

SURGICARE INC/DE
Form PRER14A
August 19, 2004

Table of Contents

**SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- x Preliminary Proxy Statement o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 o Definitive Proxy Statement
 o Definitive Additional Materials
 o Soliciting Material Pursuant to Section 240.14a-12

SURGICARE, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

x Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

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(3) Filing Party:

(4) Date Filed:

Table of Contents

, 2004

Dear SurgiCare Stockholders:

You are invited to attend the special meeting in lieu of an annual meeting of stockholders of SurgiCare, Inc. (SurgiCare) to be held on , 2004, beginning at 5:30 p.m. Central Daylight Time at the principal office of SurgiCare, which on the date of the meeting will be located at 10700 Richmond Avenue, Suite 300, Houston, Texas 77042.

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

The highlights of the financial transactions to be considered include:

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

Issuing a new class of Class B common stock to Brantley Partners IV, L.P., a private investor (Brantley IV) or its assignees. Brantley IV will purchase the Class B common stock for \$10 million in cash plus cash in the amount of the accrued but unpaid interest immediately prior to the closing of the transactions owed to a subsidiary of Brantley IV by SurgiCare and Integrated Physician Solutions, Inc. (IPS) on amounts advanced prior to October 24, 2003 (the Base Bridge Interest Amount), which as of August 10, 2004 was \$92,510. A portion of Brantley IV s cash investment will be used to pay off the indebtedness owed by SurgiCare and IPS to the subsidiary of Brantley IV. Based on the interest accrued on such indebtedness through August 10, 2004, it is estimated that the net cash proceeds to SurgiCare will be approximately \$5,361,287. The shares to be received by Brantley IV or its assignees will constitute approximately 58.9% of SurgiCare s outstanding equity after the transactions on an as-converted basis. Brantley IV will also receive the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million after the closing of the transactions.

Acquiring IPS, a company whose two business units provide business management services dedicated to the practice of pediatrics and integrated business and clinical software applications for physicians, in a merger in which we will issue Class A common stock to the IPS stockholders and certain IPS creditors. After the transactions, former IPS stockholders and creditors will own approximately 18.2% of our outstanding equity on an as-converted basis.

Acquiring Medical Billing Services, Inc. (MBS), and Dennis Cain Physician Solutions, Ltd. (DCPS), two providers of physician management, billing, consulting and collection services, in an acquisition in which we will pay between \$2.9 million and \$3.5 million cash and issue promissory notes in the aggregate principal amount of \$500,000 and Class C common stock to their current equityholders. The amount of consideration received depends upon the fair market value of our common stock at the time of the closing of the transactions, and the consideration is also subject to retroactive increase or decrease, including the issuance of additional shares of Class A common stock. We will also issue shares of Class A common stock as directed by the DCPS and MBS equityholders, and may be required to make additional payments in certain circumstances. Immediately after the transactions, the equityholders of these two companies and their designees will own Class A common stock and Class C common stock which may amount to as much as approximately 6.7% of our outstanding equity on an as-converted basis.

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

Table of Contents

The current holders of the outstanding common stock of SurgiCare will own a much smaller interest in the larger, combined company. The holders of 100% of our outstanding common stock on a fully-diluted basis prior to the transactions will have their ownership interest reduced to approximately 17.5% of the new entity, on a fully-diluted, as-converted basis.

The new Class B common stock stockholder, Brantley IV, will own approximately 53.4% of the outstanding voting equity of SurgiCare. Affiliates of Brantley IV are significant stockholders and creditors of IPS, and will receive a large part of the merger consideration we issue to the stockholders of IPS and all of the consideration issued to creditors of IPS in connection with the merger. Accordingly, after the transactions, Brantley IV and its affiliates will control approximately 71.7% of the outstanding voting equity of SurgiCare and will be able to control elections to the board of directors and other actions of the company.

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

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

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

Very truly yours,

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

Table of Contents

SURGICARE, INC.

