cash Flows From Operating Activities		
Net earnings (loss)	**$(8,849,618)**	$ 670,360
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Equity in earnings (loss) of limited partnerships	**103,874**	(76,580)
Minority interest in earnings (loss) of partnership	**(782,386)**	1,210,674
Depreciation and amortization	**745,731**	1,038,644
Deferred federal income tax (benefit)	**(1,385,000)**	590,000
Loss on sale of assets	**172,083**	
Loss on terminated acquisition	**1,977,382**	
Impairment on investment in land	**1,500,000**	
Stock and warrants issued for consulting and professional fees	**404,314**	
(Increase) Decrease in:		
Accounts receivable	**4,586,800**	(3,160,289)
Inventory	**230,804**	36,575
Prepaid expenses	**113,350**	225,960
Other current assets	**(163,170)**	(234,685)
Loan fees	**(139,537)**	
Increase (Decrease) in:		
Accounts payable	**1,150,760**	512,922
Federal income tax payable	**(224,576)**	(197,865)
Accrued expenses	**96,767**	(233,969)
Net Cash Provided by (Used in) Operating Activities	**(462,422)**	381,747
Cash Flows From Investing Activities		
Purchase of Memorial Village		(47,096)
Purchase of Tuscarawas	**(426,859)**	
Capital expenditures	**(226,203)**	(119,005)
Distributions from partnerships	**81,000**	111,600
Investment in limited partnerships	**(14,865)**	(49,477)
Proceeds from sale of assets	**19,484**	
Investment in terminated acquisition	**(1,100,000)**	
Net Cash Used in Investing Activities	**(1,667,443)**	(103,978)
Cash Flows From Financing Activities		
Proceeds from debt	**3,867,689**	267,528
Payments on debt	**(2,527,036)**	(965,466)
Net proceeds from (payments on) lines of credit	**(474,889)**	1,056,045
Principal payments on capital lease	**(113,991)**	(106,078)
Collections on shareholder receivable		13,000

	For the Year Ended December 31,	
	2002	**2001**
Cash Flows From Financing Activities (continued)		
Distributions to limited partners	**(536,946)**	(497,690)
Sale of preferred stock		9,500
Issuance of warrants with debt	**149,841**	
Purchase of treasury stock	**(32,250)**	
Exercise of warrants	**12,500**	
Sale of common stock	**1,971,000**	
Net Cash Provided by (Used in) Financing Activities	**2,315,918**	(223,161)
Net Increase in Cash and Cash Equivalents	**186,053**	54,608
Cash and Cash Equivalents - Beginning of Period	**76,274**	21,666
Cash and Cash Equivalents End of Period	**$ 262,327**	$ 76,274
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	**$1,205,353**	$ 724,816
Income taxes		$ 200,865
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Redemption of preferred stock with shareholder receivable		$ 244,500
Purchase of land with preferred stock	**$6,000,000**	
Issuance of shares for investment	**$ 74,750**	
Equipment acquired with capital lease obligation	**$ 67,032**	$ 348,996

During 2002, the Company acquired the following assets of Tuscarawas Ambulatory Surgery Center, LLP.

Accounts receivable	$ 161,373
Inventory	45,001
Prepaid expenses	8,648
Property and equipment	834,494
Goodwill	1,022,302
Accounts payable	(150,845)
Accrued expenses	(61,766)
Debt	(842,348)
Warrants issued	(590,000)
Net cash paid	$ 426,859

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See notes to consolidated financial statements.

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 and 2001

Note 1 - Organization and Accounting Policies

SurgiCare, Inc. and Subsidiaries (the Company) maintains their accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations and cash flows are summarized below:

Description of Business

Bellaire SurgiCare, Inc. (Bellaire) was formed in January, 1995 as a Texas corporation to operate a day surgery center in Houston, Texas. Effective July 1, 1999, Bellaire acquired SurgiCare, Inc. (formerly Technical Coatings, Inc.) in a reverse acquisition. Bellaire SurgiCare, Inc. is now a wholly-owned subsidiary of SurgiCare, Inc.

In September, 2000, Town & Country SurgiCare, Inc. was formed as a Texas corporation and a wholly-owned subsidiary of SurgiCare, Inc. Town & Country SurgiCare, Inc. is a 60% general partner in Healthfirst Memorial Village Surgery, L.P., which operates a day surgery center in Houston, Texas. During 2002, Town & Country SurgiCare, Inc. acquired a 10% general partner interest in Physicians Endoscopy Center, Ltd., L.L.P. (Physicians Endoscopy), which operates a day surgery center in Houston, Texas.

In October, 2000, Baytown SurgiCare, Inc. was formed as a Texas corporation and a wholly-owned subsidiary of SurgiCare, Inc. Baytown SurgiCare, Inc. is a 10% general partner of San Jacinto Surgery Center, Ltd., which operates a day surgery center in Baytown, Texas.

In May 2001, Southeast SurgiCare, Inc. was formed as a Texas corporation and a wholly-owned subsidiary of SurgiCare, Inc. Southeast SurgiCare, Inc. is a 20% general partner of Bayside Surgical Partners, L.P. (Bayside), which operates a day surgery center in Pasadena, Texas. During 2002, Southeast SurgiCare, Inc. sold their 20% interest in Bayside. See Note 3.

In June 2002, SurgiCare, Inc. acquired a 51% ownership in Tuscarawas Ambulatory Surgery Center, LLC (Tuscarawas), an Ohio limited liability company, which operates a day surgery center in Dover, Ohio. See Note 3.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bellaire SurgiCare, Inc., Southeast SurgiCare, Inc., Town & Country SurgiCare, Inc., Baytown SurgiCare, Inc. and Tuscarawas Ambulatory Surgery Center, LLC. (51% owned) All material intercompany balances and transactions have been eliminated in consolidation.

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Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Revenue is recognized on the date the procedures are performed, and accounts receivable are recorded at that time. Revenues are reported at the estimated realizable amounts from patients and third-party payers. If such third-party payers were to change their reimbursement policies, the effect on revenue could be significant. Earnings are charged with a provision for contractual adjustments and doubtful accounts based on fee schedules, contracts and collection experience. Contractual adjustments and accounts deemed uncollectible are applied against the allowance account.

Inventory

Inventory consists of medical and pharmaceutical supplies which are stated at the lower of cost or market. Cost is determined under the first-in, first-out method.

Property and Equipment

Property and equipment are presented at cost. Medical and surgical equipment, of approximately $493,000, under capital lease is recorded at the present value of future minimum lease payments. Depreciation and amortization are computed at rates considered sufficient to amortize the cost of the assets, using the straight-line method over their estimated useful lives as follows:

Office furniture and equipment	7 years
Medical and surgical equipment	5 years
Leasehold improvements	5 - 10 years
Computer equipment	5 years
Transportation equipment	5 years

Investment in Limited Partnerships

The investments in limited partnerships are accounted for by the equity method. Under the equity method, the investment is initially recorded at cost and is subsequently increased to reflect the Company s share of the income of the investee and reduced to reflect the share of the losses of the investee or distributions from the investee.

As of December 31, 2002 and 2001, the Company has a 10% general partnership interest in San Jacinto Surgery Center, Ltd., a Texas limited partnership. As of December 31, 2002, the difference in the carrying amount of the investment and the

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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underlying equity in net assets of San Jacinto was approximately $237,000. This amount is considered goodwill and is not being amortized. As of December 31, 2002, there is no impairment to this goodwill. As of December 31, 2002, San Jacinto had a $1,000,000 draw note payable to a bank with an outstanding balance of $948,961, which is guaranteed by the Company. The note bears interest at the prime rate plus 1% and is secured by the accounts receivable of San Jacinto.

As of December 31, 2001, the Company had a 20% general partnership interest in Bayside, a Delaware limited partnership. As described in Note 3, the Company sold its 20% interest during 2002.

As of December 31, 2002, the Company has a 10% general partnership interest in Physicians Endoscopy Center, Ltd., L.L.P., a Texas limited partnership. As of December 31, 2002, Physicians Endoscopy had a $1,387,000 note payable to a bank, of which $187,000 was guaranteed by the Company.

Goodwill

Goodwill arises from the acquisition of assets at an amount in excess of their fair market value. Amortization was computed in 2001 by the straight-line method over 15 years. See Note 5.

Real Estate

Real estate is presented at the lower of cost or current market value based on a current appraisal.

Loan Fees

Fees paid in connection with obtaining debt financing are being amortized over the terms of the loans.

Federal Income Taxes

The Company computes federal income tax based upon prevailing rates at year end.

The Company provides deferred income taxes for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

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Reclassifications

Certain reclassifications have been made in the 2001 financial statements to conform to the reporting format in 2002. Such reclassifications had no effect on previously reported earnings.

Use of Estimates

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

Note 2 - Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has incurred substantial operating losses during 2002. In addition, the Company has used substantial amounts of working capital in their operations and is in default of certain loan agreements. These conditions raise substantial doubt about the Company s ability to continue as a going concern.

The Company has financed its growth primarily through the issuance of equity, secured and/or convertible debt. As of December 31, 2002, the Company does not have any credit facilities available with financial institutions or other third parties to provide for working capital shortages. Although the Company believes it will generate cash flow from operations in the future, due to its debt load, it is not able to fund its current operations solely from its cash flow. As such, additional sales of debt and/or equity securities will be required to continue operations.

On March 6, 2003, the Company received a $1.2 million investment from existing physician shareholders, local Houston physicians, and select Houston individuals. The investment was made via a private placement, under which 3,419,137 shares of the Company s common stock were issued. The shares are restricted under Rule 144. In addition, the investors received a warrant for every two shares of common stock purchased. The warrants are exercisable for one year and are priced at $.35. The proceeds of the financing are being used for working capital purposes.

The Company is continuing to pursue additional financing of debt and/or equity but does not currently have firm commitments for the additional sales of debt or equity securities. Any such sales will be made on a best efforts basis. The Company can provide no assurance that it will be successful in any future financing effort to obtain the necessary working capital to support its operations, or fund acquisitions for its anticipated growth. In the event that any future financing efforts are not successful, the Company will be forced to liquidate assets and/or curtail operations.

Note 3 - Acquisitions

On May 31, 2002, the Company acquired a 51% interest in Tuscarawas, located in Dover, Ohio for an aggregate of $426,859 cash and warrants to purchase 200,000 shares of the Company common stock at an exercise price of $.01 per share expiring May 31, 2007. The warrants were valued at $590,000. The Company has also entered into a Management Agreement with Tuscarawas to act as exclusive manager of Tuscarawas in exchange for 5% of the net monthly collected revenue.

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The Company acquired five tracts of real estate in a transaction valued at $6,000,000 plus legal and other transaction fees, which closed on June 4, 2002, from American International Industries, Inc., Texas Real Estate Enterprises, Inc., and Midcity Houston Properties, Inc. During September 2002, the land acquired June 4, 2002 was appraised at a value less than the acquisition cost. An impairment loss of $1,500,000 has been recognized to reflect the current market value.

The Company issued 1,200,000 shares of Series AA Preferred Stock to fund the transaction. The terms of the Series AA Stock, as modified in a binding letter of intent dated November 15, 2002, are as follows: 300,000 shares convert immediately to 3,658,537 shares of common stock. On June 1, 2004, June 1, 2005 and June 1, 2006, 300,000 shares convert to a number of common shares equivalent to $1,500,000 divided by the average closing price over the previous 20 trading days. The Company has the option to redeem the Series AA Preferred shares on the above dates for $5 per share. Holders of Series AA Preferred Stock are entitled to one vote for each share of Series AA Preferred Stock held at all shareholders meetings for all purposes.

Effective January 2, 2002, the Company acquired a 10% general partnership interest in Physicians Endoscopy Center, Ltd., L.L.P. for $14,865.

Effective August, 2001, the Company acquired a 20% general partnership interest in Bayside for $49,477 in cash.

Note 4 - Dispositions and Loss on Investments

In August 2002, the Company sold its 20% interest in Bayside for a $223,178 note receivable and recognized a loss on the sale of $169,964. The Company s total investment in the project which consisted of cash, loans and development fees was $393,142.

In August 2002, the Company entered into an agreement to acquire Aspen Healthcare, Inc. (Aspen), a Colorado corporation, which required the Company to make non-refundable installment payments totalling $1,000,000 in June, July, and August 2002. In addition, the Company issued 163,000 shares of common stock valued at $472,051 and warrants to purchase 136,786 shares of common stock at a price of $2.24 which were valued at $161,407. The 163,000 shares of common stock could be put back to the Company at $2.24 per share. The put option was valued at $25,000.

The final cash payment of $5,756,000 was due September 14, 2002. The Company was unable to make the final payment and defaulted on the agreement. On October 15, 2002, the Company negotiated a settlement agreement with the shareholders of Aspen. The settlement released the Company from remaining obligations under the acquisition agreement in consideration of the following:

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(a) Aspen retained all non-refundable deposits totaling $1,000,000;

(b) Aspen exercised their put on 91,400 shares of common stock for cash of $204,736;

(c) The existing warrants were re-priced to $.40 per share ($15,046)

(d) New warrants to purchase 200,000 shares of common stock at $.40 were issued ($48,000)

(e) $100,000 in cash

In September 2002, the Company expensed its investment in Aspen and recognized a loss on its investment of $1,977,382 which included cash, stock, warrants and all charges related to the settlement agreement.

Note 5 - Goodwill

Goodwill represents the excess of cost over the fair value of net assets of companies acquired in business combinations accounted for using the purchase method. Goodwill acquired in business combinations prior to June 30, 2001 had been amortized using the straight-line method over an estimated useful life of 20 years. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill no longer be amortized but instead be reviewed periodically for possible impairment. The Company has adopted SFAS No. 142 effective January 1, 2002 and will no longer amortize goodwill.

The following is a reconciliation of goodwill:

Beginning balance, December 31, 2001	$7,023,433
Acquisition	1,022,302
Ending balance, December 31, 2002	$8,045,735

Comparative Proforma results of adopting SFAS 142 follow:

	2002	2001
Net Income (Loss):		
Reported net income (loss)	**$(8,849,618)**	$ 670,360
Goodwill amortization		498,107
Proforma net income (loss)	**$(8,849,618)**	$1,168,467

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Earnings (Loss) Per Share:		
Basic:		
Reported net income (loss)	**$(.56)**	$.05
Goodwill amortization		.03
Proforma net income (loss)	**$(.56)**	$.08
Diluted:		
Reported net income (loss)	**$(.56)**	$.04
Goodwill amortization		.03
Proforma net income (loss)	**$(.56)**	$.07

Under SFAS 142, the Company must have completed its initial assessment of goodwill for possible impairment no later than December 31, 2002. The Company has completed the first phase of this impairment test and, based on an independent valuation performed by a third party, believes that there was no impairment of goodwill as of January 1, 2002.

Due to the significant losses incurred during 2002, and the decline in the quoted market price of the common shares, the Company believed that a second impairment test as of December 31, 2002 was necessary. Using the same methodology (mainly the market method) as employed in the transitional valuation, the Company concluded that no impairment had occurred as of December 31, 2002.

Note 6 - Earnings Per Share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding. The 2001 diluted earnings per share, in addition to the weighted average determined for basic earnings per share, include common stock equivalents which would arise from the exercise of stock options and warrants using the treasury stock method, and assumes the conversion of the Company s preferred stock for the period outstanding, since their issuance.

	For the Year Ended December 31,	
	2002	**2001**
Basic Earnings Per Share:		
Net Earnings (Loss)	**$ (8,849,618)**	$ 670,360
Weighted average shares outstanding	**15,831,748**	14,030,570
Dilutive stock options and warrants	**(A)**	161,495
Conversion of preferred shares	**(B)**	1,349,500
Conversion of debt	**(C)**	
Weighted average common shares outstanding for diluted net earnings per share	**15,831,748**	15,541,565
Net earnings (loss) per share - Basic	**$ (.56)**	$ .05
Net earnings (loss) per share - Diluted	**$ (.56)**	$ .04

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The following potentially dilutive securities are not included in the 2002 calculation of common shares outstanding for diluted net earnings per share, because their effect would be anti-dilutive due to the net loss for the year:

(A) 8,896,171 options and warrants outstanding at December 31, 2002.

(B) 900,000 shares of Series AA Preferred stock are convertible into $4,500,000 of common shares. 1,225,100 shares of Series A Preferred stock are convertible into 1,225,100 common shares.

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

Note 7 - Lines-of-Credit

Lines-of-credit for the years ended December 31, 2002 and 2001, are as follows:

	2002	2001
$2,500,000 revolving lines-of-credit with a financial institution, secured by accounts receivable, bearing interest at prime (4.25% at December 31, 2002) plus 2%, interest payable monthly, due October, 2002	**$1,665,657**	$2,140,546

Note 8 - Long-Term Debt

Long-term debt as of December 31, 2002 and 2001, is as follows:

	2002	2001
Note payable to a financial institution, secured by all assets of the Company, due in monthly installments of $81,068 including interest at 11.5%, due April, 2006	**$2,845,407**	$3,306,942
Note payable to a financial institution, secured by all assets of the Company and 400,000 shares of SurgiCare, Inc. common stock pledged by certain shareholders, $375,000 due February, 2002, remaining principal refinanced, due in monthly installments of $11,060 including interest at 12%, due January 2006	**355,730**	750,000
Note payable to a financial institution, secured by inventory and equipment, due in monthly installments of $44,482 including interest at 11.5%, due November, 2002	**175,122**	465,921

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	2002	2001
Note payable to a financial institution, secured by inventory and equipment, due in monthly installments of $3,280 including interest at 9.5%, due November, 2002	**12,865**	34,427
Note payable to a financial institution, secured by inventory and equipment, due in monthly installments of $1,739 including interest at 11.1%, due November, 2002	**6,847**	18,244
Note payable to a bank, secured by an automobile, due on demand or in monthly installments of $691 including interest at 9.5%		20,012
Note payable to a financial institution, secured by an automobile, due in monthly installments of $550 including interest at 7.99%, due November, 2004	**12,147**	17,093
Note payable to a bank, secured by land, due in monthly installments of $29,740 including interest at the prime rate (4.25% at December 31, 2002) plus 1.5%, due December, 2007	**1,500,000**	
Note payable to a shareholder, unsecured, interest at the prime rate (4.25% at December 31, 2002) plus 2% due upon maturity	**50,000**	
Note payable to a limited partnership, unsecured, due in monthly payments of $4,303 including interest of 6%, due October, 2003	**50,000**	
Note payable to a financial institution, secured by accounts receivable, inventory and equipment, due in monthly installments of $3,297 including interest of 15.9%, due December, 2003	**32,966**	
$1,000,000 convertible debentures, bearing interest at 25%, maturing June, 2003 (see below)	**918,836**	
Note payable to a financial institution, secured by equipment, furniture and fixtures, due in monthly installments of $25,955 including interest of 10%, due July, 2005	**706,463**	
Note payable to a bank, due on demand or in monthly installments of $6,944 plus interest at the prime rate (4.25% at December 31, 2002) plus 1%, until December, 2003	**83,334**	166,667
	6,749,717	4,779,306
Less: Current maturities	**6,295,389**	1,789,441
	$ 454,328	$2,989,865

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Long-term debt is payable in the future as follows:

For the Year Ending December 31,	
2003	$6,295,389
2004	278,552
2005	175,776
	$6,749,717

Loan agreements relating to the majority of the notes payable above contain requirements for maintenance of defined minimum financial ratios. The Company is not in compliance with all such provisions as of December 31, 2002. Further, the Company is delinquent in payments on the majority of the notes. All notes in default have been shown as current in these financial statements. The Company has obtained a letter of forbearance through June 30, 2003, in connection with these loans in default.

In July 2002, the Company closed a $1,000,000 funding which was primarily used to fund the initial payments for the Aspen acquisition. The debentures are convertible into common stock at a price equal to $1.50 per share. In connection with the debentures, the Company issued warrants to purchase 235,000 shares of common stock for $2.12. Based on the relative fair value of the warrants, beneficial conversion feature and the debenture, discounts of $149,841 and $212,590 were recorded to reflect the value of the warrants and the beneficial conversion, respectively. The discounts will be amortized to interest expense over one year and four months, respectively. As of December 31, 2002, this note was in default.

Note 9 - Long-Term Capital Leases

The Company leases certain equipment from third parties. The leases expire through 2006. The stockholders have guaranteed the leases. As of December 31, 2002, the leases were in default and have been classified as current in these financial statements.

The following is a schedule of future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of December 31, 2002:

For the Year Ending December 31,	
2003	$377,792
Less: Amount representing interest	(64,067)
Present value of minimum lease payments	313,725
Less: Current obligations	313,725
Long-term obligations under capital lease	$ 0

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Note 10 - Operating Leases

The Company leases its treatment facilities and corporate office space under operating leases which expire in various years through 2008. The leases provide for annual operating expense increases. The Company also leases medical equipment under an operating lease which expires in 2006. Base rental payments under these lease agreements are as follows:

For the Year Ending December 31,	
2003	$ 784,269
2004	678,363
2005	678,363
2006	483,442
2007	405,145
Thereafter	214,263
	$3,243,845

Note 11 - Management Fees

The Company has contracted with affiliated outpatient surgical centers to manage the operation of the treatment facilities. Under the contracts, the Company receives fees ranging from 2% to 5% of revenues collected by the facilities under contract. The Company recorded the following fees during 2002 and 2001:

	2002	2001
SurgiCare Memorial Village, L.P.	**$102,630**	$120,170
San Jacinto Surgery Center, Ltd.	**219,918**	212,939
Bayside Surgical Partners, L.P.	**37,500**	29,315
Tuscarawas Ambulatory Surgery Center	**28,348**	
	$388,396	$362,424

The contract with Bayside was terminated in 2002 with the sale of the investment in Bayside.

Note 12 - Related Party Transactions

As of December 31, 2002 and 2001, the Company had a non-interest-bearing receivable from a shareholder of $8,250 for the purchase of stock.

As of December 31, 2001, the Company had a receivable from Bayside Surgical Partners of $67,857.

As of December 31, 2002, the Company had a payable to San Jacinto of $126,086. As of December 31, 2001, the Company had a receivable from San Jacinto of $24,229.

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As of December 31, 2002, the Company had a receivable from Physicians Endoscopy of $9,177.

Bellaire leases space for its offices in a medical office building owned by a partnership in which Dr. Mineo, a director and shareholder, has a 25% interest. The lease expires in 2003. During fiscal 2002, Bellaire paid approximately $195,000 as rent to the partnership. During fiscal 2001, Bellaire paid approximately $194,000 as rent to the partnership.

Note 13 - Federal Income Taxes

A reconciliation of the statutory federal income tax rate to the effective tax rate at December 31, 2002 and 2001, is as follows:

	2002	2001
Federal income tax expense at statutory rate	**$(3,474,002)**	$429,543
Increase in valuation allowance	**2,679,000**	
Correction of prior year accrual	**(814,574)**	150,000
Other		13,457
	$(1,609,576)	$593,000

The components of the deferred tax liability as of December 31, 2002 and 2001, were as follows:

	2002	2001
Deferred tax liability:		
Accrual to cash conversion	**$ (595,000)**	$(1,385,000)
Net deferred tax liability	**(595,000)**	(1,385,000)
Deferred tax asset:		
Net operating loss	**3,274,000**	
Net deferred tax asset (liability)	**2,679,000**	(1,385,000)
Valuation allowance	**(2,679,000)**	
Net deferred taxes	**$ 0**	$(1,385,000)

The Company has a net operating loss carryforward of approximately $9.6 million, which will expire in 2022.

Note 14 - Preferred Stock

The Series A preferred stock is convertible at a rate of one share of preferred stock into one share of $.005 par value common stock. The Company can redeem the stock at $5 per share. The stock also has a liquidation preference of $5 per share. Holders of Series A preferred stock are entitled to one vote for each share of Series A preferred stock held.

As noted in Note 3, during 2002, the Company issued 1,200,000 shares of Series AA Preferred Stock to fund the acquisition of land. The terms of the Series AA Stock, as modified in an agreement dated December 11, 2002, are as follows: 300,000 shares convert immediately to 3,658,537 shares of common stock. On June 1, 2004, June 1, 2005 and June 1, 2006, 300,000 shares convert to a number of common shares equivalent to

$1,500,000 divided by the average closing price over the previous 20 trading days. The Company has the option to redeem the Series AA Preferred shares on the above dates for $5 per share. Holders of Series AA Preferred Stock are entitled to one vote for each share of Series AA Preferred Stock held at all shareholders meetings for all purposes.

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Note 15 - Warrants and Options

Transactions with Other Than Employees

The Company accounts for equity instruments issued to non-employees based on the fair value of the equity instruments issued.

During 2002 the Company issued warrants as follows:

Number of Shares	Exercise Price	Expiration	Value	In connection with
235,000	$2.12	July 15, 2005	$149,841	Debt
200,000	2.95	June 1, 2007	590,000	Acquisition
50,000	1.00	March 1, 2005	47,500	Consulting
336,786	.32	September 15, 2007	224,453	Acquisition
526,531	.35	November 12, 2007	135,773	Consulting
1,348,317				

During 2001, warrants to purchase 125,000 shares of common stock at $.10 per share were issued to a consultant and were valued at $280,000 or $2.24 per share. These warrants were exercised during 2002.

	2002		2001	
	Warrants	Price Per Share	Warrants	Price Per Share
Outstanding on January 1,	**325,000**	**$ .10 3.00**	200,000	$ 3.00
Issued	**1,348,317**	**.32 2.95**	125,000	.10
Exercised	**(125,000)**	**.10**		
Outstanding on December 31	**1,548,317**	**$ .32 3.00**	325,000	$ .10 3.00
Weighted average exercise price	**$ .93**		$ 1.88	
Weighted average fair value of warrants granted during the year	**$ .85**		$ 2.24	
Weighted average remaining life of warrants at December 31	**4.26 years**		3.37 years	

The fair value of the warrants at date of issuance was estimated using the Black-Scholes Model with the following weighted average assumptions:

	2002	2001

Risk-free interest rate	**3.01%**	3.91%
Expected life	**2.7 years**	5 years
Expected dividends	**None**	None
Expected volatility	**74%**	77%

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Transactions with Employees

The Company accounts for its employee stock options under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, for which no compensation expense is recognized for employee stock options if there is no intrinsic value at the date of grant.

In October 2001, the Company established a stock option plan which authorized 1,400,000 shares of common stock to be made available through an incentive program for employees. The options are granted at an exercise price equal to the fair market value of the common stock at the date of grant. The options have a ten year term. There were 81,955 options granted under this plan in 2002. There were none granted under this plan in 2001.

During 2002, the Company granted options to an employee to purchase 175,000 shares of common stock with an exercise price of $2.00 and a term of 5 years. The options are fully vested.

During 2002, the Company also granted options to executives to purchase 6,489,232 shares of common stock with an exercise price of $.32 and a term of 10 years. One fourth of these options vest immediately, with the remainder vesting over 3 years.

On October 5, 2001, the Company granted options to purchase 860,000 shares of common stock to employees. The options vest over various periods, have an exercise price of $1.90 and a term of 10 years.

Information with respect to employee stock options for December 31, 2002, is as follows:

	2002		**2001**	
	Options	**Price Per Share**	**Options**	**Price Per Share**
Outstanding on January 1	**860,000**	**$ 1.90**		
Granted	**6,746,187**	**.32 2.05**	860,000	$1.90
Forfeited	**(258,333)**	**1.90**		
Outstanding on December 31	**7,347,854**	**$ .32 2.05**	860,000	$1.90
Exercisable on December 31	**2,657,853**	**$ .32 2.05**	361,668	$1.90
Weighted average fair value of options granted during the year	**$ .18**		$ .61	
Weighted average exercise price				
Outstanding	**$ .51**		$ 1.90	
Exercisable	**$ .84**		$ 1.90	
Weighted average remaining life of options at December 31				
Outstanding	**9.64 years**		9.75 years	
Exercisable	**9.23 years**		9.75 years	

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The fair value of the options at date of grant was estimated using the Black-Scholes Model with the following weighted average assumptions:

	2002	2001
Risk-free interest rate	**3.00%**	3.91%
Expected life	**3.14 years**	5 years
Expected dividends	**None**	None
Expected volatility	**57%**	77%

Had the Company elected to apply Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, using the fair value based method, the Company s net income would have been reduced to the following pro forma amounts:

	2002	2001
Net income (loss) - as reported	**$ (8,849,618)**	$ 670,360
Net income (loss) - pro forma	**$ (9,591,652)**	$ 524,027
Basic earnings (loss) per share - as reported	**$ (.56)**	$ .05
Basic earnings (loss) per share - pro forma	**$ (.61)**	$ .04
Diluted earnings (loss) per share - as reported	**$ (.56)**	$ .04
Diluted earnings (loss) per share - pro forma	**$ (.61)**	$ .03

Note 16 - 401(k) Plan

The Company has an employee benefit plan under Section 401(k) of the Internal Revenue Code for all eligible employees. Participants are permitted to defer compensation up to a maximum of 15% of their income. The Company matches 25% of the employees deferrals up to 4% of their income. The Company contributions vest 20% after two years of service and 20% each year thereafter, being fully vested after six years of service. During 2002 and 2001, the Company contributed approximately $7,000 and $4,000, respectively, to the Plan.

Note 17 - Litigation

In September 2002, the Company was named as a defendant in a suit entitled Charles Cohen vs. SurgiCare, Inc. and David Blumfield, in the 234th Judicial District Court of Harris County, Texas. Mr. Cohen sued the Company for breach of contract and both defendants for defamation. Mr. Cohen claims that the Company breached his employment agreement when it terminated his employment and that Mr. Blumfield and the Company made defamatory statements about him. Mr. Cohen has made claims for $562,000 for breach of the employment agreement plus additional damages for the defamation claim. The Company intends to vigorously defend this suit.

In February 2003, the Company was named as a defendant in a suit entitled S.E. Altman, individually, and d/b/a Altman & Associates vs. SurgiCare, Inc., in the County Court at Law No. 1, Harris County, Texas. Altman has sued the Company for breach of contract based on a finders fee contract in which Altman claims the Company has not performed. Altman has made claims in the amount of $217,000 plus attorney s fees. The Company intends to vigorously defend this suit.

In March 2003, SurgiCare Memorial Village, L.P. and Town & Country SurgiCare, Inc. were named as a 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. The Company has paid $53,832 of this balance and is attempting to arrange for a payment plan to pay the remaining balance.

Note 18 - Commitments

Effective November 10, 2002, the Company has entered into employment agreements with its executives. The term of the agreements is three years. These agreements provide for annual salaries and incentive bonuses of up to 30% of the employee s base compensation. The criteria for earning the bonus will be established by the Board of Directors at the beginning of each 12-month period. In addition, the agreements provide for payments of two times annual base salary if the executives are terminated without cause. All options would also vest at that time. The Company s aggregate base salary commitment under the employment agreements through their respective terms is $1,588,000.

Note 19 - Subsequent Events

Under the terms of the agreement completed December 11, 2002 to restructure the land purchase between SurgiCare, Inc., American International Industries, Inc., Texas Real Estate Enterprises, Inc., MidCity Houston Properties, Inc., a Texas corporation, and International Diversified Corporation (IDC), IDC was to reimburse the Company $400,000 by January 15, 2003. IDC failed to make any payment on the $400,000 and thus has forfeited 1,709,024 shares held as collateral by SurgiCare. On February 3, 2003, counsel for IDC claimed that the Company has breached the agreement and has asked for repayment of the $1,000,000 investment by IDC. IDC has sued for the rescission of the contract and the return of $1,000,000 or the deliverance of 2,439,024 shares. The Company intends to vigorously defend this suit.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

Not Applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

SurgiCare s Directors and Executive Officers are as follows:

NAME	POSITION	AGE
Keith LeBlanc	President and Chief Executive Officer	44
Phil Scott	Chief Financial Officer and Secretary	40
Jeffery Penso	Director and Vice President	48
Sherman Nagler	Director	46
Charles S. Cohen	Director	40
Bruce Miller	Director	53
Michael Mineo	Director	58

Keith G. LeBlanc was appointed Chief Executive Officer on September 10th, 2002. Mr. LeBlanc previously served as CEO for Gulf Coast Surgery and Endoscopy in Biloxi, Mississippi. Mr. LeBlanc has extensive healthcare management experience, serving as a hospital CEO for 10 years and as the CEO and founder of The Quest Group, a physician equity MSO joint venture. The Quest Group managed physician practices statewide in Louisiana. Mr. LeBlanc is a registered respiratory therapist and holds a MHS from LSU Medical School.

Phil Scott was appointed Chief Financial Officer on September 18th, 2002. Mr. Scott previously served as the Vice President of Development for HealthCare Partners, a $300 million physician management services organization. Mr. Scott was also a co-founder, Vice President and CFO for The Camden Group, a national healthcare consulting firm. Mr. Scott is a Chartered Financial Analyst and was awarded an MBA from the University of San Diego.

Dr. Jeffery Penso D.P.M. was elected as Director of SurgiCare, Inc. on July 10, 1999. Dr. Penso has served as Vice-President of SurgiCare, Inc. since July 1999 and Vice-President of Bellaire SurgiCare, Inc. since July 1998. He has been in private practice for 16 years. He received his undergraduate degree in 1983 at University of Akron, and then attended the Ohio College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1988.

Dr. Sherman Nagler D.P.M. was elected as Director of SurgiCare, Inc. on July 10, 1999. He has been in private practice for 16 years. He received his undergraduate degree in 1977 at State University of New York at Plattsburgh, and then attended the New York College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1985.

Charles S. Cohen was elected as a Director of SurgiCare, Inc. on July 10, 1999. Mr. Cohen previously served as the Co-CEO of SurgiCare, Inc. and before that, the acting Chief Operating Officer since 1998, but was terminated on September 9, 2002. From 1994 to 1998, Mr. Cohen was the President of Medical Distributors International, Inc. (MDI). He has served as a Director of TMDI Medical, from 1995-1997. Both MDI and TMDI were involved with the international purchasing, importing, and exporting of medical and surgical equipment. Mr. Cohen was educated at the University of Missouri at Columbia in business.

Dr. Bruce Miller, D.P.M. has been in private practice for 25 years. He received his undergraduate degree in 1969 at Temple University and then attended the Pennsylvania College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1986.

Dr. Michael Mineo D.P.M. was elected as Director of SurgiCare, Inc. on July 10, 1999. Dr. Mineo has served as Vice-President of Bellaire SurgiCare, Inc. since March of 1995. He has been in private practice for 29 years. He received his undergraduate degree in 1964 from Geneva College, Beaver Falls, PA, and then attended the Ohio College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1979, and a Fellow of the American College of Foot Surgeons since 1980.

The terms of office of SurgiCare s current directors will expire at the next annual meeting of the stockholders. Thereafter, directors will hold office until the succeeding annual meeting or their successors are elected and qualified. SurgiCare s officers hold office at the pleasure of the board of directors and until the meeting of the board of directors next following the annual meeting of stockholders, at which board meeting officers are to be elected.

(B) Compliance with Section 16(a) of the Securities Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires SurgiCare s officers and directors, and persons who own more than 10 percent of a registered class of SurgiCare s equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC). Officers, directors, and greater than 10 percent stockholders are required by SEC regulation to furnish SurgiCare with copies of all Section 16(a) forms they file.

Based solely on the reports received by us and on the representations of the reporting persons, we believe that these persons have complied with all applicable filing requirements during the fiscal year ended December 31, 2002, except: (a) Mr. Cohen was late in reporting one transaction on Form 4, which was reported on a Form 5 filed in August 2002; (b) Dr. Blumfield was late in reporting one transaction on a Form 4, which was reported on a Form 5 filed in August 2002; (c) Dr. Penso was late in reporting two transactions on Form 4, which were reported on a Form 5 filed in September 2002; (d) Messrs. LeBlanc and Scott did not timely file a Form 3, which form was filed in April 2003, and (e) we have not received any Form 5s for the year ended December 31, 2002, nor have we received any representations from reporting persons that such form was not applicable to them.

ITEM 10. EXECUTIVE COMPENSATION

The following table provides certain summary information concerning the compensation paid during each of SurgiCare s last three fiscal years to each of the highest paid persons who are officers or directors of SurgiCare, Inc. receiving compensation of at least $100,000 and the Chief Executive Officer (the Covered Executives). The following table includes compensation data for Mr. LeBlanc, Dr. Blumfield and Mr. Cohen, each of which served as our Chief Executive Officer during the fiscal year ended December 31, 2002. Except as listed below, no executive officers or employees received a salary and bonus during the fiscal year ended December 31, 2002 that met or exceeded $100,000. For compensation for 2000, each of the persons indicated received their compensation as a director or officer of Bellaire.

SUMMARY COMPENSATION TABLE

Name and Principal Positions	Year	Annual Compensation		Long-Term Compensation
		Salary ($)	Bonus ($)	Stock Underlying Options / SARs (#)
Keith LeBlanc, President & CEO [1]	2002	56,654		3,244,616
David Blumfield, Co-CEO [2]	2002	44,098		
	2001	52,500		175,000
	2000	24,000		
Charles S. Cohen Co-CEO and COO [3]	2002	99,868		116,333
	2001	125,000		233,333
	2000	75,000		

Except as set forth in the table, no compensation has been rewarded to, earned by or paid to any of the Covered Executives and required to be reported in the table for any of the last three fiscal years.

(1) Commenced employment in November 10, 2002. Salary amount is for the period from November 10, 2002 until December 31, 2002 and includes amount paid as a consultant from September 10, 2002 until November 9, 2002.

(2) Resigned on September 10, 2002. Salary amount is for the period from January 2002 through December 31, 2002.

(3) Terminated on September 9, 2002. Salary amount is for the period from January 2002 until resignation. Options issued are subject to resolution of lawsuit filed by Charles Cohen against SurgiCare for wrongful termination. This total assumes all unvested options are awarded to Charles Cohen.

Options, Warrants, and Stock Appreciation Rights

The following table sets forth information concerning individual grants of stock options made during the fiscal year ended December 31, 2002, to our named executive officers. No stock appreciation rights were issued during the fiscal year.

OPTION GRANTS IN LAST FISCAL YEAR
(INDIVIDUAL GRANTS)

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date
Keith LeBlanc	3,233,241	48.5%	$0.32	11/09/2012
David Blumfield				
Charles S. Cohen				

The following table sets forth information concerning option exercises during the fiscal year ended December 31, 2002 and option holdings as of December 31, 2002 with respect to our named executive officers. No stock appreciation rights were outstanding at the end of the fiscal year.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-the-Money Options at FY-End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Keith LeBlanc			875,669	2,357,572	$157,620	$424,363
David Blumfield			175,000		$ 0	
Charles S. Cohen (1)			350,000		$ 0	

(1) Terminated on September 9, 2002. Options issued are subject to resolution of lawsuit filed by Charles Cohen against SurgiCare for wrongful termination. This total assumes all unvested options are awarded to Charles Cohen.

The values of the unexercised options above are based on the difference between the exercise price of the options and the fair market value of our common stock at the end of the fiscal year ended December 31, 2002, which was $.50 per share.

Employment Agreements. Effective November 10, 2002, the Company has entered into employment agreements with its executives. The term of the agreements is three years. The agreements provide for payments of two times annual base salary if the executives are terminated without cause. All options would also vest at that time. The Company s aggregate base salary commitment under the employment agreements through their respective terms is $1,588,000.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of March 31, 2003, 24,752,171 shares of our common stock were outstanding, 1,225,100 shares of our Series A Preferred Stock were outstanding, and 900,000 shares of our Series AA Preferred Stock were outstanding. The following table sets forth, as of such date, information with respect to shares beneficially owned by: (a) each person who is known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (b) each of our directors and the executive officers named in the Summary Compensation Table below, and (c) all current directors and executive officers as a group.

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed beneficially owned by a person if the person has the right to acquire shares (for example, upon conversion of our Series A Preferred Stock or the exercise of an option or warrant) within sixty days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person s actual voting power at any particular date.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Title of Class	Name & Address of Owner	Amount of Ownership	Percent of Class
Common (1)	Blumfield, David	800,000	3.21%
Preferred A	7400 Fannin #1100	91,000	7.43%
	Houston, TX 77056		
Common	Nagler, Sherman	677,956	2.74%
Preferred A	1200 Binz	91,000	7.43%
	Houston, TX 77004		
Common (2)	Bradbury, William	852,666	3.44%
Preferred A	7400 Fannin #1100	91,000	7.43%
	Houston, TX 77056		
Common (3)	Jeffery Penso	842,636	3.40%
Preferred A	11006 Westheimer	91,000	7.43%
	Houston, Texas 77042		

Title of Class	Name & Address of Owner	Amount of Ownership	Percent of Class
Common (4)	Michael Mineo	838,130	3.38%
Preferred A	6699 Chimney Rock Houston, Texas 77081	91,000	7.43%
Common (5)	Charles S. Cohen 8902 Loch Lomond Ct. Houston, Texas 77096	379,900	1.51%
Common	Son Nguyen	766,956	3.10%
Preferred A	1120-A Dennis Houston, Texas 77004	91,000	7.43%
Common (6)	Bruce Miller 13737 S.W. Freeway Sugarland, Texas 77478	901,257	3.64%
Common	Larry Likover	825,350	3.33%
Preferred A	902 Frostwood, #902 Houston, Texas 77024	91,000	7.43%
Common	Long Nguyen	766,956	3.10%
Preferred A	4007 Bellaire, #FF Houston, Texas 77025	91,000	7.43%
Common	Gregory Mangum	767,831	3.10%
Preferred A	4754 Beechnut Houston, Texas 77096	91,000	7.43%
Common	Robert Parker	719,340	2.91%
Preferred A	1441 Memorial, #16 Houston, Texas 77079	91,000	7.43%
Common	Jeffrey Ross	767,831	3.10%
Preferred A	6624 Fannin, #2450 Houston, Texas 77030	91,000	7.43%
Common	Brian Zale	766,956	3.10%
Preferred A	11320 S. Post Oak, #1 Houston, Texas 77035	91,000	7.43%
Common	American Int l Industries, Inc.	3,658,537	14.78%
Preferred AA	601 Cien Street Kemah, TX 77565	900,000	100.00%
Common (7)	Elkana Faiwuszewicz 601 Hanson Road Kemah, TX 77565	1,709,024	6.90%

Title of Class	Name & Address of Owner	Amount of Ownership	Percent of Class
Common (8)	Keith LeBlanc 12727 Kimberley Lane, Suite 200 Houston, TX 77024	6,700,025	25.76%
Common	Shirley Browne	378,981	1.53%
Preferred A	P.O. Box 247 Richmond, TX 77406	91,000	7.43%
Common (9)	Directors and Officers as a Group (8)	12,448,989	44.67%
Preferred A		364,000	29.71%

(1) Includes 175,000 shares underlying a warrant that is currently exercisable at an exercise price of $1.90 per share.

(2) Includes 17,142 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(3) Includes 17,142 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(4) Includes 50,000 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(5) Includes 350,000 shares underlying a warrant that is currently exercisable at an exercise price of $1.90 per share. 116,333 warrants are subject to the dispute in Charles Cohen s lawsuit against SurgiCare for wrongful termination. See Item 3 - Legal Proceedings.

(6) Includes 17,142 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(7) These shares held by International Diversified Corporation, Ltd. (Mr. Faiwuszewicz is the majority owner) have been forfeited, but are subject to the breach of contract suit filed by International Diversified Corporation, Ltd. See Item 3 - Legal Proceedings.

(8) Includes 1,252,464 shares underlying warrants that are currently exercisable at an exercise price from $0.32 to $0.45 per share. Mr. LeBlanc has voting rights over 5,367,561 shares held by American International Industries, Inc. and International Diversified Corporation, Ltd until 12/10/2003.

(9) Includes 3,114,212 shares underlying warrants that are currently exercisable at an exercise price from $0.32 to $1.90 per share. Mr. LeBlanc has voting right over 5,367,561 shares held by American International Industries, Inc. and International Diversified Corporation, Ltd until 12/10/2003.

Equity Compensation Plan Information

The following table gives information about the Company s common stock that may be issued upon the exercise of options under its SurgiCare, Inc. 2001 Stock Option Plan as of December 31, 2002, which has been approved by the Company s stockholders. There are no shares of Company common stock authorized for issuance under compensation arrangements that were not approved by the Company s stockholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) (C)

Equity Compensation Plans Approved by Security Holders	81,955	$ 2.05	318,045
Equity Compensation Plans Not Approved by Security Holders[(1)]	7,243,149	$ 0.492	
Total	7,325,104		318,045

Other information required by this item is incorporated herein by reference from the information provided under the heading Security Ownership of Certain Beneficial Owners and Management of the Company s Proxy Statement.

(1) Warrants are exercisable at an exercise price ranging from $0.32 to of $2.00 per share. The term of exercise ranges from April 5, 2007 to November 9, 2012. 116,333 warrants are subject to the dispute in Charles Cohen s lawsuit against SurgiCare for wrongful termination. The warrants are subject to vesting requirements and employment with SurgiCare.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of December 31, 2002, the Company had revised the contractual relationship with its founding physicians, all of whom are beneficial owners of 5% or more of the Company s preferred stock, whereby the physicians would be retained as an advisory committee to oversee the activities of the physician staffed medical executive committees of each of SurgiCare s surgery centers. In addition to the services previously covered under the agreement, the advisory committee would also assist management in revising existing and new operating agreements, management agreements, establishing medical bylaws, and reviewing policies and procedures. The Company has reduced the compensation to be paid to the physician group for its services to $30,000 per month and limited the contract from five years to six months.

Bellaire leases space for its offices in a medical office building owned by a partnership in which Dr. Mineo, a director and shareholder, has a 25% interest. The lease expires in 2003. During fiscal 2002, Bellaire paid approximately $195,000 as rent to the partnership. During fiscal 2001, Bellaire paid approximately $194,000 as rent to the partnership.

In January 2003, Messrs. LeBlanc and Scott purchased 160,000 shares of our common stock for an aggregate purchase price of $72,000.

In February 2003, Dr. Mineo purchased 100,000 shares of our common stock for a purchase price of $35,000.

In March 2003, Dr. Penso and Dr. Miller each purchased 34,284 shares of our common stock for a purchase price of $11,999.40 each.

On July 21, 1999, the Board of Directors of both SurgiCare and Bellaire unanimously approved SurgiCare s acquisition, effective July 1, 1999 of 100% (1,350 shares) of the issued and outstanding common stock of Bellaire in exchange for 10,955,556 shares of SurgiCare s common stock and 1,350,000 shares of SurgiCare s Series A Preferred. This acquisition was accounted for as a reverse merger. Following the closing of the transaction, Bellaire became a wholly owned subsidiary of SurgiCare. At the time of the approval by both boards of directors, the shareholders of Bellaire jointly held the majority of the issued and outstanding shares of SurgiCare. In addition four of the five members of the Board of Directors of SurgiCare each individually held 7.4% of the outstanding and issued shares of Bellaire.

In determining the amount and character of the consideration to be paid by SurgiCare for the Bellaire stock, the boards of directors of both SurgiCare and Bellaire considered numerous factors, including the then inactive status of SurgiCare and prior offers that Bellaire had received for the acquisition of Bellaire by others.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
Exhibit 3.1	Amended and Restated Certificate of Incorporation of SurgiCare, Inc. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 3.2	Articles of Incorporation of Bellaire SurgiCare, Inc. (Incorporated by reference to Exhibit 3.2 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 3.3	By-Laws of Technical Coatings Incorporated (now SurgiCare, Inc.) (Incorporated by reference to Exhibit 3.3 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 4.1	Certificate of Designation, Powers, Preferences and Rights of Series A Redeemable (Incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 4.2	Amended Certificate of Designation, Powers, Preferences and Rights of Series AA Preferred Stock, par value $.001 per share (Incorporated by reference to Exhibit 10.3 of the Company s Form 8-K filed on January 29, 2003)
Exhibit 4.3	Form of SurgiCare, Inc. Common Stock Certificate
Exhibit 10.1	Agreement between SurgiCare, Inc. and American International Industries, Inc., Texas Real Estate Enterprises, Inc., and MidCity Houston Properties, Inc. dated December 11, 2002 (Incorporated by reference to Exhibit 10.2 of the Company s Form 8-K filed on January 29, 2003)
Exhibit 10.2	Employment Agreement with Keith G. LeBlanc dated November 10, 2002.
Exhibit 10.3	Employment Agreement with Phillip C. Scott dated November 10, 2002.
Exhibit 21	List of Subsidiaries of SurgiCare, Inc.
Exhibit 99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

For the quarter ended December 31, 2002, there were no Form 8-K filings.

ITEM 14. CONTROLS AND PROCEDURES

Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-KSB, the Company s principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROLS

Recently, the Company revised internal controls related to equity issuances and accounting for contractual allowances to improve previous deficiencies in reporting of stock issuances and recording appropriate contractual allowances.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SurgiCare, Inc.

By: /s/ Keith G. LeBlanc

Keith G. LeBlanc,
President & Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Keith G. LeBlanc Keith G. LeBlanc (principal executive officer)	Director, President & Chief Executive Officer	April 14, 2003
/s/ Phillip C. Scott Phillip C. Scott (principal financial and accounting officer)	Director & Chief Financial Officer	April 14, 2003
/s/ Jeffrey Penso Jeffrey Penso	Director	April 14, 2003
/s/ Sherman Nagler Sherman Nagler	Director	April 14, 2003
/s/ Michael Mineo Michael Mineo	Director	April 14, 2003
Bruce Miller	Director	April 14, 2003
Charles Cohen	Director	April 14, 2003

CERTIFICATIONS

I, Keith G. LeBlanc, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of SurgiCare, Inc.;

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

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

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Keith G. LeBlanc

Keith G. LeBlanc,
Chief Executive Officer[1]

[1] A signed original of this written statement required by Section 906 has been provided to SurgiCare, Inc. and will be retained by SurgiCare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

I, Phillip C. Scott, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of SurgiCare, Inc.;

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

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

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Phillip C. Scott

Phillip C. Scott,
Chief Financial Officer[1]

[1] A signed original of this written statement required by Section 906 has been provided to SurgiCare, Inc. and will be retained by SurgiCare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit Index

Exhibit No.	Description
Exhibit 3.1	Amended and Restated Certificate of Incorporation of SurgiCare, Inc. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 3.2	Articles of Incorporation of Bellaire SurgiCare, Inc. (Incorporated by reference to Exhibit 3.2 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 3.3	By-Laws of Technical Coatings Incorporated (now SurgiCare, Inc.) (Incorporated by reference to Exhibit 3.3 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 4.1	Certificate of Designation, Powers, Preferences and Rights of Series A Redeemable (Incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 4.2	Amended Certificate of Designation, Powers, Preferences and Rights of Series AA Preferred Stock, par value $.001 per share (Incorporated by reference to Exhibit 10.3 of the Company s Form 8-K filed on January 29, 2003)
Exhibit 4.3*	Form of SurgiCare, Inc. Common Stock Certificate
Exhibit 10.1	Agreement between SurgiCare, Inc. and American International Industries, Inc., Texas Real Estate Enterprises, Inc., and MidCity Houston Properties, Inc. dated December 3, 2002 (Incorporated by reference to Exhibit 10.2 of the Company s Form 8-K filed on January 29, 2003)
Exhibit 10.2*	Employment Agreement with Keith G. LeBlanc dated November 10, 2002.
Exhibit 10.3*	Employment Agreement with Phillip C. Scott dated November 10, 2002.
Exhibit 21*	List of Subsidiaries of SurgiCare, Inc.
Exhibit 99.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 99.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

Exhibit 10.2

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the Agreement), is made and entered on October 18, 2002. This Agreement will be effective on November 10, 2002, (the Effective Date) which is the day following the completion of the Interim Management Agreement which terminates on November 9, 2002**,** by and between SurgiCare, Inc., a Delaware corporation (Company), and Keith G. LeBlanc (Employee).

R E C I T A L S

A. WHEREAS, Company desires to employ Employee pursuant to the terms expressed herein.

B. WHEREAS, Employee is desirous to become employed by Company under the terms and conditions set forth herein. .

A G R E E M E N T

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Employment Arrangement

1.1 Services. Company hereby employs Employee as Chief Executive Officer (CEO) of Company. As such, Employee shall report directly to Company s Board of Directors, and is empowered to execute the Board approved strategic plan within Board approved budget constraints. Such authority shall include the hiring and firing of all employees of Company, except its officers, establishing and enforcing policies and procedures, vendor selection and negotiation, and other acts or things necessary or advisable to manage and conduct the business of Company or as delegated by the Board consistent with the duties customarily performed by persons in a similar executive capacity.

1.2 Time Devoted by Employee. Employee will devote his substantial business time, attention, efforts and abilities to the business of Company to promote the interests of Company; provided however, Employee may continue devoting time to certain businesses in which he holds an ownership interest to the extent such services do not compete with Company and do not interfere with his duties hereunder.

2. Term. Unless sooner terminated by either party as provided in Section 3 below, the term of this Agreement shall be for a period of three years (the Term) commencing on the Effective Date.

3. Termination.

3.1 Mutual Agreement. This Agreement and Employee s employment hereunder may be terminated at any time by mutual agreement of the parties.

3.2 Death. In the event of Employee s death, this Agreement shall automatically terminate on the day after Employee dies.