**10700 Richmond Avenue, Suite 300
Houston, Texas 77042
(713) 973-6675**

**NOTICE OF SPECIAL MEETING IN LIEU OF
ANNUAL MEETING OF STOCKHOLDERS**

DATE: , 2004 **PLACE:** **10700 Richmond Avenue,**
TIME: **5:30 p.m.** **Suite 300**
Houston, Texas 77042

Matters to be Voted on:

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

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

1. effect a reverse stock split of all of the outstanding shares of our common stock, \$0.005 par value per share at a ratio of one-for-ten,
2. increase the number of authorized shares of common stock from 5 million shares to 90 million shares, after giving effect to the reverse stock split, and leave the number of shares of authorized preferred stock at 20 million shares,
3. reclassify SurgiCare, Inc. (SurgiCare) common stock as Class A common stock \$0.001 par value per share,
4. establish a new class of common stock entitled Class B common stock , \$0.001 par value per share,
5. establish a new class of common stock entitled Class C common stock , \$0.001 par value per share, and
6. change the name of SurgiCare to Orion HealthCorp, Inc.;

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

7. The issuance of shares of Class A common stock pursuant to (a) an amended and restated merger agreement dated as of February 9, 2004, and amended on July 16, 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, and amended on July 16, 2004, among SurgiCare, Inc., Brantley Venture Partners III, L.P. and Brantley Capital Corporation;

8. The issuance of shares of Class C common stock and Class A common stock pursuant to an amended and restated merger agreement dated as of July 16, 2004, among SurgiCare, DCPS/ MBS Acquisition, Inc., Dennis Cain Physician Solutions, Ltd. (DCPS), Medical Billing Services, Inc. (MBS) and the sellers party thereto (the DCPS/ MBS Sellers);

9. The issuance of shares of Class B common stock and Class A common stock to Brantley Partners IV, L.P. (Brantley IV) or its assignees pursuant to an amended and restated subscription agreement dated as of February 9, 2004, and amended on July 16, 2004, between SurgiCare and Brantley IV;

Table of Contents

10. 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;

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

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

13. 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 holders of record of our Series AA preferred stock, if any, at the close of business on July 22, 2004, and valid proxy holders may attend and vote at the meeting and any adjournments or postponements of the meeting. If your shares are registered in the name of a brokerage firm or trustee and you plan to attend the meeting, please obtain from the firm or trustee a letter or other evidence of your beneficial ownership of those shares to facilitate your admittance to the meeting.

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

Approval Required to Consummate the Transactions:

The IPS merger agreement, the debt exchange agreement, the DCPS/ MBS merger agreement and the stock subscription agreement described above require that we receive stockholder approval of proposals one through eleven 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

Table of Contents**TABLE OF CONTENTS**

<u>Summary Term Sheet</u>	1
<u>Statement Regarding Forward-Looking Information</u>	20
<u>The Special Meeting</u>	21
<u>The Transactions</u>	24
<u>The IPS Merger</u>	39
<u>The DCPS/ MBS Merger</u>	52
<u>The Equity Financing</u>	66
<u>The New Classes of Common Stock</u>	73
<u>Unaudited Pro Forma Condensed Combined Financial Statements</u>	76
<u>Information about SurgiCare</u>	97
<u>Information about IPS</u>	113
<u>Information about DCPS AND MBS</u>	133
<u>2004 Incentive Plan</u>	146
<u>Proposal One Reverse Stock Split</u>	151
<u>Proposal Two Increase the Number of Shares of Authorized Common Stock</u>	156
<u>Proposal Three Reclassification of Common Stock</u>	160
<u>Proposal Four Establishment of Class B Common Stock</u>	161
<u>Proposal Five Establishment of Class C Common Stock</u>	162
<u>Proposal Six Change of Name</u>	163
<u>Proposal Seven Issuance of Shares of Class A Common Stock in Connection with the IPS Merger</u>	164
<u>Proposal Eight Issuance of Shares of Class C Common Stock and Class A Common Stock in Connection with the DCPS/MBS Merger</u>	165
<u>Proposal Nine Issuance of Shares of Class B Common Stock and Class A Common Stock in Connection with the Equity Financing</u>	166
<u>Proposal Ten Election of Directors</u>	168
<u>Proposal Eleven Approval of New Incentive Plan</u>	180
<u>Proposal Twelve Approval of Warrant Issuances to the Directors</u>	181
<u>Proposal Thirteen Other Matters</u>	182
<u>Independent Public Accountants</u>	183
<u>Stockholder Proposals</u>	184
<u>Index to Financial Statements</u>	185
<u>Annex A: Conformed Copy of Amended and Restated IPS Merger Agreement, including Amendment thereto dated July 16, 2004</u>	
<u>Annex B: Amended and Restated DCPS/ MBS Merger Agreement</u>	
<u>Annex C: SurgiCare 10-KSB/A for the Fiscal Year Ended December 31, 2003</u>	
<u>Annex D: Opinion of SurgiCare's Financial Advisor</u>	
<u>Annex E: Form of Employment Agreement</u>	
<u>Annex F: Conformed Copy of Amended and Restated Debt Exchange Agreement, including Amendment thereto dated July 16, 2004</u>	
<u>Annex G: Registration Rights Agreement</u>	
<u>Annex H: Conformed Copy of Amended and Restated Stock Subscription Agreement, including Amendment thereto dated July 16, 2004</u>	
<u>Annex I: Financial Statements of IPS</u>	
<u>Annex J: Financial Statements of DCPS</u>	
<u>Annex K: Financial Statements of MBS</u>	
<u>Annex L: Amended and Restated Certificate of Incorporation</u>	