3.3 Disability. This Agreement shall automatically terminate on the day after Employee becomes permanently disabled. Permanently disabled as used herein shall mean mental or physical incapacity, or both, based upon a certification of such permanent disability by both Employee s regularly attending physician and a duly licensed physician selected by Company s insurance carrier, rendering Employee unable to perform all of his duties hereunder through the expiration of the Term. Employee shall be deemed to have become permanently disabled on the date set forth in the foregoing certification as to when Employee became permanently disabled .

3.4 By Company for Cause. This Agreement and Employee s employment hereunder may be terminated by Company for cause , effective upon delivery of written notice to Employee given at any time (without any necessity for prior notice) except as provided herein. For purposes of this Agreement, the term cause

shall mean (i) Employee s conviction of a felony or Employee s entering of a plea of guilty or nolo contendre to a felony, (ii) Employee s criminal conviction of any other crime involving Employee s lack of honesty or moral turpitude or Employee s entering a plea of guilty or nolo contendre to such a crime, (iii) Employee s commission of theft against, or embezzlement from, Company or any of its affiliated companies, (iv) or repeated public inebriation or repeated use of illegal drugs or substances. Finally, Employee can be terminated for cause upon Employee s material breach of any covenant contained in this Agreement or failure to perform duties as outlined in Section 1.1. In the event of breach of any such covenant or failure to perform his duties, Employee shall be notified in writing by Company of such breach which notice shall state specifically the alleged breach or of such failure to perform which notice shall state specifically the alleged failure to perform. Employee shall have 30 days from delivery to Employee by Company of written notice of such to cure. If Company deems that Employee has not cured the breach or failure to perform within the 30 day cure period, Company shall give Employee a final written notice which shall contain specifically the alleged breach that has not been cured or the alleged failure to perform which has not been cured. Employee shall have 30 days to cure from delivery to Employee by Company of final written notice.

3.5 By Company Without Cause or Upon Change in Control . This Agreement and Employee s employment hereunder may be terminated by the Company, without cause (for any reason or no reason at all) or in the event of a Change of Control of Company at any time by giving Employee 14 days prior written notice of termination, which termination shall be effective on the 14th day following such notice. In the event Employee is terminated without cause during the Term or in the event of a Change in Control of Company, he shall be entitled to a severance payment in the amount of two years salary at his current base compensation plus full vestment of any warrants or options awarded under this agreement. For this Section, Change in Control shall be defined by the acquisition of greater than 40% of the common stock of Company after 12/31/02 or the sale of substantially all of the assets of the Company.

3.6 Return of Company s Property Upon Termination. In the event Employee s employment with Company terminates, Employee shall return to Company all property of Company or any affiliated company in Employee s possession or under Employee s direct or indirect control including, without limitation, all equipment, all Confidential Information (as defined in Section 5.1 of this Agreement), notebooks and other materials, documents, diaries, calendars and data of or relating to Company or any affiliated company, whether printed, typed, written or on any source of computer media; provided that Employee shall be entitled to retain his rolodex, personal files, diaries, calendars and other similar documents of a personal nature as long as they do not relate exclusively to the business of Company and as long as copies are made for Company to reflect or evidence corporate information.

4. Compensation.

4.1 Salary. As consideration for services that Employee must render, Company will pay Employee a salary of $198,000 per year during the first twelve months. After the initial twelve months, Company will pay Employee a salary of $298,000 for the remaining two years. Payments of salary shall be made in accordance with Company s regular payroll periods.

4.2 Incentive Bonus. So long as Employee s employment has not been terminated pursuant to Section 3, at the close of each 12 month period of this agreement, Employee shall receive an incentive bonus payment of up to 30% of Employee s base compensation. The criteria for earning this bonus will be established at the beginning of each 12 month period of this agreement. The first year bonus criteria are attached as Schedule A. Employee shall maintain the right to invest up to 50% of the Incentive Bonus by receipt of common stock in the Company at the average closing market price for the preceding calendar month prior to the bonus be awarded. In the event that Company terminates Employee s employment prior to the end of the scheduled term of this Agreement without cause, Employee shall be entitled to a prorated incentive bonus upon termination.

4.3 Other Benefits. Employee shall also be entitled to receive all benefits provided to other executives of Company, which shall include, at a minimum, comprehensive health and dental insurance, vacation/sick time of not less than four weeks per year, disability, cell phone, car allowance, payment of actual moving expenses incurred not to exceed $10,000, and payment of a corporate apartment for 6 months. Company shall provide D&O insurance to cover Employee. All such benefits shall be provided at no cost to Employee.

4.4 Expenses. Company will reimburse Employee for reasonable business expenses incurred in the course of his employment hereunder, provided that any request for such reimbursement is supported by adequate back-up documentation.

4.5 Stock Warrants. Company shall award Employee warrants at a strike price of $0.32 with a 10 year term that represent in the aggregate 10% of the fully diluted securities outstanding, including any private placements or preferred conversions agreements completed over the following two months after the effective date of this agreement. One-fourth of such warrants shall be earned upon execution of this agreement. The remaining warrants shall vest monthly over the 36 month term of this agreement, contain customary anti-dilution provisions (within the context of this Section), be exercisable in whole or part, and shall be subject to a customary piggy-back registration rights agreement.

4.6 Investment. Employee agrees to invest $35,000 through a private placement being conducted by Odyssey Capital (Brazos Raise). Such funding is to occur no later than 1/31/03. In the event that the Brazos Raise is not completed, Employee agrees to acquire 80,000 shares of stock at $0.45 per share directly from the Company which shall have attached 40,000 warrants at $0.45 with a five year term, exercisable in whole or in part, contain customary anti-dilution provisions, and shall be subject to a customary piggy-back registration rights agreement.

5. Confidentiality. The parties agree to the following:

5.1 Non-Disclosure. Employee agrees to maintain in confidence and refrain from disclosing to any other person the terms of this Agreement or any information delivered in connection with this Agreement (including without limitation, inventions, improvements, designs, systems, ideas, technical data trade secrets, pricing information, financial information, sales techniques, approaches and information, information pertaining to customers and suppliers, business plans and secrets relating to the conduct of operations, materials, processes, equipment and formulations used in Company and Company s operations, any commercial or technical information, improvements, working methods or things of which Employee may have gained knowledge or discovered, invented or perfected while in the employ of Company and any other information that Employee may have or know regarding Company, Company or any of Company s affiliates) (collectively the Confidential Information). Employee shall receive all Confidential Information in confidence, and shall not at any time (during or after employment with Company) except as required in the conduct of Company s business, publish, disclose, communicate, divulge, use or authorize any other firm, person, or corporation to publish, disclose, communicate, divulge or use any of the Confidential Information unless or until the Confidential Information shall have ceased to be secret or confidential as evidenced by general public knowledge or when demanded by a court of law.

5.2 Notice of Request of Disclosure. In the event that Employee is at any time requested or required in connection with a legal proceeding in or before a court of law (by oral questions, interrogatories, requests for information or documents, subpoena or similar process) to disclose any information supplied to him in connection with this Agreement, or Employee is requested by such means to disclose any information regarding Company or any information in connection therewith, Employee shall provide Company with prompt notice of such request so that Company may, in its discretion, seek an appropriate protective order to insure Employee s compliance with the terms of this Section.

6. Trademarks and Copyrights. At any time after his employment with Company or any of its affiliates, Employee shall not use or infringe upon the trademarks or trade name of Company or use or adopt any other trademark, trade name, product number, business slogan or identification of Company and Company s affiliates.

7. Photographs. During the term of this Agreement, Employee consents to the use of the reproduction in whole or in part of his name and/or photograph or photographs containing any picture or pictures of his taken while in the employment of Company.

8. Captions and Headings. The captions and headings contained in this Agreement are for convenience only and shall not be referred to for the purpose of limiting or construing this Agreement in any way.

9. Notices. All notices and other communications provided for or permitted hereunder shall be made by hand delivery, first class mail, or facsimile, addressed as follows:

If to Company:

Chairman
SurgiCare, Inc.
12727 Kimberley Lane, Suite 200
Houston, Texas 77024
Tel: 713-973-6675
Fax: 713-722-0921

If to Employee:

Mr. Keith G. LeBlanc
12360 Richmond Ave., #1329
Houston, Texas 77082
Tel: 713-875-6110
Fax: 775-242-9241

All such notices and communications shall be deemed to have been duly given (i) when delivered by hand, if personally delivered; (ii) five (5) business days after deposit in any United States Post Office, postage prepaid, if mailed; and (iii) when receipt is acknowledged or confirmed, if telecopied.

10. Waiver of Breach. The waiver by Employee of a breach of any provision of this Agreement by Company shall not operate or be construed as a waiver of any preceding or subsequent breach by Company.

11. Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the successors, heirs, executors and personal representatives of Employee. Notwithstanding the foregoing, this Agreement shall not be assignable without the prior written consent of the other party.

12. Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law. Employee s rights and remedies provided for in this Agreement or by law shall, to the extent permitted by law, be cumulative.

13. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Houston, Texas in accordance with the Rules of the American Arbitration Association (the Rules), and judgment upon any award rendered by the Arbitrators may be entered in any court having jurisdiction thereof. If the amount in controversy is less than $100,000, there shall be one arbitrator. Otherwise, there shall be three arbitrators, one to be chosen directly by each party, and the third to be selected by the two so chosen. To the extent permitted by the Rules, the selected arbitrators may grant equitable relief. The costs of the arbitration including the fees of all arbitrators, all other fees of all parties, expenses of witnesses, cost of the record or transcripts thereof, if any, administrative fees and all other fees and costs shall be borne by the losing party.

14. Governing Law. This Agreement shall be deemed to be entered into and performed in the State of Texas, and shall, in all respects, be construed in accordance with and governed by the laws of the State of Texas. The parties agree to submit to the jurisdiction of the Texas courts or federal courts located in Houston, Texas in matters relating to this Agreement for purposes of actions or proceedings ancillary to arbitration, or to enforce an arbitral award, or for equitable relief or other preliminary relief pending arbitration.

15. Costs and Attorneys Fees. Should any party to this Agreement institute legal proceedings against another party regarding this Agreement, the prevailing party to any such action shall be entitled to recover reasonable attorneys fees and costs to the extent awarded by the arbitrator or court.

16. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be modified except by a written instrument signed by Employee and an authorized officer of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, as of the day and year first above written.

COMPANY:

SurgiCare, Inc.

By: /s/ David Blumfield

EMPLOYEE:

/s/ Keith G. LeBlanc

Keith G. LeBlanc, an individual

Exhibit 10.3

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the Agreement), is made and entered October 18, 2002. This Agreement will be effective on November 10, 2002, (the Effective Date) which is the day following the completion of the Interim Management Agreement which terminates on November 9, 2002, by and between SurgiCare, Inc., a Delaware corporation (Company), and Phillip C. Scott (Employee).

R E C I T A L S

A. WHEREAS, Company desires to employ Employee pursuant to the terms expressed herein.

B. WHEREAS, Employee is desirous to become employed by Company under the terms and conditions set forth herein. .

A G R E E M E N T

NOW, THEREFORE, in consideration of the mutual promises and undertakings herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Employment Arrangement

1.1 Services. Company hereby employs Employee as Chief Financial Officer (CFO) of Company. As such, Employee shall report to the Chief Executive Officer (CEO). Employee s authority as the CFO shall include the hiring and firing of all employees under his control, establishing and enforcing financial policies and procedures, vendor selection and negotiation, and other acts or things necessary or advisable to manage and conduct the business of Company or as delegated by the CEO consistent with the duties customarily performed by persons in a similar executive capacity.

1.2 Time Devoted by Employee. Employee will devote his substantial business time, attention, efforts and abilities to the business of Company to promote the interests of Company; provided however, Employee may continue devoting time to certain businesses in which he holds an ownership interest to the extent such services do not compete with Company and do not interfere with his duties hereunder.

2. Term. Unless sooner terminated by either party as provided in Section 3 below, the term of this Agreement shall be for a period of three years (the Term) commencing on the Effective Date.

3. Termination.

3.1 Mutual Agreement. This Agreement and Employee s employment hereunder may be terminated at any time by mutual agreement of the parties.

3.2 Death. In the event of Employee s death, this Agreement shall automatically terminate on the day after Employee dies.

3.3 Disability. This Agreement shall automatically terminate on the day after Employee becomes permanently disabled. Permanently disabled as used herein shall mean mental or physical incapacity, or both, based upon a certification of such permanent disability by both Employee s regularly attending physician and a duly licensed physician selected by Company s insurance carrier, rendering Employee unable to perform all of his duties hereunder through the expiration of the Term. Employee shall be deemed to have become permanently disabled on the date set forth in the foregoing certification as to when Employee became permanently disabled .

3.4 By Company for Cause. This Agreement and Employee s employment hereunder may be terminated by Company for cause , effective upon delivery of written notice to Employee given at any time (without any necessity for prior notice) except as provided herein. For purposes of this Agreement, the term cause shall mean (i) Employee s conviction of a felony or Employee s entering of a plea of guilty or nolo contendre to a

felony, (ii) Employee s criminal conviction of any other crime involving Employee s lack of honesty or moral turpitude or Employee s entering a plea of guilty or nolo contendre to such a crime, (iii) Employee s commission of theft against, or embezzlement from, Company or any of its affiliated companies, (iv) or repeated public inebriation or repeated use of illegal drugs or substances. Finally, Employee can be terminated for cause upon Employee s material breach of any covenant contained in this Agreement or failure to perform duties as outlined in Section 1.1. In the event of breach of any such covenant or failure to perform his duties, Employee shall be notified in writing by Company of such breach which notice shall state specifically the alleged breach or of such failure to perform which notice shall state specifically the alleged failure to perform. Employee shall have 30 days from delivery to Employee by Company of written notice of such to cure. If Company deems that Employee has not cured the breach or failure to perform within the 30 day cure period, Company shall give Employee a final written notice which shall contain specifically the alleged breach that has not been cured or the alleged failure to perform which has not been cured. Employee shall have 30 days to cure from delivery to Employee by Company of final written notice.

3.5 By Company Without Cause or Upon Change in Control . This Agreement and Employee s employment hereunder may be terminated by the Company, without cause (for any reason or no reason at all) or in the event of a Change of Control of Company at any time by giving Employee 14 days prior written notice of termination, which termination shall be effective on the 14th day following such notice. In the event Employee is terminated without cause during the Term or in the event of a Change in Control of Company, he shall be entitled to a severance payment in the amount of two years salary at his current base compensation plus full vestment of any warrants or options awarded under this agreement. For this Section, Change in Control shall be defined by the acquisition of greater than 40% of the common stock of Company after 12/31/02 or the sale of substantially all of the assets of the Company.

3.6 Return of Company s Property Upon Termination. In the event Employee s employment with Company terminates, Employee shall return to Company all property of Company or any affiliated company in Employee s possession or under Employee s direct or indirect control including, without limitation, all equipment, all Confidential Information (as defined in Section 5.1 of this Agreement), notebooks and other materials, documents, diaries, calendars and data of or relating to Company or any affiliated company, whether printed, typed, written or on any source of computer media; provided that Employee shall be entitled to retain his rolodex, personal files, diaries, calendars and other similar documents of a personal nature as long as they do not relate exclusively to the business of Company and as long as copies are made for Company to reflect or evidence corporate information.

4. Compensation.

4.1 Salary. As consideration for services that Employee must render, Company will pay Employee a salary of $198,000 per year during the first twelve months. After the initial twelve months, Company will pay Employee a salary of $298,000 for the remaining two years. Payments of salary shall be made in accordance with Company s regular payroll periods.

4.2 Incentive Bonus. So long as Employee s employment has not been terminated pursuant to Section 3, at the close of each 12 month period of this agreement, Employee shall receive an incentive bonus payment of up to 30% of Employee s base compensation. The criteria for earning this bonus will be established at the beginning of each 12 month period of this agreement. The first year bonus criteria are attached as Schedule A. Employee shall maintain the right to invest up to 50% of the Incentive Bonus by receipt of common stock in the Company at the average closing market price for the preceding calendar month prior to the bonus be awarded. In the event that Company terminates Employee s employment prior to the end of the scheduled term of this Agreement without cause, Employee shall be entitled to a prorated incentive bonus upon termination.

4.3 Other Benefits. Employee shall also be entitled to receive all benefits provided to other executives of Company, which shall include, at a minimum, comprehensive health and dental insurance, vacation/sick time of not less than four weeks per year, disability, cell phone, car allowance, payment of actual moving expenses incurred not to exceed $10,000, and payment of a corporate apartment for 6 months. Company shall provide D&O insurance to cover Employee. All such benefits shall be provided at no cost to Employee.

4.7 Expenses. Company will reimburse Employee for reasonable business expenses incurred in the course of his employment hereunder, provided that any request for such reimbursement is supported by adequate back-up documentation.

4.8 Stock Warrants. Company shall award Employee warrants at a strike price of $0.32 with a 10 year term that represent in the aggregate 10% of the fully diluted securities outstanding, including any private placements or preferred conversions agreements completed over the following two months after the effective date of this agreement. One-fourth of such warrants shall be earned upon execution of this agreement. The remaining warrants shall vest monthly over the 36 month term of this agreement, contain customary anti-dilution provisions (within the context of this Section), be exercisable in whole or part, and shall be subject to a customary piggy-back registration rights agreement.

4.9 Investment. Employee agrees to invest $35,000 through a private placement being conducted by Odyssey Capital (Brazos Raise). Such funding is to occur no later than 1/31/03. In the event that the Brazos Raise is not completed, Employee agrees to acquire 80,000 shares of stock at $0.45 per share directly from the Company which shall have attached 40,000 warrants at $0.45 with a five year term, exercisable in whole or in part, contain customary anti-dilution provisions, and shall be subject to a customary piggy-back registration rights agreement.

5. Confidentiality. The parties agree to the following:

5.1 Non-Disclosure. Employee agrees to maintain in confidence and refrain from disclosing to any other person the terms of this Agreement or any information delivered in connection with this Agreement (including without limitation, inventions, improvements, designs, systems, ideas, technical data trade secrets, pricing information, financial information, sales techniques, approaches and information, information pertaining to customers and suppliers, business plans and secrets relating to the conduct of operations, materials, processes, equipment and formulations used in Company and Company s operations, any commercial or technical information, improvements, working methods or things of which Employee may have gained knowledge or discovered, invented or perfected while in the employ of Company and any other information that Employee may have or know regarding Company, Company or any of Company s affiliates) (collectively the Confidential Information). Employee shall receive all Confidential Information in confidence, and shall not at any time (during or after employment with Company) except as required in the conduct of Company s business, publish, disclose, communicate, divulge, use or authorize any other firm, person, or corporation to publish, disclose, communicate, divulge or use any of the Confidential Information unless or until the Confidential Information shall have ceased to be secret or confidential as evidenced by general public knowledge or when demanded by a court of law.

5.2 Notice of Request of Disclosure. In the event that Employee is at any time requested or required in connection with a legal proceeding in or before a court of law (by oral questions, interrogatories, requests for information or documents, subpoena or similar process) to disclose any information supplied to him in connection with this Agreement, or Employee is requested by such means to disclose any information regarding Company or any information in connection therewith, Employee shall provide Company with prompt notice of such request so that Company may, in its discretion, seek an appropriate protective order to insure Employee s compliance with the terms of this Section.

6. Trademarks and Copyrights. At any time after his employment with Company or any of its affiliates, Employee shall not use or infringe upon the trademarks or trade name of Company or use or adopt any other trademark, trade name, product number, business slogan or identification of Company and Company s affiliates

7. Photographs. During the term of this Agreement, Employee consents to the use of the reproduction in whole or in part of his name and/or photograph or photographs containing any picture or pictures of his taken while in the employment of Company.

8. Captions and Headings. The captions and headings contained in this Agreement are for convenience only and shall not be referred to for the purpose of limiting or construing this Agreement in any way.

9. Notices. All notices and other communications provided for or permitted hereunder shall be made by hand delivery, first class mail, or facsimile, addressed as follows:

If to Company:	Chairman SurgiCare, Inc. 12727 Kimberley Lane, Suite 200 Houston, Texas 77024 Tel: 713-973-6675 Fax: 713-722-0921
If to Employee:	Mr. Phillip C. Scott 7920 Corte Penca Carlsbad, CA 92009 Tel: 760-822-1989 Fax: 775-254-7046

All such notices and communications shall be deemed to have been duly given (i) when delivered by hand, if personally delivered; (ii) five (5) business days after deposit in any United States Post Office, postage prepaid, if mailed; and (iii) when receipt is acknowledged or confirmed, if telecopied.

10. Waiver of Breach. The waiver by Employee of a breach of any provision of this Agreement by Company shall not operate or be construed as a waiver of any preceding or subsequent breach by Company.

11. Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the successors, heirs, executors and personal representatives of Employee. Notwithstanding the foregoing, this Agreement shall not be assignable without the prior written consent of the other party.

12. Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law. Employee s rights and remedies provided for in this Agreement or by law shall, to the extent permitted by law, be cumulative.

13. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Houston, Texas in accordance with the Rules of the American Arbitration Association (the Rules), and judgment upon any award rendered by the Arbitrators may be entered in any court having jurisdiction thereof. If the amount in controversy is less than $100,000, there shall be one arbitrator. Otherwise, there shall be three arbitrators, one to be chosen directly by each party, and the third to be selected by the two so chosen. To the extent permitted by the Rules, the selected arbitrators may grant equitable relief. The costs of the arbitration including the fees of all arbitrators, all other fees of all parties, expenses of witnesses, cost of the record or transcripts thereof, if any, administrative fees and all other fees and costs shall be borne by the losing party.

14. Governing Law. This Agreement shall be deemed to be entered into and performed in the State of Texas, and shall, in all respects, be construed in accordance with and governed by the laws of the State of Texas. The parties agree to submit to the jurisdiction of the Texas courts or federal courts located in Houston, Texas in matters relating to this Agreement for purposes of actions or proceedings ancillary to arbitration, or to enforce an arbitral award, or for equitable relief or other preliminary relief pending arbitration.

15. Costs and Attorneys Fees. Should any party to this Agreement institute legal proceedings against another party regarding this Agreement, the prevailing party to any such action shall be entitled to recover reasonable attorneys fees and costs to the extent awarded by the arbitrator or court.

16. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be modified except by a written instrument signed by Employee and an authorized officer of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, as of the day and year first above written.

COMPANY:

SurgiCare, Inc.

By: /s/ David Blumfield

EMPLOYEE:

/s/ Phillip C. Scott

Phillip C. Scott, an individual

Exhibit 21

SURGICARE, INC.
SUBSIDIARY LIST
AS OF MARCH 31, 2003

Name of Subsidiary	State of Org.	Owned By	Ownership %
Bellaire SurgiCare, Inc.	Texas	SurgiCare, Inc.	100%
Town & Country SurgiCare, Inc.	Texas	SurgiCare, Inc.	100%
SurgiCare Memorial Village, L.P.	Texas	Town & Country SurgiCare, Inc.	60%
Baytown SurgiCare, Inc.	Texas	SurgiCare, Inc.	100%
San Jacinto Surgery Center, L.P.	Texas	Baytown SurgiCare, Inc.	10%
Physicians Endoscopy Center, LLP	Texas	Town & Country SurgiCare, Inc.	10%
Tuscawaras Ambulatory Surgery Center, LLP	Ohio	SurgiCare, Inc.	51%

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of SurgiCare, Inc. (the Company) on Form 10-KSB for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Keith G. LeBlanc, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Keith G. LeBlanc, Chief Executive Officer[1]

April 14, 2003

[1] A signed original of this written statement required by Section 906 has been provided to SurgiCare, Inc. and will be retained by SurgiCare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of SurgiCare, Inc. (the Company) on Form 10-KSB for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Phillip C. Scott, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Phillip C. Scott, Chief Financial Officer[1]

April 14, 2003

[1] A signed original of this written statement required by Section 906 has been provided to SurgiCare, Inc. and will be retained by SurgiCare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

ANNEX ___

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

[X] Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended **September 30, 2003**

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

SURGICARE, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE	**58-1597246**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
12727 KIMBERLEY LANE, SUITE 200, HOUSTON, TEXAS	**77024**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES	(ZIP CODE)

ISSUER S TELEPHONE NUMBER: **(713) 973-6675**

Check whether the Registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of November 11, 2003, 25,793,520 shares of Common Stock, $0.005 par value per share, were outstanding.

PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements.

The information required hereunder is included in this report as set forth in the Index to Financial Statements

INDEX TO FINANCIAL STATEMENTS

Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002
Consolidated Statements of Operations for the three months ending September 30, 2003 and 2002
Consolidated Statements of Operations for the nine months ending September 30, 2003 and 2002
Consolidated Statements of Cash Flows for the nine months ending September 30, 2003 and 2002
Notes to Consolidated Financial Statements

SURGICARE, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2003	December 31, 2002
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 113,027	$ 262,327
Accounts Receivable:		
Trade (less allowance for contractual adjustments and doubtful accounts of $3,712,295 and $6,496,000 at September 30, 2003 and December 31, 2002, respectively)	806,047	1,324,944
Other receivables	6,200	398,834
Note receivable		223,178
Inventory	361,483	397,772
Prepaid expenses	140,363	69,380
Other current assets	113,945	76,313
Total Current Assets	1,541,065	2,752,748
Property and Equipment		
Office furniture and equipment	398,278	378,901
Medical and surgical equipment	3,748,559	3,576,721
Leasehold improvements	946,890	941,440
Computer equipment	382,263	377,495
Transportation equipment	19,015	19,015
	5,495,005	5,293,572
Less: Accumulated depreciation and amortization	3,041,718	2,468,662
Total Property and Equipment	2,453,287	2,824,910
Goodwill	8,045,735	8,045,735
Real Estate	4,000,000	4,579,385
Investment in Limited Partnerships	378,334	306,654
Prepaid Limited Partner Distributions	403,748	403,748
Loan fees (net of amortization of $188,639 at September 30, 2003 and $108,321 at December 31, 2002)	113,398	193,716
TOTAL ASSETS	$16,935,567	$19,106,896

SURGICARE, INC.
CONSOLIDATED BALANCE SHEETS (continued)

	September 30, 2003	December 31, 2002
	(unaudited)	
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	$ 6,360,299	$ 6,295,389
Revolving lines of credit	1,453,747	1,665,657
Current portion of capital leases	279,872	313,725
Accounts payable	3,015,803	2,362,378
Accrued expenses	1,017,159	472,645
Payable to a related party		116,909
Total Current Liabilities	12,126,880	11,226,703
Long-Term Debt	116,693	454,328
Total Liabilities	12,243,573	11,681,031
SHAREHOLDERS EQUITY		
Preferred Stock, Series A, par value $.001, 1,650,000 authorized, 1,225,100 issued and outstanding (Redemption and liquidation value $6,125,500).	1,225	1,225
Preferred Stock, Series AA, par value $.001, 1,200,000 authorized, 900,000 issued and outstanding	900	900
Common Stock, par value $.005, 50,000,000 shares authorized; 24,883,175 and 21,327,131 issued September 30, 2003 and December 31, 2002, respectively.	124,416	106,635
Additional Paid-In Capital	16,189,292	15,065,801
Accumulated Deficit	(11,577,271)	(7,708,196)
Less: Treasury Stock at cost, 91,400 and 75,000 shares at September 30, 2003 and December 31, 2002, respectively	(38,318)	(32,250)
Shareholders receivable	(8,250)	(8,250)
Total Shareholders Equity	4,691,994	7,425,865
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 16,935,567	$ 19,106,896

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ending September 30,	
	2003	**2002**
Revenues, net	$ 1,671,299	$ 1,450,194
Direct Surgical expenses:		
Surgical costs	359,283	1,015,829
Clinical salaries & benefits	497,354	472,042
Other	215,541	364,908
Total Direct Surgical Expenses	1,072,178	1,852,779
General and Administrative Expenses:		
Salaries and benefits	420,189	456,241
Management and affiliation fees	25,824	36,937
Rent	233,246	225,647
Depreciation and amortization	209,271	222,992
Professional fees	167,534	1,177,536
Taxes	33,556	129,742
Provision for doubtful accounts	10,956	1,634,499
Other	244,933	403,227
Total General & Administrative Expenses	1,345,509	4,286,821
Total Expenses	2,417,687	6,139,600
Operating Loss	(746,388)	(4,689,406)
Other Income (Expense):		
Miscellaneous income	6,959	
Loss on sale of partnership interest		(169,934)
Loss on terminated acquisition		(1,981,132)
Loss on sale of assets	(463,177)	
Impairment on investment in land	(579,386)	(1,500,000)
Equity in earnings of limited partnerships	18,822	(158,260)
Interest expense	(466,247)	(424,292)
Total Other Income (Expense)	(1,483,029)	(4,233,618)
Minority Interest in Losses of Partnerships	(52,018)	687,679
Loss Before Income Tax Expenses	(2,281,435)	(8,235,345)
Federal Income Tax Benefit		(907,058)
Net Loss	$ (2,281,435)	$ (7,328,287)
Loss per share Basic	$ (.09)	$ (.49)
Loss per share Diluted	$ (.09)	$ (.49)
Weighted Average Shares Outstanding:		

Basic	24,883,175	14,897,483
Diluted	24,883,175	14,897,483

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Nine Months Ending September 30,	
	2003	**2002**
Revenues, net	$ 5,890,428	$ 8,490,730
Direct Surgical expenses:		
Surgical costs	1,230,969	2,068,768
Clinical salaries & benefits	1,424,521	1,121,479
Other	721,649	701,239
Total Direct Surgical Expenses	3,377,139	3,891,486
General and Administrative Expenses:		
Salaries and benefits	1,190,560	1,187,029
Management and affiliation fees	84,361	92,077
Rent	701,351	508,482
Depreciation and amortization	653,374	540,726
Professional fees	682,118	2,061,874
Taxes	92,796	160,281
Provision for doubtful accounts	311,648	5,392,133
Other	794,746	843,630
Total General & Administrative Expenses	4,510,954	10,786,232
Total Expenses	7,888,093	14,677,718
Operating Loss	(1,997,665)	(6,186,988)
Other Income (Expense):		
Miscellaneous income	27,010	48
Gain (loss) on sale of partnership interests	319,086	(169,934)
Loss on terminated acquisition		(1,981,132)
Loss on sale of assets	(463,177)	(2,118)
Impairment on investment in land	(579,386)	(1,500,000)
Equity in (earnings) losses of limited partnerships	186,761	(50,791)
Interest expense	(1,375,265)	(879,457)
Total Other Income (Expense)	(1,884,971)	(4,583,384)
Minority Interest in losses of Partnerships		686,298
Loss Before Income Tax Expenses	(3882,636)	(10,084,074)
Federal Income Tax Benefit	(13,561)	(1,626,633)
Net Loss	$ (3,869,075)	$ (8,457,441)
Loss per share Basic	$ (.16)	$ (.58)
Loss per share Diluted	$ (.16)	$ (.58)
Weighted Average Shares Outstanding:		
Basic	24,451,747	14,581,341

Diluted	24,451,747	14,581,341

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ending September 30,	
	2003	**2002**
Cash Flows From Operating Activities:		
Net loss	$(3,869,075)	$(8,457,441)
Adjustments to reconcile net earnings to net cash provided by operations:		
Equity in (earnings) losses of limited partnerships	(186,761)	50,791
Minority interest in losses of partnerships		(686,298)
Depreciation and amortization	653,374	540,726
Amortization of debt discount	81,163	
Provision for doubtful accounts	311,648	5,392,133
Loss (gain) on sale of interest in limited partnerships	(319,086)	169,934
Loss on sale of assets	463,177	2,118
Loss on terminated acquisition		1,981,132
Impairment of investment in land	579,386	1,500,000
Non-cash consulting expense		508,812
Deferred federal income tax		(1,385,000)
(Increase) Decrease in:		
Accounts receivable	199,883	(645,283)
Inventory	36,289	236,506
Prepaid expenses	(70,983)	70,495
Other current assets	13,619	133,715
Federal income tax		(224,576)
Increase (Decrease) in:		
Accounts payable	571,516	1,263,480
Accrued expenses	544,514	31,572
Net Cash Provided by (Used in) Operating Activities	(991,336)	482,816
Cash Flows From Investing Activities:		
Capital expenditures	(46,613)	(204,622)
Proceeds from sale of interest in limited partnership	425,000	
Sale of note receivable	160,000	
Investment in limited partnership		(1,667,198)
Distributions from partnerships	9,167	81,000
Buyout of limited partners	(51,250)	
Net Cash Provided by (Used in) Investing Activities	496,304	(1,790,820)
Cash Flows From Financing Activities:		
Borrowings on lines of credit	3,710,486	6,335,267
Payments on lines of credit	(3,922,396)	(6,271,305)
Borrowings on debt	210,000	1,837,569
Payments on debt	(645,581)	(1,275,170)
Principal payments on capital lease	(71,981)	(101,982)
Proceeds from issuance of common stock	1,069,897	971,000
Issuance of warrants with debt		362,431
Proceeds from exercise of warrants	1,375	
Distributions to limited partners		(527,945)
Purchase of treasury stock	(6,068)	

Net Cash Provided by Financing Activities	345,732	1,329,865
Net Increase (Decrease) in Cash and Cash Equivalents	(149,300)	21,861
Cash and Cash Equivalents Beginning of Period	262,327	76,274
Cash and Cash Equivalents End of Period	$ 113,027	$ 98,135

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(unaudited)

	For the Nine Months Ending September 30,	
	2003	**2002**
Supplemental Cash Flow Information:		
Cash paid during the year for:		
Interest	$996,355	$920,816
Non-cash investing and financing activities:		
Issuance of common shares for:		
Investment		74,750
Accounts payable	70,000	41,000
Equipment acquired under capital lease Obligations	154,821	67,032

See notes to consolidated financial statements.

SURGICARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - General

SurgiCare, Inc. (SurgiCare , the Company , we , us , or our), through its wholly owned subsidiaries, owns a majority interest in limited partnerships or corporations that operate three surgery centers. The Company also owns a minority interest as general partner in a limited partnership that operates a surgery center. The consolidated statements include the accounts of the Company and its subsidiaries and its majority owned limited partnerships. Consolidation of the majority owned partnerships is necessary as the Company owns 51% or more of the financial interest and, as general partner, is responsible for the day-to-day management of the partnerships.

These financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial reporting and in accordance with Securities and Exchange Commission (SEC) Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited condensed, consolidated financial statements include all adjustments consisting of only normal recurring adjustments necessary for a fair presentation of the Company s financial position and the results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

The accompanying consolidated financial statements should be read in conjunction with the financial statements and related notes included in SurgiCare s 2002 Annual Report on Form 10-KSB.

Note 2- Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

The determination of contractual allowances constitutes a significant estimate. In determining the amount of contractual allowances, management considers such factors as historical trends of billing and cash collections, established fee schedules, accounts receivable agings and contractual relationships with third-party payors. Contractual adjustments and accounts deemed uncollectible are applied against the allowance account.

Note 3 Revenue Recognition

Revenues at the Company s surgery centers consist of billing for the use of the centers facilities (facility fee) directly to the patient or third-party payor. The facility fee excludes any amounts billed for physicians services, which are billed separately by the physician to the patient or third-party payor.

Revenue is recognized on the date the procedures are performed, and accounts receivable are recorded at that time. Revenues are reported at the estimated realizable amounts from patients and third-party payors (net of contractual allowances). If such third-party payors were to change their reimbursement policies, the effect on revenue could be significant. Earnings are charged with a provision for contractual adjustments and doubtful accounts.

Note 4 - Goodwill

Goodwill represents the excess of cost over the fair value of net assets of companies acquired in business combinations accounted for using the purchase method. Goodwill acquired in business combinations prior to June 30, 2001 had been amortized using the straight-line method over an estimated useful life of 20 years. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill no longer be amortized but instead be reviewed periodically for possible impairment. The Company has adopted SFAS No. 142 effective January 1, 2002 and is no longer amortizing goodwill.

Under SFAS 142, the Company must have completed its initial assessment of goodwill for possible impairment no later than December 31, 2002. The Company completed the first phase of this impairment test and, based on an independent valuation performed by a third party, believes that there was no impairment of goodwill as of January 1, 2002.

Due to the significant losses incurred during 2002, and the decline in the quoted market price of the common shares, the Company believed that a second impairment test as of December 31, 2002 was necessary. Using the same methodology as employed in the transitional valuation, the Company concluded that no impairment had occurred as of December 31, 2002.

Note 5 Recent Accounting Pronouncements

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* issued in August 2001, supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* This statement retains certain requirements of SFAS No. 121 relating to the recognition and measurement of impairment of long-lived assets to be held and used. Additionally, this statement results in one accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale and also addresses certain implementation issues related to SFAS No. 121, including the removal of goodwill from its scope due to the issuance of SFAS No. 142. The Company adopted this pronouncement on January 1, 2002, which had no impact on its consolidated financial statements.

SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* issued in June 2002, rescinds Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* This statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at its fair value in the period that the liability is incurred. The provisions of this Statement shall be effective for exit or disposal activities initiated after December 31, 2002, with early application encouraged. Management has determined that the adoption of SFAS No. 146 will not have a material impact on the Company s financial position and results of operations.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.* This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are

applicable to guarantees issued or modified after December 31, 2002. The Company has entered into certain guarantees as described in Note 12.

In January 2003, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosures*. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement also amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in the financials statements about the effects of stock-based compensation. The transitional guidance and annual disclosure provisions of this Statement were effective for the December 31, 2002 financial statements. The interim reporting disclosure requirements became effective January 1, 2003. Because the Company continues to account for employee stock-based compensation under APB opinion No. 25, the transitional guidance of SFAS No. 148 has no effect on the financial statements at this time. However, the accompanying financial statements presented have incorporated the enhanced disclosure requirements of SFAS No. 148.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity,* which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The Company believes that the adoption of SFAS 150 has not had a significant impact on its financial statements.

Note 6 Acquisitions / Dispositions

On May 31, 2002, the Company acquired a 51% interest in the Tuscarawas Ambulatory Surgery Center (Tuscarawas Center) located in Dover, Ohio for an aggregate of $725,000 cash and warrants to purchase 200,000 shares of the Company common stock at an exercise price of $.01 per share expiring May 31, 2007. The warrants were valued at $590,000. The Company has also entered into a Management Agreement with the Tuscarawas Center to act as exclusive manager of the Tuscarawas Center in exchange for 5% of the Tuscarawas Center s net monthly collected revenue.

In June 2003, the Company sold its 10% interest in Physician s Endoscopy Center, Ltd for $425,000 and recognized a gain on the sale of $319,086. As part of the sale agreement, the Company was released of any liability of the center and removed as a guarantor on the center s bank note payable.

Note 7 Certain Transactions

In August 2003, the Company sold a promissory note with a face amount of $223,177 to International Diversified Corporation (IDC) for $160,000, incurring a loss of $63,177. The Company also agreed to release IDC from its $400,000 obligation to the Company, which had been included in other receivables. In addition to the cash consideration, SurgiCare was released from any and all obligations regarding the raising of additional funds for working capital and was released of all liabilities regarding the lawsuit filed by IDC claiming breach of contract requesting the return of $1 million or 2,439,024 shares under a previous agreement with IDC and American International Industries, Inc. A total loss of $463,177 was recorded as a loss on sale of assets.

In September 2003, the Company recorded additional impairment on its investment in land amounting to $579,386. The Company is continuing to market the tracts of land for sale and is protected by a guarantee by American International Industries, Inc. of a $4 million resale price and does not believe it will generate sale prices greater than the guarantee in the next year or two.

Note 8 Debt

Loan agreements relating to the majority of the Company s credit lines, notes payable and capital leases contain requirements for maintenance of defined minimum financial ratios. The Company is not in compliance with all such provisions as of September 30, 2003. Further, the Company is delinquent in payments on the majority of its outstanding debt. All notes and capital leases in default have been shown as current in these financial statements. On August 25, 2003 the Company s senior lender, DVI Business Credit Corp. (DVI) announced that it is seeking protection under Chapter 11 of the United States Bankruptcy laws. The Company is currently negotiating a buyout of its debt with DVI through the bankruptcy trustee and certain other debt holders.

The Company has financed its growth primarily though the issuance of equity, secured and/or convertible debt. As of September 30, 2003, the Company does not have any credit facilities available with financial institutions or other third parties to provide for working capital shortages. Although the Company believes it will generate cash flow from operations in future quarters, due to its debt load, it is not able to fund its current operations solely from its cash flow.

In November 2003, SurgiCare completed a $470,000 financing for working capital through the issuance of one-year convertible unsecured promissory notes bearing interest at 10% per annum. The notes are convertible into shares of Company common, at any time, at the option of the note holder. The conversion price for the notes will be equal to (a) $.35 per share, if the note is converted on or prior to January 31, 2004, or (b) if the note is converted after January 31, 2004, the lower of (i) $0.25 or (ii) seventy-five percent (75%) of the average closing price for the 20 trading days immediately prior to the conversion date. The note holders shall also receive a five-year warrant to purchase shares of Company common stock. The number of shares of common stock that may be purchased upon the exercise of the warrant will be equal to 25% of the number of shares of common stock into which the note is convertible. The warrant may be exercised at an exercise price of $0.35 per share, and may be exercised on a cashless basis at the option of the holder. The promissory notes will mature upon the earlier of the closing of the re-capitalization as detailed below, or October 31, 2004.

The Company believes that additional sales of debt and/or equity securities will be required to continue operations. See Note 13 Subsequent Events for a description of a series of transactions recently announced by the Company that, if consummated, will involve an equity investment and recapitalization of the Company. Prior to the closing of such contemplated transactions, any additional sales of debt and/or equity by the Company will be subject to the prior approval of the counterparties to the applicable transaction documents. The Company can provide no assurance that it will be successful in any future financing effort to obtain the necessary working capital to support its operations, or fund acquisitions for its anticipated growth. In the event that any future financing efforts are not successful, the Company will be forced to liquidate assets and/or curtail operations.

Note 9 Earnings Per Share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding. Diluted earnings per share, in addition to the weighted average determined for basic loss per share, include common stock equivalents, which would arise from the exercise of stock options and warrants using the treasury stock method, and assumes the conversion of the Company s preferred stock for the period outstanding, since their issuance.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Basic Loss Per Share:				
Net Loss	$ (2,281,435)	$ (7,328,287)	$ (3,869,075)	$ (8,457,441)
Weighted average shares Outstanding	24,883,175	14,897,483	24,451,747	14,581,341
Dilutive stock options and warrants	(a)	(a)	(a)	(a)
Conversion of preferred shares	(b)	(b)	(b)	(b)
Conversion of debt	(c)	(c)	(c)	(c)
Weighted average common shares outstanding for diluted net loss per share	24,883,175	14,897,483	24,451,747	14,581,341
Net loss per share Basic	$ (.09)	$ (.49)	$ (.16)	$ (.58)
Net loss per share Diluted	$ (.09)	$ (.49)	$ (.16)	$ (.58)

The following potentially dilutive shares are not included because their effect would be anti-dilutive due to the net loss for the period:

a. 10,923,558 and 2,028,741 options and warrants outstanding at September 30, 2003 and September 30, 2002, respectively.

b. 900,000 and 1,200,000 shares of Series AA Preferred Stock convertible into $4,500,000 and $6,000,000 of common shares at September 30 2003 and September 30, 2002, respectively. 1,225,100 and 1,316,100 shares of Series A Preferred stock convertible into 1,225,100 and 1,316,100 common shares at September 30, 2003 and September 30, 2002, respectively.

c. $1,000,000 of debentures convertible into common stock at a price equal to $1.50 per share at September 30, 2003.

Note 10 Litigation

In September 2002, SurgiCare was named as a defendant in a suit entitled Charles Cohen vs. SurgiCare, Inc. and David Blumfield, in the 234th Judicial District Court of Harris County, Texas. Mr. Cohen sued SurgiCare for breach of contract and both defendants for defamation. Mr. Cohen claimed that SurgiCare breached his employment agreement when it terminated his employment and that Mr. Blumfield and SurgiCare made defamatory statements about him. Mr. Cohen made claims for $562,000 for breach of the employment agreement plus additional damages for the defamation claim. David Blumfield was later dropped as a defendant in this suit. In October 2003, the Company settled this dispute by issuing 228,310 shares of common stock, valued at $100,000, to compensate Mr. Cohen for past services. Mr. Cohen has since resigned, effective as of October 29, as a Director of SurgiCare. In resigning, Mr. Cohen expressed no disagreement with SurgiCare on any matter relating to our operations, policies or practices.

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.

In April 2003, SurgiCare was named as a defendant in a suit entitled International Diversified Corporation, Limited vs. SurgiCare, Inc. International Diversified Corporation (IDC) has sued for breach of contract in which IDC invested $1,000,000 into SurgiCare. IDC has sued for the rescission of the contract and the return of $1,000,000 or the deliverance of 2,439,024 shares. Settlement has been reached whereby SurgiCare returned 1,709,024 shares and released IDC of their obligation to pay SurgiCare $400,000 as well as a release by IDC and American International Industries, Inc. (AII) regarding all obligations by SurgiCare to raise additional funds for working capital under the agreement with IDC and AII.

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 its common stock valued at $117,500 as compensation for past legal fees.

Note 11 Employee Stock-Based Compensation

The Company accounts for its employee stock options and warrants under the Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. No stock-based employee compensation cost is reflected in net loss, as all employee options and warrants granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company also grants options and warrants to non-employees for goods and services and in conjunction with certain agreements. These grants are accounted for under FASB Statement No. 123, *Accounting for Stock-Based Compensation* based on the grant date fair values.

The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123 to stock-based employee compensation.

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002
Net loss as reported	$(2,281,435)	$(7,328,287)	$(3,869,075)	$(8,457,441)
Deduct: Total stock-based employee compensation (expense determined under the fair value based method for all awards), net of tax effect	(52,725)	(119,064)	(158,175)	(242,613)
Pro forma net loss	$(2,154,466)	$(7,447,351)	(3,847,566)	(8,700,054)
Loss per share:				
Basic net loss per share as reported	$ (.09)	$ (.49)	$ (.16)	$ (.58)
Basic net loss per share pro forma	$ (.10)	$ (.50)	$ (.17)	$ (.60)
Diluted net loss per share as reported	$ (.09)	$ (.49)	$ (.16)	$ (.58)
Diluted net loss per share pro forma	$ (.10)	$ (.50)	$ (.17)	$ (.60)

The above pro forma effects on net loss and net loss per share are not likely to be representative of the effects on reported net earnings (loss) for future years because options vest over several years and additional awards could be made each year.

Note 12 Guarantee

The Company is guarantor on a working capital line of credit for San Jacinto Surgery Center, L.P. (San Jacinto), in which the Company owns a 10% general partnership interest through a wholly-owned subsidiary. As of date of this filing, the line of credit facility, which expires December 31, 2003, had a balance of $496,600 and is recorded on San Jacinto s balance sheet, which is not consolidated with the Company s financial statements.

Note 13 Subsequent Events.

The Company announced on November 18, 2003 that it had entered into agreements relating to business combinations with three other companies, an equity investment and a recapitalization that would result in a significantly expanded healthcare services company with a new capital structure. As part of these transactions, the resulting company will be renamed Orion HealthCorp, Inc. (Orion) under a new trading symbol yet to be determined.

Closing of the transactions is conditioned upon several factors, including: approval of the Company s stockholders; approval of continued listing of Orion s stock on the American Stock Exchange; satisfactory completion of due diligence by certain of the parties; satisfactory resolution of outstanding issues with creditors; simultaneous closing of all transactions; and other conditions commonly found in similar transactions.

The proposed transactions may be summarized as follows. All of the following figures are subject to adjustment based, upon other things, on terms of any additional indebtedness incurred by certain of the parties prior to closing, the outcome of negotiations with creditors and certain other persons and the price at which the Company s Common Stock trades immediately prior to the consummation of the transactions. The following transactions will occur substantially simultaneously as soon as practicable after the satisfaction or waiver of the conditions to closing the transactions.

The initial step will be a recapitalization of the Company pursuant to which: (a) the Company will amend and restate its certificate of incorporation to reflect a reverse-split of its Common Stock on a one-for-ten basis, a reclassification of its current Common Stock into Class A Common Stock (Orion Class A Common) and the authorization of a new Class B Common Stock (Orion Class B Common); (b) existing shares of the Company s Series A Preferred Stock will be converted into Orion Class A Common; and (c) the Company s Series AA Preferred Stock will either remain outstanding or may be redeemed or converted into shares of Orion Class A Common.

Orion will acquire Integrated Physician Solutions, Inc. (IPS) for shares of Orion Class A Common. Some of this stock will be issued to certain debtholders of IPS in satisfaction of their claims. The aggregate number of shares of Orion Class A Common that will be issued in this acquisition will equal the number of such shares held by the Company s equityholders immediately prior to this acquisition.

Brantley Partners IV, L.P. (Brantley IV) will contribute to Orion $6 million of cash and approximately $1.3 million of loans in exchange for shares of Orion Class B Common representing 51% of the aggregate number of shares of Orion Class A Common and Orion Class B Common outstanding prior to the DCPS/MBS acquisition described below. The terms of the Class B Common will be as follows: (a) Brantley IV may, at any time, convert shares of Orion Class B Common into shares of Orion Class A Common. Upon such conversion, for each share of Orion Class B Common so converted, Brantley IV will receive one (1) share of Orion Class A Common plus a number of shares of Orion Class A Common having a market value (at the time of conversion) equal to its initial investment plus an

amount that is economically equivalent to a simple return of 9% per annum from the date of investment to the date of conversion (the Orion Class B Preference); and (b) Orion Class B Common will vote as a single class with the Orion Class A Common on an as converted basis, so that each share of Class B may have more than one vote per share based on the Class B Preference and the current market value of Orion Class A Common.

Orion will acquire both Dennis Cain Physician Solutions, Ltd. (DCPS) and Medical Billing Services, Inc. (MBS) for a combination of $3 million in cash, a $1 million promissory note and shares of Orion Class A Common representing up to approximately 9.5% of the Orion Common outstanding after these acquisitions. This purchase price is subject to retroactive adjustment based on the financial results of these two companies in the two years following their acquisition. The Company, DCPS and MBS have entered into a letter of intent with respect to the proposed transaction and are negotiating the terms of the definitive acquisition agreements.

It is anticipated that Orion will implement an $8-$10 million debt restructuring that will provide it with a long-term source of working capital. SurgiCare has not yet entered into an agreement with respect to this restructuring.

Following all of the above transactions, it is anticipated that Brantley IV and its affiliated funds (which are currently debtholders and equityholders of IPS) will hold approximately 67% of the total voting power of the Orion Common and that the equityholders of SurgiCare immediately prior to the consummation of the transactions will control approximately 20% of the total voting power of the Orion Common.

Keith LeBlanc, the current CEO of the Company, will continue to run the operations of SurgiCare, will be President of Orion and will report to the Board of Directors. Terry Bauer, the current CEO of IPS, will continue to run IPS, will be the CEO of Orion and will report to the Board of Directors. Steve Murdock, the current Chief Financial Officer of IPS, will be the CFO of Orion.

The Board of Directors of Orion is expected to consist of Messrs. Bauer and LeBlanc, two nominees of Brantley IV (who are expected to be affiliated with Brantley IV) and three other persons who will meet the requisite standards of independence. Paul Cascio, a general partner of Brantley IV, will be one of Brantley IV s nominees and will serve as nonexecutive Chairman.

In November 2003, SurgiCare completed a $470,000 financing for working capital through the issuance of one-year convertible unsecured promissory notes bearing interest at 10% per annum. The notes are convertible into shares of Company common, at any time, at the option of the note holder. The conversion price for the notes will be equal to (a) $.35 per share, if the note is converted on or prior to January 31, 2004, or (b) if the note is converted after January 31, 2004, the lower of (i) $0.25 or (ii) seventy-five percent (75%) of the average closing price for the 20 trading days immediately prior to the conversion date. The note holders shall also receive a five-year warrant to purchase shares of Company common stock. The number of shares of common stock that may be purchased upon the exercise of the warrant will be equal to 25% of the number of shares of common stock into which the note is convertible. The warrant may be exercised at an exercise price of $0.35 per share, and may be exercised on a cashless basis at the option of the holder. The promissory notes will mature upon the earlier of the closing of the re-capitalization as detailed above, or October 31, 2004.

Mr. Charles Cohen has resigned, effective as of October 29, as a Director of SurgiCare. In resigning, Mr. Cohen expressed no disagreement with SurgiCare on any matter relating to our operations, policies or practices.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The information contained herein contains certain 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, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward looking statements involve risks and uncertainty, including, without limitation, our ability to continue our expansion strategy, changes in federal or state healthcare laws and regulations or third party payor practices, our historical and current compliance with existing or future healthcare laws and regulations and third party payor requirements, changes in costs of supplies, labor and employee benefits, as well as general market conditions, competition and pricing. Although we believe that the assumptions underlying the forward looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward looking statements included in this Form 10-QSB will prove to be accurate. In view of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by management or any other person that our objectives and plans will be achieved. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

Critical Accounting Policies

In December 2001, the SEC requested that reporting companies discuss their most critical accounting policies in management s discussion and analysis of financial condition and results of operations. The SEC indicated that a critical accounting policy is one that is important to the portrayal of a company s financial condition and operating results and requires management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of this and other accounting policies, see Notes 1 and 2 in the Notes to the Consolidated Financial Statements of our Annual Report on Form 10-KSB. Our preparation of this Form 10-QSB and our Annual Report on Form 10-KSB requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of our financial statements. Therefore, actual results may differ from those estimates.