Table of Contents

Annex M: Charter of Audit Committee

Annex N: Bylaws of Orion HealthCorp, Inc.

Annex O: 2004 Incentive Plan

Annex P: SurgiCare 10-OSB for the Fiscal Quarter Ended June 30, 2004

Annex Q: Pro Forma Projections Considered by the Board of Directors in
Determining to Recommend the Transactions for Stockholder Approval

Annex R: Opinion of SurgiCare's Legal Advisor regarding Tax Consequences
of the Transactions.

Table of Contents

SUMMARY TERM SHEET

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

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

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

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

IPS Integrated Physician Solutions, Inc.

DCPS Dennis Cain Physician Solutions, Inc.

DCPS/ MBS our new DCPS and MBS subsidiary, as combined, with DCPS as the wholly-owned subsidiary of MBS

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

MBS Medical Billing Services, Inc.

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

Brantley Capital Brantley Capital Corporation

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

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

Base Bridge Interest Amount the amount of interest accrued but unpaid immediately prior to the closing of the Transactions on the principal amount advanced to SurgiCare and IPS by Brantley IV's subsidiary on or prior to October 24, 2003, which as of August 10, 2004, was \$92,510.

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

DCPS/ MBS Merger and DCPS/ MBS Merger Agreement the acquisition of DCPS and MBS by SurgiCare and the related merger agreement, as amended to date.

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

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

Orion Orion HealthCorp, Inc.

Transactions the transactions contemplated by the Transaction Documents.

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

Overview of the Transactions

This proxy statement proposes a restructuring of SurgiCare in which we will acquire three healthcare service companies, IPS, DCPS and MBS. Affiliates of Brantley IV which are debtholders of IPS will contribute debt and debt in respect of accrued dividends owed to them by IPS to SurgiCare in exchange for Class A common stock. In addition, Brantley IV will invest new capital into the combined companies by purchasing a

Table of Contents

new series of Class B common stock. We will use a portion of these funds to pay the existing debt owed to an affiliate of Brantley IV by SurgiCare and IPS. We expect to use the remaining funds from this investment for operations and for further growth. We will effect a one-for-ten reverse stock split and other corporate charter amendments and will change our name to Orion HealthCorp, Inc. **All of these transactions must be approved by our stockholders before any of them will be consummated.**

We will merge with IPS and issue stock in exchange for contribution of certain IPS debt. The IPS equityholders and certain IPS debtholders party to the Debt Exchange Agreement will receive an aggregate of approximately 4,451,518 shares of Class A common stock. This number approximately equals the total number of shares of SurgiCare stock outstanding on a fully-diluted basis prior to closing the IPS Merger. The manner in which the number of fully-diluted shares of SurgiCare stock is calculated is described in the section

Assumptions . Of these shares of Class A common stock, an aggregate of approximately 1,399,876 shares will be issued to Brantley Venture Partners III, L.P., and Brantley Capital under the Debt Exchange Agreement in exchange for contribution of debt in an aggregate amount of approximately \$4,227,322, including accrued interest as of August 10, 2004, and \$593,100 of debt in respect of accrued dividends. The approximately 3,051,642 remaining shares of Class A common stock will be issued to the IPS equityholders in connection with the IPS Merger. See The Transactions beginning on page 24 and The Transactions The IPS Merger beginning on page 39.

We will acquire DCPS and MBS. In the DCPS/ MBS Merger, equityholders of DCPS and MBS will receive an aggregate of \$3.5 million in cash, promissory notes of SurgiCare in an aggregate principal amount of \$500,000 and 1,575,760 shares of Class C common stock (or, if the fair market value of SurgiCare common stock, based on the average of the high and low price per share over the five trading days immediately prior to the closing, is greater than or equal to \$0.70 (prior to the reverse stock split), an aggregate of \$2.9 million in cash, promissory notes of SurgiCare in an aggregate principal amount of \$500,000 and 1,827,880 shares of Class C common stock). The purchase price is subject to retroactive adjustment based on the financial results of our new subsidiary, DCPS/ MBS, in the two years following the DCPS/ MBS Merger. Such retroactive adjustment is described in The Transactions The DCPS/ MBS Merger The DCPS/ MBS Merger Agreement Purchase Price Adjustments. In addition, 75,758 shares of our Class A common stock will be reserved for issuance at the direction of the DCPS and MBS equityholders and, under certain circumstances, the MBS and DCPS equityholders may receive other payments as described in The Transactions The DCPS/ MBS Merger The DCPS/ MBS Merger Agreement Additional Issuances, Advances and Payments. See The Transactions beginning on page 24 and The Transactions The DCPS/ MBS Merger beginning on page 52.

We will issue approximately 11,442,426 shares of Class B common stock to Brantley IV or its assignees. Brantley IV will purchase the shares of Class B common stock for cash equal to \$10 million plus the Base Bridge Interest Amount (which, as of August 10, 2004, was \$92,510). A portion of such cash investment will be used to pay indebtedness owed to Brantley IV's wholly-owned subsidiary by IPS and SurgiCare including the accrued interest thereon. As of August 10, 2004, the aggregate amount of such debt, including accrued interest thereon, is \$4,731,223, which will result in net cash proceeds to SurgiCare of approximately \$5,361,287. A detailed description of the calculation of the number of Class B shares to be issued to Brantley IV is contained in The Transactions The Equity Financing Shares Received by Brantley IV . See The Transactions beginning on page 24 and The Transactions The Equity Financing beginning on page 66. Brantley IV will also receive the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million after the closing of the Transactions.

Table of Contents

Proposals

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

Amend our certificate of incorporation in order to:

effect a reverse stock split of all of the outstanding shares of our common stock, \$0.005 par value per share at a ratio of one-for-ten (see Proposal One Reverse Stock Split beginning on page 151);

increase the number of authorized shares of common stock from 5 million shares to 90 million shares, after giving effect to the Reverse Stock Split, and leave the number of authorized shares of preferred stock at 20 million shares (see Proposal Two Increase the Number of Shares of Authorized Common Stock beginning on page 156);

reclassify SurgiCare common stock as Class A common stock, \$0.001 par value per share (see Proposal Three Reclassification of Common Stock beginning on page 160);

establish a new class of common stock entitled Class B common stock, \$0.001 par value per share (see Proposal Four Establishment of Class B Common Stock beginning on page 161);

establish a new class of common stock entitled Class C common stock, \$0.001 par value per share (see Proposal Five Establishment of Class C Common Stock beginning on page 162); and

change the name of SurgiCare to Orion HealthCorp, Inc. (see Proposal Six Change of Name beginning on page 163).

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

Authorize the issuance of Class A common stock in connection with the IPS Merger (see Proposal Seven Issuance of Shares of Class A Common Stock in Connection with the IPS Merger beginning on page 164).

Authorize the issuance of Class C common stock and Class A common stock in connection with the DCPS/ MBS Merger (see Proposal Eight Issuance of Shares of Class C Common Stock and Class A Common Stock in Connection with the DCPS/ MBS Merger beginning on page 165).

Authorize the issuance of Class B common stock and Class A common stock pursuant to the Stock Subscription Agreement (see Proposal Nine Issuance of Shares of Class B Common Stock in Connection with the Equity Financing beginning on page 166).

Re-elect our existing directors pending closing of the Transactions and elect new directors to serve after consummation of the Transactions (see Proposal Ten Election of Directors beginning on page 168).

Approve a new 2004 Incentive Plan, to replace our existing plan, which provides for issuance of up to 2.2 million shares of Class A common stock (see Proposal Eleven Approval of 2004 Incentive Plan beginning on page 180).

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

Approve issuance of warrants to purchase an aggregate of 100,000 shares of our Class A common stock to our four current directors upon consummation of the Transactions (see Proposal Twelve Approval of Warrant Issuances to the Directors beginning on page 181).