Revenue Recognition - Revenue is recognized on the date the procedures are performed, and accounts receivable are recorded at that time. Revenues are reported at the estimated realizable amounts from patients and third-party payers. If such third-party payers were to change their reimbursement policies, the effect on revenue could be significant. Earnings are charged with a provision for contractual adjustments and doubtful accounts based on such factors as historical trends of billing and cash collections, established fee schedules, accounts receivable agings and contractual relationships with third-party payors. Contractual adjustments and accounts deemed uncollectible are applied against the allowance account.

Investment in Limited Partnerships - The investments in limited partnerships are accounted for by the equity method. Under the equity method, the investment is initially recorded at cost and is

subsequently increased to reflect the Company s share of the income of the investee and reduced to reflect the share of the losses of the investee or distributions from the investee.

Goodwill - Goodwill arises from the acquisition of assets at an amount in excess of their fair market value. In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separately from goodwill. Recorded goodwill and intangibles are evaluated against these criteria and may result in certain intangibles being transferred to goodwill or, alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. Under SFAS No. 142, a non-amortization approach, goodwill and certain intangibles with indefinite lives are not amortized into results of operations, but instead reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001, was adopted by the Company on January 1, 2002. At the review dates of January 1, 2002 and December 31, 2002, the Company concluded that no impairment had occurred.

Overview

SurgiCare s principal business strategies are to (a) increase physician utilization of existing facilities, (b) increase both the revenue and profits from current cases and procedures being performed in existing facilities (c) achieve growth and expand revenues by pursuing strategic acquisitions of existing, and the development of new, physician owned ambulatory surgical centers, and (d) expand into related healthcare facilities, including imaging, surgical hospitals and practice management.

Surgical supply costs are the single largest cost component of any ambulatory surgical center. Therefore, SurgiCare s goal is to minimize the cost of surgical supplies. Through participation in national buying groups, SurgiCare has been able to negotiate discounts on most of the commonly used surgical supplies. SurgiCare has also implemented a Just in Time approach to inventory. This allows the center to minimize the amount of supplies that it is required to keep in inventory.

SurgiCare is in the process of identifying ambulatory surgical centers, imaging centers, surgical hospitals and practice management companies as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of these organizations. Although there are no commitments, understandings, or agreements with any other potential acquisition targets, talks are ongoing for the acquisition of additional entities. All of such discussions have been tentative in nature and there can be no assurance that we will acquire any center with whom discussions have been conducted.

Financial Condition and Results of Operations

The following table sets forth for the periods indicated the percentages of revenues represented by income statement items.

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2003	2002	2003	2002
Revenues, net	100.0%	100.0%	100.0%	100.00%
Expenses:				
Direct Cost of Services	64.2%	127.8%	57.3%	45.8%
General & Administrative Expenses	80.5%	295.6%	76.6%	127.1%
Total Operating Expenses	144.7%	423.4%	133.9%	172.9%
Operating Income (Loss)	-44.7%	-323.4%	-33.9%	-72.9%
Other Income (Loss)	-88.7%	-291.9%	-32.0%	-54.0%
Minority Interest in Earnings (losses) of Partnerships	-3.1%	47.4%		8.1%
Earnings (Loss) Before Federal Income Tax Expense	-136.5%	-567.9%	-65.9%	-118.8%
Federal Income Tax Expense (Benefit)		-62.6%	.2%	-19.2%
Net Earnings (Loss)	-136.5%	-505.3%	-65.7%	-99.6%

Results of Operations

THREE MONTHS ENDED SEPTEMBER 30, 2003 vs. THREE MONTHS ENDED SEPTEMBER 30, 2002

Net Revenue. On a consolidated basis, case volume decreased 26.9% to 1,531 in the three months ended September 30, 2003 from 2,095 in the 2002 comparable period. On a same-center basis (which includes unconsolidated centers and pre-acquisition cases), total utilization decreased 19.2% to 2,549 cases in the three months ended September 30, 2003 from 3,153 in the 2002 comparable period. Due to the uncertainty surrounding the Company s financial condition, some physicians are splitting their caseload with other competing surgery centers, which has resulted in the decrease in cases. However, revenue increased 15.3% to $1,671,299 in the three months ended September 30, 2003, from $1,450,194 in the comparable 2002 period. On a per-case basis, revenue increased to $1,092 in the three months ended September 30, 2003 from $692 in the 2002 comparable period. The increase was due primarily to improved reimbursement rates from third-party payors. The average contractual allowance in the third quarter of 2003 was 67% of gross revenue compared to 85% in the comparable prior year period.

Direct Surgical Expenses. Total direct surgical costs decreased to 64.2% of revenue in the three months ended September 30, 2003 from 127.8% in the 2002 comparable period. Direct surgical costs per case decreased 20.8% to $700 in the three months ended September 30, 2003 compared to $884 in the same period in 2002. The decrease in percentage of revenue is primarily due to higher contractual allowances taken against revenue in the 2002 quarter. The decreased cost per case is due to the acquisition of the Tuscarawas Ambulatory Surgery Center (TASC), which performs lower cost procedures, such as ophthalmology and gastroenterology.

General and Administrative Expenses. General and administrative costs decreased $2,941,312, or 68.6% to $1,345,509 in the three months ended September 30, 2003 from $4,286,821 in the 2002 comparable period. The decrease is primarily due to charge of $1.6 million to bad debt expense taken in the 2002 period related to a change in the Company s policies regarding doubtful accounts and a decrease in professional fees of $1,010,002. In 2002, the Company incurred substantial professional fees related to raising equity, medical oversight and legal issues.

Total Operating Expenses. Total operating expenses decreased $3,721,913, or 60.6% to $2,417,687 in the three months ended September 30, 2003 from $6,139,600 in the 2002 comparable period. As a percent of revenue, total expenses decreased to 144.7% of revenue in the three months ended September 30, 2003 from 423.4% in the 2002 comparable period. The decreased costs, expressed both in dollars and as a percentage of revenue, are related to the factors discussed above.

Other Income (Expense). Total other expense decreased $2,750,589, or 65.0% to $1,483,029 in the three months ended September 30, 2003 from $4,233,618 in the 2002 comparable period.

In the 2002 quarter, the Company recorded a loss of $169,934 on the sale of its 20% interest in Bayside Surgical Partners, L.P. and a loss of $1,981,132 associated with its termination of the Aspen Healthcare acquisition.

The Company incurred an impairment of its investment in land of $1,500,000 during the third quarter of 2002 to reflect the investment s estimated valuation at that time. In the third quarter of 2003, the company recorded additional impairment on the land amounting to $579,386. The land is now carried at a value of $4,000,000.

Minority Interest in Losses of Partnerships. In the three months ended September 30, 2003, the minority interest in losses of partnerships was $(52,018) compared to $687,679 in the 2002 comparable period due to significant charges to bad debt expense in the 2002 period, which created the losses.

Federal Income Tax. For the three months ended September 30, 2003, the Company did not record a tax benefit on its pre-tax loss of $2,101,741 due to a valuation allowance recorded against the Company s deferred tax assets. In the three months ended September 30, 2002, the Company recorded income tax benefit of $907,058, or 11.0% of its pre-tax loss.

Net Loss. Due to the factors discussed above, the net loss in the three months ended September 30, 2003 improved to a loss of $2,281,435 compared to a loss of $7,328,287 in the 2002 comparable period.

NINE MONTHS ENDED SEPTEMBER 30, 2003 vs. NINE MONTHS ENDED SEPTEMBER 30, 2002

Net Revenue. On a consolidated basis, case volume increased 1.5% to 5,046 in the nine months ended September 30, 2003 from 4,974 in the 2002 comparable period. On a same-center basis (which includes unconsolidated centers and pre-acquisition cases), total utilization increased 16.3% to 10,693 cases in the nine months ended September 30, 2003 from 9,196 in the 2002 comparable period. However, revenue declined 30.6% to $5,890,428 in the nine months ended September 30, 2003, from $8,490,730 in the comparable 2002 period. On a per-case basis, revenue decreased to $1,167 in the nine months ended September 30, 2003 from $1,513 in the 2002 comparable period. The average contractual allowance in the first nine months of 2003 was 68% of gross revenue compared to 70% in the comparable prior year period. The revenue decrease is attributable to the shift in types of cases performed. With the acquisition of the TASC, increased ophthalmology and gastroenterology cases were performed, which generally have gross billing rates below $1,000 compared to an average of greater than $3,000 per case experienced by other centers.

Direct Surgical Expenses. Total direct surgical costs increased to 57.3% of revenue in the nine months ended September 30, 2003 from 45.8% in the 2002 comparable period. Direct surgical costs per case decreased 3.5% to $669 in the nine months ended September 30, 2003 compared to $693 in the same period in 2002. The increase as a percentage of revenue and the decreased cost per case is due the acquisition of TASC, which performs lower cost procedures that have lower billing rates as discussed above.

General and Administrative Expenses. General and administrative costs decreased $6,275,278, or 58.2% to $4,510,954 in the nine months ended September 30, 2003 from $10,786,232 in the 2002 comparable period. The decrease is primarily due to charges of $5.4 million to bad debt expense taken in the 2002 period related to a change in the Company s policies regarding doubtful accounts. Additionally, the Company incurred substantial professional fees in the 2002 period related to raising equity, medical oversight and legal issues.

Total Operating Expenses. Total operating expenses decreased $6,789,625, or 46.3% to $7,888,093 in the nine months ended September 30, 2003 from $14,677,718 in the 2002 comparable period. As a percent of revenue, total expenses decreased to 133.9% of revenue in the nine months ended September 30, 2003 from 172.9% in the 2002 comparable period. Such expense fluctuations, expressed both in dollars and as a percentage of revenue, are related to the factors discussed above.

Other Income (Expense). Total other expense decreased $2,698,413, or 58.9% to $1,884,971 in the nine months ended September 30, 2003 from $4,583,384 in the 2002 comparable period.

In the 2002 period, the Company recorded a loss of $169,934 on the sale of its 20% interest in Bayside Surgical Partners, L.P. In 2003, Company recorded a gain of $319,086 on the sale of its 10% interest in Physician s Endoscopy Center.

During the third quarter of 2002, the company incurred a loss of $1,981,132 associated with its termination of the Aspen Healthcare acquisition.

The Company incurred an impairment of its investment in land of $1,500,000 during the third quarter of 2002 to reflect the investment s estimated valuation at that time. In the third quarter of 2003, the company recorded additional impairment on the land amounting to $579,386. The land is now carried at a value of $4,000,000.

Interest expense increased 56.4% or $495,808 between the two comparable nine-month periods resulting from additional borrowings to complete an acquisition, to attempt to acquire Aspen Healthcare, and to finance the Company s working capital.

Minority Interest in (Earnings)Losses of Partnerships. In the nine months ended September 30, 2003, no credit for minority interest in losses of partnerships was recorded because such losses exceeded the minority interest in equity capital of the partnerships. In the nine months ended September 30, 2002, $686,298 was recorded due to significant losses incurred by the partnerships in 2002 directly attributable to the increase in the majority-owned partnerships contractual allowances and significant bad debt write-offs during that period.

Federal Income Tax. For the nine months ended September 30, 2003, the Company recorded a tax benefit of $13,561, or 0.4% of its pre-tax loss of $3,702,942. The percentage is less than the normally expected rate due to a valuation allowance recorded against the Company s deferred tax assets. In the nine months ended September 30, 2002, the Company recorded an income tax benefit of $1,626,633, or 16.1% of its pre-tax loss.

Net Loss. Due to the factors discussed above, the net loss in the nine months ended September 30, 2003 decreased to $3,867,075 compared to $8,457,411 in the 2002 comparable period.

Liquidity and Capital Resources

Net cash used in operating activities was $991,336 for the nine months ended September 30, 2003 compared to $482,816 cash provided by operating activities in the comparative 2002 period. The primary reason for the increase in cash used in operations was the increase in the Company s cash net losses in the nine months ended September 30, 2003.

Net cash provided by investing activities was $496,304 in the nine months ended September 30, 2003 compared to net cash used in investing activities of $1,790,820 in the comparable 2002 period. In 2003, the Company sold its ownership interest in Physician s Endoscopy Center for $425,000 cash and sold a note receivable for $160,000. In 2002, the increased use of cash was primarily for the investment in Tuscarawas Ambulatory Surgery Center ($640,846) and Aspen Healthcare ($1.1 million).

Net cash provided by financing activities decreased to $345,732 for the nine months ended September 30, 2003 from $1,329,865 in the 2002 comparable period. In the 2003 period, cash raised through the sale of common stock was predominantly used to pay down debt. In September 2003, the Company received $210,000 in the form of a demand promissory note to be used for working capital purposes. In 2002, the Company used portions of the cash raised through debt and issuance of common stock to fund an acquisition and other capital expenditures.

As of September 30, 2003, the Company had cash and cash equivalents of $113,027 and negative working capital of $10,585,815. SurgiCare has a total of $6,360,299 in long-term debt and an additional $1,453,747 in revolving lines of credit currently in default. SurgiCare has defaulted on certain provisions of its Loan and Security Agreement with its senior lender, DVI Business Credit Corporation (DVI). On August 25, 2003 DVI filed for protection under Chapter 11 of the U.S. Bankruptcy laws. The Company is currently negotiating a buyout of their debt with DVI (through its bankruptcy trustee) and certain other debt holders.

The Company has financed its growth primarily though the issuance of equity, secured and/or convertible debt. As of September 30, 2003, the Company does not have any credit facilities available with financial institutions or other third parties to provide for working capital shortages. Although the Company believes it will generate cash flow from operations in future quarters, due to its debt load, it is not able to fund its current operations solely from its cash flow.

In March 2003, the Company completed a $1,212,490 private placement of 3,418,544 shares of common stock to existing physician shareholders, local Houston physicians, and select Houston individuals. The shares are restricted under Rule 144. In addition, the investors received a warrant for every two shares of common stock purchased. The warrants are exercisable for one year and are priced at $0.35. The Company received proceeds (net of expenses) of $1,070,105 in cash and $70,000 in reduction in notes/accounts payable. The cash proceeds of the financing were used to pay down debt and for working capital purposes.

In November 2003, SurgiCare completed a $470,000 financing for working capital through the issuance of one-year convertible unsecured promissory notes bearing interest at 10% per annum. The notes are convertible into shares of Company common, at any time, at the option of the note holder. The conversion price for the notes will be equal to (a) $.35 per share, if the note is converted on or prior to January 31, 2004, or (b) if the note is converted after January 31, 2004, the lower of (i) $0.25 or (ii) seventy-five percent (75%) of the average closing price for the 20 trading days immediately prior to the conversion date. The note holders shall also receive a five-year warrant to purchase shares of Company common stock. The number of shares of common stock that may be purchased upon the exercise of the

warrant will be equal to 25% of the number of shares of common stock into which the note is convertible. The warrant may be exercised at an exercise price of $0.35 per share, and may be exercised on a cashless basis at the option of the holder. The promissory notes will mature upon the earlier of the closing of the re-capitalization as detailed below, or October 31, 2004.

The Company believes that additional sales of debt and/or equity securities will be required to continue operations. See Note 13 Subsequent Events for a description of a series of transactions recently announced by the Company that, if consummated, will involve an equity investment and recapitalization of the Company. Prior to the closing of such contemplated transactions, any additional sales of debt and/or equity by the Company will be subject to the prior approval of the counterparties to the applicable transaction documents. The Company can provide no assurance that it will be successful in any future financing effort to obtain the necessary working capital to support its operations, or fund acquisitions for its anticipated growth. In the event that any future financing efforts are not successful, the Company will be forced to liquidate assets and/or curtail operations.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2003, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2003.

Changes in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

In September 2002, SurgiCare was named as a defendant in a suit entitled Charles Cohen vs. SurgiCare, Inc. and David Blumfield, in the 234th Judicial District Court of Harris County, Texas. Mr. Cohen sued SurgiCare for breach of contract and both defendants for defamation. Mr. Cohen claimed that SurgiCare breached his employment agreement when it terminated his employment and that Mr. Blumfield and SurgiCare made defamatory statements about him. Mr. Cohen made claims for $562,000 for breach of the employment agreement plus additional damages for the defamation claim. David Blumfield was later dropped as a defendant in this suit. In October 2003, the Company settled this dispute by issuing 228,310 shares of common stock, valued at $100,000, as compensation for Mr. Cohen s past services. Mr. Cohen has since resigned, effective as of October 29, as a Director of SurgiCare. In resigning, Mr. Cohen expressed no disagreement with SurgiCare on any matter relating to our operations, policies or practices.

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.

In April 2003, SurgiCare was named as a defendant in a suit entitled International Diversified Corporation, Limited vs. SurgiCare, Inc. International Diversified Corporation (IDC) has sued for breach of contract in which IDC invested $1,000,000 into SurgiCare. IDC has sued for the rescission of the contract and the return of $1,000,000 or the deliverance of 2,439,024 shares. Settlement has been reached whereby SurgiCare returned 1,709,024 shares and released IDC of their obligation to pay SurgiCare $400,000 as well as a release by IDC and American International Industries, Inc. (AII) regarding all obligations by SurgiCare to raise additional funds for working capital under the agreement with IDC and AII.

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 its common stock valued at $117,500 as compensation for past legal fees.

ITEM 2. Change in Securities.

None.

ITEM 3. Default Upon Senior Securities.

SurgiCare has defaulted on certain provisions of its Loan and Security Agreement with DVI Business Credit Corporation (DVI). The Company had obtained a letter of forbearance through August 29, 2003, in connection with its senior lender, DVI Business Credit Corp. However, in August 2003, DVI, Inc. announced that it is seeking protection under the United States Bankruptcy laws. The Company is currently negotiating a buyout of their debt with DVI (through the bankruptcy trustee) and certain other debt holders.

SurgiCare has defaulted on its convertible Debenture Agreement for failure to file a registration statement for the resale of certain securities pursuant to the agreement and has been sued by the primary debenture holder. SurgiCare is currently negotiating a settlement of this debt.

ITEM 4. Submission of Matters to a Vote of Security Holder.

None

ITEM 5. Other Information.

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

Exhibit No.	Description
Exhibit 2.1*	Agreement and Plan of Merger dated November 18, 2003 by and among SurgiCare, Inc., IPS Acquisition, Inc. and Integrated Physician Solutions, Inc.
Exhibit 2.2*	Letter of Intent dated November 18, 2003 among Dennis Cain Physician Services, Inc., Medical Billing Services, Inc. and SurgiCare, Inc.
Exhibit 3.1*	Form of Amended and Restated Certificate of Incorporation of SurgiCare, Inc.
Exhibit 4.1*	Stock Subscription Agreement dated November 18, 2003 among SurgiCare, Inc. and Brantley Partners IV, L.P.
Exhibit 4.2*	Debt Exchange Agreement dated November 18, 2003 among SurgiCare, Inc., Brantley Venture Partners III, L.P. and Brantley Capital Corporation
Exhibit 17.1	Resignation of Charles Cohen from Board of Directors
Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification
Exhibit 31.2	Rule 13a-14(a)/15d-14(a) Certification
Exhibit 32.1	18 U.S.C. § 1350 Certification
Exhibit 32.2	18 U.S.C. § 1350 Certification

* Incorporated by reference to the exhibit filed with the Company s Form 8-K filed on November 18, 2003.

(b) Reports on Form 8-K

During the quarter ended September 30, 2003, we filed the following reports on Form 8-K:

Dated August 1, 2003 to report change in Registrant s certifying accountant.

Dated August 19, 2003 to report issuance of a press release with second quarter 2003 financial results.

Dated August 22, 2003 to report issuance of a press release announcing Letter of Intent for an Investment by Brantley Partners.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 19, 2003

REGISTRANT:

SurgiCare, Inc.

By: /s/ KEITH G. LEBLANC

Keith G. LeBlanc
Chief Executive Officer

By: /s/ PHILLIP C. SCOTT

Phillip C. Scott
Chief Financial Officer

INDEX TO EXHIBITS

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4.2	*Debt Exchange Agreement dated November 18, 2003 among SurgiCare, Inc., Brantley Venture Partners III, L.P. and Brantley Capital Corporation
17.1	Resignation of Charles Cohen from Board of Directors
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	18 U.S.C. § 1350 Certification
32.2	18 U.S.C. § 1350 Certification

* Incorporated by reference to the exhibit filed with the Company s Form 8-K filed on November 18, 2003.

Exhibit 17.1

Charles S. Cohen
8902 Loch Lomond Ct.
Houston, TX 77096
713-240-2464

Mr. Phil Scott
CFO SurgiCare, Inc.
12727 Kimberley Lane #200
Houston, TX 77024

October 29, 2003

Dear Mr. Scott:

As you are aware I have not been an active member of the SurgiCare, Inc. board of directors since September of 2002. I cannot in good conscious continue to be an inactive member of the board of directors.

Please accept this letter as my official resignation from the SurgiCare, Inc. board of directors, effective immediately.

Of course, it goes without saying; if I can ever be of any assistance to SurgiCare, please feel free to contact me.

Sincerely,

/s/ Charles S. Cohen

Charles S. Cohen

Exhibit 31.1

I, Keith G. LeBlanc, Chief Executive Officer of SurgiCare, Inc. (the Company), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of SurgiCare, Inc.;

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the small business issuer s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The small business issuer s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer s auditors and the audit committee of small business issuer s board of directors (or persons performing the equivalent functions):

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

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer s internal control over financial reporting.

Date: November 19, 2003

By: */s/ Keith G. LeBlanc*

Keith G. LeBlanc, Chief Executive Officer

Exhibit 31.2

I, Phillip C. Scott, Chief Financial Officer of SurgiCare, Inc. (the Company), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of SurgiCare, Inc.;

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the small business issuer s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The small business issuer s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer s auditors and the audit committee of small business issuer s board of directors (or persons performing the equivalent functions):

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

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer s internal control over financial reporting.

Date: November 19, 2003

By: */s/ Phillip C. Scott*

Phillip C. Scott, Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. § 1350

The undersigned, Keith G. LeBlanc, Chief Executive Officer of SurgiCare, Inc., a Delaware corporation (the Company), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that:

(1) the Company s Quarterly Report on Form 10-QSB for the period ended September 30, 2003 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

Date: November 19, 2003

By: */s/ Keith G. LeBlanc*

Keith G. LeBlanc, Chief Executive Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. § 1350

The undersigned, Phillip C. Scott, Chief Financial Officer of SurgiCare, Inc., a Delaware corporation (the Company), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that:

(1) the Company s Quarterly Report on Form 10-QSB for the period ended September 30, 2003 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

Date: November 19, 2003

By: */s/ Phillip C. Scott*

Phillip C. Scott, Chief Financial Officer

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 of SurgiCare, Inc. of our report dated March 19, 2003, which is included in the annual report on Form 10-KSB for the year ended December 31, 2002.

/s/ WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
February 9, 2004

ANNEX D

G. A. HERRERA & CO.
Investment Bankers
a limited liability company

February 12, 2004

Gilbert A. Herrera

SurgiCare, Inc.
12727 Kimberly Lane, Suite 200
Houston, Texas 77024

Attention: Mr. Phil Scott, Chief Financial Officer

Re: SurgiCare, Inc. Recapitalization and Acquisition Fairness Opinion.

Dear Mr. Scott:

G. A. Herrera & Co., L.L.C. (herein referred to as GAH) previously opined that the proposed plan of recapitalization with Brantley Partners (herein referred to as the Transaction) to the holders of the outstanding Series A Preferred Stock, par value $0.001, the outstanding Series AA Preferred Stock, par value $0.001 and the outstanding common stock, par value $0.005 per share, (herein referred to as the Shareholders) of SurgiCare, Inc. (herein referred to as SurgiCare or the Company) was fair to the Shareholders, from a financial standpoint. We previously provided you our report and opinion thereon on November 17, 2003.

You have asked us to review additional documents outlining certain agreed-upon changes to the Transaction and to determine if those changes affect our opinion that was previously provided. It is our understanding the Brantley has increased the funding of their bridge loans to Surgicare from $490,000 to $665,000, an increase of $175,000. Also, Brantley has increased the funding of their bridge loans to IPS from $790,000 to $1,390,000, an increase of $600,000. Brantley s bridge loans above the original amounts will be reduced against the amounts due at closing.

Brantley s holdings post transaction will continue to be 100% of the outstanding shares of Class B Common (which, after satisfaction of preference amount, will be convertible into and constitute 51% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan). All Class B shares were to be convertible on a one for one basis to Class A shares after satisfaction of the preference amount, in the newly merged entity. Surgicare will receive fewer dollars upon closing which could impact their ability to execute their restructure and business plan. But, in our view, Surgicare and IPS have benefited from the increased interim funding from Brantley on a pre-closing basis. Thus, we believe there is no material consequence from the resulting changes.

Based on our review of the Agreement and Plan of Merger by and among SurgiCare, Inc., DCPS/MBS Acquisition, Inc., Dennis Cain Physician Solutions, Ltd., Medical Billing Services,

1502 Augusta Suite 260 Houston, Texas 77057
(713) 978-6590 Fax (713) 978-6599
Web Page: www.herrera-co.com Email: gilbert@herrera-co.com

Inc., and the sellers party thereto, dated as of February 9, 2004, we believe there is no material consequence from the changes to the terms of the DCPS/MBS Acquisition. Based on our review of the revised Amended and Restated Certificate of Incorporation of SurgiCare, Inc., we believe there is no material consequence from the changes therein.

GAH was not asked to consider and accordingly our opinion and this report does not address the relative merits of the proposed Transaction as compared to other alternative business strategies that might exist for the Company, or the effect of any other transactions in which SurgiCare might engage. We have not contacted potential investors for the proposed Transaction and, therefore, our opinion does not represent (1) that a market exists for the proposed Transaction or (2) the price for a similar transaction. Furthermore, the price a willing buyer would pay a willing seller for the proposed Transaction, neither being under any compulsion to buy or sell, is significantly influenced by industry, economic and market conditions, which may vary from those present on the date of this report. Furthermore, the conditions and circumstances prevailing at the date of this report will often vary from future results and no reliance can be or has been provided thereon. This supplement, our actual report and the opinion contained therein does not constitute a recommendation (1) of the proposed Transaction, (2) to any Shareholder to vote in favor of the proposed Transaction or (3) that the proposed Transaction is in the best interests of the Company.

None of the G. A. Herrera & Co. employees or partners who have worked on this engagement have any known or contemplated interests in or with SurgiCare, its related parties or its affiliates. Further, the compensation for this engagement is neither based nor contingent upon this supplement or the opinion previously provided. This supplement and the opinion previously provided may be produced in whole, but not in part, in the filings and statements as required by applicable law; provided, that any excerpt from or reference to this opinion or report must be approved by GAH in advance in writing. This supplement and the report stating the significant assumptions made, the methodologies employed, and the conclusions reached are solely for the information of, and assistance to, the Board of SurgiCare, and are not to be referred to or distributed for any other purposes.

If you have any questions, please call Gilbert A. Herrera at (713) 978-6590.

Sincerely,

/s/ G. A. Herrera & Co., L.L.C.

G. A. Herrera & Co., L.L.C.

G. A. HERRERA & CO.
Investment Banker

G. A. HERRERA & CO.
Investment Bankers
a limited liability company

November 17, 2003

Gilbert A. Herrera

SurgiCare, Inc.
12727 Kimberly Lane, Suite 200
Houston, Texas 77024

Attention: Mr. Phil Scott, Chief Financial Officer

RE: SurgiCare, Inc. Recapitalization and Acquisition Fairness Opinion.

Dear Mr. Scott:

G. A. Herrera & Co., L.L.C. (herein referred to as GAH) has been engaged by the Board of Directors of SurgiCare, Inc. (herein referred to as the Board) to evaluate the fairness, from a financial standpoint, of a proposed plan of recapitalization with Brantley Partners (herein referred to as the Transaction) to the holders of the outstanding Series A Preferred Stock, par value $0.001, the outstanding Series A Preferred Stock, par value $0.001 and the outstanding common stock, par value $0.005 per share, (herein referred to as the Shareholders) of SurgiCare, Inc. (herein referred to as SurgiCare or the Company). Enclosed is our report summarizing the analysis and conclusions developed from our review and evaluation of the documents, agreements, financial statements and other information provided as part of our engagement.

The purpose of this engagement was to assist management of the Company and its Board in (i) evaluating, analyzing and reviewing the terms of the proposed Transaction, (ii) assessing the reasonableness and merit of the proposed Transaction in light of the Company s current financial position, market conditions, operating position and (iii) attesting as to fairness of the proposed Transaction, from a financial standpoint, to the Company s Shareholders. This report is not and should not be used as a solvency opinion. The use of this report is specifically limited by the terms and conditions expressed herein, and to the purposes described herewith.

SurgiCare operates freestanding, technologically advanced ambulatory surgery centers which are staffed by board-certified surgeons. Each is licensed, certified and a Medicare-approved outpatient facility. The Company delivers high-quality, affordable, community-based healthcare and provides access to local, specialized services in its centers through program affiliations. The Company is publicly traded under the symbol SRG.

Brantley Partners (herein referred to as Brantley) is a private equity organization with offices in Ohio and California. Brantley and its affiliates have approximately $300 million of committed capital under management and its limited partners are primarily institutional investors including

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pension funds, insurance companies and banks. 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 s investment approach entails identifying large, highly fragmented industries with sustainable internal growth rates. Once these industries have been identified, Brantley will back a superior management team and establish a platform company. These platform companies capitalize on industry trends in order to increase sales growth (both internally and through acquisition) and to enhance profitability.

GAH is a Houston, Texas based private investment banking and consulting firm that provides merger and acquisition advisory services, debt and equity placements, valuations, litigation support and expert testimony services specializing in value-added distributors and contractors serving the telecommunications, food products, energy, healthcare and environmental markets. As part of our investment banking business, GAH is continually involved in the valuation of private and public businesses and securities in connection with mergers, acquisitions, dispositions, dissolutions, private equity transactions and valuations for tax, estate, corporate and other purposes. GAH s active participation in the valuation field and specific healthcare industry expertise provides extensive knowledge with respect to valuation theory and Internal Revenue Service (herein referred to as IRS) rulings and guidelines which are significant factors in the determination of fairness opinions.

For purposes of this engagement and report, we utilized IRS Revenue Ruling 59-60, 1959-1 C.B. 237 as the primary basis in arriving at our opinion. This methodology is widely utilized to determine the price at which property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both having reasonable knowledge of relevant facts. In arriving at our opinion we 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 shareholders 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 subject Transaction; and
- the market price of public companies engaged in the same or similar lines of business as SurgiCare.

SurgiCare has incurred substantial operating losses during 2002 and through the first half of 2003. In addition, the Company has used substantial amounts of working capital in its operations and is in default of certain loan agreements. The Company has financed its growth primarily through the issuance of equity, secured debt and convertible debt. As of June 30, 2003, SurgiCare had no other credit facilities available with financial institutions or third parties to provide for sufficient or necessary working capital. Although the Company believes it will generate cash flow from operations in the future, primarily resulting from its debt structure, Surgicare is not expected to able to fund operations solely from internally generated cash flow. As a result, more likely than not, additional issuances of debt or sale of equity securities will be required.

On March 6, 2003, SurgiCare received the net proceeds of a $1,200,000 investment from existing physician shareholders, local physicians, and select individuals. The investment was made through a private placement, under which 3,419,137 restricted shares of SurgiCare common stock were issued. The investors also received a warrant for every two shares of Common Stock purchased. The warrants are exercisable for a period of one year and are priced at $0.35. Proceeds of the financing were used for working capital purposes.

The Company continues to pursue additional financing alternatives but, other than the proposed Transaction, does not currently have firm commitments for the additional sales of debt or equity securities. There can be no assurance that SurgiCare will be successful closing the proposed Transaction or in any future financing effort to obtain the necessary working capital to support operations, or fund acquisitions for anticipated growth.

On August 22, 2003, SurgiCare executed an exclusive Letter of Intent with Brantley containing the principal terms and conditions of the proposed Transaction. The Letter of Intent outlines five key components of the proposed Transaction, the closing of which will occur substantially contemporaneously.

Recapitalization

The recapitalization assumes that SurgiCare has approximately 36,800,000 shares of Common Stock outstanding on a fully diluted basis. SurgiCare will effect a reverse split of its Common Stock and reclassify it as Class A Common Stock (here in referred to as Class A). The ratio of the reverse split will be set to establish a trading price for the Class A above $3.00 per share balanced against having a sufficient number of outstanding shares to maintain liquidity.

Class A shares to be received by the SurgiCare equityholders will be reduced by formula in an amount equal to any outstandings in excess of $490,000 under the bridge loan provided to SurgiCare by Brantley. The existing shares of Series A Preferred Stock will also be converted to Class A while the Company s Series AA Preferred Stock will remain outstanding. SurgiCare incorporation documents will be amended to change the Company s name to Orion HealthCorp.

IPS Acquisition

SurgiCare will acquire Integrated Physician Solutions, Inc. (herein referred to as IPS) by merging a newly formed subsidiary with and into IPS. The prior equityholders of IPS will

receive, in the aggregate, a number of shares of Class A which will equal the number of shares of Class A held by the equityholders of SurgiCare immediately prior to the proposed Transaction (assumed to be 36,800,000). Class A shares to be received by the IPS equityholders will also be reduced by formula in an amount equal to any outstandings in excess of $790,000 under the bridge loan provided to IPS by Brantley.

Brantley Equity Investment

SurgiCare will issue to Brantley 76,600,000 shares of newly-authorized Class B Common Stock (herein referred to as Class B), convertible into Class A for total consideration of $7,280,000, consisting or $6,000,000 in cash and $1,280,000 of prior loans. The amount of shares assumes there are no additional outstanding loans under the IPS and SurgiCare bridge facilities provided by Brantley. SurgiCare s incorporation documents will be amended to provide for the new Class B common stock

The Class B will have a preference in distribution over the Class A equal to its original purchase price plus 9% per annum (not compounded). After receiving this preference, the Class B will be entitled to 51% of all distributions, treating the Class A and Class B as a single class. The Class B shares can be converted at any time at the option of the holders. The shares will convert on a one for one basis plus a number of shares of Class A having a fair market value equal to the Class B distribution preference.

DCPS/MBS Acquisition

SurgiCare will acquire the businesses of Dennis Cain Physician Services (herein referred to as DCPS) and Medical Billing Services (herein referred to as MBS) for a combination of $3,000,000 of cash, a note of $1,000,000 and approximately 12,800,000 Class A shares. The sellers of DCPS and MBS will receive an additional 4,500,000 shares of Class A, which will be placed in escrow and released if certain earn-out provisions are met (in which event the sellers will also be entitled to an additional cash payment based on the earn out formula).

New Equity Incentive Plan

SurgiCare will establish a new equity incentive plan for its key employees, directors, consultants and other advisors which will authorize the issuance of a number of shares equal to approximately 10% of the total shares of Class A outstanding after the foregoing transactions.

Post-Closing Capital Structure

Considering the assumptions outlined in the five key components and adjusting for a one-for-ten reverse split, the post-closing, fully diluted ownership of Orion HealthCorp will be as follows:

SurgiCare Stockholders	3,680,000	20.31%
IPS Stockholders	3,680,000	20.31%
Brantley	9,480,408	52.32%
DCPS\MBS	1,280,000	7.06%
Total Outstanding	18,120,408	100.00%
Potential Issuances	1,817,329	
	19,937,737	

The approaches and methodologies used in our work were limited as referenced herein and 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. We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assumed that the financial and other information provided to us was accurate and complete, and we relied upon this information in performing our valuation for purposes of this engagement.

In performing our work, we were provided with various information, including the following:

Presentation by Brantley Partners to SurgiCare dated August 4, 2003;

Ropes & Gray Memorandum dated October 27, 2003 outlining the terms and conditions of the proposed Transaction;

SurgiCare s 10-QSB for the period ended June 30, 2003 and 10-KSB for the fiscal year ended December 31, 2002;

Management prepared projections analyzing various scenarios resulting from the proposed Transaction;

Management prepared Business Plan for SurgiCare dated June 2003; and

SurgiCare s marketing and other related literature.

The procedures employed in this engagement included such steps, we considered necessary, including, but not limited to, the following:

Discussions with SurgiCare s management and personnel concerning the past and future operations of the Company and an explanation and clarification of data provided by management;

An analysis of the financial condition of SurgiCare inclusive of the financial and operational issues set forth herein;

A review of the terms and conditions of the proposed Transaction;

An analysis of the condition and trends of the healthcare industry in general and specifically ambulatory service centers, including an analysis of the competitive environment; and

An analysis of other pertinent facts and data resulting in our conclusion and opinion.

The summary of our procedures is intended solely to provide SurgiCare and its management with an overview of our approach. We have not made an independent valuation or appraisal of the assets or liabilities of the Company and have not been furnished with any such evaluation or appraisal. For purposes of this engagement and report, we made no investigation of, and assumed no responsibility for, the titles to, or any liens against, the assets of SurgiCare or the proposed Transaction. Neither did we attempt to determine what the Transaction 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 the Company had been sold. We assumed there were no hidden or unexpected conditions associated with SurgiCare or the proposed Transaction that would adversely affect the proposed Transaction or our opinion.

GAH was not asked to consider and accordingly our opinion and this report does not address the relative merits of the proposed Transaction as compared to other alternative business strategies that might exist for the Company, or the effect of any other transactions in which SurgiCare might engage. We have not contacted potential investors for the proposed Transaction and, therefore, our opinion does not represent (1) that a market exists for the proposed Transaction or (2) the price for a similar transaction. Furthermore, the price a willing buyer would pay a willing seller for the proposed Transaction, neither being under any compulsion to buy nor sell, is significantly influenced by industry, economic and market conditions, which may vary from those present on the date of this report. Furthermore, the conditions and circumstances prevailing at the date of this report will often vary from future results and no reliance can be or has been provided thereon. This report and the opinion contained herein does not constitute a recommendation (1) of the proposed Transaction, (2) to any Shareholder to vote in favor of the proposed Transaction or (3) that the proposed Transaction is in the best interests of the Company.

None of the G. A. Herrera & Co. employees or partners who have worked on this engagement have any known or contemplated interests in or with SurgiCare, its related parties or its affiliates. Further, the compensation for this valuation engagement is neither based nor contingent upon the opinion provided. This opinion may be produced in whole, but not in part, in the filings and statements as required by applicable law; provided, that any excerpt from or reference to this opinion or report must be approved by GAH in advance in writing. This report stating the significant assumptions made, the methodologies employed, and the conclusions reached are solely for the information of, and assistance to, the Board of SurgiCare, and are not to be referred to or distributed for any other purposes.

In accordance with the foregoing, and as further described herein, it is our opinion that as of the date hereof, the terms and conditions of the proposed Transaction are fair to the Shareholders from a financial standpoint.

If you have any questions, please call Gilbert A. Herrera at (713) 978-6590.

Sincerely,

/s/ G. A. Herrera & Co., L.L.C.

G. A. Herrera & Co., L.L.C.

Exhibit I

Valuation Summary

SurgiCare, Inc.
Valuation Analysis

VALUATION DATE: September 30, 2003

	Income Approach	Comparable Public Company Approach	Comparable Private Transaction Approach
Business Enterprise Value	8,062,610	9,000,000	7,000,000
Total Debt (1)	12,700,000	12,700,000	12,700,000
Net Equity Value	(4,637,390)	(3,700,000)	(5,700,000)

(1) Debt estimate as of September 30, 2003

Orion HealthCorp
Valuation Analysis

VALUATION DATE September 30, 2003

	Income Approach
Business Enterprise Value	26,909,352
Total Debt (2)	12,700,000
Net Equity Value	14,209,352
SurgiCare Shareholders	20.25%
SurgiCare Value	2,877,394

(2) Debt estimate as of January 1, 2004 assuming completion of Brantley transaction.

Exhibit II

Weighted Average Cost of Capital

SurgiCare, Inc.
Valuation Analysis

VALUATION DATE: September 30, 2003

DEFINITION OF DISCOUNT RATE

WEIGHTED AVERAGE COST OF CAPITAL:

WACC = Kd * (1-t) * D% + Ke * E%

Where,
- Kd = Cost of debt (Industry Averages)
- Ke = Cost of equity
- D% = Debt as a percentage of total capital (Source: Industry Averages)
- E% = Equity as a percentage of total capital (Source: Industry Averages)
- t = Marginal corporate tax rate

COST OF EQUITY:

Ke = Rf + (Rp) * B + Rs + R1

Where,
- Rf = Risk free rate (30-Year U.S. Treasury Bond Yield, Source: Federal Reserve Statistical Release)
- Rp = Historical arithmetic average common stock return in excess of the historical arithmetic average risk free rate (Source: Ibbotson & Associates, Inc., Stocks, Bonds, Bills, and Inflation Yearbook)
- Rs = Small stock risk premium
- R1 = Limited liquidity risk premium
- B = Beta; an adjustment used to reflect the risk of a particular stock relative to a general stock market index (Source: Standard & Poor s Directory)

DISCOUNT RATE COMPUTATION:

COST OF EQUITY		
Rf	**=**	**5.30%**
Rp	**=**	**7.50%**
Rs	**=**	**5.00%**
R1	**=**	**7.50%**
B	**=**	**1.25**
Ke	**=**	**27.175%**

WEIGHTED AVE. COST OF CAPITAL		
Kd	**=**	**12.50%**
t	**=**	**38.50%**
D%	**=**	**50.00%**
Ke	**=**	**27.18%**
E%	**=**	**50.00%**
WACC	**=**	**17.43%**

WACC	**=**	**17.40%**	Rounded

Beta Coefficients per current S&P Directory:
(Source: Houston Public Library Reference Desk)

Exhibit III

Income Approach Surgicare, Inc.

SurgiCare, Inc.
Valuation Analysis

DISCOUNTED NET CASH FLOW APPROACH
Business Enterprise Valuation

VALUATION DATE: September 30, 2003

	2004	2005	2006	Residual Year
Net Operating Revenue	$18,976,117	$19,513,480	$20,067,373	$20,638,364
Total Variable Cost	9,741,940	10,023,400	10,313,773	10,613,378
Gross Margin	9,234,177	9,490,080	9,753,599	10,024,986
Total Fixed Cost	3,301,373	3,359,471	3,427,950	3,505,643
Corporate	1,874,868	1,901,422	1,929,303	1,958,579
EBITDA	4,057,936	4,229,187	4,396,346	4,560,764
Capital Expenditures	200,000	200,000	200,000	200,000
Changes in Working Capital	250,000	250,000	250,000	250,000
Adjusted EBITDA	3,607,936	3,779,187	3,946,346	4,110,764
	19%	19%	20%	20%
SurgiCare EBITDA	3,669,391	728,229	785,799	842,498
Residual Value				$ 5,788,521
Present Value Factor	0.9229	0.7861	0.6696	0.6180
Discounted Cash Flow	$ 3,386,570	$ 572,487	$ 526,188	$ 3,577,366
DISCOUNTED CASH FLOW SUMMARY				
Total Discounted Cash Flow	$ 4,485,245			
P.V. of Residual Value	3,577,366			
Business Enterprise Valuation	8,062,610			

SurgiCare, Inc.
Valuation Analysis

DISCOUNTED NET CASH FLOW APPROACH
Business Enterprise Valuation

VALUATION DATE: September 30, 2003

RUN TIME CONSTANTS

	2004	2005	2006	Residual Year
Discounting Convention (Mid-Period)	0.5	1.5	2.5	3.0
Growth Rate		2.8%	2.8%	2.8%
Variable Cost	51.3%	51.4%	51.4%	51.4%
Fixed Cost	17.4%	17.2%	17.1%	17.0%
Corporate	9.9%	9.7%	9.6%	9.5%
EBITDA	21.4%	21.7%	21.9%	22.1%
Weighted Average Cost of Capital	17.4%			
Estimated Terminal Growth Rate	2.8%	Per Annum		
Residual Multiple	6.9	Times Cash Flow in Residual Year		

Exhibit IV

Income Approach Orion HealthCorp

Orion HealthCorp
Valuation Analysis

DISCOUNTED NET CASH FLOW APPROACH
Business Enterprise Valuation

VALUATION DATE: September 30, 2003

	2004	2005	2006	Residual Year
Net Operating Revenue	$18,976,117	$19,545,401	$20,229,490	$20,937,522
Total Variable Cost	9,741,940	9,772,700	10,114,745	10,468,761
Gross Margin	9,234,177	9,772,700	10,114,745	10,468,761
Total Fixed Cost	3,301,373	3,400,900	3,519,931	3,643,129
Corporate	1,874,868	1,563,632	1,618,359	1,675,002
EBITDA	4,057,936	4,808,169	4,976,455	5,150,630
Capital Expenditures	200,000	200,000	200,000	200,000
Changes in Working Capital	250,000	250,000	250,000	250,000
Adjusted EBITDA	3,607,936	4,358,169	4,526,455	4,700,630
	19%	19%	20%	20%
SurgiCare EBITDA	3,669,391	839,795	901,310	963,390
MBS	1,832,136	1,911,516	1,992,903	2,076,349
IPS	(975,000)	0	1,000,000	1,000,000
Total	4,526,527	2,751,311	3,894,213	4,039,739
Residual Value				$29,062,873
Present Value Factor	0.9229	0.7861	0.6696	0.6180
Discounted Cash Flow	$ 4,177,641	$ 2,162,906	$ 2,607,651	$17,961,155

DISCOUNTED CASH FLOW SUMMARY	
Total Discounted Cash Flow	$ 8,948,198
P.V. of Residual Value	17,961,155
Business Enterprise Valuation	26,909,352

Orion HealthCorp
Valuation Analysis

DISCOUNTED NET CASH FLOW APPROACH
Business Enterprise Valuation

VALUATION DATE: September 30, 2003

RUN TIME CONSTANTS

	2004	2005	2006	Residual Year
Discounting Convention (Mid-Period)	0.5	1.5	2.5	3.0
Growth Rate		3.0%	3.5%	3.5%
Variable Cost	51.3%	50.0%	50.0%	50.0%
Fixed Cost	17.4%	17.4%	17.4%	17.4%
Corporate	9.9%	8.0%	8.0%	8.0%
EBITDA	21.4%	24.6%	24.6%	24.6%
Weighted Average Cost of Capital	17.4%			
Estimated Terminal Growth Rate	3.5%	Per Annum		

SurgiCare, Inc.

Exhibit V

Comparable Public Company Approach

SurgiCare, Inc.
Valuation Analysis

Summary of Comparable Public Companies

Company	Symbol	TTM EBITDA	Description
Dynacq International, Inc.	DYII	37	Develops and operates surgical specialty hospitals focused on orthopedic surgery, neurosurgery and general surgery. Facilities include operating rooms, pre- and post-operative space, intensive care units, nursing units and diagnostic facilities. The Company operates three segments: surgical hospital, outpatient surgical centers and corporate and management services.
AmSurg Corp.	AMSG	114	Owns majority interests in limited partnerships and limited liability companies that own and operate practice-based ambulatory surgery centers or are developing additional centers. At the most recent year end, AmSurg owned a majority interest in 107 surgery centers in 27 states and the District of Columbia, had nine centers under development and had executed letters of intent to acquire or develop six additional centers. Its facilities are generally equipped and staffed for a single medical specialty.
U.S. Physical Therapy, Inc.	USPH	21	Operates 202 outpatient physical and occupational therapy clinics in 34 states. The facilities provide pre- and post-operative care and treatment for a variety of orthopedic-related disorders, sports-related injuries, preventative care, rehabilitation of injured workers and neurological-related injuries.
United Surgical Partners	USPI	115	Owns and operates 64 short-stay surgical facilities, surgery centers and private surgical hospitals in the United States (54), Spain (8) and the United Kingdom (2). The Company focuses on providing surgical facilities that meet the needs of patients, physicians and payors better than hospital-based and other outpatient surgical facilities. Twenty-six of the facilities are owned jointly with 10 major not-for-profit healthcare systems.
LCA-Vision Inc	LCAV	9	Develops and operates value-priced laser vision correction centers which provide the facilities, equipment and support services for performing vision correction procedures using laser technologies to correct nearsightedness, farsightedness and astigmatism. Virtually all of its patients receive a procedure named Laser-Assisted In Situ Keratomileusis (LASIK).
MedCath Corporation	MDTH	71	Primary focus on the diagnosis and treatment of cardiovascular disease. Designs, develops, owns and operates hospitals in partnership with physicians, most of whom are cardiologists and cardiovascular surgeons. Hospitals are freestanding, licensed general acute care including an emergency department or chest pain clinic, operating rooms, catheterization laboratories, pharmacy, laboratory, radiology department, cafeteria and food service.

SurgiCare, Inc.
Valuation Analysis

Summary of Comparable Company Financial Information

	DYII	AMSG	USPH	USPI	MDTH
Current Fiscal Year End	Aug-02	Dec-02	Dec-02	Dec-02	Sep-02
TTM Ended	May-03	Sep-03	Sep-03	Sep-03	Jun-03

Shares Outstanding	14.9	19.9	12.0	27.3	17.9
Market Equity Value (1)	242.4	772.6	172.8	921.9	203.3
Enterprise Value (2)	242.2	790.3	160.5	1,160.0	436.2
TTM Results					
Revenues	64.9	251.5	94.7	342.4	477.6
EBITDA	37.0	114.2	21.5	114.8	70.6
EBITDA Margin	57.0%	45.4%	22.7%	33.5%	14.8%
Net Income	19.0	28.4	8.0	26.6	3.2
Net Income Margin	29.3%	11.3%	8.4%	7.8%	0.7%
Total Debt	0.0	47.6	0.1	297.0	346.7
Total Book Equity	NA	211.5	100.0	350.7	326.8
Total Debt / Equity	0.0	0.2	0.0	0.8	1.1
Debt / Total Capital	NA	18.4%	0.1%	45.9%	51.5%

(1) Market value as of November 10, 2003

(2) Market equity value plus net debt.

Summary of Comparable Public Company Multiples
(millions)

Company	TTM Valuation Multiples EBITDA	Revenue
DYII	6.5	3.7
AMSG	6.9	3.1
USPH	7.5	1.7
USPI	10.1	3.4
MDTH	6.2	0.9
Range	6.2 - 10.1	0.9 - 3.7
Median	7.5	3.1
Suggested Range	**6.2 - 7.6**	**1.5 - 3.2**

	2004 EBITDA	TTM Revenues
SGR	0.7	11.6
Indicated Enterprise Value		
High	5.3	37.1
Low	4.3	17.4
Weighting	75%	25%
Estimated Enterprise Value		
High	13.3	
Low	7.6	
Suggested Value	9.0	

Exhibit VI

Comparable Private Transaction Approach

SurgiCare, Inc.
Valuation Analysis

Summary of Comparable Private Transactions
(millions)

Transaction Date	Seller	Purchaser	Transaction Size	Description
4-Aug-03	CDL Medical Technologies Inc.	InSight Health Services Corp	49	Provides diagnostic imaging services
27-Mar-02	Surgicoe Corp	United Surgical Partners International Inc	5	Owns and operates ambulatory surgery centers and private surgical hospitals
20-Nov-01	National HealthCare Resources Inc.	Welsh Carson Anderson & Stowe	141	Provides medical and surgical service
24-Oct-01	US Medical Group Inc.	Private Group Led By Winters Langley And Thompson	1	Provides medical and surgical service

SurgiCare, Inc.
Valuation Analysis

Summary of Comparable Private Transaction Information

	CDL Medical Technologies	Surgicoe	National HealthCare Resources	US Medical Group
Transaction Date	Aug-03	Mar-02	Nov-01	Oct-01
Percentage Acquired	100.0%	100.0%	100.0%	36.3%
Transaction Size	$ 48.5	$ 5.3	$141.0	$ 1.4
Enterprise Value	68.4	14.3	137.6	5.3
TTM Results				
Revenues	21.9	5.7	146.1	3.5
EBITDA	11.0	(1.1)	7.3	1.5
EBITDA Margin	50.1%	NA	5.0%	42.0%
Net Income	2.9	(3.3)	(5.9)	0.6
Net Income Margin	13.0%	NA	NA	17.2%
EV / Revenue	3.1	2.5	0.9	1.5
EV / EBITDA	6.2	NA	18.9	3.6

Summary of Comparable Private Transaction Multiples
(millions)

Company	TTM Valuation Multiples EBITDA	Revenue
CDL Medical Technology	6.2	3.1
Surgicoe	NA	2.5
National HealthCare Resources	18.9	0.9

U.S. Medical Group	3.6	1.5
Range	3.6 - 18.9	0.9 - 3.1
Median	6.2	2.0
Suggested Range	**5.2 - 6.4**	**1.0 - 2.2**

	2004 EBITDA	**TTM Revenues**
SGR	0.7	11.6
Indicated Enterprise Value		
High	4.5	25.5
Low	3.6	11.6
Weighting	75%	25%
Estimated Enterprise Value		
High	9.7	
Low	5.6	
Suggested Value	7.0	

ANNEX E

FORM OF EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this Agreement), dated as of , 2004, between Orion HealthCorp, Inc., a Delaware corporation, with its principal office located at (together with its successors and assigns permitted under this Agreement, the Company), and , who resides at (the Executive).

W I T N E S S E T H:

WHEREAS, the Company and the Executive desire to enter into an employment arrangement; and

WHEREAS, the Company has determined that it is in the best interests of the Company and its stockholders to enter into this Agreement setting forth the obligations and duties of both the Company and the Executive; and

WHEREAS, the Company wishes to assure itself of the services of the Executive for the period hereinafter provided, and the Executive is willing to be employed by the Company for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive (individually, a Party and together, the Parties) agree as follows:

1. Employment. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to serve the Company, on the terms and conditions set forth herein.