Authorize the proxy holders to approve such other matters as may lawfully come before the meeting (see Proposal Thirteen Other Matters beginning on page 182).

Table of Contents

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

Execute and file the amended and restated certificate of incorporation to effect the one-for-ten reverse stock split, increase the number of authorized common shares, reclassify our common stock to Class A common stock, establish the Class B and Class C common stock, and change our name to Orion HealthCorp, Inc. Based on the number of shares outstanding as of August 10, 2004, not including treasury stock, and assuming all Series AA preferred stock is exchanged for 8,750,000 shares of common stock and 2,100,000 shares of common stock are issued to A.I. International Corporate Holdings, Ltd. and its affiliates (A.I. International), in each case, before the reverse stock split, there will be 50,000,000 authorized and 39,707,285 outstanding shares of common stock, and after the reverse stock split and the other amendments to the certificate of incorporation, there will be 90,000,000 authorized and 3,970,729 outstanding shares of common stock.

Close the IPS Merger and the Debt Exchange Agreement.

Issue our Class B common stock in exchange for cash from Brantley IV.

Close the DCPS/ MBS Merger.

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

Assumptions

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

That the stock price for our common stock immediately prior to the closing of the Transactions (whether determined as of a specific date or calculated based on average prices over a specified period of days) is \$0.337 per share, which was the average of the daily average of the high and low trading prices of our common stock on the American Stock Exchange (AMEX) for the five trading days ending on August 10, 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 8,750,000 shares (prior to giving effect to the Reverse Stock Split) of our common stock pursuant to an existing agreement with the holder of the Series AA preferred stock described in Proposal Ten Certain Relationships and Related Transactions Summary of Transactions with Daniel Dror, American International Industries, Inc., and International Diversified Corporation, Ltd., etc., on page 177.

That 2,100,000 shares of our common stock (prior to giving effect to the Reverse Stock Split) will be issued in exchange for a full release and settlement of the suit entitled A.I. International Corporate Holdings, Ltd. v. SurgiCare, Inc., described more fully in Information About SurgiCare Legal Proceedings on page 110. This is the number of shares that would be issued pursuant to the agreement governing the settlement if the shares were issued prior to giving effect to the Reverse Stock Split. These shares will actually be issued immediately after the consummation of the Transactions, and after the Reverse Stock Split, as Class A common stock.

That the number of shares of SurgiCare stock authorized and outstanding on a fully-diluted basis, assuming issuance of 2,100,000 shares of our common stock to A.I. International, issuance of 8,750,000 shares of our common stock in exchange for our Series AA preferred stock, and cashless exercise of in-the-money options and warrants based on the closing price set forth above, immediately prior to the closings of the Transactions is 44,515,171 (prior to giving effect to the Reverse Stock Split), which is the number of shares of SurgiCare stock outstanding on a fully-diluted basis not including

Table of Contents

treasury stock and assuming issuance of 2,100,000 shares of our common stock to A.I. International (prior to giving effect to the Reverse Stock Split), exchange of the 900,000 outstanding shares of our Series AA preferred stock for 8,750,000 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 August 10, 2004, based on a price per share of common stock equal to the greater of \$0.55 or \$0.337, which is the average of the daily average of the high and low trading prices of our common stock on the AMEX for the five trading days ending on August 10, 2004. Of such fully-diluted shares of common stock, based on the assumptions above, 2,100,000 shares (4.7%) would be owned by A.I. International, 8,750,000 shares (19.7%) would be owned by the current Series AA preferred stockholder, 1,880,000 shares (4.2%) will be owned by the holder of a convertible debenture, and the remaining 31,785,171 shares (71.4%) would be owned by the current holders of common stock, options and warrants. Changes in the outstanding number of shares of our common stock affect, among other things, the number of shares to be issued to Brantley IV, to equityholders of IPS and to debtholders of IPS.

That, unless otherwise specified, there are 4,451,518 shares of Class A common stock held by current SurgiCare stockholders on a fully-diluted basis after the consummation of the Transactions, and that out-of-the-money options and warrants do not exist.

That, unless otherwise specified, there are 3,970,729 outstanding shares of Class A common stock held by SurgiCare stockholders after the consummation of the Transactions. This number is the assumed number of shares of Class A common stock held by current stockholders on a fully-diluted basis minus the shares included in that number based on in-the-money options and warrants and convertible debentures.

That the number of outstanding shares of Class A common stock on a fully-diluted basis immediately following the consummation of the Transactions, assuming conversion of Class B and Class C common stock at the initial conversion rates, the number of shares of Class A common stock held by current SurgiCare stockholders on a fully-diluted basis described above, the issuance of the maximum number of additional shares of Class A common stock to equityholders of DCPS/ MBS pursuant to the earn-out provisions of the DCPS/ MBS Merger Agreement and the other assumptions in this proxy statement, is 25,429,340 (the Fully-Diluted Orion Shares). Changes in the number of shares of our common stock outstanding following the Transactions affect the percentage ownership of the stockholders.

That the Class B common stock will initially represent, on an as-converted basis, approximately 56.7% of the Fully-Diluted Orion Shares, and the current common stockholders will own approximately 17.5% of the Fully-Diluted Orion Shares. The initial conversion ratio of the Class B common stock to Class A common stock is approximately 1.26 shares of Class A common stock for each share of Class B common stock. The conversion ratio of the Class B common stock is calculated according to a ratio that increases the conversion ratio if the price of the Class A common stock declines, and decreases the conversion ratio if the price of the Class A common stock increases. For example, assume that everything else remains the same, but the price of the Class A common stock declines 25%, from our assumed initial price of \$3.37 per share to \$2.53. This would change the conversion ratio from approximately 1.26 to approximately 1.35 and would result, therefore, in an increase of approximately 7.2% in the number of shares of Class A common stock issued on conversion. Such an increase would result in a decrease in the relative ownership and voting power of current SurgiCare stockholders (on an as-converted, fully-diluted basis) by approximately 0.6%. See The Transactions The Equity Financing Shares Received by Brantley IV, page 66, and The Transactions The New Classes of Common Stock Conversion, page 74.

That there will be no dissenting IPS stockholders.

That there will be no dissenting DCPS or MBS equityholders.

The New Classes of Common Stock (See Page 73)

Our amended and restated certificate of incorporation will create three classes of common stock and will authorize the issuance of preferred stock in the future on terms to be determined by the board of directors. No

Table of Contents

preferred stock will be outstanding upon completion of the Transactions. The rights and preferences of the three classes of common stock differ significantly and are summarized in this section. The following chart illustrates the capitalization of Orion immediately following the Transactions on a fully-diluted, as-converted basis:

Post-Transaction Capitalization

Stockholder	Class A Common Stock		Class B Common Stock		Class C Common Stock		Class A Common Stock on an as-converted basis	
	No. of Shares	% of Class	No. of Shares	% of Class	No. of Shares	% of Class	No. of Shares	% of Class
SurgiCare stockholders	4,451,518	49.6%					4,451,518	17.8%
IPS stockholders other than Brantley affiliates	533,344	5.9%					533,344	2.1%
Subtotal	4,984,862	55.5%					4,984,862	20.0%
DCPS equityholders					787,880	50.0%	787,880	3.2%
MBS stockholders					787,880	50.0%	787,880	3.2%
Designees of DCPS and MBS	75,758	0.8%					75,758	0.3%
Subtotal	75,758	0.8%			1,575,760	100.0%	1,651,518	6.6%
Brantley IV, or its assignees			11,442,426	100.0%			14,409,786	57.7%
Brantley Venture Partners III, L.P. (Debt Exchange Agreement)	546,320							
Brantley Venture Partners III, L.P. (IPS Merger Agreement)	1,812,169							
Brantley Venture Partners III, L.P. subtotal	2,358,489	26.3%					2,358,489	9.4%
Brantley Capital Corporation (Debt Exchange Agreement)	853,556							
Brantley Capital Corporation (IPS Merger Agreement)	706,129							
Brantley Capital Corporation subtotal	1,559,685	17.4%					1,559,685	6.2%
Brantley affiliates subtotal	3,918,174	43.6%	11,442,426	100.0%			18,327,960	73.4%
Total	8,978,794	100.00%	11,442,426	100.0%	1,575,760	100.0%	24,964,340	100.00%

Note that this capitalization information indicates the number of shares held by the parties immediately following the Transactions, based on the assumptions described herein, and does not include the shares of Class A common stock allocated to the 2004 Incentive Plan, issuable upon exercise of the warrants to be issued to our current directors, issuable as a retroactive increase in purchase price pursuant to the DCPS/MBS Merger Agreement or issuable to Brantley IV pursuant to the Stock Subscription Agreement.