2. Term. Subject to the provisions for earlier termination as hereinafter provided, the term of this Employment Agreement will begin on the date hereof and will continue for five (5) years hereafter (the Initial Term of Employment). This Agreement will be automatically renewed at the end of the Initial Term of Employment and each successive renewal term thereafter for successive two (2) year terms unless either party sends written notice of termination to the other party not less than one hundred and eighty (180) days prior to the expiration of the then current Term of Employment (as hereinafter defined). The Initial Term of Employment together with any renewal terms is referred to herein as the Term of Employment. The nonrenewal of the term of this Agreement by the Company will not be a termination without Cause (as defined in Section 8(c)).

3. Position and Duties; Place of Performance.

(a) The Executive will serve as of the Company and will perform all duties customarily attendant to the position of and such other duties as may reasonably be assigned from time-to-time by the Board of Directors (the Board) that are consistent with his position as . **[Include for Bauer/LeBlanc agreements only:]**[The Executive will report solely to the Board or any subcommittees thereof.]

(b) The Executive will devote his full business time and best efforts to his employment and perform diligently such duties as are consistent with his capacity as of the Company and such other duties as the Board reasonably determines that are consistent with his position. The Executive will devote his entire working time and attention to the performance of his responsibilities hereunder; *provided,* the Executive may make personal investments, engage in such outside non-competitive business activities or engage in other activities for any charitable or other non-profit institution, provided that such activities do not interfere with the performance of the Executive s duties hereunder.

(c) In connection with the Executive s employment by the Company, the Executive will be based at the Company s place of business which on the date hereof is located in **[Note: This will be the current city of the applicable Executive.]**, or such other location as may, subject to Section 8(d), be designated from time to time by the Board.

4. Base Salary. The Executive will receive from the Company an annual base salary of Thousand Dollars ($) (as from time to time adjusted, the Base Salary), payable in accordance with the standard practice of the Company in the payment of salaries of its employees. The Board will review the Base Salary annually, and may, in its reasonable discretion, adjust the Base Salary.

5. Annual Bonus. The Executive may be paid a bonus annually based upon the attainment of objectives determined by the Board after consultation with the Executive. Within 90 days after the start of each fiscal year, the Board will communicate to the Executive the objectives applicable to such fiscal year and, unless the Board and the Executive shall mutually agree otherwise, such objectives shall apply to such fiscal year. **[Include for Smith/Cain Agreements only:]**[For the year ended December 31, 2004, if the Executive is employed by the Company on December 31, 2004, the Executive shall be entitled to receive a bonus payment equal to 12.5% of the amount, if any, by which Newco EBITDA for the 2004 fiscal year (on a pro forma combined basis, assuming that Newco had been formed on December 31, 2003) exceeds $1,200,000, up to a maximum bonus payment of $175,000. For purposes of this Agreement, Newco EBITDA shall mean, with respect to a fiscal year of [DCPS/MBS Newco] (Newco), the sum of (without duplication) (a) Newco Net Income for such fiscal year and (b) to the extent Newco Net Income has been reduced thereby, (i) all income taxes of Newco

recorded as a tax provision in accordance with GAAP for such period, (ii) Newco Interest Expense and (iii) Newco Non-Cash Charges, all as determined in accordance with GAAP. The components of Newco EBITDA will be determined by the Company s independent auditor in accordance with GAAP.

Newco Interest Expense shall mean, with respect to a fiscal year of Newco, the sum of (without duplication) (a) the aggregate of the interest expense of Newco for such fiscal year determined in accordance with GAAP and (b) the interest component of capitalized lease obligations accrued by Newco during such period as determined in accordance with GAAP, less (c) the amount of any interest income received by Newco during such fiscal period.

Newco Net Income shall mean, with respect to a fiscal year of Newco, the aggregate net income (or loss) of Newco for such fiscal year, determined in accordance with GAAP.

Newco Non-Cash Charges shall mean, with respect to a fiscal year of Newco, the aggregate depreciation and amortization of Newco reducing Newco Net Income for such fiscal year.

GAAP shall mean United States generally accepted accounting principles as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in other such statements by such other entity as have been approved by a significant segment of the accounting profession, as in effect for the relevant time period.]

6. Other Benefits.

(a) During the Term of Employment, the Executive will be provided with such medical, hospitalization, insurance, pension plan, profit sharing and employee benefits, cell phone and such other similar employment privileges and benefits (Benefits) as are afforded generally from time to time to other executive employees of the Company, and four (4) weeks paid vacation each year.

(b) During the term of this Agreement, the Executive shall receive Hundred Dollars ($) per month (pre-tax) as an automobile allowance. The Company shall pay all reasonable maintenance and repair expenses with respect to the automobile used primarily for business purposes by the Executive, procure and maintain in force collision, comprehensive, and liability insurance coverage with respect to the automobile, and pay operating expenses with respect to the automobile.

7. Expense Reimbursement. During the Term of Employment, the Executive will be entitled to prompt reimbursement by the Company for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon submission of such accounts and records as may be required under Company policy.

8. Termination of Employment. The Executive s employment may be terminated under the following circumstances:

(a) Death. The Executive s employment is terminated upon his death.

(b) Disability. The Executive s employment may be terminated by the Company due to illness or other physical or mental disability of the Executive, resulting in his inability to perform substantially his duties under this Agreement for a period of ninety (90) or more consecutive days or for one hundred eighty (180) days in the aggregate during any consecutive twelve (12) month period (Disability).

(c) Cause. The Executive s employment may be terminated by the Company for Cause. For purposes of this Agreement, the Company will have Cause to terminate the Executive s employment upon:

(i) the Executive s indictment for any crime involving monies or other property or any felony, crime or any offense of moral turpitude, or his commission of fraud, embezzlement, theft, dishonesty, willful misconduct or deliberate injury to the Company or its subsidiaries in the performance of his duties hereunder.

(ii) the Executive s intentional or grossly negligent refusal or failure to perform his duties or carry out directions of the Company s [chief executive officer or] Board, which refusal or failure remains uncured or continues or recurs more than thirty (30) days after notice from the Company specifying in reasonable detail the nature of the breach;

(iii) the Executive s breach of any of his fiduciary duties to the Company or making of a willful misrepresentation or omission, which breach or misrepresentation or omission might reasonably be expected to have a material adverse effect on the Company s business and which remains uncured or continues or recurs more than thirty (30) days after notice from the Company specifying in reasonable detail the nature of the breach or misrepresentation or omission;

(iv) the Executive s breach of any material provision of this Agreement, which breach, if curable, remains uncured or continues or recurs more than thirty (30) days after notice from the Company specifying in reasonable detail the nature of the breach; or

(v) any misappropriation by the Executive of funds or property of the Company or any affiliate of the Company.

Any termination for Cause will not be in limitation of any other right or remedy the Company may have under this Agreement or otherwise.

(d) Good Reason. The Executive may terminate his employment under this Agreement for Good Reason. For purposes of this Agreement, the Executive will have Good Reason to terminate the Executive s employment upon the occurrence of any of the following circumstances, without the Executive s express written consent: (i) a material diminution in the Executive s position or authority (except during periods when the Executive is unable to perform all or substantially all of the Executive s duties and/or responsibilities as a result of the Executive s illness (either physical or mental) or other incapacity); (ii) a requirement by the Company that the Executive change the Executive s principal place of business to a place more than thirty (30) miles from its location on the date of this Agreement; (iii) a termination of employment by the Executive within ninety (90) days following a Change in Control (as defined below); provided, however, that Good Reason will not exist if the Executive has accepted or agreed to continue employment following the Change of Control with the surviving or successor entity and such surviving or successor entity has agreed to continue or assume this Agreement; provided, however, in the event of a Change of Control, the Executive is under no obligation to continue or accept employment with the surviving or successor entity and may instead elect to terminate his employment for Good Reason upon such Change of Control; (iv) a breach of this Agreement by the Company which is not cured within thirty (30) days of written notice by the Company; or (v) any reduction in the Executive s Base Salary. The Executive s right to terminate employment pursuant to this subsection 8(d) will not be affected by the Executive s Disability. The Executive s continued employment will not constitute consent to, or a waiver of rights with respect to, any circumstance constituting consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason; *provided, however*, that the Executive will be deemed to have waived his rights pursuant to circumstances constituting Good Reason if he has not provided to the Company a Notice of Termination (as defined below) within ninety (90) days following his knowledge of the circumstances constituting Good Reason. A waiver with respect to the circumstances constituting Good Reason will not act as a waiver with respect to other future circumstances constituting Good Reason.

Any termination of the Executive s employment by the Executive must be communicated by written Notice of Termination to the Company in accordance with Section 19. For purposes of this Agreement, a Notice of Termination means a notice which indicates the specific termination provision in this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive s employment under the provision so indicated.

For purposes of this Agreement, a Change in Control will occur: (i) upon the sale or other disposition of 50% or more of the consolidated assets of the Company taken as a whole; (ii) if shares representing a majority of the voting power of the Company are acquired by a person or group (as such term is used in Rule 13d-5 promulgated under the Securities Exchange Act of 1934, as amended) of persons other than the holders of the capital stock of the Company as of the date of this Agreement; (iii) upon a merger or consolidation pursuant to which the holders of the equity securities of the Company before the merger or consolidation do not own equity securities representing a majority of

the voting power of the surviving entity after the merger or consolidation; or (iv) upon approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

9. Compensation Upon Termination.

(a) If the Executive s employment is terminated as a result of the Executive s death or Disability, he, or his estate, will be entitled to:

(i) any Base Salary earned but not yet paid;

(ii) any bonus awarded pursuant to Section 5 of this Agreement but not yet paid, payable as soon as administratively feasible following termination of employment;

(iii) a prorated bonus for the year in which his employment terminates, prorated based on the number of days worked, minus any bonus payments made pursuant to Section 5 of this Agreement in respect of the year containing the date of termination, payable as soon as administratively feasible following the end of the then current fiscal year of the Company;

(iv) reimbursement in accordance with this Agreement of any business expense incurred by the Executive but not yet paid, payable as soon as administratively feasible following termination of employment; and

(v) other benefits accrued and earned by the Executive through the date of his death or Disability in accordance with applicable plans and programs of the Company.

(b) If the Executive s employment is terminated by the Company for Cause, or by the Executive other than for Good Reason, he will be entitled to:

(i) any Base Salary earned but not yet paid;

(ii) reimbursement in accordance with this Agreement of any business expense incurred by the Executive but not yet paid, payable as soon as administratively feasible following termination of employment; and

(iii) other benefits accrued and earned by the Executive through the date of his termination in accordance with applicable plans and programs of the Company.

(c) If the Executive s employment is terminated by the Company without Cause, or by the Executive for Good Reason, or as a result of notice of nonrenewal provided by the Company under Section 2, he will be entitled to:

(i) any Base Salary earned but not yet paid;

(ii) any bonus awarded pursuant to Section 5 of this Agreement but not yet paid, payable as soon as administratively feasible following termination of employment;

(iii) continuation of his Base Salary, at the rate in effect on the date of his termination of employment (which, in the case of a termination of the Executive for Good Reason pursuant to Section 8(d)(v), shall be deemed to be the rate in effect prior to giving any effect to the reduction in Base Salary giving rise to such Good Reason), until the expiration of the Non-Competition Period (as defined below);

(iv) the greater of: (A) a prorated bonus for the year in which employment terminates, prorated based on the number of days worked, or (B) an amount equal to fifty percent (50%) of the average of the bonus payments made pursuant to Section 5 of this Agreement during the two (2) calendar years preceding such termination, if any, minus any bonus payments made pursuant to Section 5 of this Agreement in respect of the year containing the date of termination, payable in either event as soon as administratively feasible following the end of the then fiscal year of the Company; provided, however, that this clause (iv) shall not be applicable in the event that the Executive s employment is terminated upon notice of nonrenewal provided by the Company under Section 2;

(v) until the expiration of the Non-Competition Period, subject to any employee contribution applicable to the Executive on the date of termination, continued participation in all of the Company s group medical and dental insurance plans in which he was participating on the date of his termination of employment, provided that the Executive is entitled to continue such participation under applicable law and plan terms;

(vi) reimbursement in accordance with this Agreement of any business expenses incurred by the Executive but not yet paid to him on the date of his termination of employment, payable as soon as administratively feasible following termination of employment; and

(vii) full vesting of any unvested equity incentives, including without limitation stock options, restricted stock and deferred restricted stock units.

In the event that, under the terms of any employee benefit plan referred to in subsection 9(c)(iv) above, the Executive may not continue his participation, he will be provided with the after-tax economic equivalent of the benefits provided under any plan in which he was previously eligible to participate for the period specified in subsection 9(c)(iv) above. The economic equivalent of any benefit foregone will be deemed to be

the cost that would be incurred by the Executive in obtaining such benefit on the lowest available individual basis.

(d) Any amounts due under this Section 9 are in the nature of severance payments or liquidated damages or both, and will fully compensate the Executive and his dependents or beneficiaries, as the case may be, for any and all direct damages and consequential damages that any of them may suffer as a result of termination of the Executive s employment, and they are not in the nature of a penalty.

(e) Notwithstanding anything contained herein, any obligation of the Company to the Executive under Sections 9(c)(iii), (iv), (v) and (vii) is conditioned upon (i) the Executive signing a release of claims in the form attached hereto as Exhibit A (the Employee Release) within twenty one days (or such greater period as the Company may specify) following the later of the date on which the Executive (or, in the case of termination by the Executive for Good Reason, the Company) receives notice of termination of employment or the date the Executive receives a copy of the Employee Release and upon the Executive not revoking the Employee Release in a timely manner thereafter and (ii) the Executive s continuing compliance with the provisions of Section 10. If the Executive breaches any provision of Section 10, upon written notice of such breach and request for repayment from the Company, the Executive shall promptly pay to the Company an amount equal to the sum of any cash payments previously paid to the Executive pursuant to Sections 9(c)(iii), (iv), (v) and (vii). Any such repayment shall not be the exclusive remedy for any such breach and the Company shall retain all rights to pursue other available remedies (whether at law or equity) for any such breach.

10. Confidentiality and Non-Competition.

(a) The Executive acknowledges that he has had or will have unlimited access to confidential information and business methods relating to the Company s business and operations and that the Company would be irreparably injured and the goodwill of the Company would be irreparably damaged if the Executive were to breach the covenants set forth in this Section 10. The Executive further acknowledges that the covenants set forth in this Section 10 are reasonable in scope and duration and do not unreasonably restrict the Executive s association with other business entities, either as an employee or otherwise as set forth herein.

(b) During the Term of Employment and thereafter, except as may be required by law or necessary in connection with any dealings with any public agency or authority or in the ordinary course of business during the Term of Employment pursuant to customary non-disclosure agreements, the Executive will not disclose, disseminate, divulge, discuss, copy or otherwise use or suffer to be used, including but not limited to in competition with, or in a manner harmful to the interests of, the Company, any confidential information (written or oral) respecting any material aspect of the Company s business, excepting only use of such data or information as is (i) at the time disclosed, through no act or failure to act on the part of the Executive, generally known or available;

(ii) furnished to the Executive by a third party as a matter of right and without restriction on disclosure; or (iii) required to be disclosed by court order. Upon termination of the Term of Employment, the Executive will return to the Company any and all materials in tangible or electronic form containing confidential information belonging to the Company.

(c) During the Term of Employment and the Non-Competition Period, the Executive will not in the states of California, Florida, Georgia, Illinois, Iowa, New Jersey, Ohio or Texas, directly or indirectly, whether as an individual on the Executive s own account, or as a shareholder, partner, member, joint venturer, director, officer, employee, consultant, creditor and/or agent, of any person, firm or organization or otherwise:

(i) own, manage, control or participate in the ownership, management or control of, or be employed or engaged by or otherwise affiliated or associated as a consultant, independent contractor or otherwise with, any other corporation, partnership, proprietorship, firm, association or other business entity or otherwise engage in any business that is engaged in the business of the Company or any of the Company s subsidiaries (collectively, Subsidiaries), as such business is conducted on the applicable date during the Term of Employment, or in the case of the Non-Competition Period, as of the date the Executive ceases to be employed by the Company, in any capacity, including as a consultant;

(ii) directly or indirectly solicit, encourage or induce any person who is a present or future employee, officer, agent, affiliate or customer of the Company or any Subsidiary to terminate or materially alter such person s relationship with the Company or such Subsidiary;

(iii) induce any supplier of the Company or any Subsidiary, to refuse to do business with the Company or any Subsidiary, on as favorable terms as previously done with the Company or any Subsidiary, as the case may be; or

(iv) engage in disparagement (which will not include the providing of accurate information without invidious intent) of the Company or any Subsidiary by any means to any person.

For purposes of this Agreement, Non-Competition Period shall mean the period during the Term of Employment and thereafter until the second anniversary of the date of termination of the Executive s employment with the Company; provided, however, that the Company may, by written notice to the Executive (whether given before or after the date of termination of the Executive s employment with the Company), shorten the portion of the Non-Competition Period occurring following the date of termination of the Executive s employment with the Company to any date specified in such notice which occurs on or after the earlier of (x) the second anniversary of the date of termination of the Executive s employment with the Company and (y) the date of expiration of the then current Term of Employment.

(d) Notwithstanding anything herein to the contrary, the Executive will be permitted to own shares of any class of capital stock of any publicly held corporation so long as the aggregate holdings of the Executive represent less than one percent (1%) of the outstanding shares of such class of capital stock.

11. Rights and Remedies Upon Breach.

(a) The Executive expressly agrees and understands that the remedy at law for any breach by the Executive of Section 10 will be inadequate and that the damages flowing from such breach are not readily susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon adequate proof of the Executive s violation of Section 10, the Company will be entitled, among other remedies, to injunctive relief and may obtain a temporary restraining order restraining any threatened or further breach. Nothing in this Section 11(a) will be deemed to limit the Company s remedies at law or in equity for any breach by the Executive of any of the provisions of this Agreement which may be pursued or availed of by the Company.

(b) In the event any court of competent jurisdiction determines that the specified time period or geographical area set forth in Section 10 is unreasonable, arbitrary or against public policy, then a lesser time period or geographical area that is determined by the court to be reasonable, non-arbitrary and not against public policy may be enforced.

12. Withholding Taxes. All payments to the Executive or his beneficiary will be subject to withholding on account of federal, state and local taxes as required by law. If any payment hereunder is insufficient to provide the amount of such taxes required to be withheld, the Company may withhold such taxes from any other payment due the Executive or his beneficiary.

13. Assignability; Binding Nature. This Agreement will be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to (i) a merger or consolidation in which the Company is not the continuing entity or (ii) a sale or liquidation of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale of assets or liquidation as described in the preceding sentence, it will use its best efforts to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No obligations of the Executive under this Agreement may be assigned or transferred by the Executive.

14. Entire Agreement. Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof.

15. Amendment or Waiver. No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both the Executive and an authorized officer of the Company. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party will be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

16. Severability. In the event that any provision or portion of this Agreement is determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement will be unaffected thereby and will remain in full force and effect to the fullest extent permitted by law.

17. Survivorship. The respective rights and obligations of the Parties hereunder will survive any termination of the Executive s employment with the Company to the extent necessary to the intended preservation of such rights and obligations as described in this Agreement.

18. Governing Law. This Agreement will be governed by and construed and interpreted in accordance with the laws of [ ], without reference to principles of conflict of laws.

19. Notices. Any notice given to either Party must be in writing and will be deemed to have been given when delivered personally or one (1) day after having been sent by overnight courier service or three (3) days after having been sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give such notice of:

If to the Company or the Board: _____

_____

_____

_____

If to the Executive: _____

_____

_____

_____

20. Headings. The headings of the sections contained in this Agreement are for convenience only and will not be deemed to control or affect the meaning or construction of any provision of this Agreement.

21. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date and year first above written.

Orion HealthCorp, Inc.

By: _____

Name: _____

Title: _____

(Employee Name)

By: _____

Exhibit A

Form of
Release of Claims

FOR AND IN CONSIDERATION OF the amounts to be provided to me in connection with the termination of my employment, as set forth in the Employment Agreement between me and Orion HealthCorp, Inc. (the Company) dated as of [ ], 2004 (the Employment Agreement), which are conditioned upon my signing this Release of Claims and to which I am not otherwise entitled, and for other good and valuable consideration, I, on my own behalf and on behalf of my heirs, executors, beneficiaries and personal representatives, and all others connected with me, hereby release and forever discharge the Company, its parent, subsidiaries and other affiliates and all of their respective past and present officers, directors, shareholders, employees, agents, general and limited partners, members, managers, joint venturers, representatives, successors and assigns, and all others connected with any of them, both individually and in their official capacities, from any and all causes of action, rights and claims, of any nature or type, known or unknown, which I have had in the past, now have, or might now have, through the date of my signing of this Release of Claims, including, but not limited to, any such causes of action, rights or claims in any way resulting from, arising out of or connected with my employment by, investment in, or other relationship with the Company or any of its affiliates or the termination of that employment, investment and/or relationship or pursuant to any federal, state or local law, regulation or other requirement (including without limitation Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, and the fair employment practices laws of the state or states in which I have provided services to the Company or its affiliates, each as amended from time to time); provided that nothing herein shall be a release of my rights to enforce any provision of [the Employment Agreement, as in effect from time to time]**[Cain/Smith agreements only:]**[the Employment Agreement, the Agreement and Plan of Merger among the Company, [DCPS/MBS Acquisition, Inc.], Dennis Cain Physician Solutions, Inc., Medical Billing Systems, Inc., [Dennis Cain/Thomas Smith] and the Executive (the Merger Agreement) or the Seller Notes (as defined in the Merger Agreement), in each case as such agreements or instruments are in effect from time to time].

In signing this Release of Claims, I acknowledge that I have had a reasonable amount of time to consider the terms of this Release of Claims and that I am signing this Release of Claims voluntarily and with a full understanding of its terms.

In signing this Release of Claims, I acknowledge my understanding that I may not sign it prior to the termination of my employment, but that I may consider the terms of this Release of Claims for up to twenty-one (21) days (or such longer period as the Company may specify) from the later of the date my employment with the Company terminates or the date I receive this Release of Claims. I also acknowledge that I am advised by the Company and its subsidiaries and other affiliates to seek the advice of an attorney prior to signing this Release of Claims; that I have had sufficient time to consider this Release of Claims and to consult with an attorney, if I wished to do so, or to consult with any other person of my choosing before signing; and that I am signing this Release of Claims voluntarily and with a full understanding of its terms.

I further acknowledge that, in signing this Release of Claims, I have not relied on any promises or representations, express or implied, that are not set forth expressly in the Employment Agreement. I understand that I may revoke this Release of Claims at any time within seven (7) days of the date of my signing by written notice to the Chief Financial Officer of the Company and that this Release of Claims will take effect only upon the expiration of such seven-day revocation period and only if I have not timely revoked it.

Intending to be legally bound, I have signed this Release of Claims under seal as of the date written below.

Signature: _____

Name (please print): _____

Date Signed: _____

ANNEX F

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR THE SECURITIES LAWS OF ANY STATE AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SECURITIES PURCHASED HEREUNDER MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND OTHER APPLICABLE LAWS PURSUANT TO REGISTRATION OR EXEMPTION FROM REGISTRATION REQUIREMENTS THEREUNDER.

AMENDED AND RESTATED
DEBT EXCHANGE AGREEMENT

This Amended and Restated Debt Exchange Agreement is made as of February 9, 2004 among SurgiCare, Inc., a Delaware corporation (SurgiCare), Brantley Venture Partners III, L.P. (Brantley III) and Brantley Capital Corporation (Brantley Capital ; each of Brantley III and Brantley Capital is sometimes referred to herein as a Subscriber and collectively as the Subscribers). The Agreement amends and restates in its entirety the Debt Exchange Agreement dated as of November 18, 2003 entered into between SurgiCare and the Subscribers (the Prior Agreement).

RECITALS

Prior to the date hereof, Brantley III advanced a total of $1,271,171 in loans to Integrated Physician Solutions, Inc., a Delaware corporation (IPS), pursuant to one or more promissory notes (collectively, the Brantley III Notes).

Prior to the date hereof, Brantley Capital advanced a total of $1,985,448 in loans to IPS pursuant to one or more promissory notes (collectively, the Brantley Capital Notes ; the Brantley III Notes and the Brantley Capital Notes are sometimes referred to herein collectively as the Exchange Notes). In connection with the issuance of one or more of the Brantley Capital Notes, IPS agreed to pay to Brantley Capital the amount of $593,100 in respect of accrued dividends (the Brantley Capital Dividend Amount), which amount remains outstanding as of the date hereof.

SurgiCare has proposed to amend and restate its Certificate of Incorporation to provide that, as amended and in effect at the closing of the transactions contemplated by this Agreement, SurgiCare will be authorized to issues shares of Class A Common Stock, par value $.001 per share (Class A Common), Class B Common Stock, par value $.001 per share (Class B Common), and Class C Common Stock, par value $.001 per share (Class C Common), having the terms described in the draft Amended and Restated Certificate of Incorporation attached hereto as Exhibit A (the Amended SurgiCare Charter). Simultaneously with the filing of the Amended SurgiCare Charter and pursuant thereto, SurgiCare will effect a reverse stock split whereby each outstanding share of common stock, par value $0.005 per share (the Pre-Split Common Stock), of SurgiCare shall be reclassified and reduced to a fraction of a share of Class A Common as contemplated by the Brantley IV Subscription Agreement (as hereinafter defined).

Brantley Partners IV, L.P. (Brantley IV) proposes to make an investment (the Brantley IV Investment) in SurgiCare consisting of cash and the contribution of certain notes issued by IPS and SurgiCare evidencing loans made by Brantley IV to them. Such investment will be made pursuant to an Amended and Restated Stock Subscription Agreement dated as of the date hereof

(the Brantley IV Subscription Agreement) between SurgiCare and Brantley IV, having the terms described in the draft thereof attached hereto as Exhibit B.

SurgiCare proposes to acquire (the Acquisitions), either directly or indirectly through one or more subsidiaries: (i) IPS, pursuant to an Amended and Restated Agreement and Plan of Merger dated as of the date hereof (the IPS - SurgiCare Merger Agreement), among SurgiCare, IPS Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of SurgiCare, and IPS, having the terms described in the draft Agreement and Plan of Merger attached hereto as Exhibit C; and (ii) Dennis Cain Physician Solutions, Ltd., a Texas limited partnership (DCPS), and Medical Billing Services, Inc., a Texas corporation (MBS), pursuant to an Agreement and Plan of Merger (the DCPS/MBS Merger Agreement and, together with the IPS SurgiCare Merger Agreement, the Acquisition Agreements), among SurgiCare, DCPS/MBS Acquisition, Inc., a Texas corporation and a wholly-owned subsidiary of SurgiCare, DCPS, MBS and the Sellers party thereto, having the terms described in the draft Agreement and Plan of Merger attached hereto as Exhibit D.

Each Subscriber is willing to exchange the Exchange Notes held by such Subscriber for a number of shares of Class A Common determined as set forth herein, and SurgiCare is willing to effect such exchange, all on the terms and conditions set forth herein.

AGREEMENT

In consideration of the foregoing, and the representations, warranties, covenants and conditions set forth below, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Certain Definitions. In addition to the terms defined elsewhere in this Agreement, as used in this Agreement the following terms shall have the following meanings:

1.1. The term Brantley III Exchange Securities means a number of shares of Class A Common equal to the Brantley III Loan Amount *divided by* the Class A Common Closing Price, rounded up to the nearest whole number.

1.2. The term Brantley III Loan Amount means the aggregate principal amount of, and all accrued and unpaid interest on, the Brantley III Notes outstanding immediately prior to the Closing.

1.3. The term Brantley Capital Dividend Securities means a number of shares of Class A Common equal to the number of shares of Class A Common, if any, that Brantley Capital would receive pursuant to Section 2.01(a)(i)(C) of the IPS SurgiCare Merger Agreement if Brantley Capital held a number of additional IPS Series A-2 Shares (as defined in the IPS SurgiCare Merger Agreement) immediately prior to the Effective Time (as defined in the IPS SurgiCare Merger Agreement) representing a claim (in respect of liquidation preference and accrued but unpaid dividends) equal to the Brantley Capital Dividend Amount (assuming solely for purposes of calculating such number of shares that Brantley Capital would receive pursuant to Section 2.01(a)(i)(C) of the IPS SurgiCare Merger Agreement that the amount of the Brantley Capital Dividend Securities is zero). It is understood that in determining the number of shares that Brantley Capital would receive pursuant to Section 2.01(a)(i)(C) of the IPS SurgiCare Merger Agreement as set forth in the preceding sentence, the additional IPS Series A-2 Shares deemed to be held by Brantley Capital for purposes of such calculation shall be deemed to be pari passu with all outstanding IPS Series A-2 Shares and shall be subject to any applicable pro rata distribution provisions affecting such IPS Series A-2 Shares.

1.4. The term Brantley Capital Exchange Securities means a number of shares of Class A Common equal to the Brantley Capital Loan Amount *divided by* the Class A Common Closing Price, rounded up to the nearest whole number.

1.5. The term Brantley Capital Loan Amount means the aggregate principal amount of, and all accrued and unpaid interest on, the Brantley Capital Notes outstanding immediately prior to the Closing.

1.6. The term Class A Common Closing Price means an amount equal to the Five Day Average Price *divided by* the Reverse Split Fraction.

1.7. The term Closing means the closing of the purchase of Subscription Securities, as contemplated by Section 2 of this Agreement.

1.8. The term Five Day Average Price means the average of the daily average of the high and low price per share of the Pre-Split Common Stock on the American Stock Exchange, or such other stock exchange or other similar system on which the Pre-Split Common Stock shall be listed at the time, for the five trading days immediately preceding the Closing Date.

1.9. The term Person means any individual, partnership, corporation, limited liability company, association, trust, joint venture, unincorporated organization or other entity.

1.10. The term Reverse Split Fraction means a number equal to 0.10.

1.11. The term Specified Securities means the Subscription Securities, other than any such securities which have been sold in a registered public offering or to the public pursuant to Rule 144 under the Securities Act.

1.12. The term Subscription Securities means, collectively, the Brantley III Exchange Securities, the Brantley Capital Exchange Securities and the Brantley Capital Dividend Securities.

1.13. The term Subsidiary of any Person means any corporation, partnership, joint venture or other legal entity of which such Person (either alone or through or together with any other subsidiary) owns, directly or indirectly, 10% or more of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

2. Exchange of Exchange Notes for Subscription Securities.

2.1. On the terms and subject to the conditions hereof, SurgiCare hereby agrees to sell to each Subscriber, and by its acceptance hereof such Subscriber, severally and not jointly or jointly and severally with the other Subscriber, agrees to purchase from SurgiCare for investment, on the Closing Date (as defined in the IPS SurgiCare Merger Agreement), such Subscriber s Subscription Securities in exchange for the surrender of the Exchange Notes held by such Subscriber to SurgiCare for cancellation and, in the case of Brantley Capital, the right to receive the Brantley Capital Dividend Amount.

2.2. The exchange of the Exchange Notes and the right to receive the Brantley Capital Dividend Amount for the Subscription Securities shall take place at the same time and location as, and shall be substantially contemporaneous with, the closings pursuant to the Brantley IV Subscription Agreement, the IPS SurgiCare Merger Agreement and the DCPS/MBS Merger Agreement. If at any time prior to the Closing hereunder the Brantley IV Subscription Agreement or either of the Acquisition Agreements shall be terminated, any party to this Agreement may, upon notice to the others, terminate this Agreement, after which this Agreement will no longer be of any further force or effect; provided, however, that no such termination of this Agreement shall relieve any party from liability for breach prior to such termination.

2.3. At the Closing, against surrender of the Exchange Notes by or on behalf of each Subscriber to SurgiCare for cancellation, SurgiCare will deliver to such Subscriber certificates

for the Subscription Securities to be acquired by such Subscriber acquired pursuant to Section 2.1, registered in the name of such Subscriber.

3. Representations and Warranties of SurgiCare. SurgiCare represents and warrants to the Subscriber that:

3.1. SurgiCare is duly organized, validly existing and in good standing under the laws of the State of Delaware. SurgiCare has made available to the Subscriber true and complete copies of SurgiCare s Certificate of Incorporation and the By-Laws as in effect on the date hereof. Prior to the Closing Date, such documents will be amended to be, as of the Closing Date, in the respective forms of the Amended SurgiCare Charter and Exhibit E (Form of Amended By-Laws).

3.2. SurgiCare has or prior to the Closing Date will have taken all corporate action required to authorize the execution and delivery of this Agreement and the issuance of the Subscription Securities.

3.3. The Subscription Securities, when issued upon exchange of the Exchange Notes and the right to receive the Brantley Capital Dividend Amount as contemplated by Section 2.1, will be duly authorized, validly issued, fully paid and non-assessable and free and clear of any and all preemptive or similar preferential rights to purchase.

3.4. All of the representations and warranties of SurgiCare set forth in the Brantley IV Subscription Agreement are true and correct; and as of the Closing Date such representations and warranties will continue to be true and correct in all material respects (except for such representations and warranties which are qualified as to materiality, which will continue to be true in all respects). All of the representations and warranties of SurgiCare set forth in the IPS SurgiCare Merger Agreement are true and correct; and as of the Closing Date such representations and warranties will continue to be true and correct in all material respects (except for such representations and warranties which are qualified as to materiality, which will continue to be true in all respects). All of the representations and warranties of SurgiCare set forth in the DCPS/MBS Merger Agreement will be true and correct as of the date thereof; and as of the Closing Date such representations and warranties will continue to be true and correct in all material respects (except for such representations and warranties which are qualified as to materiality, which will continue to be true in all respects). SurgiCare has provided each Subscriber with true and complete copies of the Brantley IV Subscription Agreement, the IPS SurgiCare Merger Agreement, the DCPS/MBS Merger Agreement and all material agreements and other documents relating to the Acquisitions and the Brantley IV Investment, including, in each case, any and all amendments thereto, and the transactions contemplated by the Amended SurgiCare Charter.

3.5. Each of the Brantley IV Investment Agreement, each of the Acquisition Agreements and this Agreement is, or at or prior to the Closing will be, a legal, valid and binding obligation of SurgiCare and each other party thereto, enforceable against SurgiCare and such other parties in accordance with its respective terms.

3.6. Immediately after the consummation of the transactions contemplated hereby and by the Acquisition Agreements and the Brantley IV Investment Agreement, the shares of stock and

other equity interests of SurgiCare outstanding will be owned by the Persons (or groups) and in the amounts set forth in Schedule 1 hereto.

3.7. In reliance on the representations and warranties of each Subscriber contained in Section 4.2 hereof, no registration of the offer or sale of the Subscription Securities to such Subscriber hereunder is required under the Securities Act.

4. Representations and Warranties of the Subscribers. Each Subscriber, severally and not jointly or jointly and severally with the other Subscriber, represents and warrants with respect to such Subscriber that:

4.1. Such Subscriber has full legal capacity, power and authority to execute and deliver this Agreement and to fully perform its obligations hereunder. This Agreement has been duly authorized, executed and delivered by such Subscriber and is the legal, valid and binding obligation of such Subscriber enforceable against it in accordance with the terms hereof, and the consummation of the transactions contemplated hereby has been duly and validly authorized by all necessary action on the part of such Subscriber. The execution and delivery of this Agreement by such Subscriber, and the performance by such Subscriber of its obligations hereunder, will not result in a material breach or material default under any organizational document, agreement, instrument or other document by which such Subscriber is bound or otherwise result in a material violation of any instrument, judgment, decree, order, statute, rule or regulation by which such Subscriber is bound.

4.2. Investment Representations.

(a) Such Subscriber has been advised that the Subscription Securities to be acquired by such Subscriber pursuant hereto have not been registered under the Securities Act or any state securities laws and, therefore, cannot be resold unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. Such Subscriber is aware that SurgiCare is under no obligation to effect any such registration with respect to the Subscription Securities or to file for or comply with any exemption from registration. Such Subscriber is acquiring the Subscription Securities to be acquired hereunder for its own account and not with a view to, or for resale in connection with, the distribution thereof in violation of the Securities Act. Such Subscriber has such knowledge and experience in financial and business matters, including investments in companies similar to SurgiCare, that such Subscriber is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment and is able to bear the economic risk of such investment for an indefinite period of time. Such Subscriber is an accredited investor as that term is defined in Rule 501 under Regulation D promulgated under the Securities Act. Such Subscriber was not organized for the sole purpose of investing in the Subscription Securities to be acquired by such Subscriber.

(b) Such Subscriber has had an opportunity to discuss SurgiCare s business, management and financial affairs with SurgiCare s executive officers. Such Subscriber has also had an opportunity to ask questions and receive answers from the executive officers of SurgiCare concerning the terms and conditions of the offering of the Subscription Securities

to be acquired by such Subscriber pursuant hereto and to obtain the information it believe necessary or appropriate to evaluate the suitability of an investment in such Subscription Securities.

5. Conditions to Acquisition of Subscription Securities.

5.1. SurgiCare s obligation to issue and sell the Subscription Securities shall be subject to the satisfaction of the following conditions:

(a) all representations and warranties of each Subscriber contained in this Agreement shall be true and correct as of the Closing, and each Subscriber shall have delivered to SurgiCare a certificate duly executed on behalf of such Subscriber, by a general partner or other duly authorized senior representative, certifying that the condition set forth in this Section 5.1(a) has been satisfied; and

(b) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligation to close under the Acquisition Agreements (other than any conditions relating to the consummation of the purchase and sale of the Subscription Securities under this Agreement or the Brantley IV Investment) and the Brantley IV Subscription Agreement shall have been satisfied or waived by SurgiCare.

5.2. Each Subscriber s obligation to purchase and pay for the Subscription Securities to be acquired by such Subscriber pursuant hereto shall be subject to the satisfaction of the following conditions:

(a) all representations and warranties of SurgiCare contained in this Agreement shall be true and correct as of the Closing, and SurgiCare shall have delivered to such Subscriber a certificate duly executed on behalf of SurgiCare by its chief executive officer and chief financial officer certifying that the condition set forth in this Section 5.2(a) has been satisfied;

(b) the Amended SurgiCare Charter shall have been authorized and approved by all corporate and other action required therefor; and the Amended SurgiCare Charter shall have been filed with the Secretary of State of the State of Delaware and shall have become effective under the General Corporation Law of the State of Delaware;

(c) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligations to close under the Brantley IV Subscription Agreement, and all conditions to Brantley IV s obligation to close under the Brantley IV Subscription Agreement, shall have been satisfied, without giving effect to any waiver thereof other than waivers consented to in writing by such Subscriber;

(d) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligations to close under the IPS SurgiCare Merger Agreement, and all conditions to IPS obligation to close

under the IPS SurgiCare Merger Agreement, shall have been satisfied, without giving effect to any waiver thereof other than waivers consented to in writing by such Subscriber;

(e) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligations to close under the DCPS/MBS Merger Agreement, and all conditions to the obligation of DCPS and MBS to close under the DCPS/MBS Merger Agreement, shall have been satisfied, without giving effect to any waiver thereof other than waivers consented to in writing by such Subscriber;

(f) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, the Brantley IV Investment and each of the Acquisitions shall have been consummated;

(g) such Subscriber s completion and satisfaction with the results of its legal, accounting, tax, regulatory and business due diligence review of IPS, SurgiCare, DCPS and MBS;

(h) such Subscriber s satisfaction with the form and substance of all documentation with respect to the Brantley IV Investment, the Acquisitions and the related transactions (including but not limited to execution and delivery of agreements, in form and substance satisfactory to such Subscriber, with respect to the continued employment of key personnel);

(i) such Subscriber shall have received such other certificates, opinions of counsel and other documents as such Subscriber shall have specified in connection with the Closing, including without limitation confirmations of legal opinions delivered by counsel to SurgiCare, IPS, DCPS and MBS;

(j) such Subscriber s satisfaction that no material adverse change has occurred between December 31, 2002 and the Closing Date with respect to the business, assets, condition (financial or otherwise) or prospects of SurgiCare, IPS, DCPS or MBS or any of their respective Subsidiaries (or such Subscriber s decision to elect to close notwithstanding any such material adverse change but without waiving or releasing any other rights of such Subscriber with respect to any such material adverse change);

(k) the obtaining of all necessary governmental, regulatory and other approvals, including but not limited to the approval by the stockholders of IPS and SurgiCare, as provided in the IPS SurgiCare Merger Agreement; and

(l) such Subscriber s satisfaction that the Class A Common shall continue to be listed on the American Stock Exchange from and after the Closing Date.

6. Covenants.

6.1. SurgiCare will furnish each registered holder from time to time of any of the Specified Securities the following:

6.1.1 As soon available, and in any event within 120 days after the end of each fiscal year of SurgiCare, the consolidated balance sheet of SurgiCare and its subsidiaries as at the end of each such fiscal year and the consolidated statements of income, cash flows and changes in stockholders equity for such year of SurgiCare and its subsidiaries, setting forth in each case in comparative form the figures for the next preceding fiscal year, accompanied by the report of independent certified public accountants of recognized national standing, to the effect that, except as set forth therein, such consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior years and fairly present in all material respects the financial condition of SurgiCare and its subsidiaries at the dates thereof and the results of their operations and changes in their cash flows and stockholders equity for the periods covered thereby.

6.1.2 As soon as available and in any event within 60 days after the end of each fiscal quarter of SurgiCare, the consolidated balance sheet of SurgiCare and its subsidiaries as at the end of such quarter and the consolidated statements of income, cash flows and changes in stockholders equity for such quarter and the portion of the fiscal year then ended of SurgiCare and its subsidiaries, setting forth in each case the figures for the corresponding periods of the previous fiscal year in comparative form, all in reasonable detail.

6.1.3 Promptly after the filing thereof, any documents filed by SurgiCare with the Securities and Exchange Commission.

6.2. SurgiCare shall cause to be kept on an appropriate basis, and each registered holder from time to time of any of the Specified Securities, and each representative of any such holder, shall have access to, appropriate books, records and accounts.

6.3. From time to time upon request of any registered holder from time to time of any of the Specified Securities, or any representative of any such holder (including without limitation accountants and legal counsel), SurgiCare will furnish to holder or representative such information regarding the business of SurgiCare and its Subsidiaries (including materials furnished to the directors of SurgiCare or any of its Subsidiaries at or in connection with meetings of their respective boards of directors or committees thereof) as such holder or representative may reasonably request. Each such holder or representative shall have the right during normal business hours to make an independent examination of the books and records of SurgiCare and any of its Subsidiaries, to make copies, notes and abstracts therefrom, and to discuss their business, affairs and financial condition with the officers, employees and accountants of SurgiCare and its Subsidiaries. Each such holder or representative shall have the right during normal business hours to consult with and advise management of SurgiCare and its Subsidiaries on significant business issues, including management s proposed annual operating plans, and management will make itself available to meet with such holder or representatives regularly during each year at SurgiCare s and its Subsidiaries facilities at mutually agreeable times for such consultation and advice and to review progress in achieving said plans; provided, however, that no such holder or representative shall thereby have any right to direct the management or policies of SurgiCare or any of its Subsidiaries.

6.4. If and for so long as a Subscriber holds Specified Securities and does not have a representative on SurgiCare s Board of Directors, SurgiCare shall invite such Subscriber to send

one representative (a Representative) to attend in a nonvoting observer capacity all meetings of SurgiCare s Board of Directors and, in this respect, shall give such Subscriber s Representative copies of all notices, minutes, consents, and other material that SurgiCare provides to its directors; provided, however, that SurgiCare reserves the right to exclude such Subscriber s Representative from access to any material or meeting or portion thereof if SurgiCare believes upon advice of counsel that such exclusion is reasonably necessary to preserve the attorney-client privilege. Such Subscriber s Representative may participate in discussions of matters brought to SurgiCare s Board of Directors. The rights of such Subscriber set forth in this Section shall also apply to all committees of SurgiCare s Board of Directors and to the boards of directors (and all committees thereof) of all Subsidiaries of SurgiCare.

7. Indemnification.

7.1. SurgiCare will indemnify, exonerate, defend and hold each Subscriber and each of its partners, shareholders, affiliates, directors, officers, fiduciaries, employees and agents and each of the partners, shareholders, affiliates, directors, officers, fiduciaries, employees and agents of each of the foregoing (collectively, the Subscriber Indemnitees) free and harmless from and against any and all actions, causes of action, suits, losses (including, without limitation, any diminution in the value of the Subscription Securities or in other securities into which the Subscription Securities may be converted in the future), liabilities, amounts paid in settlement, judgments and damages, and any and all expenses, including, without limitation, reasonable attorneys fees and disbursements (collectively, the Indemnified Losses), incurred by the Subscriber Indemnitees or any of them as a result of, arising out of, or relating to: (a) any breach of any representation, warranty or agreement by SurgiCare or any misrepresentation by SurgiCare in this Agreement or the Brantley IV Subscription Agreement or (b) 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 officers, directors, stockholders, owners or affiliates under the IPS SurgiCare Merger Agreement, the DCPS/MBS Merger Agreement or any other agreement entered into (or certificate or instrument delivered) in connection with any of such agreements or in connection with the transactions contemplated thereby (without giving effect, in the case of the IPS SurgiCare Merger Agreement, to any update of disclosure schedules occurring subsequent to the date hereof). If and to the extent that the foregoing undertaking may be unenforceable for any reason, SurgiCare hereby agrees to make the maximum contribution to the payment and satisfaction of each of such Indemnified Losses which is permissible under applicable law. None of the Subscriber Indemnitees shall be liable to SurgiCare or any of its affiliates for any act or omission suffered or taken by such Subscriber Indemnitee that does not constitute either breach of this Agreement or gross negligence or willful misconduct.

7.2. Each Subscriber, severally and not jointly or jointly and severally with the other Subscriber, will indemnify, exonerate, defend and hold SurgiCare harmless from and against any and all Indemnified Losses resulting from, arising out of or relating to any breach of any representation, warranty or agreement of such Subscriber in this Agreement or any misrepresentation by such Subscriber in this Agreement. If and to the extent that the foregoing undertaking may be unenforceable for any reason, such Subscriber hereby agrees to make the maximum contribution to the payment and satisfaction of such Indemnified Losses of SurgiCare which is permissible under applicable law.

7.3. If any third party notifies either SurgiCare or either Subscriber with respect to any matter (a Third Party Claim) which may give rise to a claim (an Indemnified Claim) with respect to which such notified party may seek indemnification hereunder (such party, in such capacity, being referred to herein as an Indemnified Party), then the Indemnified Party will promptly give written notice to the party (the Indemnifying Party) against which such indemnification may be sought; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party will relieve the Indemnifying Party from any obligation under this Section 7, except to the extent such delay actually and materially prejudices the Indemnifying Party.

7.3.1 The Indemnifying Party will be entitled to participate in the defense of any Third Party Claim that is the subject of a notice given by the Indemnified Party pursuant to Section 7.3. In addition, the Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (a) the Indemnifying Party gives written notice to the Indemnified Party within fifteen days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any and all Indemnified Losses the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (b) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have adequate financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (c) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief against the Indemnified Party, (d) the Indemnified Party has not been advised by counsel that an actual or potential conflict exists between the Indemnified Party and the Indemnifying Party in connection with the defense of the Third Party Claim, (e) the Third Party Claim does not relate to or otherwise arise in connection with taxes or any criminal or regulatory enforcement action, (f) settlement of, an adverse judgment with respect to or the Indemnifying Party s conduct of the defense of the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to be adverse to the Indemnified Party s reputation or continuing business interests (including its relationships with current or potential customers, suppliers or other parties material to the conduct of its business) and (g) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently. If the Indemnifying Party does so defend an Indemnified Party and such Indemnified Party elects to retain separate co-counsel, such retention shall be at such Indemnified Party s sole cost and expense and the Indemnifying Party will cooperate with such separate counsel to allow it to participate in the defense of the Third Party Claim; provided, however, that the Indemnifying Party will pay the fees and expenses of separate co-counsel retained by the Indemnified Party that are incurred prior to Indemnifying Party s assumption of control of the defense of the Third Party Claim.

7.3.2 The Indemnifying Party will not consent to the entry of any judgment or enter into any compromise or settlement with respect to the Third Party Claim without the prior written consent of an Indemnified Party unless such judgment, compromise or settlement (a) provides for the payment by the Indemnifying Party of money as sole relief for the claimant, (b) results in the full and general release of such Indemnified Party, as applicable, from all

liabilities arising or relating to, or in connection with the Third Party Claim and (c) involves no finding or admission of any violation of law or the rights of any Person and no effect on any other claims that may be made against the Indemnified Party.

7.3.3 If the Indemnifying Party does not deliver the notice contemplated by clause (a), or the evidence contemplated by clause (b), of Section 7.3.1 within 15 days after the Indemnified Party has given notice of the Third Party Claim, or otherwise at any time fails to conduct the defense of the Third Party Claim actively and diligently, the Indemnified Party may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim in any manner it may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith). If such notice and evidence is given on a timely basis and the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently but any of the other conditions in Section 7.3.1 or 7.3.2 is or becomes unsatisfied, the Indemnified Party may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim; provided, however, that the Indemnifying Party will not be bound by the entry of any such judgment consented to, or any such compromise or settlement effected, without its prior written consent (which consent will not be unreasonably withheld or delayed). In the event that the Indemnified Party conducts the defense of the Third Party Claim pursuant to this Section 7.3.3 the Indemnifying Party will (a) advance the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys fees and expenses) and (b) remain responsible for any and all other Indemnified Losses that the Indemnified Party may incur or suffer resulting from, arising out of, relating to, in the nature of or caused by the Third Party Claim to the fullest extent provided in this Section 7.

7.3.4 Each party to this Agreement, in its capacity as an Indemnifying Party, hereby consents to the non-exclusive jurisdiction of any court in which any Third Party Claim may brought against any Indemnified Party for purposes of any claim which such Indemnified Party may have against such Indemnifying Party pursuant to this Agreement in connection with such Third Party Claim, and in furtherance thereof, the provisions of Section 10.2 are incorporated herein by reference, mutatis mutandis.

7.4. The indemnification provisions of this agreement shall survive without limitation as to time for as long as may be permitted under applicable law and without regard to any expiration or termination of any underlying representation, covenant or other obligation relating to or giving rise to an indemnification obligation under this Agreement.

8. Restrictions on Transfer.

8.1. Restrictive Securities Act Legend. All certificates representing Subscription Securities shall bear a legend in substantially the following form:

The shares of stock represented by this certificate were issued in a private placement, without registration under the Securities Act of 1933, as amended (the Act), and may not be sold, assigned, pledged or otherwise transferred in the absence of an effective registration under the Act covering the transfer or a legal opinion of counsel acceptable to the issuer that registration under the Act is not required.

8.2. Termination of 8.1 Restrictions. The restrictions imposed by Section 8 hereof upon the transferability of Subscription Securities shall cease and terminate as to any particular Subscription Securities (i) when, in the opinion of Ropes & Gray LLP or other counsel reasonably acceptable to SurgiCare, such restrictions are no longer required in order to assure compliance with the Securities Act or (ii) when such Subscription Securities shall have been registered under the Securities Act or transferred pursuant to Rule 144 thereunder. Whenever such restrictions shall cease and terminate as to any Subscription Securities or such Subscription Securities shall be transferable under paragraph (k) of Rule 144, the holder thereof shall be entitled to receive from the Issuer, without expense, new certificates not bearing the legend set forth in Section 8.1 hereof.

9. Miscellaneous.

9.1. Entire Agreement; Prior Agreement Superseded. This Agreement and the other agreements referred to herein set forth the entire understanding among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter, including without limitation the Prior Agreement, which Prior Agreement is terminated in its entirety.

9.2. Amendment. This Agreement can be changed only by an instrument in writing signed by the party against whom enforcement of such change is sought.

9.3. No-Shop; Expenses.

9.3.1 SurgiCare will comply fully with the terms of the IPS SurgiCare Merger Agreement, including, without limitation, the provisions of Section 6.03 thereof relating to non-solicitation of alternative SurgiCare Acquisition Transactions (as defined in the IPS SurgiCare Merger Agreement), subject to the provisions of clause (b) of such Section 6.03.

9.3.2 Except as set forth below, all Expenses (as defined below) incurred in connection with this Agreement and the other transactions contemplated hereby will be paid by the party incurring such expenses. Expenses as used in this Agreement include all reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, financing sources, appraisers, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to (a) the due diligence review and analysis of SurgiCare, IPS, DCPS, MBS, the Brantley IV Investment, the Acquisitions and the other transactions contemplated hereby, (b) the negotiation and documentation of related agreements and (c) the proxy solicitation process as well as the process for obtaining any governmental or other third party consent for the foregoing transactions.

9.3.3 If the Closing occurs, SurgiCare agrees to pay on demand (i) all Expenses actually incurred by each Subscriber (or any of its affiliates) and (ii) any out-of-pocket expenses actually incurred by such Subscriber, its general partner or any of such Subscriber s other affiliates in connection with the provision of services to SurgiCare or any of its Subsidiaries or the attendance at any meeting of the board of directors (or any committee thereof) of SurgiCare or any of its Subsidiaries.

9.4. Assignment. This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and representatives; provided, however, that prior to the Closing, no assignment of the Subscriber s rights hereunder will, without the consent of SurgiCare, relieve the Subscriber of its obligations hereunder; and, after the Closing, the Subscriber may not assign any of the Subscriber s rights hereunder except in connection with a transfer of the Subscription Securities in compliance with the terms and conditions of Section 8 of this Agreement.

9.5. Survival. All covenants, agreements, representations and warranties made herein shall survive the execution and delivery hereof and transfer of any Subscription Securities.

9.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

10. Governing Law; Arbitration.

10.1. Governing Law. This Agreement and all claims arising hereunder or in connection herewith shall be governed by and construed in accordance with the domestic substantive laws of the State of New York, without giving effect to any choice or conflict of law provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

10.2. Consent to Jurisdiction. Each of the parties agrees that all actions, suits or proceedings arising out of or based upon this Agreement or the subject matter hereof may be brought and maintained in the federal and state courts within the County of New York of the State of New York. Each of the parties hereto by execution hereof: (i) hereby irrevocably submits to the jurisdiction of the federal and state courts within the County of New York in the State of New York for the purpose of any action, suit or proceeding arising out of or based upon this Agreement or the subject matter hereof and (ii) hereby waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such action, suit or proceeding, any claim that he or it is not subject personally to the jurisdiction of the above-named courts, that he or it is immune from extraterritorial injunctive relief or other injunctive relief, that his or its property is exempt or immune from attachment or execution, that any such action, suit or proceeding may not be brought or maintained in one of the above-named courts, that any such action, suit or proceeding brought or maintained in one of the above-named courts should be dismissed on grounds of forum non conveniens, should be transferred to any court other than one of the above-named courts, should be stayed by virtue of the pendency of any other action, suit or proceeding in any court other than one of the above-named courts, or that this Agreement or the subject matter hereof may not be enforced in or by any of the above-named courts. Each of the parties hereto hereby consents to service of process

in any such suit, action or proceeding in any manner permitted by the laws of the State of New York, agrees that service of process by registered or certified mail, return receipt requested, at the address specified below its signature hereon is reasonably calculated to give actual notice and waives and agrees not to assert by way of motion, as a defense or otherwise, in any such action, suit or proceeding any claim that such service of process does not constitute good and sufficient service of process.

10.3. Waiver of Jury Trial. To the extent not prohibited by applicable law which cannot be waived, each of the parties hereto hereby waives, and covenants that he or it will not assert (whether as plaintiff, defendant, or otherwise), any right to trial by jury in any forum in respect of any issue, claim, demand, cause of action, action, suit or proceeding arising out of or based upon this Agreement or the subject matter hereof, in each case whether now existing or hereafter arising and whether in contract or tort or otherwise. Any of the parties hereto may file an original counterpart or a copy of this Section 10.3 with any court as written evidence of the consent of each of the parties hereto to the waiver of his or its right to trial by jury.

10.4. Reliance. Each of the parties hereto acknowledges that he or it has been informed by each other party that the provisions of Section 10 constitute a material inducement upon which such party is relying and will rely in entering into this Agreement and the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound by the terms hereof, have caused this Agreement to be executed, under seal, as of the date first above written by their officers or other representatives thereunto duly authorized.

The Issuer:

SurgiCare, Inc.

By /s/ Keith G. LeBlanc

Name: Keith G. LeBlanc
Title: President and Chief Executive Officer

Address: 12727 Kimberly Lane, Suite 200
Houston, TX 77024

The Subscribers:

Brantley Venture Partners III, L.P

By: Brantley Venture Management III, L.P., its general partner

By /s/ Paul H. Cascio

Name: Paul H. Cascio
Title: General Partner

Address: Lakepoint
3201 Enterprise Pkwy., Suite 350
Beachwood, OH 44122

Brantley Capital Corporation

By /s/ Paul H. Cascio

Name: Paul H. Cascio
Title: Vice President

Address: Lakepoint
3201 Enterprise Pkwy., Suite 350
Beachwood, OH 44122

Schedule 1
to Amended and Restated Debt Exchange Agreement

Pro Forma Equity Ownership at Closing

Holder or Group	**Shares**
Brantley Partners IV, L.P., as the Subscriber under the Brantley IV Subscription Agreement	100% of the outstanding shares of Class B Common as of Closing (which, after satisfaction of preference amount, will be convertible into and constitute 51% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan)
Former stockholders of SurgiCare, Inc.	A number of shares of Class A Common, representing 50% of the outstanding shares of Class A Common as of Closing (which, assuming payment to Class B holders of full preference amount in cash and then conversion of Class B shares, will represent 24.5% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan)
Former debt holders and stockholders of Integrated Physicians Solutions, Inc. (IPS) (which will include Brantley III and Brantley Capital in their capacity as stockholders and debt holders of IPS)	A number of shares of Class A Common, representing 50% of the outstanding shares of Class A Common as of Closing (which, assuming payment to Class B holders of full preference amount in cash and then conversion of Class B shares, will represent 24.5% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan)
DCPS/MBS Sellers (assumes a Class A Common Closing Price of at least $.70 per share)	A number of shares of Class C Common equal to 14,060,606 *times* the Reverse Split Fraction. In addition, a number of shares of Class A Common equal to 757,575 *times* the Reverse Split Fraction will be reserved for issuance upon the direction of the DCPS/MBS Sellers
Management Option Plan	A number of shares of Class A Common equal to approximately 10% of the total Class A Common outstanding after all of the transactions contemplated by this Agreement (including the Acquisitions) will be reserved for issuance upon exercise of options issued to management (including options issued to replace former options issued by IPS)

Exhibits

Exhibit A Form of Amended and Restated SurgiCare Charter
Exhibit B Form of Brantley IV Subscription Agreement
Exhibit C Form of IPS SurgiCare Merger Agreement
Exhibit D Form of DCPS/MBS Merger Agreement
Exhibit E Form of Amended and Restated By-Laws for SurgiCare

ANNEX G

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the Agreement) is entered into as of , 2004 by and among Orion HealthCorp, Inc., a Delaware corporation formerly known as SurgiCare, Inc. (the Company), and Brantley Partners IV, L.P., a Delaware limited partnership (the Investor).

RECITALS

WHEREAS, the Investor has agreed to purchase shares of Class B Common Stock (as defined below) from the Company pursuant to a Stock Subscription Agreement dated as of November 18, 2003 (as amended from time to time, the Stock Subscription Agreement);

WHEREAS, contemporaneously with the closing under the Stock Subscription Agreement, certain stockholders and debt holders (collectively, the IPS Stockholders) of Integrated Physician Solutions, Inc., a Delaware corporation, will receive shares of Class A Common Stock (as defined below) from the Company pursuant to an Agreement and Plan of Merger dated as of November 18, 2003 (as amended from time to time, the IPS Merger Agreement) and a Debt Exchange Agreement dated as of November 18, 2003 (as amended from time to time, the Debt Exchange Agreement);

WHEREAS, contemporaneously with the closing under the Stock Subscription Agreement, certain holders of equity interests (collectively, the DCPS/MBS Equity Holders) in Medical Billing Services, Inc., a Texas corporation, and Dennis Cain Physician Solutions, Inc., a Texas limited partnership, will receive shares of Class C Common Stock from the Company pursuant to an Agreement and Plan of Merger dated as of February 9, 2004 (as amended from time to time, the DCPS/MBS Merger Agreement); and

WHEREAS, the Company and the Investor wish to provide for certain arrangements with respect to the registration of shares of capital stock of the Company under the Securities Act.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises and obligations contained herein, the parties agree as follows:

1. **CERTAIN DEFINITIONS**. As used in this Agreement, the following terms will have the following respective meanings:

Agreement is defined in the Preamble.

Best Efforts means the commercially reasonable efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as reasonably possible.

Business Day means any day that is not a Saturday, a Sunday or a day on which banks in the State of New York are generally closed for business.

Class A Common Stock means the Class A Common Stock, $0.001 par value, of the Company.

Class B Common Stock means the Class B Common Stock, $0.001 par value, of the Company.

Class C Common Stock means the Class C Common Stock, $0.001 par value, of the Company.

Commission means the U.S. Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act or the Exchange Act.

Company is defined in the Preamble.

Covered Person is defined in Section 6.1 of this Agreement.

DCPS/MBS Equity Holders is defined in the recitals.

DCPS/MBS Merger Agreement is defined in the recitals.

Debt Exchange Agreement is defined in the recitals.

Effectiveness Period means the period beginning on the date on which a Registration Statement is declared effective and ending on the date on which the Selling Holders shall have sold or otherwise disposed of all the Registrable Shares included in the Registration Statement.

Exchange Act means the Securities Exchange Act of 1934, and any successor to such statute, and the rules and regulations of the Commission issued under such Act, as they each may, from time to time, be amended and in effect.

First Year Registration is defined in Section 2.3.

Holder means any Person owning Registrable Shares or any Permitted Transferee thereof in accordance with Section 7.2 hereof.

Investor is defined in the Preamble.

IPS Merger Agreement is defined in the recitals.

IPS Stockholders is defined in the recitals.

Majority in Interest of the Registrable Shares means the Holders of greater than 50% of all Registrable Shares (or, where reference is made to a Majority in Interest of Registrable Shares proposed to be included in a Registration Statement, the Holders of greater than 50% of the Registrable Shares so proposed to be included), deeming for such purposes all shares of Class B Common Stock and Class C Common Stock to have been converted into Class A Common Stock, at the applicable conversion ratios immediately prior to the applicable time of determination.

Permitted Transferee is defined in Section 7.2.

Person means any individual, partnership, corporation, company, association, trust, joint venture, limited liability company, unincorporated organization, entity or division, or any government, governmental department or agency or political subdivision thereof.

Public Offering means a public offering and sale of Class A Common Stock for cash pursuant to an effective Registration Statement.

Register, registered, and registration refer to a registration effected by preparing and filing one or more Registration Statements or similar documents in compliance with the Securities Act and any applicable rules and regulations promulgated thereunder (including, in the case of a Registration Statement on Form S-3, Rule 415) and the automatic effectiveness or the declaration or ordering of effectiveness of such Registration Statement or similar document by the Commission.

Registrable Shares means, subject to Section 2.3 hereof, any shares of Class A Common Stock (including Class A Common Stock into which shares of Class B Common Stock or other Company securities are convertible) currently issued or issued at any future time to an Investor or a Permitted Transferee, including by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation, other reorganization or otherwise. Registrable Shares will cease to be Registrable Shares pursuant to the provisions of Section 5.4 hereof.

Registration Expenses means all expenses incurred by the Company in complying with Sections 2 and 3 hereof, including, without limitation, all registration and filing fees, listing fees, all fees and expenses of complying with securities or blue sky laws, all printing expenses, fees and disbursements of counsel for the Company and its independent public accountants, including the expenses of any special audits required by or incident to such performance and compliance, and legal fees and disbursements of the Selling Holders, but excluding underwriting discounts, selling commissions, applicable transfer taxes, if any.

Registration Statement means a registration statement filed by the Company with the Commission for a Public Offering under the Securities Act (other than a registration statement on Form S-8 or Form S-4, or their successors, or any other form for a similar limited purpose).

Rule 144 means Rule 144 promulgated under the Securities Act, and any successor rule or regulation thereto, and in the case of any referenced section of such rule, any successor section thereto, collectively and as from time to time amended and in effect.

Rule 415 means Rule 415 promulgated under the Securities Act, or any successor rule or regulation providing for offering securities on a continuous or delayed basis.

Securities Act means the Securities Act of 1933, and any successor to such statute, and the rules and regulations of the Commission issued under such Act, as they each may, from time to time, be amended and in effect.

Selling Holder means any Holder on whose behalf Registrable Shares are registered pursuant to Section 2 or 3 hereof.

Stock Subscription Agreement is defined in the recitals.

2. **REQUIRED REGISTRATIONS**.

2.1. Demand Registrations. At any time after the date hereof, a Holder or Holders holding in the aggregate at least 50 percent of the Registrable Shares may, by written notice to the Company, request that the Company effect the registration for a Public Offering on Form S-1 (or any other form that includes substantially the same information as would be required to be included in a Registration Statement on such form as currently constituted) of Registrable Shares having an anticipated net aggregate offering price of at least $5,000,000.

2.2. Registration on Form S-3. At any time that the Company is eligible to file a Registration Statement on Form S-3 (or any successor form relating to secondary offerings), a Holder or Holders of the Registrable Shares may, by written notice to the Company, request that the Company effect the registration on Form S-3 (or any successor form) of Registrable Shares having an anticipated net aggregate offering price of at least $500,000.

2.3. Notice to Other Holders of Registrable Shares. Promptly after receipt of notice requesting registration pursuant to Section 2.1 or 2.2, the Company will give written notice of such requested registration to all other holders of Registrable Shares. Subject to the limitations set forth in Sections 2.4 and 5.2, as applicable, the Company will use its Best Efforts to effect the registration under the Securities Act of the Registrable Shares which the Company has been requested to register by the Holders requesting such registration and all other Registrable Shares which the Company has been requested to register by other holders of Registrable Shares by notice delivered to the Company within 20 days after the giving of such notice by the Company. Solely with respect to any registration requested pursuant to Section 2.1 or 2.2 (or a registration under Section 3 in which other Registrable Shares are participating) prior to the first anniversary of the date of this Agreement (a First Year Registration), and solely for purposes of this Section 2.3 and Sections 3, 4.1-4.7, 4.9, 4.11, 4.14-4.17, 5.1-5.4 and 6 the term Registrable Shares shall include any shares of Class A Common Stock issued to the IPS Stockholders pursuant to the IPS Merger Agreement or the Debt Exchange Agreement and any shares of Class A Common Stock issued to the DCPS/MBS Equity Holders pursuant to the DCPS/MBS Merger Agreement (including Class A Common Stock into which shares of Class C Common Stock are convertible), so long as such shares are held by such IPS Stockholders or DCPS/MBS Equity Holders, as applicable. Any IPS Stockholder or DCPS/MBS Equity Holder that requests to have Registrable Shares included in a First Year Registration shall be deemed upon such request to have agreed to all provisions of this Agreement applicable to Selling Holders in such First Year Registration, and such IPS Stockholder s or DCPS/MBS Equity Holder s participation in such registration shall be conditioned upon compliance with all such provisions. The IPS Stockholders and the DCPS/MBS Equity Holders are intended third-party beneficiaries of this Agreement to the extent applicable to them.

2.4. Time Limitation. The Company will not be required to effect any registration pursuant to Section 2.1 within six months after the effective date of any Registration Statement that was requested pursuant to Section 2.1.

2.5. Selection of Underwriter. If a Majority in Interest of the Registrable Shares intend to distribute the Registrable Shares in an underwritten offering, they will so advise the Company in their request. A Majority in Interest of the Registrable Shares making such request will have the right to designate the managing underwriter, subject to the approval of the Company, which approval may not be unreasonably withheld.

3. **INCIDENTAL REGISTRATION**.

3.1. Company Registration. If at any time the Company proposes to register any of its equity securities under the Securities Act, for its own account (other than a Registration Statement on Form S-4 or S-8 or any successor thereto) or for the account of any holder of its securities other than Registrable Shares, then at least 20 days prior to the anticipated filing date of the applicable Registration Statement the Company will give written notice to all Holders (which notice will describe the proposed registration and state the intended method of disposition and provide such Holders the opportunity to register the number of Registrable Shares as each such Holder may request, subject in each case to the terms of this Agreement) of such proposed filing, and upon the written request of a Holder or Holders given within 20 days after the Company provides such notice, the Company will use its Best Efforts to cause all Registrable Shares that the Company has been requested to register to be registered under the Securities Act to the extent necessary to permit their sale or other disposition in accordance with the intended methods of distribution specified in the request of such Holder(s); provided that, the Company will have the right to postpone or withdraw any registration initiated by the Company pursuant to this Section 3.1 without obligation to any Holder; provided, further, that in the case of a proposed underwritten offering, the Company shall use its Best Efforts to cause the managing underwriter or underwriters to permit each of the Holders who have requested in writing to participate in the offering to include such Holder s Registrable Shares in such offering on the same terms and conditions as are applicable to the securities of the Company or other stockholders, as the case may be, included therein.

3.2. Excluded Transactions. The Company will not be obligated to effect any registration of Registrable Shares under this Section 3 incidental to the registration of any of its securities in connection with: (a) a registration on Form S-8 relating to employee benefit plans or dividend reinvestment plans; or (b) a registration on Form S-4 relating to the acquisition or merger after the date hereof by the Company or any of its subsidiaries of or with any other businesses.

4. **REGISTRATION PROCEDURES**. If and whenever the Company is required by the provisions of this Agreement to use its Best Efforts to effect the registration of any of the Registrable Shares under the Securities Act, the Company and the Selling Holders will take the actions described below in this Section 4.

4.1. Registration Statement. The Company will prepare and (in the case of a registration pursuant to Section 2 hereof, promptly and in any event within 60 days after the end

of the period within which requests for registration may be delivered to the Company) file with the Commission a Registration Statement with respect to such Registrable Shares and use its Best Efforts to cause such Registration Statement to become effective within 60 days after the filing of such Registration Statement. Such Registration Statement shall be for an offering to be made on a continuous or delayed basis (a so-called shelf registration statement) if (i) the Company is eligible for the use thereof and (ii) the Holders requesting such registration have asked for a shelf registration statement, and the Company shall keep such Registration Statement effective pursuant to Rule 415 for the Effectiveness Period.

4.2. Amendments and Supplements. The Company will prepare and file with the Commission such amendments (including post-effective amendments) and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective during the Effectiveness Period, and during such period to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Shares and other securities, if any, covered by such Registration Statement until the end of the Effectiveness Period.

4.3. Cooperation. The Company will use its Best Efforts to cooperate with the Selling Holders in the disposition of the Registrable Shares covered by such Registration Statement, including without limitation in the case of an underwritten offering pursuant to Section 2.1 entering into and performing customary agreements (including an underwriting agreement in customary form with the managing underwriter) and causing key executives of the Company and its subsidiaries to participate under the direction of the managing underwriter in a road show scheduled by such managing underwriter in such locations and of such duration as in the judgment of such managing underwriter are appropriate for such underwritten offering.

4.4. Copies of Prospectus. The Company will furnish to each Selling Holder, without charge, (i) promptly after such Registration Statement is filed with the Commission, such reasonable numbers of copies of the prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and any amendments thereto, including financial statements and schedules and all exhibits, (ii) upon the effectiveness of such Registration Statement, such number of copies of the prospectus included in such Registration Statement, including all amendments and supplements thereto, and (iii) such other documents, in each case, as the Selling Holder may reasonably request in order to facilitate the public sale or other disposition of the Registrable Shares owned by the Selling Holder.

4.5. Blue Sky Qualification. The Company will use its Best Efforts to register or qualify the Registrable Shares covered by the Registration Statement under the securities or blue sky laws of such states or jurisdictions in the United States as the Selling Holders reasonably request, and do any and all other acts and things that may be necessary or desirable to enable the Selling Holders to consummate the public sale or other disposition in such jurisdictions of the Registrable Shares covered by the Registration Statement, including preparing and filing in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Effectiveness Period (in the case of a shelf registration statement); provided, however, that the Company will not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in

which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it would not otherwise be so subject. The Company shall promptly notify each Selling Holder of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any Registrable Shares for sale under the securities or blue sky laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

4.6. Opinion of Counsel; Comfort Letter. In the case of an underwritten offering, the Company will use its Best Efforts to obtain all legal opinions, auditors consents and comfort letters and experts cooperation as may be required, including furnishing to each Selling Holder of such Registrable Shares a signed counterpart, addressed or confirmed to such Selling Holder, of (a) an opinion of counsel for the Company and (b) a cold comfort letter signed by the independent public accountants who have certified the Company s financial statements included in such Registration Statement, covering substantially the same matters as are customarily covered in opinions of issuer s counsel and in accountants letters delivered to underwriters in underwritten public offerings of securities.

4.7. Listing and Transfer Agent. The Company will cause all Registrable Shares covered by the Registration Statement to be listed on each securities exchange or automated quotation system on which the Class A Common Stock is then listed. The Company will provide and cause to be maintained a transfer agent and registrar for all Registrable Shares covered by the Registration Statement not later than the effective date of such Registration Statement. The Company will pay all fees and expenses in connection with satisfying its obligations under this Section 4.7.

4.8. General Compliance with Federal Securities Laws; Section 11(a) Earning Statement. The Company will use its Best Efforts to comply with the Securities Act, the Exchange Act and any other applicable rules and regulations of the Commission, and make available to its securities holders, as soon as reasonably practicable, an earning statement covering the period of at least 12 months after the effective date of such Registration Statement, which earnings statement shall be in a form complying with and satisfying Section 11(a) of the Securities Act and any applicable regulations thereunder, including the provisions of Rule 158.

4.9. Notice of Prospectus Defects. The Company will immediately notify the Selling Holders of the happening of any event, as a result of which the prospectus included or to be included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing (provided that such notice shall not contain any material, non-public information). The Company will promptly revise such prospectus as may be necessary so that such prospectus shall not include an untrue statement of a material fact or omit to state such a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company will promptly deliver copies of such revised prospectus to the Selling Holders. Following receipt of the revised prospectus, the Selling Holders will be free to resume making offers of the Registrable Shares. The Company will extend the period during which the Registration Statement must be kept effective pursuant to this Agreement by the number of days during the period from and including the date of giving such

notice to and including the date when the Selling Holders shall have received copies of the revised prospectus.

4.10. Company Lock-Up. In the case of an underwritten offering requested to be effected by the Holders hereunder, the Company will refrain, without the consent of the managing underwriter, for a period from 15 days before the effective date of the registration sale until 90 days after such effective date, from directly or indirectly selling, offering to sell, granting any option for the sale of, or otherwise disposing of any common equity or securities convertible into common equity other than pursuant to Company employee equity plans.

4.11. Delay of Registration and Suspension of Offering. If at any time (a) after a request to effect a registration pursuant to Section 2 of this Agreement or (b) after a Registration Statement has become effective, the Company is engaged in any plan, proposal or agreement with respect to any financing, acquisition, recapitalization, reorganization or other material transaction or development the public disclosure of which would be would be detrimental to the Company, then the Company may direct that such request be delayed or that use of the prospectus contained in the Registration Statement be suspended, as applicable, for a period of up to 30 days. The Company will notify all Holders requesting the registration or all Selling Holders, as the case may be, of the delay or suspension. In the case of notice suspending an effective Registration Statement, each Selling Holder will immediately discontinue any sales of Registrable Shares pursuant to such Registration Statement until such Selling Holder has received copies of a supplemented or amended prospectus or until such Selling Holder is advised in writing by the Company that the then-current prospectus may be used and has received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in such prospectus. The Company may exercise the rights provided by this Section 4.11 on only one occasion within any 365-day period.

4.12. Participation by Selling Security Holders. In connection with the preparation and filing of each Registration Statement, and before filing any such Registration Statement or any other document in connection therewith, the Company must give the participating Holders and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such Registration Statement, each prospectus included therein or filed with the Commission, each amendment thereof or supplement thereto and any related underwriting agreement or other document to be filed, and give each of the aforementioned Persons such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the opinion of such Holders, underwriters, counsel or accountants, to conduct a reasonable investigation within the meaning of the Securities Act.

4.13. Requests by Selling Holders. If requested by a Selling Holder, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as a Selling Holder reasonably requests to be included therein relating to the sale and distribution of Registrable Shares, including, without limitation, information with respect to the number of Registrable Shares being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Shares to be sold in such other offering provided that such information is required to be included in the Registration Statement by the Securities Act; (ii) as soon as practicable make all required filings of such prospectus

supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement if reasonably requested by a Selling Holder of such Registrable Shares.

4.14. Stop Orders. The Company shall use its Best Efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Shares for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify each Selling Holder of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

4.15. Certificates. The Company shall reasonably cooperate with the Selling Holders and, to the extent applicable, facilitate the timely preparation and delivery of certificates representing the Registrable Shares to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Selling Holders may reasonably request and registered in such names as the Selling Holders may request.

4.16. Notice of Effectiveness. Within two business days after a Registration Statement that includes the Registrable Shares is declared effective by the Commission, the Company shall deliver, and shall cause legal counsel for the Company to deliver, to the transfer agent for such Registrable Shares (with copies to the Selling Holders) written confirmation that such Registration Statement has been declared effective by the Commission.

4.17. Governmental Approvals. The Company shall use its Best Efforts to cause the Registrable Shares covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Shares.

5. **CERTAIN OTHER PROVISIONS**.

5.1. Additional Procedures. Selling Holders will take all such actions and execute all such documents and instruments that are reasonably requested by the Company to effect the sale of their shares in such Public Offering, including, without limitation, being parties to the underwriting agreement entered into by the Company and any other Selling Holders in connection therewith; provided, however, that the aggregate amount of any liability of any Selling Holder pursuant to such underwriting or other agreement will not exceed such Selling Holder s net proceeds from such offering. In addition, each Selling Holder will furnish to the Company such information regarding such Selling Holder and the distribution proposed by such Selling Holder as the Company may reasonably request in writing and as will be required in connection with any registration, qualification or compliance referred to in Section 4.

5.2. Underwriter s Cutback. Notwithstanding any other provision of this Agreement, if the managing underwriter determines that the inclusion of all shares requested to be registered in an underwritten offering would adversely affect the offering, the Company may limit the

number of Registrable Shares to be included in the Registration Statement for such offering. If the registration has been requested by the Holders pursuant to Section 2 hereof, the number of shares that are entitled to be included in the registration and underwriting will be reduced in the following manner: (a) first, shares of Company equity securities, other than Registrable Shares, requested to be included in such registration by shareholders will be excluded, (b) second, shares of Company equity securities that the Company desires to include in such registration will be excluded and (c) third, Registrable Shares requested to be included in such registration by the Holders will be excluded. If the registration has been initiated other than pursuant to Section 2 hereof, the number of shares that are entitled to be included in the Registration Statement for such offering will be reduced in the following manner: (x) first, shares of Company equity securities, other than Registrable Shares, requested to be included in such registration by shareholders will be excluded, (y) second, Registrable Shares requested to be included in such registration by Holders will be excluded and (z) third, shares of Company equity securities that the Company desires to include in such registration will be excluded. To the extent that the underwriters do not deem it necessary to exclude all of the shares requested to be registered by any category of shareholders contemplated above, the number of shares that may be included in the registration will be allocated to the members of such category requesting registration in proportion, as nearly as practicable, to the respective number of shares of Class A Common Stock (assuming conversion of any convertible securities held by such shareholders) that they held at the time the Company gives the notice specified in Section 2 or 3.

5.3. Registration Expenses. The Company hereby agrees to pay all Registration Expenses in connection with all registrations effected pursuant to this Agreement. The Company, however, shall not be required to pay for any expenses of a registration requested pursuant to Sections 2.1 or 2.2 hereof if the registration request is withdrawn at any time at the request of Holders of a majority of the Registrable Shares to be included in such registration (in which case all Holders requesting such withdrawal shall bear such expenses). However, if the requesting Holders have learned of information (other than information known to them at the time they made their request) that, in the good faith judgment of the requesting Holders, is reasonably likely to have a material adverse effect on the business or prospects of the Company, then the Holders shall not be required to pay any of such expenses in the case of a registration requested pursuant to Section 2.1 or 2.2.

5.4. Termination of Status as Registrable Shares. Registrable Shares will cease to be Registrable Shares and cease to have the rights accorded to such shares under this Agreement upon the earliest to occur of the following events: (x) such shares shall have been sold pursuant to an effective Registration Statement under the Securities Act or (y) such shares shall have been sold pursuant to a transaction under Rule 144.

5.5. Limitations on Subsequent Registration Rights. The Company will not, without the prior written consent of Holders of at least a majority of the Registrable Shares, enter into any agreements with any holder or prospective holder of Company securities that grant such holder or prospective holder rights to include securities of the Company in any Registration Statement, unless such rights are subordinated to the rights granted to the Holders under this Agreement, including, without limitation, by providing that (a) the holders of such subordinated rights may not request a registration until at least 180 days after the date on which the Holders can request a registration pursuant to Section 2.1 and 2.2 and (b) the holders of such

subordinated rights shall have the number of shares of their Company securities requested to be included in a Registration Statement reduced pursuant to any underwriters cut-back provision before the Holders suffer any reduction in the number of Registrable Shares that they are permitted to include in such registration.

6. **INDEMNIFICATION**.

6.1. Company Indemnification. In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Agreement, then to the extent permitted by law, the Company will indemnify and hold harmless each Selling Holder, its partners, directors and officers and each other Person, if any, who controls such Selling Holder within the meaning of the Securities Act or the Exchange Act (each such Person being a Covered Person) against any losses, claims, damages or liabilities, joint or several, to which such Covered Person may become subject under the Securities Act, the Exchange Act, state securities laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (a) any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement under which such Registrable Shares were registered under the Securities Act, any preliminary or final prospectus contained in the Registration Statement, or any amendment or supplement to such Registration Statement or (b) the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and the Company will reimburse such Covered Person for any legal or any other expenses reasonably incurred by such Covered Person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable to any Covered Person in any such case (x) to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or omission made in such Registration Statement or prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the Company, in writing, by or on behalf of such Covered Person specifically for use in the preparation thereof or (y) in the case of a sale directly by a Selling Holder (including a sale of such Registrable Shares through any underwriter retained by such Selling Holder engaging in a distribution solely on behalf of such Selling Holder), such untrue statement or omission was contained in a preliminary prospectus and corrected in a final or amended prospectus, and such Selling Holder failed to deliver a copy of the final or amended prospectus at or prior to the confirmation of the sale of the Registrable Shares to the person asserting any such loss, claim, damage or liability in any case in which such delivery is required by the Securities Act.

6.2. Seller Indemnification. In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Agreement, then to the extent permitted by law, each Selling Holder will indemnify and hold harmless the Company, each of its directors and officers and each Person (other than such Selling Holder), if any, who controls the Company within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities to which the Company, such directors and officers, or controlling person may become subject under the Securities Act, Exchange Act, state securities laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (a) any untrue statement of a material fact contained in any Registration Statement under which such Registrable Shares were registered under the Securities Act, any

preliminary or final prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement or (b) the omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, if the statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of such Selling Holder, specifically for use in connection with the preparation of such Registration Statement, prospectus, amendment or supplement; provided, however, that the obligations of such Selling Holder hereunder will be limited to an amount equal to the net proceeds to such Selling Holder (after deducting all underwriter s discounts and commissions and all other expenses paid by such Holder in connection with the registration in question) from the disposition of Registrable Shares pursuant to such registration.

6.3. Notice of Claims, etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim of the type referred to in the foregoing provisions of this Section 6, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party, give written notice to each such indemnifying party of the commencement of such action; provided, however, that the failure of any indemnified party to give such notice will not relieve such indemnifying party of its obligations under this Section 6, except to the extent that such indemnifying party is materially prejudiced by such failure. In case any such action is brought against an indemnified party, each indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and (subject to the following sentence) after notice from an indemnifying party to such indemnified party of its election so to assume the defense thereof, such indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof. The indemnified party may participate in such defense at such party s expense; provided, however, that the indemnifying party will pay such expense if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between the indemnified party and any other party represented by such counsel in such proceeding; provided, further, that in no event will the indemnifying party be required to pay the expenses of more than one law firm as counsel for all indemnified parties pursuant to this sentence. If, within 30 days after receipt of the notice, such indemnifying party has not elected to assume the defense of the action, such indemnifying party will be responsible for any legal or other expenses reasonably incurred by such indemnified party in connection with the defense of the action, suit, investigation, inquiry or proceeding. An indemnifying party may, in the defense of any such claim or litigation, consent to the entry of a judgment or enter into a settlement without the consent of the indemnified party only if such judgment or settlement contains a general release of the indemnified party in respect of such claims or litigation.

6.4. Contribution. If the indemnification provided for in Sections 6.1 or 6.2 hereof is unavailable to a party that would have been an indemnified party under any such Section in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each party that would have been an indemnifying party thereunder will, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative fault of such indemnifying party on the one hand and such indemnified party on the other in connection

with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions or proceedings in respect thereof). The relative fault will be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such indemnifying party or such indemnified party and the parties relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties agree that it would not be just and equitable if contribution pursuant to this Section 6.4 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the preceding sentence. The amount paid or payable by a contributing party as a result of the losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to in this Section 6.4 will include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

7. **MISCELLANEOUS**.

7.1. Reports under the Exchange Act. With a view to making available to the Holders the benefits of Rule 144 and any other rule or regulation of the Commission that may at any time permit such Holder to sell securities of the Company to the public without registration and with a view to making it possible for Holders to register the Registrable Shares pursuant to a registration statement on Form S-3, the Company agrees from the date hereof to use its best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;

(b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act, so long as the Company remains subject to such requirements and the filing of such reports and other documents are required for the applicable provisions of Rule 144 to apply;

(c) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act and take such other actions as will permit Holders to use Form S-3 for the resale of their Registrable Shares; and .

(d) furnish to any Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, or as to its qualification as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the Commission that permits the selling of any such securities without registration or pursuant to such form.

7.2. Transfer of Rights. The rights to cause the Company to register Registrable Shares pursuant to Sections 2 and 3 may be assigned by any Holder to a Permitted Transferee (as defined below), and by such Permitted Transferee to a subsequent Permitted Transferee, but only if such rights are transferred (a) to an affiliate or partner of such Holder or Permitted Transferee or a trustee or an account managed or advised by a manager or adviser of such Holder or Permitted Transferee or (b) in connection with the sale or other transfer of not less than an aggregate of 100,000 Registrable Shares or some lesser number, if such lesser number represents all the Registrable Shares then held by such Holder. Any transferee to whom rights under this Agreement are transferred will (x) as a condition to such transfer, deliver to the Company a written instrument by which such transferee agrees to be bound by the obligations imposed upon Holders under this Agreement to the same extent as if such transferee were a Holder under this Agreement and (y) be deemed to be a Holder hereunder. Any Person to whom rights under this Agreement are transferred in accordance with this Section 7.2 shall be a Permitted Transferee.

7.3. Governing Law. This Agreement, the rights of the parties and all claims, actions, causes of action, suits, litigation, controversies, hearings, charges, complaints or proceedings arising in whole or in part under or in connection herewith, will be governed by and construed in accordance with the domestic substantive laws of the State of New York, without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction.

7.4. Entire Agreement; Amendment and Waiver. This Agreement, together with any documents, instruments and certificates explicitly referred to herein, constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes any and all prior discussions, negotiations, proposals, undertakings, understandings and agreements, whether written or oral, with respect thereto. Any term of this Agreement may be amended or terminated and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) with the written consent of the Company and a Majority in Interest of the Registrable Shares; provided, however, that any such amendment or waiver treats all holders the same (without regard to any differences in effect that such amendment or waiver may have on the Holders due to the differing amounts of Registrable Shares held by such Holders). Any such amendment, termination or waiver will be binding on all Holders.

7.5. Notices. All notices, requests, demands, claims and other communications required or permitted to be delivered, given or otherwise provided under this Agreement must be in writing and must be delivered, given or otherwise provided:

(a) by hand (in which case, it will be effective upon delivery);

(b) by facsimile (in which case, it will be effective upon receipt of confirmation of good transmission); or

(c) by overnight delivery by a nationally recognized courier service (in which case, it will be effective on the Business Day after being deposited with such courier service;

in each case, to the address (or facsimile number) listed below:

If to the Company, to it at:

12727 Kimberly Lane, Suite 200
Houston, TX 77024
Facsimile number: (713) 722-0921
Attention: Keith LeBlanc

with a copy to:

Strasburger & Price, LLP
1401 McKinney, Suite 2200
Houston, Texas 77010.4035
Facsimile number.: (713) 951-5660
Attention: Ivan Wood Jr., Esq.

If to an Investor, to it at the address set forth on Exhibit A hereto

with a copy to:

Ropes & Gray, LLP
One International Place
Boston, Massachusetts 02110
Telephone number: (617) 951-7000
Facsimile number: (617) 951-7050
Attention: Winthrop G. Minot, Esq.

Each of the parties to this Agreement may specify different address or facsimile number by giving notice in accordance with this Section 7.5 to each of the other parties hereto.

7.6. Binding Effect; Assignment. This Agreement will be binding upon and inure to the benefit of the personal representatives, successors and assigns of the respective parties hereto.

7.7. Severability. If any provision of this Agreement is found by any court of competent jurisdiction to be invalid or unenforceable, the parties hereby waive such provision to the extent that it is found to be invalid or unenforceable. Such provision will, to the maximum extent allowable by law, be modified by such court so that it becomes enforceable, and, as modified, will be enforced as any other provision hereof, all the other provisions hereof continuing in full force and effect.

7.8. Headings. The headings contained in this Agreement are for convenience purposes only and will not in any way affect the meaning or interpretation hereof.

7.9. Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal as of the date first above written.

ORION HEALTHCORP, INC.

By: _____

Name:
Title:

BRANTLEY PARTNERS IV, L.P.

By: Brantley Venture Management IV, L.P., its general partner

By: _____

Name: Paul H. Cascio
Title: General Partner

Schedule I

NAME AND ADDRESS OF INVESTOR

Brantley Partners IV, L.P.
Lakepoint
3201 Enterprise Pkwy., Suite 350
Beachwood, OH 44122
Facsimile No.: (216) 464-8405
Attention: Paul H. Cascio

ANNEX H

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR THE SECURITIES LAWS OF ANY STATE AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SECURITIES PURCHASED HEREUNDER MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND OTHER APPLICABLE LAWS PURSUANT TO REGISTRATION OR EXEMPTION FROM REGISTRATION REQUIREMENTS THEREUNDER.

AMENDED AND RESTATED
STOCK SUBSCRIPTION AGREEMENT

This Amended and Restated Stock Subscription Agreement is made as of February 9, 2004 among SurgiCare, Inc., a Delaware corporation (SurgiCare), and Brantley Partners IV, L.P. (the Subscriber). The Agreement amends and restates in its entirety the Stock Subscription Agreement dated as of November 18, 2003 entered into between SurgiCare and the Subscriber (the Prior Agreement).

RECITALS

Prior to the date hereof, the Subscriber advanced a total of $2,055,000 in loans to Lakepoint Acquisition, Inc., a Delaware corporation (Lakepoint), which in turn advanced $665,000 to SurgiCare pursuant to one or more promissory notes (collectively with any notes evidencing additional loans made by Lakepoint to SurgiCare after such date, the SurgiCare Bridge Notes) and $1,390,000 to Integrated Physician Solutions, Inc., a Delaware corporation (IPS), pursuant to one or more promissory notes (collectively with any notes evidencing additional loans made by Lakepoint to IPS after such date, the IPS Bridge Notes and, together with the SurgiCare Bridge Notes, the Bridge Notes) to fund certain approved working capital expenses (the Bridge Investment).

SurgiCare has proposed to amend and restate its Certificate of Incorporation to provide that, as amended and in effect at the closing of the transactions contemplated by this Agreement, SurgiCare will be authorized to issues shares of Class A Common Stock, par value $.001 per share (Class A Common), Class B Common Stock, par value $.001 per share (Class B Common), and Class C Common Stock par value $.001 per share (Class C Common), having the terms described in the draft Amended and Restated Certificate of Incorporation attached hereto as Exhibit A (the Amended SurgiCare Charter). Simultaneously with the filing of the Amended SurgiCare Charter and pursuant thereto, SurgiCare will effect a reverse stock split whereby each outstanding share of common stock, par value $0.005 per share (the Pre-Split Common Stock), of SurgiCare shall be reclassified and reduced to a fraction of a share of Class A Common equal to the Reverse Split Fraction (as hereinafter defined). Also, prior to or simultaneously with the filing of the Amended SurgiCare Charter, all outstanding shares of Series A Preferred Stock, $0.001 par value per share (SurgiCare Series A), of SurgiCare and, unless otherwise agreed by the Subscriber, Series AA Preferred Stock, $0.001 par value per share (the SurgiCare Series AA), of SurgiCare shall be converted into shares of Class A Common (the filing of the Amended SurgiCare Charter and the

conversion of the SurgiCare Series A and, if applicable, SurgiCare Series AA being referred to herein as the Recapitalization).

SurgiCare proposes to acquire (the Acquisitions), either directly or indirectly through one or more subsidiaries: (i) IPS, pursuant to an Amended and Restated Agreement and Plan of Merger dated as of the date hereof (the IPS - SurgiCare Merger Agreement), among SurgiCare, IPS Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of SurgiCare, and IPS, having the terms described in the draft Amended and Restated Agreement and Plan of Merger attached hereto as Exhibit B, and (ii) Dennis Cain Physician Solutions, Ltd., a Texas limited partnership (DCPS), and Medical Billing Services, Inc., a Texas corporation (MBS), pursuant to an Agreement and Plan of Merger (the DCPS/MBS Merger Agreement and, together with the IPS - SurgiCare Merger Agreement, the Acquisition Agreements), among SurgiCare, DCPS/MBS Acquisition, Inc., a Texas corporation and a wholly-owned subsidiary of SurgiCare, DCPS, MBS and the Sellers party thereto, having the terms described in the draft Amended and Restated Agreement and Plan of Merger attached hereto as Exhibit C.

Prior to the date hereof, Brantley Venture Partners III, L.P. (Brantley III) has made loans to IPS in the outstanding aggregate principal amount of $1,271,171 evidenced by one or more promissory notes (the Brantley III Notes), and, immediately after giving effect to the Acquisitions, Brantley III, SurgiCare and IPS wish to have the Brantley III Notes exchanged for shares of Class A Common on the terms and conditions set forth in an Amended and Restated Debt Exchange Agreement in substantially the form attached hereto as Exhibit D (the Debt Exchange Agreement ; the transactions contemplated thereby are referred to herein as the Debt Exchange).

Prior to the date hereof, Brantley Capital Corporation (Brantley Capital) has made loans to IPS in the outstanding aggregate principal amount of $1,985,448 evidenced by one or more promissory notes (the Brantley Capital Notes) , and, immediately after giving effect to the Acquisitions, Brantley Capital, SurgiCare and IPS wish to have the Brantley Capital Notes, together with the right to receive certain other amounts owed by IPS to Brantley Capital, exchanged for shares of Class A Common on the terms and conditions set forth in the Debt Exchange Agreement.

The Subscriber is willing to purchase, and SurgiCare is willing to issue and sell to the Subscriber, a number of shares of Class B Common equal to the Subscription Securities (as hereinafter defined) in exchange for an aggregate purchase price of $6,000,000, minus the Excess Bridge Amount (as hereinafter defined), in immediately available funds and the surrender by the Subscriber for cancellation of the Bridge Notes, all on the terms and subject to conditions set forth herein.

It is understood that SurgiCare s obligation to file the Amended SurgiCare Charter and to consummate the Acquisitions, and the Subscriber s obligation to purchase the Subscription Securities pursuant to this Agreement, are subject to satisfaction or waiver of various conditions, including but not limited to: (i) completion by SurgiCare of additional financing (in addition to the equity financing contemplated by this Agreement) on terms satisfactory to the Subscriber (the Refinancing), in connection with which the debt liabilities of each of IPS, DCPS, MBS and SurgiCare will be restructured, refinanced or assumed, and (ii) various other conditions identified or referred to in Section 5 below (as applicable under the terms of such Section 5) and in the IPS SurgiCare Merger Agreement and the DCPS/MBS Merger Agreement.

It is anticipated that following execution and delivery of this Agreement, among other things: (i) the Acquisitions will be consummated pursuant to the Acquisition Agreements, (ii) the Debt Exchange will be consummated, (iii) the Refinancing will be completed and (iv) SurgiCare and the Subscriber will enter into a Registration Rights Agreement substantially in the form attached hereto as Exhibit E (the Registration Rights Agreement).

AGREEMENT

In consideration of the foregoing, and the representations, warranties, covenants and conditions set forth below, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Certain Definitions. In addition to the terms defined elsewhere in this Agreement, as used in this Agreement the following terms shall have the following meanings:

1.1. The term Assumed Market Price means (x) the greater of $0.55 or the Five Day Average Price, in each case divided by (y) the Reverse Split Fraction.

1.2. The term Base IPS Bridge Amount means an amount equal to $790,000 (together with any accrued but unpaid interest thereon), which represents the amount of loans advanced by Lakepoint to IPS on or prior to October 24, 2003 pursuant to IPS Bridge Notes.

1.3. The term Base SurgiCare Bridge Amount means an amount equal to $490,000 (together with any accrued but unpaid interest thereon), which represents the amount of loans advanced by Lakepoint to SurgiCare on or prior to October 24, 2003 pursuant to SurgiCare Bridge Notes.

1.4. The term Cash Purchase Price shall mean the difference between (x) $6,000,000 and (y) the Excess Bridge Amount.

1.5. The term Class A Common Closing Price means an amount equal to the Five Day Average Price *divided by* the Reverse Split Fraction.

1.6. The term Closing means the closing of the purchase of Subscription Securities, as contemplated by Section 2 of this Agreement.

1.7. The term Dilutive Options and Warrants means options and warrants to purchase shares of Class A Common that have an exercise price immediately after giving effect to the filing of the Amended SurgiCare Charter that is equal to or less than the Assumed Market Price.

1.8. The term Excess Bridge Amount means the sum of the Excess IPS Bridge Amount *plus* the Excess SurgiCare Bridge Amount.

1.9. The term Excess IPS Bridge Amount means the excess of (a) the aggregate principal amount of, and all accrued and unpaid interest on, the IPS Bridge Notes outstanding immediately prior to the Closing over (b) the Base IPS Bridge Amount.

1.10. The term Excess SurgiCare Bridge Amount means the excess of (a) the aggregate principal amount of, and all accrued and unpaid interest on, the SurgiCare Bridge Notes outstanding immediately prior to the Closing over (b) the Base SurgiCare Bridge Amount.

1.11. The term Five Day Average Price means the average of the daily average of the high and low price per share of the Pre-Split Common Stock on the American Stock Exchange, or such other stock exchange or other similar system on which the Pre-Split Common Stock shall be listed at the time, for the five trading days immediately preceding the Closing Date.

1.12. The term Fully-Diluted SurgiCare Shares means the number of shares of Class A Common which would be outstanding on a fully-diluted basis (calculated as set forth in the immediately following sentence) immediately after the effectiveness of the filing of the Amended SurgiCare Charter and the Recapitalization but prior to the Acquisitions, the Debt Exchange and the issuance of the Class B Common to the Subscriber pursuant hereto, rounded up to the nearest whole share. For purposes of this definition, fully-diluted basis shall mean the number of shares of Class A Common that would be outstanding assuming the exercise of all outstanding options, warrants and rights to acquire shares of Class A Common and the conversion or exchange of all securities convertible into, or exchangeable for, shares of Class A Common, whether or not vested or then exercisable, calculated at the maximum number of shares issuable pursuant thereto; provided, however, that all options and warrants that are not Dilutive Options and Warrants will be disregarded for purposes of such calculation, and each Dilutive Option and Warrant shall be deemed to have been exercised for a number of shares equal to (i) the maximum number of shares issuable pursuant to such Dilutive Option and Warrant multiplied by (ii) a fraction, the numerator of which is the excess of the Assumed Market Price over the exercise price of such Dilutive Option and Warrant, and the denominator of which is the Assumed Market Price.

1.13. The term Person means any individual, partnership, corporation, limited liability company, association, trust, joint venture, unincorporated organization or other entity.

1.14. The term Reverse Split Fraction means a number equal to 0.10.

1.15. The term Specified Securities means the Subscription Securities and all shares of Class A Common which have been received upon conversion of the Subscription Securities, other than any such securities which have been sold in a registered public offering or to the public pursuant to Rule 144 under the Securities Act.

1.16. The term Subscription Securities means a number of shares of Class B Common equal to (a) 1.02 *multiplied by* (b) the number of Fully-Diluted SurgiCare Shares *divided by* (c) 0.49.

1.17. The term Subsidiary of any Person means any corporation, partnership, joint venture or other legal entity of which such Person (either alone or through or together with any other subsidiary) owns, directly or indirectly, 10% or more of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

2. Sale and Purchase of Subscription Securities.

2.1. On the terms and subject to the conditions hereof, SurgiCare hereby agrees to sell to the Subscriber, and by its acceptance hereof the Subscriber agrees to purchase from SurgiCare for investment, on the Closing Date (as defined in the IPS SurgiCare Merger Agreement), the Subscription Securities in exchange for (x) the Cash Purchase Price in immediately available funds and (y) the surrender of the Bridge Notes by or on behalf of the Subscriber to SurgiCare for cancellation.

2.2. The sale and purchase of the Subscription Securities shall take place at the same time and location as, and shall be substantially contemporaneous with, the closings pursuant to the IPS SurgiCare Merger Agreement and the DCPS/MBS Merger Agreement. If at any time prior to the Closing hereunder either of the Acquisition Agreements shall be terminated, either party to this Agreement may, upon notice to the other, terminate this Agreement, after which this Agreement will no longer be of any further force or effect; provided, however, that no such termination of this Agreement shall relieve any party from liability for breach prior to such termination or from its obligations under Sections 9.3 hereof.

2.3. At the Closing, against payment to SurgiCare of the Cash Purchase Price by wire transfer of immediately available funds to a single account specified by SurgiCare not less than three business days prior to the Closing and surrender of the Bridge Notes by or on behalf of the Subscriber to SurgiCare for cancellation, SurgiCare will deliver to the Subscriber certificates for the Subscription Securities acquired pursuant to Section 2.1, registered in the name of the Subscriber.

3. Representations and Warranties of SurgiCare. SurgiCare represents and warrants to the Subscriber that:

3.1. SurgiCare is duly organized, validly existing and in good standing under the laws of the State of Delaware. SurgiCare has made available to the Subscriber true and complete copies of SurgiCare s Certificate of Incorporation and the By-Laws as in effect on the date hereof. Prior to the Closing Date, such documents will be amended to be, as of the Closing Date, in the respective forms of the Amended SurgiCare Charter and Exhibit F (Form of Amended By-Laws).

3.2. SurgiCare has or prior to the Closing Date will have taken all corporate action required to authorize the execution and delivery of this Agreement and the issuance of the Subscription Securities and the shares of Class A Common issuable upon conversion of the Subscription Securities.

3.3. The Subscription Securities, when issued and upon payment of the purchase price therefor as contemplated by Section 2.1, will be duly authorized, validly issued, fully paid and non-assessable. SurgiCare has reserved for issuance upon conversion of the Subscription Securities shares of its Class A Common in an amount at least equal to the number of shares issuable upon such conversion (assuming for purposes of calculating such amount that (a) conversion of Class B Common will take place within ten years of the date of issuance, (b) no cash distributions will be paid to holders of Class B Common prior to such conversion

and (c) at the time of such conversion the Applicable Price per Share (as defined in the Amended SurgiCare Charter) will equal 50% of the Class A Common Closing Price). Upon conversion of shares of Class B Common into Class A Common, the shares of Class A Common issuable upon such conversion will be validly issued, fully paid, non-assessable and free and clear of any and all preemptive or similar preferential rights to purchase.

3.4. All of the representations and warranties of SurgiCare set forth in the IPS SurgiCare Merger Agreement and the Debt Exchange Agreement are true and correct; and as of the Closing Date such representations and warranties will continue to be true and correct in all material respects (except for such representations and warranties which are qualified as to materiality, which will continue to be true in all respects). All of the representations and warranties of SurgiCare set forth in the DCPS/MBS Merger Agreement will be true and correct as of the date thereof; and as of the Closing Date such representations and warranties will continue to be true and correct in all material respects (except for such representations and warranties which are qualified as to materiality, which will continue to be true in all respects). SurgiCare has provided the Subscriber with true and complete copies of the IPS SurgiCare Merger Agreement, the Debt Exchange Agreement, the DCPS/MBS Merger Agreement and all material agreements and other documents relating to the Acquisitions, the Bridge Investment, the Debt Exchange and the Refinancing, including, in each case, any and all amendments thereto, and the transactions contemplated by the Amended SurgiCare Charter.

3.5. Each of the Acquisition Agreements, the Debt Exchange Agreement, the Registration Rights Agreement and this Agreement is, or at or prior to the Closing will be, a legal, valid and binding obligation of SurgiCare and each other party thereto, enforceable against SurgiCare and such other parties in accordance with its respective terms.

3.6. Immediately after the consummation of the transactions contemplated hereby and by the Acquisition Agreements and the Debt Exchange Agreement, the shares of stock and other equity interests of SurgiCare outstanding will be owned by the Persons (or groups) and in the amounts set forth in Schedule 1 hereto.

3.7. In reliance on the representations and warranties of the Subscriber contained in Section 4.2 hereof, no registration of the offer or sale of the Subscription Securities to the Subscriber hereunder is required under the Securities Act.

4. Representations and Warranties of the Subscriber. The Subscriber represents and warrants that:

4.1. The Subscriber has full legal capacity, power and authority to execute and deliver this Agreement and to fully perform its obligations hereunder. The Subscriber has the funds, or access to the funds, necessary to perform fully its obligations hereunder. This Agreement has been duly authorized, executed and delivered by the Subscriber and is the legal, valid and binding obligation of the Subscriber enforceable against it in accordance with the terms hereof and the consummation of the transactions contemplated hereby has been duly and validly authorized by all necessary action on the part of the Subscriber. The execution and delivery of this Agreement by the Subscriber, and the performance by the Subscriber of its obligations hereunder, will not result in a material breach or material default under any organizational

document, agreement, instrument or other document by which the Subscriber is bound or otherwise result in a material violation of any instrument, judgment, decree, order, statute, rule or regulation by which Subscriber is bound.

4.2. Investment Representations.

(a) The Subscriber has been advised that the Subscription Securities have not been registered under the Securities Act or any state securities laws and, therefore, cannot be resold unless they are registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Subscriber is aware that SurgiCare is under no obligation to effect any such registration with respect to the Subscription Securities (except solely to the extent, if any, provided in the Acquisition Agreements or the Registration Rights Agreement) or to file for or comply with any exemption from registration. The Subscriber is purchasing the Subscription Securities to be acquired hereunder for its own account and not with a view to, or for resale in connection with, the distribution thereof in violation of the Securities Act. The Subscriber has such knowledge and experience in financial and business matters, including investments in companies similar to SurgiCare, that the Subscriber is capable of evaluating the merits and risks of such investment, is able to incur a complete loss of such investment and is able to bear the economic risk of such investment for an indefinite period of time. The Subscriber is an accredited investor as that term is defined in Rule 501 under Regulation D promulgated under the Securities Act. The Subscriber was not organized for the sole purpose of investing in the Subscription Securities.

(b) The Subscriber has had an opportunity to discuss SurgiCare s business, management and financial affairs with SurgiCare s executive officers. The Subscriber has also had an opportunity to ask questions and receive answers from the executive officers of SurgiCare concerning the terms and conditions of the offering of the Subscription Securities and to obtain the information it believe necessary or appropriate to evaluate the suitability of an investment in the Subscription Securities.

5. Conditions to Purchase of Subscription Securities.

5.1. SurgiCare s obligation to issue and sell the Subscription Securities shall be subject to the satisfaction of the following conditions:

(a) all representations and warranties of the Subscriber contained in this Agreement shall be true and correct as of the Closing, and the Subscriber shall have delivered to SurgiCare a certificate duly executed on behalf of the Subscriber, by a general partner or other duly authorized senior representative, certifying that the condition set forth in this Section 5.1(a) has been satisfied; and

(b) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligation to close under the Acquisition Agreements (other than any conditions relating to the consummation of the purchase and sale of the Subscription Securities under this Agreement or the Debt Exchange) shall have been satisfied or waived by SurgiCare.

5.2. The Subscriber s obligation to purchase and pay for the Subscription Securities shall be subject to the satisfaction of the following conditions:

(a) all representations and warranties of SurgiCare contained in this Agreement shall be true and correct as of the Closing, and SurgiCare shall have delivered to the Subscriber a certificate duly executed on behalf of SurgiCare by its chief executive officer and chief financial officer certifying that the condition set forth in this Section 5.2(a) has been satisfied;

(b) the Amended SurgiCare Charter shall have been authorized and approved by all corporate and other action required therefor; and the Amended SurgiCare Charter shall have been filed with the Secretary of State of the State of Delaware and shall have become effective under the General Corporation Law of the State of Delaware;

(c) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligations to close under the Debt Exchange Agreement, and all conditions to the obligation of Brantley III and Brantley Capital to close under the Debt Exchange Agreement, shall have been satisfied without giving effect to any waiver thereof other than waivers consented to in writing by the Subscriber;

(d) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligations to close under the IPS SurgiCare Merger Agreement, and all conditions to IPS obligation to close under the IPS SurgiCare Merger Agreement, shall have been satisfied without giving effect to any waiver thereof other than waivers consented to in writing by the Subscriber;

(e) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, all conditions to SurgiCare s obligations to close under the DCPS/MBS Merger Agreement, and all conditions to the obligation of DCPS and MBS to close under the DCPS/MBS Merger Agreement, shall have been satisfied without giving effect to any waiver thereof other than waivers consented to in writing by the Subscriber;

(f) on the Closing Date, substantially contemporaneously with the issuance and sale of the Subscription Securities hereunder, the Debt Exchange and each of the Acquisitions shall have been consummated;

(g) the Subscriber s completion and satisfaction with the results of its legal, accounting, tax, regulatory and business due diligence review of IPS, SurgiCare, DCPS and MBS;

(h) the Subscriber s satisfaction with the form and substance of all documentation with respect to the Debt Exchange, the Acquisitions and the related transactions (including but not limited to execution and delivery of agreements, in form and substance satisfactory to the Subscriber, with respect to the continued employment of key personnel);

(i) the Subscriber shall have received such other certificates, opinions of counsel and other documents as the Subscriber shall have specified in connection with the Closing, including without limitation confirmations of legal opinions delivered by counsel to SurgiCare, IPS, DCPS and MBS;

(j) the Subscriber s satisfaction that no material adverse change has occurred between December 31, 2002 and the Closing Date with respect to the business, assets, condition (financial or otherwise) or prospects of SurgiCare, IPS, DCPS or MBS or any of their respective Subsidiaries (or the Subscriber s decision to elect to close notwithstanding any such material adverse change but without waiving or releasing any other rights of the Subscriber with respect to any such material adverse change);

(k) the obtaining of all necessary governmental, regulatory and other approvals, including but not limited to the approval by the stockholders of IPS and SurgiCare, as provided in the IPS SurgiCare Merger Agreement;

(l) the Refinancing shall have been consummated on terms and in form satisfactory to the Subscriber;

(m) the trade payables of SurgiCare and its Subsidiaries shall have been settled or restructured on terms satisfactory to the Subscriber;

(n) all outstanding litigation matters and legal proceedings involving SurgiCare or its Subsidiaries shall have been settled on terms satisfactory to the Subscriber;

(o) the Subscriber s satisfaction that the Class A Common shall continue to be listed on the American Stock Exchange from and after the Closing Date, and that the Class A Common issuable upon conversion of the outstanding Class B Common has been approved for such listing upon notice of issuance;

(p) SurgiCare shall have duly executed and delivered to the Subscriber the Registration Rights Agreement and such other documents as the Subscriber may reasonably request in connection with the transactions contemplated hereby;

(q) the capital structure of each SurgiCare Subsidiary shall have been resyndicated in a manner satisfactory to the Subscriber; and

(r) each of the Persons set forth on Schedule 2 hereto have entered into a lock-up agreement in form and substance satisfactory to the Subscriber.

6. Covenants.

6.1. SurgiCare will furnish each registered holder from time to time of any of the Specified Securities the following:

6.1.1 As soon available, and in any event within 120 days after the end of each fiscal year of SurgiCare, the consolidated balance sheet of SurgiCare and its subsidiaries as at the end of each such fiscal year and the consolidated statements of income, cash flows and

changes in stockholders equity for such year of SurgiCare and its subsidiaries, setting forth in each case in comparative form the figures for the next preceding fiscal year, accompanied by the report of independent certified public accountants of recognized national standing, to the effect that, except as set forth therein, such consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior years and fairly present in all material respects the financial condition of SurgiCare and its subsidiaries at the dates thereof and the results of their operations and changes in their cash flows and stockholders equity for the periods covered thereby.

6.1.2 As soon as available and in any event within 60 days after the end of each fiscal quarter of SurgiCare, the consolidated balance sheet of SurgiCare and its subsidiaries as at the end of such quarter and the consolidated statements of income, cash flows and changes in stockholders equity for such quarter and the portion of the fiscal year then ended of SurgiCare and its subsidiaries, setting forth in each case the figures for the corresponding periods of the previous fiscal year in comparative form, all in reasonable detail.

6.1.3 Promptly after the filing thereof, any documents filed by SurgiCare with the Securities and Exchange Commission.

6.2. SurgiCare shall cause to be kept on an appropriate basis, and each registered holder from time to time of any of the Specified Securities, and each representative of any such holder, shall have access to, appropriate books, records and accounts.

6.3. From time to time upon request of any registered holder from time to time of any of the Specified Securities, or any representative of any such holder (including without limitation accountants and legal counsel), SurgiCare will furnish to such holder or representative such information regarding the business of SurgiCare and its Subsidiaries (including materials furnished to the directors of SurgiCare or any of its Subsidiaries at or in connection with meetings of their respective boards of directors or committees thereof) as such holder or representative may reasonably request. Each such holder or representative shall have the right during normal business hours to make an independent examination of the books and records of SurgiCare and any of its Subsidiaries, to make copies, notes and abstracts therefrom, and to discuss their business, affairs and financial condition with the officers, employees and accountants of SurgiCare and its Subsidiaries. Each such holder or representative shall have the right during normal business hours to consult with and advise management of SurgiCare and its Subsidiaries on significant business issues, including management s proposed annual operating plans, and management will make itself available to meet with such holder or representatives regularly during each year at SurgiCare s and its Subsidiaries facilities at mutually agreeable times for such consultation and advice and to review progress in achieving said plans; provided, however, that no such holder or representative shall thereby have any right to direct the management or policies of SurgiCare or any of its Subsidiaries.

6.4. If and for so long as the Subscriber holds Specified Securities and does not have a representative on SurgiCare s Board of Directors, SurgiCare shall invite the Subscriber to send one representative (a Representative) to attend in a nonvoting observer capacity all meetings of SurgiCare s Board of Directors and, in this respect, shall give the Subscriber s Representative copies of all notices, minutes, consents, and other material that SurgiCare provides to its

directors; provided, however, that SurgiCare reserves the right to exclude the Subscriber s Representative from access to any material or meeting or portion thereof if SurgiCare believes upon advice of counsel that such exclusion is reasonably necessary to preserve the attorney-client privilege. The Subscriber s Representative may participate in discussions of matters brought to SurgiCare s Board of Directors. The rights of the Subscriber set forth in this Section shall also apply to all committees of SurgiCare s Board of Directors and to the boards of directors (and all committees thereof) of all Subsidiaries of SurgiCare.

6.5. SurgiCare shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common, solely for the purpose of effecting the conversion of the shares of Class B Common, such number of its shares of Class A Common as shall from time to time be sufficient to effect the conversion of all outstanding shares of Class B Common, and if at any time the number of authorized but unissued shares of Class A Common shall not be sufficient to effect the conversion of all then outstanding shares of Class B Common, SurgiCare shall promptly take such corporate action as may be necessary to increase its authorized but unissued shares of Class A Common to such number of shares as shall be sufficient for such purpose.

7. Indemnification.

7.1. SurgiCare will indemnify, exonerate, defend and hold the Subscriber and each of its partners, shareholders, Affiliates, directors, officers, fiduciaries, employees and agents and each of the partners, shareholders, affiliates, directors, officers, fiduciaries, employees and agents of each of the foregoing (collectively, the Subscriber Indemnitees) free and harmless from and against any and all actions, causes of action, suits, losses (including, without limitation, any diminution in the value of the Subscription Securities or in the shares of Class A Common or other securities into which the Subscription Securities may be converted in the future), liabilities, amounts paid in settlement, judgments and damages, and any and all expenses, including, without limitation, reasonable attorneys fees and disbursements (collectively, the Indemnified Losses), incurred by the Subscriber Indemnitees or any of them as a result of, arising out of, or relating to: (a) any breach of any representation, warranty or agreement by SurgiCare or any misrepresentation by SurgiCare in this Agreement or the Debt Exchange Agreement or (b) 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 officers, directors, stockholders, owners or affiliates under the IPS SurgiCare Merger Agreement, the DCPS/MBS Merger Agreement or any other agreement entered into (or certificate or instrument delivered) in connection with any of such agreements or in connection with the transactions contemplated thereby (without giving effect, in the case of the IPS SurgiCare Merger Agreement, to any update of disclosure schedules occurring subsequent to the date hereof). If and to the extent that the foregoing undertaking may be unenforceable for any reason, SurgiCare hereby agrees to make the maximum contribution to the payment and satisfaction of each of such Indemnified Losses which is permissible under applicable law. None of the Subscriber Indemnitees shall be liable to SurgiCare or any of its affiliates for any act or omission suffered or taken by such Subscriber Indemnitee that does not constitute either breach of this Agreement or gross negligence or willful misconduct.

7.2. The Subscriber will indemnify, exonerate, defend and hold SurgiCare harmless from and against any and all Indemnified Losses resulting from, arising out of or relating to any breach of any representation, warranty or agreement of the Subscriber in this Agreement or any misrepresentation by the Subscriber in this Agreement. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Subscriber hereby agrees to make the maximum contribution to the payment and satisfaction of such Indemnified Losses of SurgiCare which is permissible under applicable law.

7.3. If any third party notifies either SurgiCare or the Subscriber with respect to any matter (a Third Party Claim) which may give rise to a claim (an Indemnified Claim) with respect to which such notified party may seek indemnification hereunder (such party, in such capacity, being referred to herein as an Indemnified Party), then the Indemnified Party will promptly give written notice to the party (the Indemnifying Party) against which such indemnification may be sought; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party will relieve the Indemnifying Party from any obligation under this Section 7, except to the extent such delay actually and materially prejudices the Indemnifying Party.

7.3.1 The Indemnifying Party will be entitled to participate in the defense of any Third Party Claim that is the subject of a notice given by the Indemnified Party pursuant to Section 7.3. In addition, the Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (a) the Indemnifying Party gives written notice to the Indemnified Party within fifteen days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any and all Indemnified Losses the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (b) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have adequate financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (c) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief against the Indemnified Party, (d) the Indemnified Party has not been advised by counsel that an actual or potential conflict exists between the Indemnified Party and the Indemnifying Party in connection with the defense of the Third Party Claim, (e) the Third Party Claim does not relate to or otherwise arise in connection with taxes or any criminal or regulatory enforcement action, (f) settlement of, an adverse judgment with respect to or the Indemnifying Party s conduct of the defense of the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to be adverse to the Indemnified Party s reputation or continuing business interests (including its relationships with current or potential customers, suppliers or other parties material to the conduct of its business) and (g) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently. If the Indemnifying Party does so defend an Indemnified Party and such Indemnified Party elects to retain separate co-counsel, such retention shall be at such Indemnified Party s sole cost and expense and the Indemnifying Party will cooperate with such separate counsel to allow it to participate in the defense of the Third Party Claim; provided, however, that the Indemnifying Party will pay the fees and expenses of separate co-counsel retained by the Indemnified Party that are

incurred prior to Indemnifying Party s assumption of control of the defense of the Third Party Claim.

7.3.2 The Indemnifying Party will not consent to the entry of any judgment or enter into any compromise or settlement with respect to the Third Party Claim without the prior written consent of an Indemnified Party unless such judgment, compromise or settlement (a) provides for the payment by the Indemnifying Party of money as sole relief for the claimant, (b) results in the full and general release of such Indemnified Party, as applicable, from all liabilities arising or relating to, or in connection with the Third Party Claim and (c) involves no finding or admission of any violation of law or the rights of any Person and no effect on any other claims that may be made against the Indemnified Party.

7.3.3 If the Indemnifying Party does not deliver the notice contemplated by clause (a), or the evidence contemplated by clause (b), of Section 7.3.1 within 15 days after the Indemnified Party has given notice of the Third Party Claim, or otherwise at any time fails to conduct the defense of the Third Party Claim actively and diligently, the Indemnified Party may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim in any manner it may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith). If such notice and evidence is given on a timely basis and the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently but any of the other conditions in Section 7.3.1 or 7.3.2 is or becomes unsatisfied, the Indemnified Party may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim; provided, however, that the Indemnifying Party will not be bound by the entry of any such judgment consented to, or any such compromise or settlement effected, without its prior written consent (which consent will not be unreasonably withheld or delayed). In the event that the Indemnified Party conducts the defense of the Third Party Claim pursuant to this Section 7.3.3 the Indemnifying Party will (a) advance the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys fees and expenses) and (b) remain responsible for any and all other Indemnified Losses that the Indemnified Party may incur or suffer resulting from, arising out of, relating to, in the nature of or caused by the Third Party Claim to the fullest extent provided in this Section 7.

7.3.4 Each party to this Agreement, in its capacity as an Indemnifying Party, hereby consents to the non-exclusive jurisdiction of any court in which any Third Party Claim may brought against any Indemnified Party for purposes of any claim which such Indemnified Party may have against such Indemnifying Party pursuant to this Agreement in connection with such Third Party Claim, and in furtherance thereof, the provisions of Section 10.2 are incorporated herein by reference, mutatis mutandis.

7.4. The indemnification provisions of this agreement shall survive without limitation as to time for as long as may be permitted under applicable law and without regard to any expiration or termination of any underlying representation, covenant or other obligation relating to or giving rise to an indemnification obligation under this Agreement.

8. Restrictions on Transfer.

8.1. Restrictive Securities Act Legend. All certificates representing Specified Securities shall bear a legend in substantially the following form:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE WERE ISSUED IN A PRIVATE PLACEMENT, WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE ACT), AND MAY NOT BE SOLD, ASSIGNED, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION UNDER THE ACT COVERING THE TRANSFER OR A LEGAL OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER THAT REGISTRATION UNDER THE ACT IS NOT REQUIRED.

8.2. Termination of 8.1 Restrictions. The restrictions imposed by Section 8 hereof upon the transferability of Specified Securities shall cease and terminate as to any particular Subscription Securities (i) when, in the opinion of Ropes & Gray LLP or other counsel reasonably acceptable to SurgiCare, such restrictions are no longer required in order to assure compliance with the Securities Act or (ii) when such Specified Securities shall have been registered under the Securities Act or transferred pursuant to Rule 144 thereunder. Whenever such restrictions shall cease and terminate as to any Specified Securities or such Specified Securities shall be transferable under paragraph (k) of Rule 144, the holder thereof shall be entitled to receive from the Issuer, without expense, new certificates not bearing the legend set forth in Section 8.1 hereof.

9. Miscellaneous.

9.1. Entire Agreement; Prior Agreement Superseded. This Agreement and the other agreements referred to herein set forth the entire understanding among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter, including without limitation the Prior Agreement, which Prior Agreement is terminated in its entirety.

9.2. Amendment. This Agreement can be changed only by an instrument in writing signed by the party against whom enforcement of such change is sought.

9.3. No-Shop; Break-up Fee and Expenses.

9.3.1 SurgiCare will comply fully with the terms of the IPS SurgiCare Merger Agreement, including, without limitation, the provisions of Section 6.03 thereof relating to non-solicitation of alternative SurgiCare Acquisition Transactions (as defined in the IPS SurgiCare Merger Agreement), subject to the provisions of clause (b) of such Section 6.03.

9.3.2 Except as set forth below, all Expenses (as defined below) incurred in connection with this Agreement, the Acquisitions and the other transactions contemplated hereby will be paid by the party incurring such expenses. Expenses as used in this Agreement include all reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, financing sources, appraisers, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to (a) the due diligence review and analysis of

SurgiCare, IPS, DCPS, MBS, the Acquisitions and the other transactions contemplated hereby, (b) the negotiation and documentation of related agreements and (c) the proxy solicitation process as well as the process for obtaining any governmental or other third party consent for the foregoing transactions; and as used herein such term will specifically include all Expenses as defined in the IPS SurgiCare Merger Agreement.

9.3.3 SurgiCare will reimburse the Subscriber for all Expenses actually incurred by or on behalf of the Subscriber prior to termination of the IPS SurgiCare Merger Agreement, upon the termination of the IPS SurgiCare Merger Agreement:

(a) by SurgiCare or IPS pursuant to (i) Section 8.01(c) of the IPS SurgiCare Merger Agreement if at the time of such termination any of the conditions set forth in Section 7.03 of the IPS SurgiCare Merger Agreement have not been satisfied or (ii) Section 8.01(f) of the IPS SurgiCare Merger Agreement;

(b) by IPS pursuant to Section 8.01(d), Section 8.01(i) or Section 8.01(l) of the IPS SurgiCare Merger Agreement; or

(c) by SurgiCare pursuant to Section 8.01(j) or Section 8.01(n) of the IPS SurgiCare Merger Agreement.

9.3.4 In addition to any amount payable in accordance with Section 9.3.3, SurgiCare agrees to pay to Subscriber a non-refundable fee equal to $3,000,000 if:

(a) (i) SurgiCare or IPS terminates the IPS SurgiCare Merger Agreement pursuant to Section 8.01(c) or Section 8.01(f), and (ii) SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare s 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 within 18 months of such termination;

(b) IPS terminates the IPS SurgiCare Merger Agreement pursuant to Section 8.01(d) of the IPS SurgiCare Merger Agreement;

(c) (i) IPS terminates the IPS SurgiCare Merger Agreement pursuant to Section 8.01(i) or Section 8.01(l) of the IPS SurgiCare Merger Agreement, and (ii) SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare s Board of Directors resolves or announces an intention to enter into such agreement or letter of intent with respect to), a Business Combination with any Person, entity or group within 18 months of such termination; or

(d) SurgiCare terminates the IPS SurgiCare Merger Agreement pursuant to Section 8.01(j) or Section 8.01(n) of the IPS SurgiCare Merger Agreement.

9.3.5 In addition to any other rights or remedies Subscriber may have, in the event that SurgiCare breaches its obligations under Section 2 of this Agreement, SurgiCare agrees to (a) pay to Subscriber a non-refundable fee equal to $3,000,000 (to the extent that such fee

is not payable under Section 9.3.4 hereof) and (b) reimburse the Subscriber for all Expenses incurred by or on behalf of the Subscriber.

9.3.6 Any payment required to be paid pursuant to this Section 9.3 will be made promptly by wire transfer of same day funds but in no event later than:

(a) in the case of termination by IPS, two business days following such termination pursuant to Section 8.01 of the IPS SurgiCare Merger Agreement; provided, however, that any fee payable pursuant to Section 9.3.4(a) or (c) will be payable no later than two business days prior to the closing of the Business Combination referred to in clauses (a)(ii) and (c)(ii) of Section 9.3.4;

(b) in the case of termination by SurgiCare, prior to the date of such termination; provided, however, that any fee payable pursuant to Section 9.3.4(a) will be payable prior to the occurrence of the first to occur of the events described in Section 9.3.4(a)(ii); and

(c) in the case of a payment due under Section 9.3.5, no later than two business days following written demand by the Subscriber.

9.3.7 For purposes of this Section 9.3, 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 (as defined in the IPS SurgiCare Merger Agreement), 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 (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of more than 20% of the outstanding SurgiCare Old Common Stock (as defined in the IPS SurgiCare Merger Agreement) (or in the case of any Person, group or entity beneficially owning in excess of 20% of the SurgiCare Old Common Stock outstanding on the date hereof, the acquisition of any additional shares of SurgiCare Old Common Stock by such Person, group or entity), in either case, whether from SurgiCare or by tender or exchange offer or otherwise.

9.3.8 If the Closing occurs, SurgiCare agrees to pay on demand (i) all Expenses actually incurred by the Subscriber (or any of its affiliates) and (ii) any out-of-pocket expenses actually incurred by the Subscriber, its general partner or any of the Subscriber s other affiliates in connection with the provision of services to SurgiCare or any of its Subsidiaries or the attendance at any meeting of the board of directors (or any committee thereof) of SurgiCare or any of its Subsidiaries.

9.3.9 SurgiCare acknowledges that the agreements contained in this Section 9.3 are an integral part of this Agreement, and that, without these agreements, Subscriber would not enter into this Agreement; accordingly, if SurgiCare fails to pay any amounts due pursuant

to this Section 9.3, and, in order to obtain any such payment, the Subscriber commences a legal proceeding which results in a judgment against SurgiCare for such amounts, SurgiCare will pay to the Subscriber all costs and expenses (including reasonable attorneys fees) in connection with such proceeding, together with interest on all such amounts at the prime rate of Citibank N.A. in effect on the date any such payment was required to be made.

9.4. Assignment. This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and representatives; provided, however, that prior to the Closing, no assignment of the Subscriber s rights hereunder will, without the consent of SurgiCare, relieve the Subscriber of its obligations hereunder; and, after the Closing, the Subscriber may not assign any of the Subscriber s rights hereunder except in connection with a transfer of Specified Securities in compliance with the terms and conditions of Section 8 of this Agreement.

9.5. Survival. All covenants, agreements, representations and warranties made herein shall survive the execution and delivery hereof and transfer of any Subscription Securities.

9.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

10. Governing Law; Arbitration.

10.1. Governing Law. This Agreement and all claims arising hereunder or in connection herewith shall be governed by and construed in accordance with the domestic substantive laws of the State of New York, without giving effect to any choice or conflict of law provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

10.2. Consent to Jurisdiction. Each of the parties agrees that all actions, suits or proceedings arising out of or based upon this Agreement or the subject matter hereof may be brought and maintained in the federal and state courts within the County of New York of the State of New York. Each of the parties hereto by execution hereof: (i) hereby irrevocably submits to the jurisdiction of the federal and state courts within the County of New York in the State of New York for the purpose of any action, suit or proceeding arising out of or based upon this Agreement or the subject matter hereof and (ii) hereby waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such action, suit or proceeding, any claim that he or it is not subject personally to the jurisdiction of the above-named courts, that he or it is immune from extraterritorial injunctive relief or other injunctive relief, that his or its property is exempt or immune from attachment or execution, that any such action, suit or proceeding may not be brought or maintained in one of the above-named courts, that any such action, suit or proceeding brought or maintained in one of the above-named courts should be dismissed on grounds of forum non conveniens, should be transferred to any court other than one of the above-named courts, should be stayed by virtue of the pendency of any other action, suit or proceeding in any court other than one of the above-named courts, or that this Agreement or the subject matter hereof may not be enforced in or by any of the above-named courts. Each of the parties hereto hereby consents to service of process in any such suit, action or proceeding in any manner permitted by the laws of the State of New

York, agrees that service of process by registered or certified mail, return receipt requested, at the address specified below its signature hereon is reasonably calculated to give actual notice and waives and agrees not to assert by way of motion, as a defense or otherwise, in any such action, suit or proceeding any claim that such service of process does not constitute good and sufficient service of process.

10.3. Waiver of Jury Trial. To the extent not prohibited by applicable law which cannot be waived, each of the parties hereto hereby waives, and covenants that he or it will not assert (whether as plaintiff, defendant, or otherwise), any right to trial by jury in any forum in respect of any issue, claim, demand, cause of action, action, suit or proceeding arising out of or based upon this Agreement or the subject matter hereof, in each case whether now existing or hereafter arising and whether in contract or tort or otherwise. Any of the parties hereto may file an original counterpart or a copy of this Section 10.3 with any court as written evidence of the consent of each of the parties hereto to the waiver of his or its right to trial by jury.

10.4. Reliance. Each of the parties hereto acknowledges that he or it has been informed by each other party that the provisions of Section 10 constitute a material inducement upon which such party is relying and will rely in entering into this Agreement and the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound by the terms hereof, have caused this Agreement to be executed, under seal, as of the date first above written by their officers or other representatives thereunto duly authorized.

THE ISSUER:

SURGICARE, INC.

By /s/ Keith G. LeBlanc

Name: Keith G. LeBlanc
Title: President and Chief Executive Officer

Address: 12727 Kimberly Lane, Suite 200
Houston, TX 77024

THE SUBSCRIBER:

BRANTLEY PARTNERS IV, L.P.

By: Brantley Venture Management IV, L.P.,
its general partner

By /s/ Paul H. Cascio

Name: Paul H. Cascio
Title: General Partner

Address: Lakepoint
3201 Enterprise Pkwy., Suite 350
Beachwood, OH 44122

Schedule 1
to Amended and Restated Stock Subscription Agreement

Pro Forma Equity Ownership at Closing

Holder or Group	Shares
Brantley Partners IV, L.P., as the Subscriber under this Stock Subscription Agreement	100% of the outstanding shares of Class B Common as of Closing (which, after satisfaction of preference amount, will be convertible into and constitute 51% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan)
Former stockholders of SurgiCare, Inc.	A number of shares of Class A Common, representing 50% of the outstanding shares of Class A Common as of Closing (which, assuming payment to Class B holders of full preference amount in cash and then conversion of Class B shares, will represent 24.5% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan)
Former debt holders and stockholders of Integrated Physicians Solutions, Inc. (IPS) (which will include Brantley III and Brantley Capital in their capacity as stockholders and debt holders of IPS)	A number of shares of Class A Common, representing 50% of the outstanding shares of Class A Common as of Closing (which, assuming payment to Class B holders of full preference amount in cash and then conversion of Class B shares, will represent 24.5% of Class A Common before dilution by shares issued in connection with DCPS/MBS Acquisition and management option plan)
DCPS/MBS Sellers *(assumes a Class A Common Closing Price of at least $.70 per share)*	A number of shares of Class C Common equal to 14,060,606 *times* the Reverse Split Fraction. In addition, a number of shares of Class A Common equal to 757,575 *times* the Reverse Split Fraction will be reserved for issuance upon the direction of the DCPS/MBS Sellers
Management Option Plan	A number of shares of Class A Common equal to approximately 10% of the total Class A Common outstanding after all of the transactions contemplated by this Agreement (including the Acquisitions) will be reserved for issuance upon exercise of options issued to management (including options issued to replace former options issued by IPS)

Schedule 2
to Amended and Restated Stock Subscription Agreement

American International Industries, Inc.
International Diversified Corporation, Ltd.

Exhibits

Exhibit A	Form of Amended SurgiCare Charter
Exhibit B	Form of IPS SurgiCare Merger Agreement
Exhibit C	Form of DCPS/MBS Merger Agreement
Exhibit D	Form of Debt Exchange Agreement
Exhibit E	Form of SurgiCare Registration Rights Agreement
Exhibit F	Form of Amended and Restated By-Laws for SurgiCare

ANNEX I

Integrated Physician Solutions, Inc.

Financial Statements

Integrated Physician Solutions, Inc.

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Independent Auditors Report

Integrated Physician Solutions, Inc.

Atlanta, Georgia

We have audited the accompanying consolidated balance sheet of Integrated Physician Solutions, Inc. as of December 31, 2002 and the related consolidated statements of operations, redeemable preferred stock and stockholders deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Integrated Physician Solutions, Inc. at December 31, 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has negative working capital and has a net capital deficiency, all of which raise substantial doubt about the Company s ability to continue as a going concern. Management s plans in regards to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Atlanta, Georgia
November 21, 2003

/s/ BDO Seidman, LLP

Integrated Physician Solutions, Inc.

Consolidated Balance Sheet
December 31, 2002

Assets	
Current	
Cash and cash equivalents	$ 8,134
Accounts receivable, less allowance for doubtful accounts and reserve for contractual allowances of $3,155,017	1,816,656
Inventory	129,520
Prepaid expenses	265,001
Total current assets	2,219,311
Property and equipment, net	502,939
Intangible assets, net	11,420,350
Other long-term assets	49,372
	$ 14,191,972
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	$ 2,907,586
Deferred revenue	72,260
Current portion of capital leases	71,633
Current portion of long-term debt	4,846,133
Total current liabilities	7,897,612
Capital lease obligation, net of current portion	82,533
Long-term debt, net of current portion	1,222,301
Total liabilities	9,202,446
Redeemable convertible preferred stock (including accrued dividends)	
Series A redeemable convertible preferred stock, $0.001 par value; 772,900 shares authorized, 175,000 shares issued and outstanding in 2002	997,500
Series A-1 redeemable convertible preferred stock, $0.001 par value; 71,028 shares authorized, 71,028 shares issued and outstanding in 2002	361,527
Series A-2 redeemable convertible preferred stock, $0.001 par value; 2,200,000 shares authorized, 1,982,500 shares issued and outstanding in 2002	11,035,917
Series B redeemable convertible preferred stock, $0.001 par value; 474,375 shares authorized, 334,375 shares issued and outstanding in 2002	476,484
Total redeemable convertible preferred stock	12,871,428
Commitments and Contingencies	
Stockholders deficit	
Common stock, $0.001 par value; 8,121,878 shares authorized, 2,969,496 outstanding	2,969
Additional paid in capital	9,392,358
Treasury stock (111,817 shares) at cost	(625,000)
Accumulated deficit	(16,652,229)
Total stockholders deficit	(7,881,902)

$ 14,191,972

See accompanying summary of accounting policies and notes to financial statements.

Integrated Physician Solutions, Inc.

Consolidated Statement of Operations
Year Ended December 31, 2002

Revenues	
Net patient service revenue	$22,028,924
IntegriMED	174,918
Total revenues	22,203,842
Operating expenses	
Physician compensation	9,668,073
Direct clinical expenses	4,267,596
Operating expenses	3,860,027
General and administrative	2,956,030
Provision for bad debts	1,660,516
Professional and consulting fees	912,795
Depreciation and amortization	207,667
Total operating expenses	23,532,704
Loss from continuing operations before other income (expense) and income taxes	(1,328,862)
Other income (expense)	
Interest expense	(599,392)
Other expense	(31,077)
Other income (expense), net	(630,469)
Loss from continuing operations before income taxes	(1,959,331)
Income taxes	
Loss from continuing operations	(1,959,331)
Discontinued operation	
Income from operations of discontinued component, including gain on disposal of $245,438	463,330
Net loss	(1,496,001)
Preferred stock dividends	(793,000)
Net loss attributable to common stockholders	$ (2,289,001)

See accompanying summary of accounting policies and notes to financial statements.

Integrated Physician Solutions, Inc.

Consolidated Statement of Redeemable Preferred Stock and Stockholders Deficit
Year Ended December 31, 2002

	Redeemable Convertible Preferred Stock							
	Series A		Series A-1		Series A-2		Series B	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, at January 1, 2002	175,000	$949,277	71,028	$360,191	1,982,500	$10,252,512	334,375	$459,890
Prior period adjustments		48,223		1,336		(9,595)		16,594
Balance, at January 1, 2002, restated	175,000	997,500	71,028	361,527	1,982,500	10,242,917	334,375	476,484
Dividends accrued and unpaid						793,000		
Treasury stock reacquired								
Net loss								
Balance, at December 31, 2002	175,000	$997,500	71,028	$361,527	1,982,500	$11,035,917	334,375	$476,484

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Integrated Physician Solutions, Inc.

Consolidated Statement of Redeemable Preferred Stock and Stockholders Deficit
Year Ended December 31, 2002
(Continued)

	Common stock			Treasury Stock			
	Shares	**Amount**	**APIC**	**Shares**	**Amount**	**Accumulated Deficit**	**Stockholders Deficit**
Balance, at January 1, 2002	3,894,007	$3,894	$10,030,438	(785,336)	$(1,075,761)	$(12,841,803)	$(3,883,232)
Prior period adjustments	(673,519)	(674)	(450,087)	673,519	450,761	(1,521,425)	(1,521,425)
Balance, at January 1, 2002, restated	3,220,488	3,220	9,580,351	(111,817)	(625,000)	(14,363,228)	(5,404,657)
Dividends accrued and unpaid						(793,000)	(793,000)
Treasury stock reacquired	(250,992)	(251)	(187,993)				(188,244)
Net loss						(1,496,001)	(1,496,001)
Balance, at December 31, 2002	2,969,496	$2,969	$ 9,392,358	(111,817)	$ (625,000)	$(16,652,229)	$(7,881,902)

Integrated Physician Solutions, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2002

Operating activities	
Net loss	$ (1,496,001)
Adjustments to reconcile net loss to net cash used in operating activities:	
Bad debt expense	1,660,516
Depreciation and amortization of property and equipment	218,228
Amortization of debt issuance costs	38,000
Loss on disposal of property and equipment	17,615
Gain on disposition of discontinued component	(245,438)
Changes in operating assets and liabilities:	
Accounts receivable	(1,858,506)
Inventory	(61,291)
Prepaid expenses and other assets	(4,959)
Other assets	14,145
Accounts payable and accrued expenses	(425,423)
Deferred revenues	72,260
Net cash used in operating activities	(2,070,854)
Investing activities	
Purchase of property and equipment	(44,766)
Proceeds from disposition of discontinued component	1,904,502
Net cash provided by investing activities	1,859,736
Financing activities	
Repayments of capital lease obligations	(77,267)
Net borrowings on line of credit	80,322
Repayments of notes payable and term loans	(363,358)
Advances on notes payable and term loans	470,000
Net cash provided by financing activities	109,697
Net decrease in cash	(101,421)
Cash and cash equivalents, beginning of period	109,555
Cash and cash equivalents, end of period	$ 8,134
Supplemental cash flow information	
Lease proceeds used to purchase equipment	$ 52,659

See accompanying summary of accounting policies and notes to financial statements.

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

Organization

Integrated Physician Solutions, Inc. (IPS) a Delaware corporation, formerly Pediatric Physician Alliance, Inc., was formed in 1996 to provide physician practice management services to general and subspecialty pediatric practices. The Company commenced its business activities upon consummation of several physician practice business combinations effective January 1, 1999, as described in Note 3. IPS currently provides comprehensive management, administrative and other business services to its acquired and contracted pediatric physician practices in selected markets throughout the United States. The Company s headquarters are in Roswell, Georgia, with practice operations in Ohio, California, Texas, Illinois, and New Jersey.

IntegriMED, Inc., a wholly owned subsidiary of IPS 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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, IntegriMED, and its affiliated physician practices. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Although these estimates are based on management s knowledge, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

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 revenues are based on established billing rates, less estimated allowances for patients covered by Medicare, Medicaid and other contractual reimbursement programs, and discounts from established billing rates. 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 affiliated medical groups. IPS estimates the amount of these contractual allowances and records a reserve against accounts receivable based on historical collection percentages. When payments are received, the contractual adjustment is written off against the established reserve for contractual allowances. The historical collection percentage is adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. As pricing changes are made for Medicare, Medicaid or other contractual reimbursement programs, or as contracts with new payers are executed, IPS adjusts the estimated contractual allowance to account for changes in reimbursement.

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/or collected from the customer, representing amounts expected to be recognized as revenue in future periods. Training and implementation fee revenues are recognized once the applicable software systems are installed and operational. Subscription fee revenues are recognized based on contractual fee schedules in the period the services are provided. Employee benefit administrative fee revenues are recognized in the period the services are provided.

Net Patient Service Revenue

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 certain specific matters pertaining to the physician practice management industry. EITF 97-2 addresses the ability of physician practice management companies to consolidate the results of physician practices with which it has an existing contractual relationship. The Company has determined that its contracts meet the criteria of EITF 97-2 for consolidating the results

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

of operations of the related physician practices 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. The Company 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.

Capitated Contracts

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. The Company establishes accruals for costs incurred in connection with its capitated contracts 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. For the year ended December 31, 2002, approximately 4.9% of the Company s total revenues were derived from capitated arrangements.

Accounts Receivable and Allowance for Doubtful Accounts

The Company grants credit without collateral to its patients, most of whom 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 allowance for doubtful accounts represents the estimate of the uncollectible portion of accounts receivable.

Property and Equipment

Property and equipment are recorded at cost and are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 Years
Office and medical equipment	5 Years
Computer equipment (hardware and software)	3 Years
Leasehold improvements	3 Years

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

Fair Value of Financial Instruments

The Company 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. There are no quoted market prices available for the Company s redeemable preferred stock and there are no known financial instruments with similar characteristics. Accordingly, estimation of the fair value of the Company s preferred stock at December 31, 2002 was not practicable.

Industry Risks

The health care industry is subject to numerous laws and regulations at all levels of government. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws could result in significant fines and penalties as well as significant payments for services previously billed. The Company is subject to similar regulatory reviews. A determination of liability under any such laws could have a material effect on the Company s financial position, results of operations, changes in stockholders deficit, and cash flows.

The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The Statement 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 of such instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for fiscal periods

beginning after December 15, 2004 for nonpublic entities. The Statement 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 Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. Management believes that the adoption of this Statement will not have a significant impact on the financial position, results of operations or cash flows of the Company.

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 the Company s financial position or result of operations.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 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. The Company has not identified any variable interest entities and does not expect FIN No. 46 to have any effect on its consolidated financial statements.

Integrated Physician Solutions, Inc.

Notes to Consolidated Financial Statements

1. Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations, has negative working capital and has a net capital deficiency, all of which raise substantial doubt about the Company s ability to continue as a going concern. Management intends to alleviate its liquidity problems through a proposed merger with Surgicare, Inc. (AMEX:SRG), an outpatient ambulatory surgery center located in Houston, Texas. In addition to the merger, Surgicare, Inc. plans to purchase the businesses of two physician billing companies, also located in Houston, Texas. In connection with this merger and purchase, an affiliate of one of the Company s significant holders of preferred stock, Brantley Venture Partners IV, L.P., plans to invest approximately $7,300,000 in exchange for a majority ownership interest of the newly combined companies. The financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty.

2. Acquisitions

Effective January 1, 1999, the Company consummated eight simultaneous business combinations with five primary care pediatric groups and three pediatric specialist groups. In addition, the Company acquired a small physician practice in September 1999. These acquisitions were accounted for as purchase transactions.

As a result of these transactions, the Company recorded intangible assets of approximately $15,436,000 (including approximately $322,000 in other direct acquisition costs), which were being amortized over 25 years. However, with the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , goodwill is no longer amortized, but instead goodwill is to be tested for impairment at least annually. (See Note 4 to the Consolidated Financial Statements)

In connection with these acquisitions, the Company entered into Management Service Agreements (MSAs) with the practices to provide physician practice management services, as defined in each practice MSAs. The MSAs are for terms of 40 years and cannot be terminated by either party without cause, primarily bankruptcy or material default. As defined in the MSAs, the management fee is either fixed or equal to a percentage of practice net operating income, as defined in each practice MSA.

Integrated Physician Solutions, Inc.

Notes to Consolidated Financial Statements

3. Property and Equipment

Property and equipment consist of the following:

Furniture and fixtures	$ 335,236
Medical equipment	334,745
Leased equipment	364,095
Office equipment	818,878
Computer equipment (hardware and software)	626,439
Leasehold improvements	538,294
	3,017,687
Less accumulated depreciation and amortization	(2,514,748)
	$ 502,939

4. 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 the Company 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 which 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.

The Company adopted SFAS No. 142 effective January 1, 2002. As a result, the amortization of existing goodwill ceased on December 31, 2001. Goodwill amortization in 2001 approximated $617,000. The Company tested its goodwill for impairment under the new standard in the fourth quarter of 2002 determining that no goodwill impairment has occurred, and no events have occurred since to cause a significant change in this assessment. Goodwill allocated to New Interlachen Pediatrics of approximately $1,451,000 was written off in connection with the sale of that component in 2002 (see Note 13 Discontinued Operations)

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were as follows:

Physician compensation	$2,350,000
Other accrued expenses	387,453
Accounts payable	170,133
	$2,907,586

6. Long-Term Debt and Capital Lease Obligation

Effective June 22, 2001, the Company closed on a five-year $2,075,000 term loan (the Term Loan) with DVI Financial Services, Inc. (DVI FS) and a two-year $5,000,000 revolving credit facility (the RLOC) with DVI Business Credit Corporation (DVI BC). The maturity date of the Term loan is May 18, 2006 and the maturity date of the RLOC is June 21, 2003. As of December 31, 2002, the outstanding borrowings under the Term Loan and the RLOC are classified in the accompanying balance sheet in accordance with the debt repayment schedules.

As security for the borrowings under the Term Loan, the Company has granted DVI FS a first priority perfected security interest in, and lien on, all of its assets. The Term Loan bears interest at 10.75%. Repayment of the Term Loan is $46,645 monthly representing principal and interest. Amounts outstanding under the Term Loan as of December 31, 2002 totaled approximately $1,627,000.

The RLOC bears interest at prime plus 2.35%. 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 or (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, the Company has granted DVI BC a perfected security interest in all present and future accounts receivable. Amounts outstanding under the RLOC bear interest based on a prime-based rate, 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, 2002 totaled approximately $2,600,000 and are classified as short-term in the accompanying consolidated balance sheet.

During fiscal year 1999, the Company issued subordinated promissory notes payable to a majority stockholder 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, the Company 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. These notes matured on September 30, 2003, but the maturity date was also extended to April 15, 2004.

During fiscal year 1999, the Company issued a $240,000 noninterest-bearing note payable in connection with treasury shares purchased by the Company. Repayment of the note is $4,000 monthly, starting January 1, 1999 through December 31, 2003. As of December 31, 2002, the carrying value of the note payable, which is reflected on a discounted present value basis, is approximately $45,000.

Future aggregate annual maturities of long-term debt are as follows:

Fiscal year ending	Amount
2003	$ 4,846,133
2004	450,086
2005	500,928
2006	271,287
	6,068,434
Less current portion	(4,846,133)
	$ 1,222,301

Capital Lease Obligations

The Company 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.

Future minimum lease payments are as follows:

Fiscal year ending	Amount
2003	$ 88,021
2004	62,254
2005	20,819
2006	7,909
2007	555
	179,558
Less amounts representing interest	(25,392)
Present value of minimum lease payments	$154,166

7. Income Taxes

The Company is a corporation subject to federal and state income taxes. Income taxes have been provided using the liability method in accordance with SFAS No. 109, Accounting for Income Taxes.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and unused tax operating loss carryforwards. Significant components of the Company s net deferred tax assets and liabilities consisted primarily of differences between book and tax treatment of deferred start-up costs and depreciation of property and equipment and net operating tax loss carryforwards.

Deferred tax assets	
Net operating loss	$ 3,000,000
Deferred start-up costs	512,000
Depreciation	(39,000)
Allowance for bad debts	202,000
Other	2,000
Total net deferred tax assets	3,677,000
Valuation allowance	(3,677,000)
Net deferred tax assets	$

Based on uncertainties associated with the future realization of the deferred tax assets, the Company established a valuation allowance for the entire amount of net deferred tax assets of $3,677,000.

A reconciliation from the statutory federal income tax rate to the income tax expense from continuing operations is as follows for the years ended December 31, 2002:

Federal tax benefit at statutory rate	$(666,000)
State income tax benefit, net of federal tax effect	(78,000)
Change in valuation allowance	744,000
Income taxes	$

At December 31, 2002, the Company had federal net operating loss carry forwards of approximately $8,000,000, which will begin to expire in the year 2011.

8. Redeemable Convertible Preferred Stock

The Company has been authorized to issue 772,900 shares of Series A convertible preferred stock (Series A), 71,028 shares of Series A-1 convertible preferred stock (Series A-1), 2,200,000 shares of Series A-2 convertible preferred stock (Series A-2), 474,375 shares of Series B convertible preferred stock (Series B), and 190,000 shares of Series C 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, the Company issued 772,900, 24,600, and 474,375 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 acquisition of the physician practices described in Note 3, the Company entered into an agreement to redeem the Series A and Series B shares, including accrued dividends, owned by Brantley Venture Partners III (BVP), at book value, which approximates the redemption value. Total shares redeemed by the Company 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, BVP co-invested with Brantley Capital Corporation (BCC) in the Company 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, the Company issued warrants to purchase 40,000 and 60,000 shares of the Company s common stock to BVP and BCC, 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.

At December 31, 2002, 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 $.05 per share for each 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 $.05 per share for each share or (b) cash at the annual rate of $.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 $.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, 2002.

Integrated Physician Solutions, Inc.

Notes to Consolidated Financial Statements

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 $.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 $.05 per share for each share or (b) cash at the annual rate of $.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 preferred shares which remain outstanding on the closing date of a public offering or a merger or consolidation of PPA 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 or 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.

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: (#) 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 of $4 per share, plus accrued and unpaid dividends, whether declared or not. Redemption, at the request of the holder, shall occur as follows: (#) 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 the outstanding shares shall be redeemed on January 27, 2007.

In the event of IPS 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.

9. Common Stock

The Company s original charter and bylaws authorized the issuance of 1,500,000 shares of common stock. On October 4, 1996, the Company s board of directors amended and restated such charter and bylaws to authorize the issuance of up to 8,121,875 shares of common stock. The Company issued 2,744,007 shares of common stock in connection with the acquisition of the physician practices. As of December 31, 2002, the Company had 2,969,496 shares of common stock issued.

10. Treasury Shares

Shares reacquired in various transactions by the Company in previous years aggregating 673,519 at a cost of $450,761 were cancelled. The amounts are included in the accompanying statement of stockholders equity as a prior period adjustment. During fiscal year 2002, the Company reacquired and cancelled 250,992 common shares related to the sale of a practice to its physicians.

11. Long-Term IncentivePlan

The Company has a long-term incentive stock option plan for employees, officers, consultants, advisors, and directors of the Company. The option price at the date of grant approximates the market value of the stock, and therefore, the plan is generally non-compensatory. The stock options and warrants expire ten years from the date of grant. The options generally become exercisable beginning one year from the grant date with vesting periods of one, four, or five years.

The Company accounts for the stock options and warrants under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, which requires compensation costs to be recognized only when the option price differs from the market price at the grant date. SFAS No. 123, Stock-Based Compensation, allows a company to follow APB Opinion No. 25 with an additional disclosure that shows what the Company s pro forma net loss would have been using the compensation model under SFAS No. 123. Under SFAS No. 123, the fair values for these options were estimated at the date of grant using an option pricing model with the following assumptions: a risk-free interest rate of 4.0%, no dividend yield, expected volatility rate of .01%, annual forfeiture rate of 3%, and expected life of the options between one and four years. In fiscal year 2002, the estimated fair values for these options were calculated using the Black-Scholes option pricing method. The pro forma effect of expensing such options was not significant.

Stock option activity is summarized as follows:

	Number of shares	Option Price
Outstanding at beginning of period	528,111	$0.01-$0.75
Options forfeited	(77,000)	$0.01-$0.75
Options granted	200,500	$0.01-$0.75
Outstanding at December 31, 2002	651,611	$0.01-$0.75
Exercisable at December 31, 2002	300,886	$0.01-$0.75

12. Prior Period Adjustments

Beginning retained earnings have been adjusted to correct errors related to prior year uncollectible receivables and accrued expenses. The errors had no effect on net income for 2002.

13. Discontinued Operation

New Interlachen Pediatrics, Inc. (NIP) entered into an Asset Purchase Agreement, effective March 31, 2002, with New Interlachen Pediatrics, P.A. 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. In addition, as of the closing date, the parties agreed to terminate the MSA and waive and release all claims between the parties. The details of the transaction are as follows:

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

The sale of NIP has been classified as a discontinued operation. The relevant timing and information regarding the NIP sale are provided above relating to the discontinued operation. The revenue for NIP during the period prior to sale was $1,454,807 and the pre-tax income was $217,892.

14. Commitments and Contingencies

The Company leases office space and certain equipment under noncancelable operating lease agreements, which expire in 2010. The leases maybe renewed under terms to be negotiated by the Company and the lessors. Minimum annual rental commitments under noncancelable operating leases with terms in excess of one year are as follows:

Fiscal year ending	Amount
2003	$1,021,406
2004	959,654
2005	722,299
2006	596,447
2007	444,615
Thereafter	661,682
Total	$4,406,103

Rent expense related to operating leases amounted to approximately $1,042,466 for the year ended December 31, 2002.

The Company has entered into certain employment agreements that include noncompete and confidentiality provisions and provides key executives with minimum base pay, annual incentive awards, and other fringe benefits. The Company expenses all costs related thereto in the period the service is rendered by the employee. In the event of death, disability, termination with or without cause, voluntary employee termination, or change in ownership of the Company, the Company may be partially or wholly relieved of its financial obligations to such individuals. However, under certain circumstances, a change in control of the Company may provide an extension of the compensation to the employees possessing employment contracts. At December 31, 2002, the Company was contractually obligated to pay approximately $528,000 as base compensation to certain key executives.

The Company and its affiliated physician groups are insured with respect to medical malpractice risks on a claims-made basis. In the opinion of management, the amount of potential liability with respect to these claims will not materially affect the Company s financial position or results of operations.

The Company is subject to legal proceedings and claims, which arise in the ordinary course of business. In the opinion of management, the amount of potential liability with respect to these actions will not materially affect the Company s financial position or results of operations.

IPS is involved in an arbitration proceeding pursuant to the MSA between IPS and Children s Advanced Medicine, Inc. (CAM). The dispute involves the balance owed the CAM for pre-merger accounts receivable and the amount owed IPS for excess compensation paid to CAM physicians. No material adverse impact on IPS is foreseeable at present.

15. Subsequent Events

On March 26, 2003 the Company refinanced with DVI FS the $2,075,000 five-year term loan (the Original Term Loan) with a $3,000,000 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.

Integrated Physician Solutions, Inc.

Notes to Consolidated Financial Statements

On July 31, 2003, Brantley Capital Corporation exchanged 329,500 shares of the Series A-2 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 the Company s Series A-2 convertible preferred stock on demand.

On August 25, 2003 DVI, Inc. the parent organization of the Company s primary lenders, DVI FS and DVI BC, filed a petition with the U. S. Superior Court for protection under Chapter 11 of the U. S. Bankruptcy Code. The inability of DVI, Inc. to re-organize and emerge from the bankruptcy process may negatively impact the Company s ability to obtain debt financing in the future.

Integrated Physician Solutions, Inc.

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Integrated Physician Solutions, Inc.

Consolidated Condensed Balance Sheets

	September 30, 2003	December 31, 2002
	(unaudited)	
Assets		
Current		
Cash and cash equivalents	**$ 7,392**	$ 8,134
Accounts receivable, less allowance for doubtful accounts and reserve for contractual allowances adjustments of $2,748,123 and $3,115,017 at September 30, 2003 and December 31, 2002, respectively	**2,008,147**	1,816,656
Inventory	**148,517**	129,520
Prepaid expenses	**381,183**	265,001
Total current assets	**2,545,239**	2,219,311
Property and equipment, net	**398,673**	502,939
Intangible assets	**11,420,350**	11,420,350
Other long-term assets	**83,423**	49,372
	$ 14,447,685	$ 14,191,972
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	**$ 2,764,858**	$ 2,907,586
Deferred revenue	**68,488**	72,260
Current portion of capital leases	**60,358**	71,633
Current portion of long-term debt	**7,158,559**	4,846,133
Total current liabilities	**10,052,263**	7,897,612
Capital lease obligation, net of current portion	**35,359**	82,533
Long-term debt, net of current portion	**2,341,913**	1,222,301
Total liabilities	**12,429,535**	9,202,446
Redeemable convertible preferred stock (including accrued dividends)		
Series A redeemable convertible preferred stock, $0.001 par value; 772,900 shares authorized, 175,000 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	**997,500**	997,500
Series A-1 redeemable convertible preferred stock, $0.001 par value; 71,028 shares authorized, 71,028 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	**361,527**	361,527
Series A-2 redeemable convertible preferred stock, $0.001 par value; 2,200,000 shares authorized, 1,653,000 and 1,982,500 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	**10,290,702**	11,035,917
Series B redeemable convertible preferred stock, $0.001 par value; 474,375 shares authorized, 334,375 shares issued and outstanding September 30, 2003 and December 31, 2002, respectively	**476,484**	476,484
Total redeemable convertible preferred stock	**12,126,213**	12,871,428
Commitments and contingencies		

Stockholders equity (deficit)		
Common stock, $0.001 par value; 8,121,878 shares authorized, 2,854,996 and 2,969,496 issued and outstanding at September 30, 2003 and December 31, 2002, respectively	**2,854**	2,969
Additional paid in capital	**9,392,473**	9,392,358
Treasury stock (111,817 shares) at cost	**(625,000)**	(625,000)
Accumulated deficit	**(18,878,390)**	(16,652,229)
Total stockholders deficit	**(10,108,063)**	(7,881,902)
	$ 14,447,685	$ 14,191,972

See accompanying summary of accounting policies and notes to financial statements.

Integrated Physician Solutions, Inc.

Consolidated Condensed Statements of Operations

Nine months September 30, (unaudited)	**2003**	**2002**
Revenues		
Net patient service revenue	**$18,117,012**	$16,912,504
IntegriMED	**149,359**	106,415
	18,266,371	17,018,919
Operating expenses		
Physician compensation	**7,795,420**	7,353,792
Direct clinical expenses	**3,667,977**	3,189,614
Operating expenses	**3,052,861**	2,879,747
General and administrative	**2,601,177**	2,414,567
Provision for bad debts	**1,494,643**	1,176,451
Professional and consulting fees	**621,279**	624,446
Depreciation and amortization	**114,874**	161,243
	19,348,231	17,799,860
Loss from continuing operations before other income (expense) and income taxes	**(1,081,860)**	(780,941)
Other income (expense)		
Interest expense	**(550,044)**	(471,147)
Other expense	**(21,472)**	(25,352)
Total other income (expense)	**(571,516)**	(496,499)
Loss from continuing operations before income taxes	**(1,653,376)**	(1,277,440)
Income taxes		
Loss from continuing operations	**(1,653,376)**	(1,277,440)
Discontinued operations		
Income from operations of discontinued component, including gain on disposal of $245,438 in 2002		463,330
Net loss	**(1,653,376)**	(814,110)
Preferred stock dividends	**(572,785)**	(572,785)
Net loss attributable to common stockholders	**$ (2,226,161)**	$ (1,386,895)

See accompanying summary of accounting policies and notes to financial statements.

Integrated Physician Solutions, Inc.

Consolidated Condensed Statements of Redeemable Preferred Stock and Stockholders Deficit

	Redeemable Convertible Preferred Stock							
	Series A		Series A-1		Series A-2		Series B	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, at January 1, 2002	175,000	$997,500	71,028	$361,527	1,982,500	$10,242,917	334,375	$476,484
Dividends accrued and unpaid						793,000		
Treasury stock reacquired								
Net loss								
Balance, at December 31, 2002	175,000	$997,500	71,028	$361,527	1,982,500	$11,035,917	334,375	$476,484

	Redeemable Convertible Preferred Stock							
	Series A		Series A-1		Series A-2		Series B	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, at January 1, 2003	175,000	$997,500	71,028	$361,527	1,982,500	$11,035,917	334,375	$476,484
Dividends accrued and unpaid						572,785		
Exchange of 329,500 shares of Series A-2 preferred for subordinated convertible debt					(329,500)	(1,318,000)		
Treasury stock reacquired								
Net loss								
Balance, at September 30, 2003 (unaudited)	175,000	$997,500	71,028	$361,527	1,653,000	$10,290,702	334,375	$476,484

Integrated Physician Solutions, Inc.

Consolidated Condensed Statements of Redeemable Preferred Stock and Stockholders Deficit (Continued)

	Common stock			Treasury Stock			
	Shares	Amount	APIC	Shares	Amount	Accumulated Deficit	Stockholders' Deficit
Balance, at January 1, 2002	3,220,488	$3,220	$9,580,351	(111,817)	$(625,000)	$(14,363,228)	$(5,404,657)
Dividends accrued and unpaid						(793,000)	(793,000)
Treasury stock reacquired	(250,992)	(251)	(187,993)				(188,244)
Net loss						(1,496,001)	(1,496,001)
Balance, at December 31, 2002	2,969,496	$2,969	$9,392,358	(111,817)	$(625,000)	$(16,652,229)	$(7,881,902)

	Common stock			Treasury Stock			
	Shares	Amount	APIC	Shares	Amount	Accumulated Deficit	Stockholders' Deficit
Balance, at January 1, 2003	2,969,496	$2,969	$9,392,358	(111,817)	$(625,000)	$(16,652,229)	$ (7,881,902)
Dividends accrued and unpaid						(572,785)	(572,785)
Exchange of 329,500 shares of Series A-2 preferred for subordinated convertible debt							
Treasury stock reacquired	(114,500)	(115)	115				
Net loss						(1,653,376)	(1,653,376)
Balance, at September 30, 2003 (unaudited)	2,854,996	$2,854	$9,392,473	(111,817)	$(625,000)	$(18,878,390)	$(10,108,063)

Integrated Physician Solutions, Inc.

Consolidated Statements of Cash Flows

Nine months ended September 30, (unaudited)	**2003**	**2002**
Operating activities		
Net loss	**$ (1,653,376)**	$ (814,110)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bad debt expense	**1,494,643**	1,194,593
Depreciation and amortization	**136,458**	221,940
Gain on disposition of discontinued component		(245,438)
Changes in operating assets and liabilities:		
Accounts receivable	**(1,792,896)**	(2,385,820)
Prepaid expenses and other assets	**(84,049)**	(119,123)
Accounts payable and accrued expenses	**(146,493)**	477,991
Net cash used in operating activities	**(2,045,713)**	(1,669,967)
Investing activities		
Purchase of property and equipment	**(10,617)**	(120,804)
Proceeds from disposition of discontinued component		1,904,502
Net cash provided by (used in) investing activities	**(10,617)**	1,783,698
Financing activities		
Net borrowings (repayments) of capital lease obligations	**(58,449)**	(3,653)
Net borrowings (repayments) on line of credit	**(375,644)**	(286,589)
Repayments of notes payable and term loans	**(755,808)**	(147,952)
Advances on notes payable and term loans	**3,245,489**	220,000
Net cash provided by (used in) financing activities	**2,055,588**	(218,194)
Net decrease in cash	**(742)**	(104,463)
Cash and cash equivalents, beginning of period	**8,134**	109,555
Cash and cash equivalents, end of period	**$ 7,392**	$ 5,092
Supplemental cash flow information		
Exchange of 329,500 shares of Series A-2 redeemable convertible preferred stock for subordinated convertible debt	**$ 1,318,000**	$

See accompanying summary of accounting policies and notes to financial statements.

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

Organization

Integrated Physician Solutions, Inc. (IPS) a Delaware corporation, formerly Pediatric Physician Alliance, Inc., was formed in 1996 to provide physician practice management services to general and subspecialty pediatric practices. The Company commenced its business activities upon consummation of several physician practice business combinations effective January 1, 1999. IPS currently provides comprehensive management, administrative and other business services to its acquired and contracted pediatric physician practices in selected markets throughout the United States. The Company s headquarters are in Roswell, Georgia, with practice operations in Ohio, California, Texas, Illinois, and New Jersey.

IntegriMED, Inc., a wholly owned subsidiary of IPS 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.

Basis of Presentation

The accompanying consolidated condensed financial statements include all of the information and footnotes required by accounting principals generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements reflect all adjustments including those or normal recurring nature, necessary to present fairly the results of the reported interim periods. Interim results are not necessarily indicative of results for a full year. The statements should be read in conjunction with the summary of accounting policies and notes to financial statements included in the Company s latest audited financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, IntegriMED, and its affiliated physician practices. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Although these estimates are based on management s knowledge, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

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 revenues are based on established billing rates, less estimated allowances for patients covered by Medicare, Medicaid and other contractual reimbursement programs, and discounts from established billing rates. 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 affiliated medical groups. IPS estimates the amount of these contractual allowances and records a reserve against accounts receivable based on historical collection percentages. When payments are received, the contractual adjustment is written off against the established reserve for contractual allowances. The historical collection percentage is adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. As pricing changes are made for Medicare, Medicaid or other contractual reimbursement programs, or as contracts with new payers are executed, IPS adjusts the estimated contractual allowance to account for changes in reimbursement.

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/or collected from the customer, representing amounts expected to be recognized as revenue in future periods. Training and implementation fee revenues are recognized once the applicable software systems are installed and operational. Subscription fee revenues are recognized based on contractual fee schedules in the period the services are provided. Employee benefit administrative fee revenues are recognized in the period the services are provided.

Net Patient Service Revenue

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 certain specific matters pertaining to the physician practice management industry. EITF 97-2 addresses the ability of physician practice management companies to consolidate the results of physician practices with which it has an existing contractual relationship. The Company has determined that its contracts meet the criteria of EITF 97-2 for consolidating the results

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

of operations of the related physician practices 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. The Company 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.

Capitated Contracts

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.

The Company establishes accruals for costs incurred in connection with its capitated contracts 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. For the nine-month period ended September 30, 2003, approximately 4.6% of the Company s total revenues were derived from capitated arrangements.

Accounts Receivable and Allowance for Doubtful Accounts

The Company grants credit without collateral to its patients, most of whom 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 allowance for doubtful accounts represents the estimate of the uncollectible portion of accounts receivable.

Property and Equipment

Property and equipment are recorded at cost and are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 Years
Office and medical equipment	5 Years
Computer equipment (hardware and software)	3 Years
Leasehold improvements	3 Years

Industry Risks

The health care industry is subject to numerous laws and regulations at all levels of government. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care

providers. Violations of these laws could result in significant fines and penalties as well as significant payments for services previously billed. The Company is subject to similar regulatory reviews. A determination of liability under any such laws could have a material effect on the Company s financial position, results of operations, changes in stockholders deficit, and cash flows.

The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The Statement 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 of such instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for fiscal periods beginning after December 15, 2004 for nonpublic entities. The Statement 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 Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. Management believes that the adoption of this Statement will not have a significant impact on the financial position, results of operations or cash flows of the Company.

Integrated Physician Solutions, Inc.

Organization and Summary of Accounting Policies

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 the Company s financial position or result of operations.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 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. 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. The Company has not identified any variable interest entities and does not expect FIN No. 46 to have any effect on its consolidated financial statements.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

1. Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations, has negative working capital and has a net capital deficiency, all of which raise substantial doubt about the Company s ability to continue as a going concern. Management intends to alleviate its liquidity problems through a proposed merger with Surgicare, Inc. (AMEX:SRG), an outpatient ambulatory surgery center located in Houston, Texas. In addition to the merger, Surgicare, Inc. plans to purchase the businesses of two physician billing companies, also located in Houston, Texas. In connection with this merger and purchase, an affiliate of one of the Company s significant holders of preferred stock, Brantley Venture Partners IV, L.P., plans to invest approximately $7,300,000 in exchange for a majority ownership interest of the newly combined companies. The financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty.

2. Intangible Assets

The Company adopted SFAS No. 142 effective January 1, 2002. As a result, the amortization of existing goodwill ceased on December 31, 2001. The Company tested its goodwill for impairment under the new standard in the fourth quarter of 2002 determining that no goodwill impairment has occurred, and no events have occurred since to cause a significant change in this assessment.

3. Long-Term Debt and Capital Lease Obligations

Effective June 22, 2001, the Company closed on a five-year $2,075,000 term loan (the Term Loan) with DVI Financial Services, Inc. (DVI FS) and a two-year $5,000,000 revolving credit facility (the RLOC) with DVl Business Credit Corporation (DVI BC). As of September 30, 2003, the outstanding borrowings under the Term Loan and the RLOC are classified in the accompanying balance sheet in accordance with the debt repayment schedules.

As security for the borrowings under the Term Loan, the Company has granted DVI FS a first priority perfected security interest in, and lien on, all of its assets. On March 26, 2003 the Company refinanced with DVI FS the $2,075,000 five-year term loan (the Original Term Loan with a $3,000,000 five-year term loan. The new loan bears interest at the 31-month treasury note rate. Repayments are $64,874 monthly representing principal and interest. Amounts outstanding under the Term Loan as of September 30, 2003 totaled approximately $2,871,920.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

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 or (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, the Company has granted DVI BC a perfected security interest in all present and future accounts receivable. Amounts outstanding under the RLOC bear interest based on a prime-based rate, and interest is payable monthly. The Term Loan and RLOC contain certain affirmative and negative covenants. Amounts outstanding under the RLOC as of September 30, 2003 totaled approximately $2,270,458 and are classified as short-term in the accompanying consolidated balance sheet.

During fiscal year 1999, the Company issued subordinated promissory notes payable to a majority stockholder 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 2003, the Company 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. These notes matured on September 30, 2003, but the maturity date was also extended to April 15, 2004.

During fiscal year 1999, the Company issued a $240,000 noninterest-bearing note payable in connection with treasury shares purchased by the Company. Repayment of the note is $4,000 monthly, starting January 1, 1999 through December 31, 2003. As of September 30, 2003, the carrying value of the note payable, which is reflected on a discounted present value basis, is approximately $12,000.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

4. Redeemable Convertible Preferred Stock

The Company has been authorized to issue 772,900 shares of Series A convertible preferred stock (Series A), 71,028 shares of Series A-1 convertible preferred stock (Series A-1), 2,200,000 shares of Series A-2 convertible preferred stock (Series A-2), 474,375 shares of Series B convertible preferred stock (Series B), and 190,000 shares of Series C 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, the Company 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 acquisition of the physician practices, the Company entered into an agreement to redeem the Series A and Series B shares, including accrued dividends, owned by Brantley Venture Partners III (BVP), at book value, which approximates the redemption value. Total shares redeemed by the Company 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, BVP co-invested with Brantley Capital Corporation (BCC) in the Company 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, the Company issued warrants to purchase 40,000 and 60,000 shares of the Company s common stock to BVP and BCC, 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.

At September 30, 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.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

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 $.05 per share for each 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 $.05 per share for each share or (b) cash at the annual rate of $.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 $.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 September 30, 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 $.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 $.05 per share for each share or (b) cash at the annual rate of $.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 preferred shares which remain outstanding on the closing date of a public offering or a merger or consolidation of PPA with another company shall automatically convert on the same basis and at the same conversion price into common stock.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

On or after October 6, 2002, each share or 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.

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 of $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 end (iii) one-third the outstanding shares shall be redeemed on January 27, 2007.

In the event of IPS 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.

On July 31, 2003, Brantley Capital Corporation exchanged 329,500 shares of the Series A-2 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 the Company s Series A-2 convertible preferred stock on demand.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

5. **Stock Options**

The Company has a long-term incentive stock option plan for employees, officers, consultants, advisors, and directors of the Company. The option price at the date of grant approximates the market value of the stock, and therefore, the plan is generally non-compensatory. The stock options and warrants expire ten years from the date of grant. The options generally become exercisable beginning one year from the grant date with vesting periods of one, four, or five years.

The Company accounts for the stock options and warrants under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, which requires compensation costs to be recognized only when the option price differs from the market price at the grant date. SFAS No. 123, Stock-Based Compensation, allows a company to follow APB Opinion No. 25 with an additional disclosure that shows what the Company s pro forma net loss would have been using the compensation model under SFAS No. 123. Under SFAS No. 123, the fair values for these options were estimated at the date of grant using an option pricing model with the following assumptions: a risk-free interest rate of 4.0%, no dividend yield, expected volatility rate of .01%, annual forfeiture rate of 3%, and expected life of the options between one and four years. In fiscal year 2002, the estimated fair values for these options were calculated using the Black-Scholes option pricing method. The pro forma effect of expensing such options was not significant.

6. Commitments and Contingencies

The Company has entered into certain employment agreements that include noncompete and confidentiality provisions and provides key executives with minimum base pay, annual incentive awards, and other fringe benefits. The Company expenses all costs related thereto in the period the service is rendered by the employee. In the event of death, disability, termination with or without cause, voluntary employee termination, or change in ownership of the Company, the Company may be partially or wholly relieved of its financial obligations to such individuals. However, under certain circumstances, a change in control of the Company may provide an extension of the compensation to the employees possessing employment contracts. At September 30, 2003, the Company was contractually obligated to pay approximately $525,000 as base compensation to certain key executives.

Integrated Physician Solutions, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

The Company and its affiliated physician groups are insured with respect to medical malpractice risks on a claims-made basis. In the opinion of management, the amount of potential liability with respect to these claims will not materially affect the Company s financial position or results of operations.

The Company is subject to legal proceedings and claims, which arise in the ordinary course of business. In the opinion of management, the amount of potential liability with respect to these actions will not materially affect the Company s financial position or results of operations.

IPS is involved in an arbitration proceeding pursuant to the MSA between IPS and Children s Advanced Medicine, Inc. (CAM). The dispute involves the balance owed the CAM for pre-merger accounts receivable and the amount owed IPS for excess compensation paid to CAM physicians. No material adverse impact on IPS is foreseeable at present. Management does not believe that the outcome of this arbitration will have a material impact on the financial condition of the Company.

ANNEX J

DENNIS CAIN
PHYSICIAN SOLUTIONS, LTD.

FINANCIAL STATEMENTS

DENNIS CAIN
PHYSICIAN SOLUTIONS, LTD.[1]

UNAUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003 AND 2002

[1] Dennis Cain Physician Solutions, Ltd. was a limited liability company until August 2003.

DENNIS CAIN
PHYSICIAN SOLUTIONS, LTD.

UNAUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003 AND 2002

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DENNIS CAIN PHYSICIAN SOLUTIONS, LTD.
BALANCE SHEETS

	September 30,	
	2002 Unaudited	2001 Unaudited
ASSETS		
CURRENT ASSETS		
Cash	$ 325,909	$ 173,664
Accounts receivable trade	311,289	250,565
Prepaid expenses	2,648	2,164
TOTAL CURRENT ASSETS	639,845	426,393
PROPERTY AND EQUIPMENT		
Automobile	5,500	5,500
Office furniture and equipment	233,705	218,560
Leasehold improvements	11,719	11,719
	250,924	235,778
Less: accumulated depreciation	(210,327)	(148,451)
NET PROPERTY AND EQUIPMENT	40,597	87,327
TOTAL ASSETS	$ 680,441	$ 513,720
LIABILITIES AND MEMBERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 104,004	$ 36,760
Accrued expenses	88,031	71,071
Line of credit		19,156
TOTAL CURRENT LIABILITIES	192,034	126,986
MEMBERS EQUITY	488,407	386,734
TOTAL LIABILITIES AND MEMBERS EQUITY	$ 680,441	$ 513,720

DENNIS CAIN PHYSICIAN SOLUTIONS, LTD.
STATEMENTS OF OPERATIONS

	Nine Months Ended September 30,	
	2003	**2002**
Revenues	$3,062,027	$2,803,271
Operating Expenses	2,998,205	2,700,747
Income From Operations	63,822	102,524
Other Income (Expense)		
Interest expense		(1,569)
Interest income	233	2,445
Total Other Income (Expense)	233	876
Net Income	$ 64,055	$ 103,400

DENNIS CAIN PHYSICIAN SOLUTIONS, LTD.
STATEMENTS OF CASH FLOWS

	Nine-Months Ended September 30,	
	2003 Unaudited	2002 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 64,055	$ 103,400
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	16,500	10,042
Changes in operating assets and liabilities:		
Accounts receivable	(77,066)	(3,303)
Prepaid expenses	12,658	10,592
Accounts payable and accrued expenses	59,100	13,520
NET CASH PROVIDED BY OPERATING ACTIVITIES	75,248	134,252
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for purchases of property and equipment	(3,639)	(33,458)
NET CASH USED IN INVESTING ACTIVITIES	(3,639)	(45,465)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds (payments) on line of credit		(68,844)
Member distributions	(8,810)	(373,265)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(8,810)	(438,110)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	87,698	(270,400)
CASH AND CASH EQUIVALENTS, beginning of year	238,211	444,064
CASH AND CASH EQUIVALENTS, September 30	$325,909	$ 173,664
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	$ 1,727	$ 1,533

DENNIS CAIN
PHYSICIAN SOLUTIONS, LLC[1]

FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

[1] Dennis Cain Physician Solutions, LLC became a limited partnership in August 2003.

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

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MANN FRANKFORT STEIN & LIPP
Certified Public Accountants
A Limited Liability Partnership

12 Greenway Plaza, Suite 1202
Houston, Texas 77046-1289
(713) 561-6500
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Independent Auditors Report

Board of Directors
Dennis Cain Physician Solutions, Ltd.
Houston, Texas

We have audited the accompanying balance sheets of Dennis Cain Physician Solutions, LLC (the Company) as of December 31, 2002 and 2001, and the related statements of operations, members equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dennis Cain Physician Solutions, LLC as of December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Mann Frankfort Stein & Lipp LLP

Houston, Texas
January 16, 2004

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
BALANCE SHEETS

	December 31,	
	2002	**2001**
ASSETS		
CURRENT ASSETS		
Cash	$ 238,211	$ 444,064
Accounts receivable trade	234,223	247,262
Prepaid expenses	12,658	10,592
TOTAL CURRENT ASSETS	485,092	701,918
PROPERTY AND EQUIPMENT		
Automobile	5,500	5,500
Office furniture and equipment	258,523	185,102
Leasehold improvements	43,050	11,719
	307,073	202,321
Less: accumulated depreciation	(205,927)	(138,409)
NET PROPERTY AND EQUIPMENT	101,146	63,912
TOTAL ASSETS	$ 586,238	$ 765,830
LIABILITIES AND MEMBERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 73,240	$ 58,697
Accrued expenses	59,694	35,613
Line of credit		84,000
TOTAL CURRENT LIABILITIES	132,934	178,310
MEMBERS EQUITY	453,304	587,520
TOTAL LIABILITIES AND MEMBERS EQUITY	$ 586,238	$ 765,830

See notes to financial statements.

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2002	**2001**
REVENUES	$3,767,024	$3,180,811
OPERATING EXPENSES	3,790,120	3,037,499
INCOME (LOSS) FROM OPERATIONS	(23,096)	143,312
OTHER INCOME (EXPENSE)		
Interest income	2,457	9,149
Interest expense	(1,727)	(1,533)
TOTAL OTHER INCOME	730	7,616
NET INCOME (LOSS)	$ (22,366)	$ 150,928

See notes to financial statements.

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
STATEMENTS OF MEMBERS EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001

Balance, January 1, 2001	$ 436,592
Net income	150,928
Balance, December 31, 2001	587,520
Distributions	(111,850)
Net loss	(22,366)
Balance, December 31, 2002	$ 453,304

See notes to financial statements.

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (22,366)	$ 150,928
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	67,518	55,789
Changes in operating assets and liabilities:		
Accounts receivable	13,039	11,322
Prepaid expenses	(2,066)	(8,077)
Accounts payable and accrued expenses	38,624	45,802
NET CASH PROVIDED BY OPERATING ACTIVITIES	94,749	255,764
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for purchases of property and equipment	(104,752)	(45,465)
NET CASH USED IN INVESTING ACTIVITIES	(104,752)	(45,465)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds (payments) on line of credit	(84,000)	84,000
Member distributions	(111,850)	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(195,850)	84,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(205,853)	294,299
CASH AND CASH EQUIVALENTS, beginning of year	444,064	149,765
CASH AND CASH EQUIVALENTS, end of year	$ 238,211	$ 444,064
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	$ 1,727	$ 1,533

See notes to financial statements.

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Organization: Dennis Cain Physician Solutions, LLC (the Company) is a Texas limited liability company formed in August 1998. The Company is engaged in the business of billing and collecting accounts receivable for physicians and clinical laboratories.

Revenue Recognition: The Company earns revenues based on the collection of their customers receivables. Revenues are recognized during the period which collection services were performed.

Property and Equipment: Property and equipment is stated at cost. The Company depreciates property and equipment over the estimated useful lives by the straight-line method as follows:

Automobile	5 years
Office furniture and equipment	5-7 years
Leasehold improvements	Remaining term of lease

Depreciation expense was $67,518 and $55,789 for the years ended December 31, 2002 and 2001, respectively.

Repairs and Maintenance: Major additions or improvements to property and equipment are capitalized and depreciated over the estimated useful lives. Routine repair and maintenance costs are expensed as incurred.

Accounts Receivable: The Company records uncollectible accounts receivable using the direct write-off method of accounting for bad debts. Historically, the Company has experienced minimal credit losses and has not written-off any material accounts during 2002 or 2001. At December 31, 2002 and 2001, there was no allowance for bad debts.

Federal Income Taxes: In lieu of corporate income taxes, the members of a limited liability corporation are taxed on their proportionate share of the Company s taxable income. Therefore, no provision or liability for current federal income taxes has been included in these financial statements.

Advertising Costs: Advertising costs are charged to earnings as incurred and amounted to $31,234 and $18,708 for the years ended December 31, 2002 and 2001, respectively.

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

DENNIS CAIN PHYSICIAN SOLUTIONS, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE B CONCENTRATION OF CREDIT RISK

During 2002 and 2001, the Company had monies deposited in bank accounts which were in excess of the federally insured limits. Each account is insured by the Federal Deposit Insurance Corporation up to $100,000. The Company monitors the financial condition of the bank and has experienced no losses associated with these accounts.

Substantially all of the Company s revenues are from customers whose activities are related to the healthcare industry. The Company closely monitors the collection of receivables and experienced no material losses associated with these accounts.

NOTE C LINE OF CREDIT

The Company has a $100,000 line of credit with a bank with interest at prime plus 1%, is due on demand and is secured by accounts receivable and property and equipment. At December 31, 2001, the amount outstanding was $84,000 which was repaid during 2002. The line was renewed in February 2003 and matures January 2004.

NOTE D LEASE COMMITMENTS

The Company leases office space and certain computer equipment under lease agreements which are accounted for as operating leases.

Future minimum lease payments, by year and in the aggregate, under the operating leases with terms of one year or more are as follows:

Years Ending December 31,	
2003	$ 108,520
2004	159,377
	$ 267,897

Rent expense amounted to $119,816 and $107,908 for the years ended December 31, 2002 and 2001, respectively.

NOTE E MAJOR CUSTOMERS

During 2002, the Company had three customers which accounted for approximately 50% of total revenues and had an outstanding accounts receivable balance of $60,046 at December 31, 2002.

During 2001, the Company had four customers which accounted for approximately 82% of total revenues and had an outstanding accounts receivable balance of $111,618 at December 31, 2001.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this Preliminary Proxy Statement of SurgiCare, Inc. of our report dated January 16, 2004, on our audits of the financial statements of Dennis Cain Physician Solutions, L.L.C.

/s/ Mann, Frankfort, Stein & Lipp CPAs, L.L.P.

February 11, 2004

Houston, Texas

ANNEX K

MEDICAL BILLING SERVICES, INC.

FINANCIAL STATEMENTS

MEDICAL BILLING SERVICES, INC.
FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002

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Certified Public Accountants
A Limited Liability Partnership

12 Greenway Plaza, Suite 1202
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Independent Auditors Report

Board of Directors
Medical Billing Services, Inc.
Houston, Texas

We have audited the accompanying balance sheets of Medical Billing Services, Inc. (the Company) as of September 30, 2003 and 2002, and the related statements of income, stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical Billing Services, Inc. as of September 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Mann Frankfort Stein & Lipp LLP

Houston, Texas
January 16, 2004

MEDICAL BILLING SERVICES, INC.
BALANCE SHEETS

	September 30,	
	2003	**2002**
ASSETS		
CURRENT ASSETS		
Cash	$ 60,914	$ 51,087
Accounts receivable trade	756,796	608,963
Other receivables	13,964	13,964
Prepaid expenses	26,531	20,244
TOTAL CURRENT ASSETS	858,205	694,258
PROPERTY AND EQUIPMENT		
Computer equipment	56,318	56,318
Furniture and equipment	95,748	73,470
Software	148,459	133,471
Leasehold improvements	11,975	11,975
	312,500	275,234
Less: accumulated depreciation	(213,948)	(164,001)
NET PROPERTY AND EQUIPMENT	98,552	111,233
OTHER ASSETS		
Deposits	32,445	32,445
TOTAL ASSETS	$ 989,202	$ 837,936
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 11,075	$ 22,203
Accrued expenses	221,411	199,438
Deferred income taxes	203,168	150,974
Current portion of capital lease	14,460	13,351
TOTAL CURRENT LIABILITIES	450,114	385,966
CAPITAL LEASE, net of current portion	35,127	49,587
TOTAL LIABILITIES	485,241	435,553
STOCKHOLDERS EQUITY		
Common stock, $1 par value, 2,000 shares authorized, 1,000 shares issued and outstanding	1,000	1,000
Additional paid-in capital	114,000	114,000
Retained earnings	418,961	317,383

	533,961	432,383
Less: treasury stock, at cost	(30,000)	(30,000)
TOTAL STOCKHOLDERS EQUITY	503,961	402,383
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 989,202	$ 837,936

See Notes to financial statements.

MEDICAL BILLING SERVICES, INC.
STATEMENTS OF INCOME

	Year Ended September 30,	
	2003	**2002**
REVENUES	$6,060,302	$4,827,806
OPERATING EXPENSES	5,905,085	4,698,546
INCOME FROM OPERATIONS	155,217	129,260
OTHER INCOME (EXPENSE)		
Interest expense	(4,552)	
Interest income	2,595	4,515
Gain on sale of asset	512	
TOTAL OTHER INCOME (EXPENSE)	(1,445)	4,515
INCOME BEFORE INCOME TAXES	153,772	133,775
FEDERAL INCOME TAX EXPENSE DEFERRED	(52,194)	(47,578)
NET INCOME	$ 101,578	$ 86,197

See Notes to financial statements.

MEDICAL BILLING SERVICES, INC.
STATEMENTS OF STOCKHOLDERS EQUITY
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders Equity
Balance, October 1, 2001	$1,000	$114,000	$(30,000)	$231,186	$316,186
Net income				86,197	86,197
Balance, September 30, 2002	1,000	114,000	(30,000)	317,383	402,383
Net income				101,578	101,578
Balance, September 30, 2003	$1,000	$114,000	$(30,000)	$418,961	$503,961

See Notes to financial statements.

MEDICAL BILLING SERVICES, INC.
STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 101,578	$ 86,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	50,778	55,322
Gain on sale of asset	(512)	
Deferred income taxes	52,194	47,578
Changes in operating assets and liabilities:		
Accounts receivables trade	(147,833)	(184,474)
Prepaid expenses and other assets	(6,287)	(20,250)
Accounts payable and accrued expenses	10,845	44,459
NET CASH PROVIDED BY OPERATING ACTIVITIES	60,763	28,832
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for purchases of property and equipment	(41,585)	(48,822)
Proceeds from sale of asset	4,000	
NET CASH USED IN INVESTING ACTIVITIES	(37,585)	(48,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt		(14,516)
Principal payments on capital lease	(13,351)	
NET CASH USED IN FINANCING ACTIVITIES	(13,351)	(14,516)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,827	(34,506)
CASH AND CASH EQUIVALENTS, beginning of year	51,087	85,593
CASH AND CASH EQUIVALENTS, end of year	$ 60,914	$ 51,087
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	$ 4,552	$ 651
NON-CASH TRANSACTIONS		
Purchase of property and equipment financed through capital lease	$	$ 62,938

See notes to financial statements.

MEDICAL BILLING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Medical Billing Services, Inc. (the Company) was incorporated in 1985 as a Texas corporation and provides quality billing and collection and practice management services to hospital based physicians and clinics. The Company has three offices located in Houston, Arlington and Brownsville, Texas.

Revenue Recognition: The Company earns revenues based on the collection of their customers receivables. Revenues are recognized during the period which collection services were performed.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. The Company depreciates property and equipment over the estimated useful lives by the straight-line method as follows:

Computer equipment	7 years
Furniture and fixtures	7 years
Software	3-5 years
Leasehold improvements	Remaining term of lease

Depreciation expense was $50,778 and $55,322 for the years ended September 30, 2003 and 2002, respectively.

Repairs and Maintenance: Major additions or improvements to property and equipment are capitalized and depreciated over the estimated useful lives. Routine repair and maintenance costs are expensed as incurred.

Accounts Receivable: The Company records uncollectible accounts receivable using the direct write-off method of accounting for bad debts. Historically, the Company has experienced minimal credit losses and has not written-off any material accounts during 2003 or 2002. At September 30, 2003 and 2002, there was no allowance for doubtful accounts.

Federal Income Taxes: The liability method is used in accounting for income taxes, whereby tax rates are applied to cumulative temporary differences based on when and how they are expected to affect future tax returns. Deferred tax assets and liabilities are adjusted for tax rate changes in the year changes are enacted. The realizability of deferred tax assets are evaluated annually and a valuation allowance is provided if it is more likely than not that the deferred tax assets will not give rise to future benefits in the Company s tax returns.

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

MEDICAL BILLING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002

NOTE B CONCENTRATION OF CREDIT RISK

During 2003 and 2002, the Company had monies deposited in bank accounts which were in excess of the federally insured limits. Each account is insured by the Federal Deposit Insurance Corporation up to $100,000. The Company monitors the financial condition of the bank and has experienced no losses associated with these accounts.

Substantially all of the Company s revenues are from customers whose activities are related to the healthcare industry. The Company closely monitors the collection of receivables and experienced no material losses associated with these accounts.

NOTE C LEASES

The Company leases office space and certain computer equipment under lease agreements which are accounted for as operating leases. In addition, the Company leases certain computer equipment under capital leases.

Future minimum lease payments, by year and in the aggregate, under these leases with terms of one year or more are as follows:

Year Ending September 30,	Capital Leases	Operating Leases
2004	$17,904	$195,168
2005	17,904	180,698
2006	20,412	21,528
Total minimum lease payments	56,220	$397,394
Less: amounts representing interest	6,633	
Present value of minimum lease payments	49,587	
Less: current portion	14,460	
	$35,127	

Property and equipment includes the following amounts for leases that have been capitalized:

Furniture and equipment	$62,938
Less: accumulated amortization	12,588
	$50,350

MEDICAL BILLING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002

NOTE C LEASES (Continued)

Amortization expense for property and equipment under the capital lease is included in depreciation expense.

Rent expense amounted to $292,504 and $273,379 for the years ended September 30, 2003 and 2002, respectively.

NOTE D FEDERAL INCOME TAXES

Deferred income taxes result primarily from the use of the cash basis method for tax reporting purposes.

NOTE E PROFIT SHARING PLAN

The Company maintains a profit sharing plan which includes safe harbor 401(k) and profit sharing features. To be eligible, an employee must be 18 years of age and complete one year of service with the Company. In accordance with the plan, a participant may contribute an amount up to IRS limits. The Company will contribute 100% of participants salary deferrals up to 3% of the participants compensation plus 50% of participants salary deferrals between 3% and 5% of participants compensation. These matching contributions are fully vested. The Company may elect to make discretionary profit sharing contributions which vest over 6 years. Contributions of $42,466 and $15,155 were made by the Company during the years ended September 30, 2003 and 2002, respectively.

NOTE F MAJOR CUSTOMERS

During 2003, the Company had five customers which accounted for approximately 62% of total revenues and had an outstanding accounts receivable balance of $350,679 at September 30, 2003.

During 2002, the Company had four customers which accounted for approximately 51% of total revenues and had an outstanding accounts receivable balance of $221,791 at September 30, 2002.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this Preliminary Proxy Statement of SurgiCare, Inc. of our report dated January 16, 2004, on our audits of the financial statements of Medical Billing Services, Inc.

/s/ Mann, Frankfort, Stein & Lipp CPAs, L.L.P.

February 11, 2004

Houston, Texas

ANNEX L

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

SURGICARE, INC.

(Including Change of Name to Orion HealthCorp, Inc.)

SurgiCare, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the *DGCL*), DOES HEREBY CERTIFY:

A. The name of this Corporation is SurgiCare, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was July 20, 1984 under the name Technical Coatings Incorporated.

B. This Amended and Restated Certificate of Incorporation has been adopted in accordance with Sections 242 and 245 of the DGCL.

C. This Amended and Restated Certificate of Incorporation restates and amends the Certificate of Incorporation of the Corporation by restating in its entirety the text of the Certificate of Incorporation to read as follows:

1. NAME.

The name of this Corporation is Orion HealthCorp, Inc.

2. REGISTERED OFFICE.

The registered office of this Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

3. PURPOSE.

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

4. CAPITAL STOCK.

4.1. *Authorized Shares; Reverse Stock Split.*

4.1.1. *Authorized Shares*. The total number of shares of capital stock that the Corporation has authority to issue is One Hundred Ten Million (110,000,000) shares, consisting of:

(a) Sixty Three Million (63,000,000) shares of Class A Common Stock, par value $0.001 per share (*Class A Common Stock*);

(b) Twenty-Five Million (25,000,000) shares of Class B Common Stock, par value $0.001 per share (*Class B Common Stock*);

(c) Two Million (2,000,000) shares of Class C Common Stock, par value $0.001 per share (*Class C Common Stock*); and

(d) Twenty Million (20,000,000) shares of Preferred Stock, par value $0.001 per share (*Preferred Stock*).

4.1.2. *Reverse Split*. Effective upon the filing of this Amended and Restated Certificate of Incorporation (the *Effective Time*), each issued and outstanding share of the Corporation s Common Stock, par value $0.005 per share (collectively, the *Pre-Split Common Stock*), shall automatically and without any action on the part of the holder thereof be reclassified as and reduced to one-tenth (0.10) of a share of Class A Common Stock (the *Post-Split Common Stock*) and the par value of each such share shall be reduced to $0.001 (the reduction of shares and par value, the *Reverse Stock Split*). Each holder of a certificate or certificates of Pre-Split Common Stock (the *Pre-Split Certificates*, whether one or more) shall be entitled to receive, upon surrender of such Pre-Split Certificates to the Corporation for cancellation, a certificate or certificates of the Post-Split Common Stock (the *Post-Split Certificates*, whether one or more), which will equal the number of shares represented by such Pre-Split Certificates divided by ten (10) and rounded down to the nearest whole number. No script or fractional shares certificates will be issued for Pre-Split Common Stock in connection with the Reverse Stock Split. Each holder of a number of shares of Pre-Split Common Stock not evenly divisible by ten (10) as of the Effective Time of the Reverse Stock Split will, in lieu of receiving fractional shares, receive a cash payment (the *Fractional Share Payment*) in U.S. dollars equal to the product of: (a) the fractional share times (b) [$_____[1]. Subject to the treatment of fractional shares as described above, Pre-Split Certificates will be deemed for all purposes to represent the appropriately reduced number of Post-Split

1. This will equal the average of the high and low trading prices for the SurgiCare Common Stock over the five trading days immediately preceding the filing of this document, adjusted for the reverse split factor.

Common Stock, except that the holder of such unexchanged certificates will not be entitled to receive any distributions payable by the Corporation after the Effective Time, until the Pre-Split Certificates have been surrendered. Such distributions, if any, will be accumulated and, at the time of surrender of the Pre-Split Certificates, all such unpaid distributions will be paid without interest.

4.2. *Definitions.* As used in this Article 4, the following terms have the following definitions:

4.2.1. *Affiliate* shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person.

4.2.2. *Applicable Price per Share* shall mean, at any time and with respect to any share of Class A Common Stock, (a) if such determination is being made in connection with a Realization Event, the amount which would be paid as a Distribution on such share were the Corporation to be liquidated in accordance with Article 4.4.3 hereof with total Distributions being made to all Equity Securities of the Corporation equal to the Total Equity Value, determined as of such time, and (b) at all other times, the Market Price as of such time.

4.2.3. *Board of Directors* shall mean the Board of Directors of the Corporation.

4.2.4. *Class B Base Amount* shall mean $_____[2]_____.

4.2.5. *Class B Conversion Constant* shall mean, at any time as of which it is to be determined, one (1.0), adjusted as provided in Article 4.4.4 below.

4.2.6. *Class B Conversion Factor* shall mean, at any time as of which it is to be determined, the sum of (a) the Class B Conversion Constant *plus* (b) a fraction, the numerator of which is the Remaining Class B Minimum Payment Amount and the denominator of which is the Applicable Price per Share, all determined at such time.

4.2.7. *Class B Conversion Fraction* shall mean, with respect to each conversion of any share of Class B Common Stock into shares of Class A Common Stock pursuant to Article 4.4.5.1(a) below, a fraction, the numerator of which is the aggregate

2. This will equal (x) the sum of the Cash Purchase Price (as defined in the Stock Subscription Agreement) plus the aggregate amount outstanding at the closing under the Bridge Notes (as defined in the Merger Agreement) divided by (y) the total number of Class B shares issued.

number of shares of Class B Common Stock so converted in such conversion and the denominator of which is _____.[3]

4.2.8. *Class C Antidilution Factor* shall mean, with respect to each conversion of any share of Class B Common Stock into shares of Class A Common Stock pursuant to Article 4.4.5.1(a) below, the Remaining Class C Minimum Payment Amount at the time of such conversion *divided by* the Applicable Price per Share used to determine the Class B Conversion Factor in connection with such conversion.

4.2.9. *Class C Base Amount* shall mean $3.30.

4.2.10. *Class C Conversion Constant* shall mean, at any time as of which it is to be determined, one (1.0), adjusted as provided in Article 4.4.4 below.

4.2.11. *Class C Conversion Factor* shall mean, at any time as of which it is to be determined, a number equal to (a) the Class C Conversion Constant *multiplied by* (b) a fraction, the numerator of which is the Remaining Class C Minimum Payment Amount and the denominator of which is the Class C Base Amount, all determined at such time.

4.2.12. *Class C Threshold Price* shall mean, with respect to each conversion of any share of Class B Common Stock into shares of Class A Common Stock pursuant to Article 4.4.5.1(a) below, an amount equal to the Class C Base Amount *divided by* the Class C Conversion Constant, all determined as at the time of such conversion.

4.2.13. *Distributions* shall mean all distributions made to holders of Equity Securities in respect of such Equity Securities, whether by dividend or otherwise (including but not limited to: any distributions made by the Corporation to holders of Equity Securities in complete or partial liquidation of the Corporation or upon a sale of all or substantially all of the business or assets of the Corporation and its subsidiaries on a consolidated basis; any redemption or repurchase by the Corporation of any Equity Securities for any reason; any distributions made in connection with a merger, reorganization, recapitalization or exchange involving any Equity Securities; and any subdivision or increase in the number of (by stock split, stock dividend or otherwise), or any combination in any manner of, the outstanding Equity Securities); *provided*, *however*, that the following shall not be a Distribution: (a) any redemption or repurchase by the Corporation of any Equity Securities pursuant to the provisions of any agreement with any director, officer or employee of the Corporation or any of its subsidiaries, (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 Common Stock in accordance with the provisions of Article 4.4.4, (c) a merger, share exchange or

3. This will equal the number of shares of Class B Common Stock originally issued on the date this document is filed.

consolidation after the consummation of which the stockholders of the Corporation 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 or (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.

4.2.14. *Equity Security* shall mean all shares of capital stock or other equity or beneficial interests issued by or created in or by the Corporation, all stock appreciation or similar rights, and all securities or other options, rights, warrants or other agreements or instruments to acquire any of the foregoing, whether by conversion, exchange, exercise or otherwise; *provided, however,* that, with respect to the calculation of Applicable Price per Share at any time in connection with a Realization Event, no such convertible or exchangeable security, option, right, warrant or other agreement or instrument shall be considered an Equity Security unless, at such time, the conversion, exchange, exercise or other action with respect thereto would decrease such Applicable Price per Share.

4.2.15. *Market Price* shall mean, on any date as of which it is to be determined, the amount per share of Class A Common Stock equal to (a) the last sale price of Class A Common Stock, regular way, on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices thereof on such date, in each case as officially reported on the principal national securities exchange on which Class A Common Stock is then listed or admitted to trading, or (b) if Class A Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the NASD, the last trading price of Class A Common Stock on such date, or (c) if there shall have been no trading on such date or if Class A Common Stock is not so designated, the average of the closing bid and asked prices of Class A Common Stock on such date as shown by the NASD automated quotation system, or (d) if Class A Common Stock is not then listed or admitted to trading on any national exchange or quoted in the over-the-counter market, the fair value thereof determined in good faith by the Board of Directors as of a date which is within 15 days of the date as of which the determination is to be made.

4.2.16. *NASD* shall mean The National Association of Securities Dealers, Inc.

4.2.17. *Person* shall mean any individual, partnership, corporation, limited liability company, limited liability partnership, association, trust, joint venture, unincorporated organization or other entity.

4.2.18. *Realization Event* shall mean any Transfer, in one transaction or a series of related transactions, of 20% or more of the outstanding shares of Class A Common Stock (determined after giving effect to the conversion of all outstanding shares of Class B Common Stock and Class C Common Stock).

4.2.19. *Remaining Class B Minimum Payment Amount* shall mean, with respect to any share of Class B Common Stock at any time, the amount that would then be required to be distributed with respect to such share pursuant to Article 4.4.3.1 below in order for no further Distributions to be payable with respect to such share pursuant to said Article 4.4.3.1.

4.2.20. *Remaining Class C Minimum Payment Amount* shall mean, with respect to any share of Class C Common Stock at any time, the amount that would then be required to be distributed with respect to such share pursuant to Article 4.4.3.2 below in order for no further Distributions to be payable with respect to such share pursuant to said Article 4.4.3.2.

4.2.21. *Total Equity Value* shall mean, at any time and in connection with any Realization Event, the aggregate amount paid in connection with such Realization Event for all Equity Securities of the Corporation at the time outstanding (after deduction of all commissions, fees and expenses associated with such Realization Event); *provided* that if less than all of the outstanding Equity Securities of the Corporation are being Transferred in such Realization Event, the aggregate value of all Equity Securities of the Corporation shall be determined by the Board of Directors based on the consideration to be paid for such Equity Securities as are to be so Transferred and the preferences, privileges, rights and other distinctive features of the Equity Securities to be so Transferred relative to the other Equity Securities of the Corporation, so that, if the Corporation were to be liquidated in accordance with Article 4.4.3 hereof with total Distributions to all Equity Securities of the Corporation equal to the aggregate value so determined, the Equity Securities to be so Transferred would receive Distributions in the amount of the consideration to be paid for such Equity Securities in such Realization Event, the determination of the Board of Directors, made in good faith, to be conclusive and final.

4.2.22. *Transfer* shall mean a sale, transfer or other disposition for value.

4.3. *Preferred Stock*. Subject to the limitations prescribed by law and the provisions of this Certificate of Incorporation, the Board of Directors is authorized to issue the Preferred Stock from time to time in one or more series, each of such series to have such number of shares, voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, as shall be determined by the board of directors in a resolution or resolutions providing for the issue of such Preferred Stock. Subject to the powers, preferences and rights of any Preferred Stock, including any series thereof, having any preference or priority over, or rights superior to, the Common Stock, the holders of the Common Stock shall have and possess all powers and voting and other rights pertaining to the stock of this Corporation as described below in this Article 4.

4.4. *Common Stock.* The Class A Common Stock, the Class B Common Stock and the Class C Common Stock are referred to collectively as the *Common Stock* ; and each class shall

be referred to as a class of Common Stock. The shares of Common Stock shall have the rights, preferences, privileges and limitations set forth below in this Article 4.4.

4.4.1. *Shares Identical.* Except as otherwise provided in this Article 4, for purposes of this Article 4, all shares of Common Stock shall, to the fullest extent permitted by applicable law, be identical in all respects and shall entitle the holders thereof to the same rights, privileges and preferences and shall be subject to the same qualifications, limitations and restrictions.

4.4.2. *Voting Rights*. Subject to the powers, preferences and rights of any Preferred Stock or any other class of stock (or any series thereof) having any preference or priority over, or rights superior to, the Common Stock that the Corporation may hereafter become authorized to issue, to the fullest extent permitted by applicable law, except as otherwise provided in this Article 4, the holders of the Common Stock shall have and possess all powers and voting and other rights pertaining to the stock of the Corporation. Except as otherwise provided in this Article 4.4 or as otherwise required by applicable law, all holders of Common Stock shall vote together as a single class.

4.4.2.1. *Class A Common Stock*. Each holder of Class A Common Stock shall be entitled to one vote with respect to each share of Class A Common Stock held by such holder.

4.4.2.2. *Class B Common Stock*. Each holder of Class B Common Stock shall be entitled to a number of votes with respect to each share of Class B Common Stock held by such holder equal to the Class B Conversion Factor determined as of the applicable record date.

4.4.2.3. *Class C Common Stock*. Each holder of Class C Common Stock shall be entitled to a number of votes with respect to each share of Class C Common Stock held by such holder equal to the Class C Conversion Factor determined as of the applicable record date.

4.4.2.4. *Amendments to Certificate*. Subject to the provisions of Section 242(b)(2) of the DGCL, any term or provision of this Certificate of Incorporation may be amended with the affirmative vote of holders of a majority of the votes attributable to the then outstanding shares of Common Stock; *provided, however,* that (a) so long as any shares of Class B Common Stock are outstanding, the Corporation shall not amend, limit or otherwise modify the powers, designations, preferences, privileges or relative, participating, optional or other special rights of the Class B Common Stock, whether by amendment or modification of this Certificate of Incorporation, by operation of a merger or combination or otherwise in any manner, without the affirmative vote or consent of holders of more than 50% of the issued and outstanding shares of Class B Common Stock, voting as a separate class, (b) so long as any shares of Class C Common Stock are outstanding, the Corporation shall not amend, limit or

otherwise modify the powers, designations, preferences, privileges or relative, participating, optional or other special rights of the Class C Common Stock, whether by amendment or modification of this Certificate of Incorporation, by operation of a merger or combination or otherwise in any manner, without the affirmative vote or consent of holders of more than 50% of the issued and outstanding shares of Class C Common Stock, voting as a separate class, and (c) that no amendment, alteration, change or repeal may be made to Articles 6, 9 or 10 below without the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding voting stock of the Corporation, voting together as a single class.

4.4.2.5. *Changes in Authorized Capital Stock.* Notwithstanding the provisions of Section 242(b)(2) of the DGCL or anything to the contrary in this Article 4, the number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased (but not below the number of shares thereof then outstanding) by affirmative vote of holders of a majority of the votes attributable to the then outstanding shares of Common Stock.

4.4.3. *Distributions*. Subject to the powers, preferences and rights of any Preferred Stock or any other class of stock (or any series thereof) having any preference or priority over, or rights superior to, the Common Stock that the Corporation may hereafter become authorized to issue, all Distributions shall be made to the holders of Common Stock in the following order of priority:

4.4.3.1. *Payment of Remaining Class B Minimum Payment Amount*. 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 pursuant to this Article 4.4.3.1 an amount equal to the Class B Base Amount plus an amount equal to nine percent (9%) per annum on the unpaid Class B Base Amount from time to time outstanding, without compounding, from the date the Class B Common Stock was first issued. The Corporation may, at any time and from time to time, make Distributions in payment of the Remaining Class B Minimum Payment Amount. Each such Distribution will be applied first to the payment of such portion, if any, of the Remaining Class B Minimum Payment Amount that does not represent the Class B Base Amount, and thereafter to the payment of the Class B Base Amount.

4.4.3.2. *Payment of Remaining Class C Minimum Payment Amount*. 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 pursuant to this Article 4.4.3.2 an amount equal to the Class C Base Amount. The

Corporation may, at any time and from time to time, make Distributions in payment of the Remaining Class C Minimum Payment Amount; *provided, however,* that the Corporation shall give to each holder of a share of Class C Common Stock not less than ten (10) days prior written notice of the record date for determining the holders of Class C Common Stock entitled to receive a Distribution pursuant to this Article 4.4.3.2, during which period each holder of Class C Common Stock may convert all or any part of the shares of Class C Common Stock held by such holder into shares of Class A Common Stock pursuant to Article 4.4.5.1 below. If at any time the Remaining Class C Minimum Payment Amount shall be equal to $0.00, then each share of Class C Common Stock then outstanding (other than shares concurrently being converted into Class A Common Stock) shall be retired and shall not be reissued, the holder thereof shall surrender the certificate evidencing such share to the Corporation at its principal place of business and, upon the filing of a certificate in accordance with Section 243 of the DGCL, the authorized shares of Class C Common Stock shall be eliminated.

4.4.3.3. *Allocation of Remaining Distribution Amount*. Third, after the full required amount of Distributions have been made pursuant to Articles 4.4.3.1 and 4.4.3.2 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 and Class B Common Stock held by each holder, *provided* that for purposes of this Article 4.4.3.3, each share of Class B Common Stock shall be deemed to have been converted into a number of shares of Class A Common Stock equal to the Class B Conversion Constant.

4.4.3.4. *Allocation of Distributions.* All Distributions pursuant to Articles 4.4.3.1, 4.4.3.2 or 4.4.3.3 above shall be made ratably among the holders of the class or classes of Common Stock in question, based on the number of shares of such class held or deemed to be held by such holders.

4.4.4. *Stock Splits and Stock Dividends*. The Corporation shall not in any manner subdivide or increase the number of (by stock split, stock dividend or other similar manner), or combine in any manner, the outstanding shares of either Class B Common Stock or Class C Common Stock. The Corporation shall not in any manner subdivide or increase the number of (by stock split, stock dividend or other similar manner), or combine in any manner, the outstanding shares of Class A Common Stock unless a proportional adjustment is made to each of the Class B Conversion Constant and the Class C Conversion Constant; *provided, however,* the Corporation shall not make a proportional adjustment to either the Class B Conversion Constant or the Class C Conversion Constant as a result of the Reverse Stock Split. In no event shall any such subdivision, increase or combination constitute a Distribution in respect of any share of Common Stock.

4.4.5. *Conversion of Class B Common Stock and Class C Common Stock.*

4.4.5.1. *Optional Conversion.*

(a) At the option of any holder of shares of Class B Common Stock, exercisable at any time and from time to time, in whole or in part, by notice to the Corporation, each outstanding share of Class B Common Stock held by such holder shall convert into a number of shares of Class A Common Stock equal to the Class B Conversion Factor in effect at the time such notice is given.

(b) At the option of any holder of shares of Class C Common Stock, exercisable at any time and from time to time, in whole or in part, by notice to the Corporation, each outstanding share of Class C Common Stock held by such holder shall convert into a number of shares of Class A Common Stock equal to the Class C Conversion Factor in effect at the time such notice is given.

(c) If the Applicable Price per Share used to determine the Class B Conversion Factor in connection with any conversion of Class B Common Stock pursuant to Article 4.4.5.1(a) above is less than the Class C Threshold Price at the time of such conversion, the Corporation shall promptly give notice of such conversion to each holder of Class C Common Stock, specifying the Class B Conversion Fraction and the Class C Antidilution Factor with respect to such conversion. At the option of any holder of shares of Class C Common Stock, exercisable at any time not more than ten (10) days after such notice is given, in whole or in part, by notice to the Corporation, each outstanding share of Class C Common Stock held by such holder shall convert into a number of shares of Class A Common Stock equal to the Class C Antidilution Factor specified in such notice; *provided, however,* that the aggregate number of shares of Class C Common Stock so converted by any holder thereof in connection with any such notice shall not exceed a number equal to (x) the Class B Conversion Fraction specified in such notice *multiplied by* (y) the sum of the aggregate number of shares of Class C Common Stock held by such holder at such time *plus* the aggregate number of shares of Class C Common Stock which have been converted by such holder prior to such time into shares of Class A Common Stock pursuant to Article 4.4.5.1(b) above or this Article 4.4.5.1(c).

4.4.5.2. *Automatic Conversion of Class B Common Stock.* If, after the payment of any Distribution in respect of the Class B Common Stock, the Remaining Class B Minimum Payment Amount shall be equal to $0.00, then,

immediately after giving effect to such Distribution, each share of Class B Common Stock at the time outstanding shall automatically and without any action on the part of the holder thereof convert into a number of shares of Class A Common Stock equal to the Class B Conversion Constant at the time in effect.

4.4.5.3. *Subsequent Distributions, Etc.*

(a) No Distributions shall be or become payable on any shares of Class B Common Stock converted pursuant to Article 4.4.5.1 or 4.4.5.2 above at or following such conversion. From and after such conversion, such shares of Class B Common Stock shall be retired and shall not be reissued, and upon the conversion of all outstanding shares of Class B Common Stock and upon the filing of a certificate in accordance with Section 243 of the DGCL, the authorized shares of Class B Common Stock shall be eliminated.

(b) No Distributions shall be or become payable on any shares of Class C Common Stock converted pursuant to Article 4.4.5.1 above at or following such conversion. From and after such conversion, such shares of Class C Common Stock shall be retired and shall not be reissued, and upon the conversion of all outstanding shares of Class C Common Stock and upon the filing of a certificate in accordance with Section 243 of the DGCL, the authorized shares of Class C Common Stock shall be eliminated.

4.4.5.4. *Fractional Shares, etc.* Fractional shares of Class A Common Stock issuable upon conversion of shares of Class B Common Stock or Class C Common Stock under Article 4.4.5.1 or 4.4.5.2 above may be issued (or, at the discretion of the Board of Directors, eliminated in return for payment therefor in cash at the fair market value thereof, as determined in good faith by the Board of Directors).

4.4.5.5. *Exemption From Section 16(b) of the 1934 Act.* The Board of Directors has approved the determination of the number of shares of Class A Common Stock to be received upon conversion of a share of Class B Common Stock as set forth in this Certificate of Incorporation for all purposes, including, without limitation, Rule 16(b)-3(d), promulgated under the Securities Exchange Act of 1934, as amended (the *1934 Act*). Prior to allowing any conversion of Class B Common Stock to occur, the Board of Directors (or such subset thereof as may be necessary) shall take all actions necessary or desirable in the reasonable opinion of the holders of a majority of the shares of Class B Common Stock then outstanding to exempt the determination of the number of shares of Class A Common Stock to be received upon conversion of a share of Class B Common Stock from the provisions of Section 16(b) of the 1934 Act.

4.4.5.6. *Effect of Conversion*. Upon conversion of any share of Class B Common Stock or any share of Class C Common Stock, the holder shall surrender the certificate evidencing such share to the Corporation at its principal place of business. Promptly after receipt of such certificate, the Corporation shall issue and send to such holder a new certificate, registered in the name of such holder, evidencing the number of shares of Class A Common Stock into which such share has been converted. From and after the time of conversion of any share of Class B Common Stock or Class C Common Stock, the rights of the holder thereof as such shall cease; the certificate formerly evidencing such share shall, until surrendered and reissued as provided above, evidence the applicable number of shares of Class A Common Stock; and such holder shall be deemed to have become the holder of record of the applicable number of shares of Class A Common Stock.

4.4.6. *Notices*. All notices referred to herein shall be in writing, shall be delivered personally or by first class mail, postage prepaid, and shall be deemed to have been given when so delivered or mailed to the Corporation at its principal executive offices and to any stockholder at such holder s address as it appears in the stock records of the Corporation (unless otherwise specified in a written notice to the Corporation by such holder).

4.4.7. *Prohibition on Distributions Constituting Taxable Events*. Notwithstanding anything to the contrary in this Article 4, the Corporation shall not, without the written approval of the holders of a majority of the then outstanding shares of Class B Common Stock or, if there is no Class B Common Stock then outstanding, the holders of a majority of the Class B Common Stock immediately prior to the time that the last share of Class B Common Stock was converted into Class A Common Stock, make any Distribution on any share of Class A Common Stock, or take any other action, so long as any share of Class B Common Stock is outstanding and for three years thereafter, if the effect of such Distribution or action might be to make (a) an increase of the Remaining Class B Minimum Payment Amount, (b) a conversion of the Class B Common Stock into Class A Common Stock or (c) an adjustment of the Class B Conversion Factor a taxable event to the holders of the Class B Common Stock. No amendment to the provisions of this Article 4.4.7 shall be effective without the prior written consent of the holders of a majority of the then outstanding shares of Class B Common Stock or, if there is no Class B Common Stock then outstanding, the holders of a majority of the Class B Common Stock immediately prior to the time that the last share of Class B Common Stock was converted into Class A Common Stock.

5. ELECTION OF DIRECTORS.

The election of directors need not be by ballot unless the By-laws of this Corporation shall so require.

6. BY-LAWS.

In furtherance and not in limitation of the power conferred upon the Board of Directors by law, the Board of Directors shall have power to make, adopt, alter, amend and repeal from time to time By-laws of this Corporation. Notwithstanding the preceding sentence, the By-laws of this Corporation may be rescinded, altered, amended or repealed in any respect by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding voting stock of the Corporation, voting together as a single class.

7. EXCULPATION OF DIRECTORS.

A director of this Corporation shall not be liable to this Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that exculpation from liability is not permitted under the DGCL as in effect at the time such liability is determined. No amendment or repeal of this Article 7 shall apply to or have any effect on the liability or alleged liability of any director of this Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

8. CORPORATE OPPORTUNITIES.

To the maximum extent permitted from time to time under the law of the State of Delaware, this Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to its officers, directors or stockholders, other than those officers, directors or stockholders who are employees of this Corporation. No amendment or repeal of this paragraph 8 shall apply to or have any effect on the liability or alleged liability of any officer, director or stockholder of the Corporation for or with respect to any opportunities of which such officer, director or stockholder becomes aware prior to such amendment or repeal.

9. SPECIAL MEETINGS OF STOCKHOLDERS.

Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the Board of Directors, or by a majority of the members of the Board of Directors, or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in the By-laws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons; provided, however, that if and to the extent that any special meeting of stockholders may be called by any other person or persons specified in any provisions of the Certificate of Incorporation or any amendment thereto or any certificate filed under Section 151(g) of the DGCL, then such special meeting may also be called by the person or persons, in the manner, at the times and for the purposes so specified.

10. INDEMNIFICATION.

To the fullest extent permitted by the DGCL, the Corporation shall indemnify and advance indemnification expenses on behalf of all directors and officers of the Corporation. The Corporation shall indemnify such other persons as may be required by statute or by the By-laws of the Corporation. The Corporation may, to the full extent permitted by Delaware law, purchase and maintain insurance on behalf of any director or officer, or such other person as may be permitted by statute or the By-laws of the Corporation, against any liability which may be asserted against any director, officer or such other person and may enter into contracts providing for the indemnification of any director, officer or such other person to the full extent permitted by Delaware law. The liability of directors of the Corporation (for actions or inactions taken by them as directors) for monetary damages shall be eliminated to the fullest extent permissible under Delaware law. If the DGCL is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the liability of the directors to the Corporation shall be limited or eliminated to the fullest extent permitted by the DGCL, as so amended from time to time. Any repeal or modification of this Article 10 by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

11. BOOKS.

The books of this Corporation may (subject to any statutory requirements) be kept outside the State of Delaware as may be designated by the Board of Directors or in the By-laws of this Corporation.

12. ACTION BY CONSENT OF STOCKHOLDERS.

If at any time this Corporation shall have a class of stock registered pursuant to the provisions of the 1934 Act, for so long as such class is so registered, any action by the stockholders of such class must be taken at an annual or special meeting of stockholders and may not be taken by written consent.

[The rest of this page has been left intentionally blank. Signature page follows.]

IN WITNESS WHEREOF, said SurgiCare, Inc. has caused this Certificate to be executed by _____, its [President], this ___ day of _____, 2004.

SURGICARE, INC.

By: _____

Name: _____

Title: _____

ANNEX M

Charter of the Audit Committee
of the
Board of Directors
of
Orion HealthCorp, Inc. (the Company)

I. Purpose. The purpose of the Audit Committee (the Committee) shall be to: (a) appoint, oversee and replace, if necessary, the independent auditor; (b) assist the Board of Director s oversight of (i) the accounting and financial reporting processes of the Company, (ii) the Company s compliance with legal and regulatory requirements, (iii) the independent auditor s qualifications and independence, and (iv) the audits of the financial statements of the Company, including the performance of the Company s internal audit function and independent auditor; and (c) prepare the report the SEC rules require be included in the Company s annual proxy statement.

II. Composition of the Audit Committee. The Committee shall consist of not less than three board members appointed by the Board of Directors of the Company, provided that for any period during which the Company is a small business issuer that files reports under the Securities Exchange Commission Regulation S-B, the Committee shall consist of not less than two board members appointed by the Board of Directors. Committee members may be removed by the Board of Directors in its discretion. Members of the Committee shall each satisfy the independence requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) and the American Stock Exchange as such requirements are interpreted by the Board of Directors in its business judgment, and the Board of Directors shall annually review the Committee s compliance with such requirements. Members of the Committee shall be versed in reading and understanding financial statements and must be able to read and understand fundamental financial statements, including a company s balance sheet, income statement and cash flow statement. At least one member of the Committee must be financially sophisticated, in that he or she has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual s financial sophistication, including but not limited to being or having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities. A director who qualifies as an audit committee financial expert under Item 401(h) of Regulation S-K or Item 401(e) of Regulation S-B is presumed to qualify as financially sophisticated.

III. Meetings of the Audit Committee. The Committee shall hold regularly scheduled meetings and such special meetings as circumstances dictate, and shall meet at least quarterly prior to the filing of each quarterly report on Form 10-Q or 10-QSB or annual report on Form 10-K or 10-KSB, as applicable. It shall meet separately, periodically, with management, with the internal auditors (or other personnel responsible for the internal audit function), and with the independent auditor to discuss results of examinations, or discuss any matters that the Committee or any of these persons or firms believe should be discussed privately. The Committee shall report regularly to the Board of Directors.

IV. Responsibilities of the Audit Committee. The function of the Committee is oversight. While the Committee has the responsibilities set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits, to determine that the Company s financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to assure compliance with laws, regulations or any internal rules or policies of the Company. This is the responsibility of management. The independent auditor is responsible for performing independent audits of the Company s consolidated financial statements in accordance with generally accepted auditing standards and for issuing reports thereon. The Committee has direct and sole responsibility for the appointment, compensation, oversight and replacement, if necessary, of the independent auditor, including the resolution of disagreements between management and the auditor regarding financial reporting. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors).

V. Duties and Proceedings of the Audit Committee. The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by accomplishing the following:

5.1 Oversight of Independent Auditor.

(a) Annually evaluate, determine the selection of, and if necessary, determine the replacement of or rotation of, the independent auditor.

(b) Approve or pre-approve all auditing services (including comfort letters and statutory audits) and all permitted non-audit services by the auditor.

(c) Require the independent auditor to submit on a periodic basis, but at least annually, a formal written statement delineating all relationships between the auditor and the Company, consistent with Independence Standards Board Standard 1 and actively engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor, and take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the outside auditor.

(d) Establish hiring policies for employees or former employees of the independent auditors.

(e) At least annually, receive a report, orally or in writing, from the independent auditor detailing the firm s internal quality control procedures and any material issues raised by independent auditor s internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm.

5.2 Oversight of Audit Process and Company s Legal Compliance Program.

(a) Review with internal auditors and independent auditor the overall scope and plans for audits, including authority and organizational reporting lines and adequacy of staffing and compensation. Review with internal auditors and independent auditor any difficulties with audits and managements response.

(b) Review and discuss with management, internal auditors and independent auditor the Company s system of internal control, its financial and critical accounting practices, and policies relating to risk assessment and management.

(c) Receive and review reports of the independent auditor discussing 1) all critical accounting policies and practices to be used in the firm s audit of the Company s financial statements, 2) all alternative treatments of financial information within generally accepted accounting principles (GAAP) that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and 3) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

(d) Discuss with management and independent auditor any changes in Company s critical accounting principles and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives.

(e) Review and discuss with management and the independent auditor the annual and quarterly financial statements and MD&A of the Company prior to the filing of the Company s Annual Report on Form 10-K or 10-KSB, as applicable, and Quarterly Reports on Form 10-Q or 10-QSB, as applicable. Discuss results of the annual audit and quarterly review and any other matters required to be communicated to the committee by the independent auditor under generally accepted auditing standards. Discuss with management and independent auditor their judgment about the quality of accounting principles, the reasonableness of significant judgments, including a description of any transactions as to which the management obtained Statement on Auditing Standards No. 50 letters, and the clarity of disclosures in the financial statements, including the Company s disclosures of critical accounting policies and other disclosures under Management s Discussion and Analysis of Financial Conditions and Results of Operations.

(f) Review, or establish standards for the type of information and the type of presentation of such information to be included in, earnings press releases and earnings guidance provided to analysts and rating agencies.

(g) Review material pending legal proceedings involving the Company and other contingent liabilities.

(h) Receive from the CEO and CFO a report of all significant deficiencies and material weaknesses in the design or operation of internal controls, and any fraud that

involves management or other employees who have a significant role in the company s internal controls.

(i) Discuss with independent auditor the matters required to be communicated to audit committees in accordance with Statement on Auditing Standards No. 61.

(j) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or accounting matters.

5.3 Other Responsibilities.

(a) Review adequacy of this audit committee charter annually and submit charter to Board of Directors for approval.

(b) Prepare report for inclusion in the Company s annual proxy statement as required by the rules of the Securities and Exchange Commission.

(c) Put in place an appropriate control process for reviewing and approving Company s internal transactions and accounting.

(d) Report to the Board on a regular basis.

(e) Annually perform, or participate in, an evaluation of the performance of the Committee, the results of which shall be presented to the Board.

(f) Perform any other activities consistent with the Charter, By-laws and governing law as the Board of Directors or the Audit Committee shall deem appropriate, including holding meetings with the Company s investment bankers and financial analysts.

VI. Authority and Resources of the Audit Committee. The Committee has the authority to retain legal, accounting or other experts that it determines to be necessary to carry out its duties. It also has authority to determine compensation for such advisors as well as for the independent auditor. The Committee may determine appropriate funding needs for its own ordinary administrative expenses that are necessary and appropriate to carrying out its duties.

ANNEX N

AMENDED AND RESTATED

BY-LAWS

OF

ORION HEALTHCORP, INC.

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ARTICLE 1 - STOCKHOLDERS

1.1 Place of Meetings. All meetings of stockholders shall be held at such place, within or without the State of Delaware, or, if so determined by the Board of Directors in its sole discretion, at no place (but rather by means of remote communication), as may be designated from time to time by the Board of Directors or the President or, if not so designated, at the principal executive office of the corporation.

1.2 Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held at such date and time as shall be fixed by the Board of Directors and stated in the notice of the meeting. If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these By-Laws to the annual meeting of stockholders shall be deemed to refer to such special meeting.

1.3 Special Meeting. Special meetings of stockholders may be called at any time by the Chairman of the Board of Directors, the Chief Executive Officer (or, if there is no Chief Executive Officer, the President) or by vote of a majority of the Board of Directors. Any business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

1.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notices of all meetings shall state the place, if any, the date, the means of remote communications, if any by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and the hour of the meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall be given either personally or by mail, electronic mail, telecopy, telegram or other electronic or wireless means. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or at the time of transmission when sent by electronic mail, telecopy, telegram or other electronic or wireless means. An affidavit of the mailing or other means of giving any notice of any stockholders meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice or report.

1.5 Voting List. The officer who has charge of the stock ledger of the corporation shall prepare, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for a period of at least ten (10) days prior to the meeting, for any purpose germane to the meeting on either a reasonably accessible electronic network (for which such information required to access the electronic

1.6 network shall be provided with the notice of the meeting) or, during ordinary business hours, at a place within the city where the meeting is to be held. If the meeting is to be held at a place, the list shall also be produced and kept at the time and place of the meeting during the whole time of the meeting, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

1.7 Quorum. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at the meeting, present in person, by means of remote communication, if authorized, or represented by proxy, shall constitute a quorum for the transaction of business.

1.8 Adjournments. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws by the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as secretary of such meeting. It shall not be necessary to notify any stockholder of any adjournment of less than thirty (30) days if the time and place of the adjourned meeting are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

1.9 Voting. Each stockholder shall have one vote for each share of capital stock entitled to vote and held of record by such stockholder, unless otherwise provided by the General Corporation Law of the State of Delaware, the Certificate of Incorporation or these By-Laws. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person or by electronic means, as determined by the Board of Directors in its sole discretion.

Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder s approving vote is with respect to all shares which the stockholder is entitled to vote.

1.10 Proxy Representation. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, objecting to or voting or participating at a meeting, or expressing consent or dissent without a meeting. The delivery of a proxy on behalf of a stockholder consistent with telephonic or electronically transmitted instructions obtained pursuant to procedures of the corporation reasonably designed to verify that such instructions have been authorized by such stockholder shall constitute execution and delivery of the proxy by or on behalf of the stockholder. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable

if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally. The authorization of a proxy may but need not be limited to specified action, provided, however, that if a proxy limits its authorization to a meeting or meetings of stockholders, unless otherwise specifically provided such proxy shall entitle the holder thereof to vote at any adjourned session but shall not be valid after the final adjournment thereof. A proxy purporting to be authorized by or on behalf of a stockholder, if accepted by the corporation in its discretion, shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

1.11 Action at Meeting. When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect the candidate to such office and a majority of the votes properly cast upon any question other than an election to an office shall decide the question, except when a larger vote is required by law, by the Certificate of Incorporation, by the By-Laws or by the rules or regulations of the NASD, Nasdaq or any stock exchange applicable to the corporation. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

1.12 Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. The nomination for election to the Board of Directors of the corporation at a meeting of stockholders may be made only (a) pursuant to the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the corporation who was a stockholder of record of the corporation at the time the notice provided for below in this Section 1.11 is delivered to the Secretary who is entitled to vote in the election of directors at the meeting and who complies with the notice procedures set forth in this Section 1.11. Such nominations, other than those made by or on behalf of the Board of Directors, shall be made by timely notice in writing delivered or mailed to the Secretary in accordance with the provisions of Section 1.12. Such notice shall set forth (a) as to each proposed nominee (i) the name, age, business address and, if known, residence address of each such nominee, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stock of the corporation which are beneficially owned by each such nominee, (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (iv) any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the 1934 Act), including such person s written consent to be named as a nominee and to serve as a director if elected; and (b) as to the stockholder giving the notice, the information required to be provided pursuant to Section 1.12. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation.

The chair of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not properly brought before the meeting in accordance with the provisions

of this Section 1.11, and if he or she should so determine, the chair shall so declare to the meeting and the defective nomination shall be disregarded.

Notwithstanding the foregoing provisions of this Section 1.11, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the corporation to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the corporation.

Notwithstanding the foregoing provisions of this Section 1.11, a stockholder shall also comply with all applicable requirements of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.11. Nothing in this Section 1.11 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation s proxy statement pursuant to Rule 14a-8 under the 1934 Act.

1.13 Notice of Business at Annual Meetings. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, (c) otherwise properly brought before an annual meeting by a stockholder who was a stockholder of record of the corporation at the time the stockholder s notice provided for below in this Section 1.12 is delivered to the Secretary who is entitled to vote and who complies with the notice procedures set forth in this Section 1.12. For business to be properly brought before an annual meeting by a stockholder, if such business relates to the election of directors of the corporation, the procedures in Section 1.11 must be complied with. If such business relates to any other matter, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder s notice must be delivered to or mailed by first class United States mail, postage prepaid, and received by the Secretary at the principal executive offices of the corporation not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that if the annual meeting is not held within thirty (30) days before or after such anniversary date, then for the notice by the stockholder to be timely it must be so received not later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. A stockholder s notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation s books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 1.12 and except that any stockholder proposal which complies with Rule 14a-8 of the proxy rules, or any successor provision, promulgated under the Securities Exchange Act of 1934, as amended, and is to be included in the corporation s proxy statement for an annual meeting of stockholders shall be deemed to comply with the requirements of this Section 1.12.

The chair of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 1.12, and if he or she should so determine, the chair shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding the foregoing provisions of this Section 1.12, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the corporation to present business, such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

Notwithstanding the foregoing provisions of this Section 1.12, a stockholder shall also comply with all applicable requirements of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.12. Nothing in this Section 1.12 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation s proxy statement pursuant to Rule 14a-8 under the 1934 Act.

1.14 Action without Meeting. Stockholders may not take any action by written consent in lieu of a meeting.

1.15 Conduct of Meeting. The Chairman of the Board or, in his or her absence, the Vice Chairman of the Board, if any, the Chief Executive Officer or the President, in the order named, shall call meetings of the stockholders to order and act as chair of such meeting; provided, however, that, in the absence of the Chairman of the Board, the Board of Directors may appoint any stockholder to act as chair of any meeting. The Secretary of the corporation or, in his or her absence, any Assistant Secretary, shall act as secretary at all meetings of the stockholders; provided, however, that in the absence of the Secretary at any meeting of the stockholders, the person acting as chair at any meeting may appoint any person to act as secretary of such meeting.

The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem appropriate. Subject to such rules and regulations of the Board of Directors, if any, the person presiding over the meeting shall have the right and authority to convene and adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of the person presiding over the meeting, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the person presiding over the meeting shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting and matters which are to be voted on by ballot. The person presiding over the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if the person presiding over the meeting should so determine and declare, any such matter or business shall not be transacted or considered. Unless and to the extent

determined by the Board of Directors or the person presiding over the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE 2 - DIRECTORS

2.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise provided by law, the Certificate of Incorporation or these By-Laws. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board of Directors until the vacancy is filled.

2.2 Number; Election and Qualification. The number of directors which shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors, but in no event shall be less than three. The number of directors may be decreased at any time and from time to time by a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more directors. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote on such election. The directors need not be stockholders of the corporation.

2.3 Terms of Office. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, each director shall hold office until the next annual meeting and until his successor is elected and qualified, or until he sooner dies, resigns, is removed or becomes disqualified.

2.4 Vacancies. Vacancies and any newly created directorships resulting from any increase in the number of directors may be filled by vote of the holders of the particular class or series of stock entitled to elect such director at a meeting called for the purpose, or by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, in each case elected by the particular class or series of stock entitled to elect such directors. When one or more directors shall resign from the board, effective at a future date, a majority of the directors then in office, including those who have resigned, who were elected by the particular class or series of stock entitled to elect such resigning director or directors shall have power to fill such vacancy or vacancies, the vote or action by writing thereon to take effect when such resignation or resignations shall become effective. The Board of Directors shall be deemed to be duly constituted notwithstanding one or more vacancies in its membership, whether because of the failure of the stockholders to elect the full number of directors or otherwise. Any such vacancy shall automatically reduce the number of directors *pro tanto*, until such time as such vacancy has been filled in accordance with applicable law, the Certificate of Incorporation and these By-Laws, whereupon the number of directors shall be automatically increased *pro tanto*.

2.5 Resignation and Removal. Any director may resign by delivering his or her written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event. Except as may be otherwise provided by law, by the

Certificate of Incorporation or by these By-Laws, a director (including persons elected by stockholders or directors to fill vacancies in the Board of Directors) may be removed from office with or without cause by the vote of the holders of a majority of the issued and outstanding shares of the particular class or series entitled to vote in the election of such directors.

2.6 Regular Meetings. The regular meetings of the Board of Directors may be held without notice at such time and place, either within or without the State of Delaware, as shall be determined from time to time by the Board of Directors; provided, that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.7 Special Meetings. Special meetings of the Board of Directors may be held at any time and place, within or without the State of Delaware, designated in a call by the Chairman of the Board, the President, two or more directors, or by one director in the event that there is only a single director in office.

2.8 Notice of Special Meetings. Notice of any special meeting of the Board of Directors shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting. The notice shall be duly given to each director (i) by giving notice to such director in person or by telephone at least twenty four (24) hours in advance of the meeting, (ii) by sending a telegram, telecopy, electronic mail or other means of electronic transmission, or delivering written notice by hand, to the director s last known business or home address at least twenty four (24) hours in advance of the meeting, or (iii) by mailing written notice to the director s last known business or home address at least seventy two (72) hours in advance of the meeting. A notice or waiver of notice of a special meeting of the Board of Directors need not specify the purposes of the meeting.

2.9 Meetings by Telephone Conference Calls. Any meeting of the Board of Directors may be held by conference telephone or similar communication equipment, so long as all persons participating in the meeting can hear one another; and all persons participating in such a meeting shall be deemed to be present in person at the meeting.

2.10 Quorum. A majority of the total number of the whole Board of Directors shall constitute a quorum at all meetings of the Board of Directors. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each such director so disqualified; provided, however, that in no case shall less than one-third (1/3) of the number of the whole Board of Directors constitute a quorum. In the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, other than announcement at the meeting, until a quorum shall be present.

2.11 Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, the Certificate of Incorporation or these By-Laws.

2.12 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if all members of the Board consent to the action in writing or by electronic transmission and such writings or transmissions are filed with the minutes of proceedings of the Board of Directors or committee of the Board of Directors. Such filings shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

2.13 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of the General Corporation Law of the State of Delaware, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these By-Laws for the Board of Directors.

2.14 Compensation of Directors. The directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

ARTICLE 3 - OFFICERS

3.1 Enumeration. The officers of the corporation shall consist of a President, a Treasurer, a Secretary and such other officers with such other titles as the Board of Directors shall determine, including one or more Vice Presidents, Assistant Treasurers, and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

3.2 Election. The President, Treasurer and Secretary shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the Board of Directors at such meeting or at any other meeting.

3.3 Qualification. No officer need be a stockholder of the corporation. Any two or more offices may be held by the same person.

3.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, each officer shall hold office until his successor is elected and qualified, unless a different term is specified in the vote choosing or appointing him, or until his earlier death, resignation or removal.

3.5 Resignation and Removal. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event. Any officer may be removed at any time, with or without cause, by vote of the Board of Directors at any regular or special meeting.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of President, Treasurer and Secretary. Each such successor shall hold office for the unexpired term of his or her predecessor and until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal.

3.7 Chairman of the Board and Vice Chairman of the Board. The Board of Directors may appoint a Chairman of the Board and a Vice Chairman of the Board. The Chairman and Vice Chairman may, but need not be, designated as officers of the corporation by the Board of Directors. If the Board of Directors appoints a Chairman of the Board, he or she shall perform such duties and possess such powers as are assigned by the Board of Directors. If the Board of Directors appoints a Vice Chairman of the Board, he or she shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board and shall perform such other duties and possess such other powers as are assigned by the Board of Directors.

3.8 President. The President shall, subject to the direction of the Board of Directors, have general charge and supervision of the business of the corporation. Unless otherwise provided by the Board of Directors, the President shall preside at all meetings of the stockholders and, if the President is a director, at all meetings of the Board of Directors. Unless the Board of Directors has designated the Chairman of the Board or another officer as Chief Executive Officer, the President shall be the Chief Executive Officer of the corporation. The President shall perform such other duties and shall have such other powers as the Board of Directors may from time to time prescribe.

3.9 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors or the President may from time to time assign. In the event of the absence, inability or refusal to act of the President, the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors) shall perform the duties of the President and when so performing shall have all the powers of and be subject to all the restrictions upon the President. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

3.10 Secretary and Assistant Secretaries. The Secretary shall perform such duties and shall have such powers as the Board of Directors or the President may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are incident to the office of the Secretary, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the President or the Secretary may from time to time assign. In the event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or directors, the person presiding at the meeting shall designate a temporary secretary to keep a record of the meeting.

3.11 Treasurer and Assistant Treasurers. The Treasurer shall perform such duties and shall have such powers as may from time to time be assigned by the Board of Directors or the President. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of Treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the corporation, to deposit funds of the corporation in depositories designated from time to time by the Board of Directors, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the corporation. Unless the Board of Directors has designated another officer as Chief Financial Officer, the Treasurer shall be the Chief Financial Officer of the corporation.

The Assistant Treasurers shall perform such duties and possess such powers as the Board of Directors, the President or the Treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Treasurer, the Assistant Treasurer (or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Treasurer.

3.12 Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

ARTICLE 4 - CAPITAL STOCK

4.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of any unissued balance

of the authorized capital stock of the corporation held in its treasury may be issued, sold, transferred or otherwise disposed of in such manner, for such consideration and on such terms as the Board of Directors may determine.

4.2 Certificates of Stock. Every holder of stock of the corporation shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares owned in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman or Vice Chairman, if any, of the Board of Directors, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.

Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the By-Laws, applicable securities laws or any agreement among any number of stockholders or among such holders and the corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

4.3 Transfers. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, by the Certificate of Incorporation or by these By-Laws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the corporation in accordance with the requirements of these By-Laws.

4.4 Lost, Stolen or Destroyed Certificates. The corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

4.5 Record Date. The Board of Directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders, or entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action to which such record date relates.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE 5 - RECORDS AND REPORTS

5.1 Maintenance and Inspection of Records. The corporation shall, either at its principal executive office or at such place or places as designated by the Board of Directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these By-Laws as amended to date, accounting books and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation s stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person s interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

5.2 Inspection by Director**.** Any director shall have the right to examine the corporation s stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

5.3 Representation of Shares of Other Corporations**.** The president or any other officer of this corporation authorized by the board of directors is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein

granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE 6 - GENERAL PROVISIONS

6.1 Fiscal Year. Except as from time to time otherwise designated by the Board of Directors, the fiscal year of the corporation shall begin on the first day of January in each year and end on the last day of December in each year.

6.2 Corporate Seal. The corporate seal shall be in such form as shall be approved by the Board of Directors.

6.3 Waiver of Notice. Whenever any notice whatsoever is required to be given by law, by the Certificate of Incorporation or by these By-Laws, a waiver of such notice either in writing signed by the person entitled to such notice or such person s duly authorized attorney, or by telegraph, cable, electronic mail or any other available method, whether before, at or after the time stated in such waiver, or the appearance of such person or persons at such meeting in person, by means of remote communications, if authorized, or by proxy shall be deemed equivalent to such notice. Where such an appearance is made for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting has not been lawfully called or convened, the appearance shall not be deemed equivalent to notice.

6.4 Checks; Drafts; Evidences of Indebtedness**.** From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

6.5 Corporate Contracts and Instruments; How Executed**.** The board of directors, except as otherwise provided in these By-Laws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

6.6 Evidence of Authority. A certificate by the Secretary, or an Assistant Secretary under Section 3.10, or a temporary secretary under Section 3.10, as to any action taken by the stockholders, directors, a committee or any officer or representative of the corporation shall, as to all persons who rely on the certificate in good faith, be conclusive evidence of such action.

6.7 Certificate of Incorporation. All references in these By-Laws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended or restated and in effect from time to time.

6.8 Transactions with Interested Parties. No contract or transaction between the corporation and one or more of the directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of the directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or a committee of the Board of Directors which authorizes the contract or transaction or solely because his or their votes are counted for such purpose, if:

(1) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee of the Board of Directors in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(2) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee of the Board of Directors, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

6.9 Construction; Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of the State of Delaware shall govern the construction of these By-Laws. Without limiting the generality of this provision, (a) the singular number includes the plural, and the plural number includes the singular; (b) the term person includes both a corporation and a natural person; and (c) all pronouns include the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

6.10 Provisions Additional to Provisions of Law. All restrictions, limitations, requirements and other provisions of these By-Laws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

6.11 Provisions Contrary to Provisions of Law; Severability. Any article, section, subsection, subdivision, sentence, clause or phrase of these By-Laws which upon being construed in the manner provided in Section 6.10 hereof, shall be contrary to or inconsistent with any applicable provisions of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these By-Laws, it being hereby declared that these By-Laws would have been adopted and each article,

section, subsection, subdivision, sentence, clause or phrase thereof, irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

6.12 Notices. Any reference in these By-Laws to the time a notice is given or sent means, unless otherwise expressly provided, the time a written notice by mail is deposited in the United States mails, postage prepaid; or the time any other written notice is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient; or the time any oral notice is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

ARTICLE 7 - AMENDMENTS

Subject to the provisions of the Certificate of Incorporation, these By-Laws may be adopted, amended or repealed at any annual or special meeting of stockholders, by the affirmative vote of the holders of a majority of the voting power of the stock issued and outstanding and entitled to vote thereat; provided, however, that any proposed alteration or repeal of, or the adoption of any By-Law inconsistent with, Sections 1.3, 1.6, 1.11, 1.12 and 1.13 of the By-Laws or this sentence by the stockholders shall require the affirmative vote of the holders of 75% of the voting power of all voting stock then issued and outstanding. Subject to the provisions of the Certificate of Incorporation, these By-Laws may also be altered, amended or repealed, and new By-Laws adopted, by the board of directors, acting by majority vote of the entire Board, subject to the right of the stockholders to adopt, amend or repeal the By-Laws as provided above.

ANNEX O

ORION HEALTHCORP, INC.
2004 INCENTIVE PLAN

1. DEFINED TERMS

Exhibit A, which is incorporated herein by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

2. PURPOSE

The Plan has been established to advance the interests of the Company by providing for the grant to Participants of Stock-based and other incentive Awards.

3. ADMINISTRATION

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), the Administrator will exercise its discretion consistent with qualifying the Award for such exception. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

4. LIMITS ON AWARDS UNDER THE PLAN

(a) Number of Shares. A maximum of 2,200,000 shares of Stock may be delivered in satisfaction of Awards under the 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 Plan. Also, the number of shares of Stock 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.

(b) Type of Shares. Stock delivered by the Company under the Plan may be authorized but unissued Stock or previously issued Stock acquired by the Company and held in treasury. No fractional shares of Stock will be delivered under the Plan.

(c) Section 162(m) Limits. The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 1,000,000. The maximum benefit that may 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, $1,000,000. 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. The foregoing provisions will be construed in a manner consistent with Section 162(m) of the Code.

5. ELIGIBILITY AND PARTICIPATION

The Administrator will select Participants from among those key Employees and directors of, and other individuals or entities providing services to, the Company or its Affiliates who, in the opinion of the Administrator, are in a position to make a significant contribution to the success of the Company and its Affiliates. Eligibility for ISOs is limited to employees of the Company or of a parent corporation or subsidiary corporation of the Company as those terms are defined in Section 424 of the Code.

6. RULES APPLICABLE TO AWARDS

(a) ALL AWARDS

(1) Award Provisions. The Administrator will determine the terms of all Awards, subject to the limitations provided herein.

(2) Transferability. Neither ISOs nor, except as the Administrator otherwise expressly provides, other Awards may be transferred (including by sale, assignment, pledge, hypothecation or other disposition or encumbrance) other than by will or by the laws of descent and distribution, and during a Participant s lifetime ISOs (and, except as the Administrator otherwise expressly provides, other non-transferable Awards requiring exercise) may be exercised only by the Participant (or, in the event of the Participant s incapacity, the person or persons legally appointed to act on the Participant s behalf).

(3) Vesting, Etc. The Administrator may determine the time or times at which an Award will vest or become exercisable and the terms on which an Award requiring exercise will remain exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax consequences resulting from such acceleration. Unless the Administrator expressly provides otherwise, immediately upon the cessation of the Participant s Employment an Award requiring exercise will cease to be exercisable and will terminate, and all other Awards to the extent not already vested will be forfeited, except that:

(A) subject to (B) and (C) below, all Stock Options and SARs held by the Participant or the Participant s permitted transferee, if any, immediately prior to the cessation of the Participant s Employment, to the extent then exercisable, will remain exercisable for the lesser of (i) a period of three months or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 6(a)(3), and will thereupon terminate;

(B) all Stock Options and SARs held by a Participant or the Participant s permitted transferee, if any, immediately prior to the Participant s death, to the extent then exercisable, will remain exercisable for the lesser of (i) the one year period ending with the first anniversary of the Participant s death or (ii) the period ending on the latest

date on which such Stock Option or SAR could have been exercised without regard to this Section 6(a)(3), and will thereupon terminate; and

(C) all Stock Options and SARs held by a Participant or the Participant s permitted transferee, if any, immediately prior to the cessation of the Participant s Employment will immediately terminate upon such cessation if the Administrator in its sole discretion determines that such cessation of Employment has resulted for reasons which cast such discredit on the Participant as to justify immediate termination of the Award.

(4) Taxes. The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a Participant to tender previously owned shares of Stock in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).

(5) Dividend Equivalents, Etc. The Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award.

(6) Rights Limited. Nothing in the Plan shall be construed as giving any person the right to continued employment or service with the Company or its Affiliates, or any rights as a stockholder except as to shares of Stock actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of employment or service for any reason, even if the termination is in violation of an obligation of the Company or Affiliate to the Participant.

(7) Section 162(m). This Section 6(a)(7) applies to any Performance Award intended to qualify as performance-based for the purposes of Section 162(m) other than a Stock Option or SAR with an exercise price at least equal to the fair market value of the underlying Stock on the date of grant. In the case of any Performance Award to which this Section 6(a)(7) applies, the Plan and such Award will be construed to the maximum extent permitted by law in a manner consistent with qualifying the Award for such exception. With respect to such Performance Awards, the Administrator will preestablish, in writing, one or more specific Performance Criteria no later than 90 days after the commencement of the period of service to which the performance relates (or at such earlier time as is required to qualify the Award as performance-based under Section 162(m)). The Performance Criteria so established shall serve as a condition to the grant, vesting or payment of the Performance Award, as determined by the Administrator. Prior to grant, vesting or payment of the Performance Award, as the case may be, the Administrator will certify whether the Performance Criteria have been attained and such determination will be final and conclusive. If the Performance Criteria with respect to the Award are not attained, no other Award will be provided in substitution of the Performance Award. No Performance Award to which this Section 6(a)(7) applies may be granted after the first meeting of the stockholders of the Company held in [2008] until the Performance Criteria (as originally approved or as subsequently amended) have been resubmitted to and reapproved by the

stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval.

(b) AWARDS REQUIRING EXERCISE

(1) Time And Manner Of Exercise. Unless the Administrator expressly provides otherwise, an Award requiring exercise by the holder will not be deemed to have been exercised until the Administrator receives a notice of exercise (in form acceptable to the Administrator) signed by the appropriate person and accompanied by any payment required under the Award. If the Award is exercised by any person other than the Participant, the Administrator may require satisfactory evidence that the person exercising the Award has the right to do so.

(2) Exercise Price. The Administrator will determine the exercise price, if any, of each Award requiring exercise. 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)) 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.

(3) Payment Of Exercise Price. Where the exercise of an Award is to be accompanied by payment, the Administrator may determine the required or permitted forms of payment, subject to the following: (a) all payments will be by cash or check acceptable to the Administrator, or, if so permitted by the Administrator and if legally permissible, (i) through the delivery of shares of Stock that have been outstanding for at least six months (unless the Administrator approves a shorter period) and that have a fair market value equal to the exercise price, (ii) by delivery to the Company of a promissory note of the person exercising the Award, payable on such terms as are specified by the Administrator, (iii) through a broker-assisted exercise program acceptable to the Administrator, or (iv) by any combination of the foregoing permissible forms of payment; and (b) where shares of Stock issued under an Award are part of an original issue of shares, the Award will require that at least so much of the exercise price as equals the par value of such shares be paid other than by delivery of a promissory note or its equivalent. The delivery of shares in payment of the exercise price under clause (a)(i) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Administrator may prescribe.

(4) ISOs. No ISO may be granted under the Plan after [ ], 2014, but ISOs previously granted may extend beyond that date.

(c) AWARDS NOT REQUIRING EXERCISE

Awards of Restricted Stock and Unrestricted Stock may be made in exchange for past services or other lawful consideration.

7. EFFECT OF CERTAIN TRANSACTIONS

(a) MERGERS, ETC.

Except as otherwise provided in an Award, in the event of a Covered Transaction in which there is an acquiring or surviving entity, the Administrator may provide for the assumption of some or all outstanding Awards, or for the grant of new awards in substitution therefor, by the acquiror or survivor or an affiliate of the acquiror or survivor, in each case on such terms and subject to such conditions as the Administrator determines. In the absence of such an assumption or if there is no substitution, except as otherwise provided in the Award each Stock Option, SAR and other Award requiring exercise will become fully exercisable, and the delivery of shares of Stock issuable under each outstanding Award of Deferred Stock will be accelerated and such shares will be issued, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the issuance of the shares, as the case may be, to participate as a stockholder in the Covered Transaction, and the Award will terminate upon consummation of the Covered Transaction. In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

(b) CHANGES IN AND DISTRIBUTIONS WITH RESPECT TO THE STOCK

(1) Basic Adjustment Provisions. In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company s capital structure, the Administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 4(a) and to the maximum share limits described in Section 4(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change.

(2) Certain Other Adjustments. To the extent consistent with qualification of ISOs under Section 422 of the Code and with the performance-based compensation rules of Section 162(m), where applicable, the Administrator may also make adjustments of the type described in paragraph (1) above to take into account distributions to stockholders other than those provided for in Section 7(a) and 7(b)(1), or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder.

(3) Continuing Application of Plan Terms. References in the Plan to shares of Stock will be construed to include any stock or securities resulting from an adjustment pursuant to this Section 7.

8. LEGAL CONDITIONS ON DELIVERY OF STOCK

The Company will not be obligated to deliver any shares of Stock pursuant to the Plan or

to remove any restriction from shares of Stock previously delivered under the Plan until: (i) the Company is satisfied that all legal matters in connection with the issuance and delivery of such shares have been addressed and resolved; (ii) if the outstanding Stock is at the time of delivery listed on any stock exchange or national market system, the shares to be delivered have been listed or authorized to be listed on such exchange or system upon official notice of issuance; and (iii) all conditions of the Award have been satisfied or waived. If the sale of Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act. The Company may require that certificates evidencing Stock issued under the Plan bear an appropriate legend reflecting any restriction on transfer applicable to such Stock, and the Company may hold the certificates pending lapse of the applicable restrictions.

9. AMENDMENT AND TERMINATION

The Administrator may at any time or times amend the Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the Plan as to any future grants of Awards; *provided*, that except as otherwise expressly provided in the Plan the Administrator may not, without the Participant s consent, alter the terms of an Award so as to affect adversely the Participant s rights under the Award, unless the Administrator expressly reserved the right to do so at the time of the Award.

10. OTHER COMPENSATION ARRANGEMENTS

The existence of the Plan or the grant of any Award will not in any way affect the Company s right to Award a person bonuses or other compensation in addition to Awards under the Plan.

11. GOVERNING LAW

The plan shall be construed in accordance with the laws of the State of Delaware.

EXHIBIT A

Definition of Terms

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

Administrator : The Board or, if one or more has been appointed, the Committee. The Administrator may delegate ministerial tasks to such persons as it deems appropriate.

Affiliate : Any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding Stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests.

Award : Any or a combination of the following:

(i) Stock Options.

(ii) SARs.

(iii) Restricted Stock.

(iv) Unrestricted Stock.

(v) Deferred Stock.

(vi) Securities (other than Stock Options) that are convertible into or exchangeable for Stock on such terms and conditions as the Administrator determines.

(vii) Performance Awards.

(viii) Grants of cash made in connection with other Awards in order to help defray in whole or in part the cost (including tax cost) of the Award to the Participant.

Board : The Board of Directors of the Company.

Code : The U.S. Internal Revenue Code of 1986 as from time to time amended and in effect, or any successor statute as from time to time in effect.

Committee : One or more committees of the Board which, in the case of Awards granted to persons who are or are reasonably expected to become officers of the Company, shall be comprised solely of two or more directors, all of whom are both outside directors within the meaning of Section 162(m) and non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

Company : Orion HealthCorp, Inc. or any successor thereto.

Covered Transaction : Any of (i) a consolidation, merger, or similar transaction or series of related transactions in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company s then outstanding common stock by a single person or entity or by a group of persons and/or entities acting in concert, (ii) a sale or transfer of all or substantially all the Company s assets, or (iii) a dissolution or liquidation of the Company. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i) (as determined by the Administrator), the Covered Transaction shall be deemed to have occurred upon consummation of the tender offer.

Deferred Stock : An unfunded and unsecured promise to deliver Stock or other securities in the future on specified terms.

Employee : Any person who is employed by the Company or an Affiliate.

Employment : A Participant s employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 5 to the Company or its Affiliates. If a Participant s employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant s Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates.

ISO : A Stock Option intended to be an incentive stock option within the meaning of Section 422 of the Code. Each option granted pursuant to the Plan will be treated as providing by its terms that it is to be a non-incentive option unless, as of the date of grant, it is expressly designated as an ISO.

Participant : A person who is granted an Award under the Plan.

Performance Award : An Award subject to Performance Criteria. The Committee in its discretion may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended so to qualify.

Performance Criteria : Specified criteria the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. For purposes of Awards that are intended to qualify for the performance-based compensation exception under Section 162(m), a Performance Criterion will mean an objectively determinable measure of performance relating to 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 (in each case 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); one or more operating ratios; one or more financial coverage ratios; book value per share; borrowing levels, leverage ratios (including without limitation debt as a percentage of total capitalization) 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. A Performance Criterion measure and any targets with respect thereto determined by the Administrator need not be based upon an increase, a positive or improved result or avoidance of loss.

Plan : The Orion HealthCorp, Inc. 2004 Incentive Plan as from time to time amended and in effect.

Restricted Stock : An Award of Stock for so long as the Stock remains subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied.

Section 162(m) : Section 162(m) of the Code.

SARs : Rights entitling the holder upon exercise to receive cash or Stock, as the Administrator determines, equal to a function (determined by the Administrator using such factors as it deems appropriate) of the amount by which the Stock has appreciated in value since the date of the Award.

Stock : Class A Common Stock of the Company, par value $0.001 per share.

Stock Options : Options entitling the recipient to acquire shares of Stock upon payment of the exercise price.

Unrestricted Stock : An Award of Stock not subject to any restrictions under the Plan**.**

PROXY CARD

SURGICARE, INC.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF SURGICARE, INC. FOR THE SPECIAL MEETING IN LIEU OF AN ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 4, 2004.

The undersigned, as a stockholder of SurgiCare, Inc. (SurgiCare), hereby appoints Bruce Miller, Michael A. Mineo, Sherman Nagler and Jeffrey J. Penso, and each of them, with full power of substitution, as proxies to vote all shares of stock of SurgiCare which the undersigned is entitled to vote through the execution of a proxy with respect to the Special Meeting in lieu of an Annual Meeting of Stockholders of SurgiCare (the Special Meeting) to be held at 12727 Kimberly Lane, Suite 200, Houston, Texas 44024 on May 4, 2004 at 5:30 p.m. local time, or any adjournment or postponement thereof, and authorizes and instructs said proxies to vote in the manner directed below.

1. To amend and restate our certificate of incorporation to (a) 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, (b) 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, (c) reclassify SurgiCare common stock as Class A Common Stock , $0.001 par value per share, (d) establish a new class of common stock entitled Class B Common Stock , $0.001 par value per share, (e) establish a new class of common stock entitled Class C Common Stock , $0.001 par value per share, and (f) change the name of SurgiCare, Inc. to Orion HealthCorp, Inc.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

2. To issue 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

FOR [ ] AGAINST [ ] ABSTAIN [ ]

3. To issue shares of Class C Common Stock and Class A Common Stock pursuant to a merger agreement dated as of February 9, 2004, among SurgiCare, Inc., DCPS/MBS Acquisition, Inc., Dennis Cain Physician Solutions, Ltd. (DCPS), Medical Billing Services, Inc. (MBS) and the sellers party thereto (the DCPS/MBS Sellers).

FOR [ ] AGAINST [ ] ABSTAIN [ ]

4. To issue shares of Class B Common Stock to Brantley Partners IV, L.P. (Brantley IV) pursuant to an amended and restated subscription agreement dated as of February 9, 2004 between SurgiCare and Brantley IV.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

5. To issue up to ten million shares (prior to giving effect to the one-for-ten reverse stock split) of our common stock in exchange for our Series AA preferred stock.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

6. A. To elect members of our board of directors to serve until the consummation of the transactions described in the proxy statement.

FOR [ ] FOR UNLESS WITHHELD [ ] WITHHELD FOR ALL [ ]

PRE-ACQUISITION NOMINEES:

Bruce Miller
Michael A. Mineo
Sherman Nagler
Jeffrey J. Penso

WITHHELD FOR: (Write each nominee s name in the space provided):

_____

_____

_____

6. B. To elect the members of the board of directors of Orion HealthCorp, Inc. who will begin serving upon the consummation of the transactions described in the proxy statement.

FOR [ ] FOR UNLESS WITHHELD [ ] WITHHELD FOR ALL [ ]

POST-ACQUISITION NOMINEES:

Terrence L. Bauer
Paul H. Cascio
David Crane
Michael J. Finn
Keith G. LeBlanc
Gerald M. McIntosh
Joseph M. Valley, Jr.

WITHHELD FOR: (Write each nominee s name in the space provided):

_____

_____

_____

7. To approve the Orion HealthCorp, Inc. 2004 Incentive Plan.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

8. To issue warrants to the current members of our board of directors.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

9. In their discretion, to transact any other business as may properly come before the Special Meeting and any adjournment thereof.

FOR [ ] AGAINST [ ] ABSTAIN [ ]

You may revoke or change your proxy at any time prior to its use at the Special Meeting by giving SurgiCare written direction to revoke it, by giving SurgiCare a new proxy or by attending the Special Meeting and voting in person. Your attendance at the Special Meeting will not by itself revoke a proxy given by you. Written notice of revocation or subsequent proxy should be sent to SurgiCare, Inc. 12727 Kimberly Lane, Suite 200, Houston, Texas 44024, Attention: Phillip C. Scott, so as to be delivered at or before the taking of the vote at the Special Meeting.

(Continued and to be signed on the reverse side)

Returned proxy cards will be voted (1) as specified on the matters listed above; (2) in accordance with the Board of Directors recommendations where no specification is made; and (3) in accordance with the judgment of the proxies on any other matters that may properly come before the meeting. Please mark your choice like this: x

The shares represented by this Proxy will be voted in the manner directed and, if no instructions to the contrary are indicated, will be voted FOR the election of the named nominees and approval of the other proposal set forth above. The undersigned hereby acknowledges receipt of the notice of the Special Meeting and the proxy statement furnished therewith.

Print and sign your name below exactly as it appears hereon and date this card. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. Joint owners should each sign. If a corporation, please sign in full corporate name by president or authorized officer. If a partnership, please sign in partnership name by authorized person.

Date:

Signature (title, if any)

Signature, if held jointly