The Class A Common Stock. We will issue Class A common stock to our current stockholders in exchange for their existing common stock. Class A common stock will also be issued as part of the consideration for the IPS Merger and the DCPS/ MBS Merger, and may be issued to Brantley IV in the future. Each share of Class A common stock will be entitled to one vote in all matters on which stockholders are entitled to vote. The right of holders of Class A common stock to receive distributions from our company is subject to prior rights of holders of the Class B

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and Class C common stock described below. After holders of Class B and Class C common stock receive all distributions to which they are entitled, any remaining distribution amount shall be distributed to holders of Class A, Class B and Class C common stock pro rata based on their shareholdings, except that the shares of Class B common stock will be deemed to have been converted into the number of shares of Class A common stock into which they are then entitled to convert. Sixty-three million shares of our common stock will be designated Class A common stock.

Our common stock is traded on the AMEX, and we will apply to have our Class A common stock traded on the AMEX, replacing the current common stock, after the close of the Transactions. The Company is currently preparing its listing application to be filed with the AMEX. At this time, we do not know the symbol which the Class A common stock will be traded under. Because Brantley IV and its affiliates will own the

Table of Contents

majority of our equity securities after the Transactions, we will be a controlled company under the AMEX rules. As such, our board of directors will not be required under the AMEX rules to be composed of a majority of independent directors or to have a nominating committee or a compensation committee or to have the functions of such committees performed by a majority of independent directors.

The Class B Common Stock. Class B common stock will be issued to Brantley IV in connection with the equity financing in consideration for Brantley IV's investment in SurgiCare. After the completion of the Transactions, the Class B common stock issued to Brantley IV will initially total (on an as-converted basis) 56.7% of the Fully-Diluted Orion Shares. Based on the assumptions in this proxy statement, a total of 11,442,426 shares of Class B common stock will be issued to Brantley IV. Brantley IV, and, provided the required conditions are met, certain of its limited partners who have agreed to purchase a portion of the Class B common stock, as described below in The Equity Financing Summary, will initially be the sole holders of Class B common stock. The shares of Class B common stock have significant rights in addition to the rights of shares of Class A common stock, including:

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

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

The price of the Class A common stock and the number of shares of Class A common stock issuable upon conversion of the Class B common stock are inversely related. Therefore, a decrease in the price of Class A common stock would result in Brantley IV receiving a greater number of shares of Class A common stock upon conversion and would cause the ownership of the current SurgiCare stockholders to be further diluted.

The inverse relationship between the price of the Class A common stock and the number of shares of Class A common stock issuable upon conversion of the Class B common stock also makes it possible for Brantley IV to cause the price of Class A common stock to decrease by selling the Class A common stock short, and then covering such sales by converting the Class B common stock at the lower price that results from such sales. However, Brantley IV has agreed that as long as it owns 10% or more of the Class A common stock (on an as-converted basis), it will not make any short sales of the Class A common stock and convert the Class B common stock to cover these sales within three months of the latest short sale, if the price at which the Class B common stock was being converted into Class A common stock would be lower than the sale price.

The Class C Common Stock. We will issue shares of Class C common stock to DCPS partners and MBS stockholders in the DCPS/ MBS Merger. The total number of shares of Class C common stock issued will range from 1,575,760 shares to 1,827,880 shares depending on the fair market value of the common stock at the closing of the Transactions. Shares of Class C common stock have rights differing from shares of Class A common stock as follows:

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

Conversion. Holders of Class C common stock have the option to convert their shares to shares of Class A common stock based on a conversion factor designed to yield one share of Class A common stock per share of Class C common stock being converted, with the number of shares reduced to the extent that distributions are paid on the shares of Class C common stock. Thus, initially, one share of

Table of Contents

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

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

Based on the assumptions herein, if Orion was sold to a third party immediately following the consummation of the Transactions at the assumed price for SurgiCare's common stock immediately prior to the transactions (\$0.337 or \$3.37 on a post-Reverse Stock Split basis), as adjusted for the reverse stock split, the current SurgiCare stockholders would receive approximately 17.3% of the proceeds of such transaction, or approximately \$2.89 per share, a decrease of 14.2%.

Authorized and Outstanding Shares after the Transactions

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

Common stock, par value \$0.001 per share 90,000,000 shares authorized, a total of 44,123,919 shares of all classes issued and outstanding or reserved for issuance, as follows:

Class A common stock 63,000,000 shares designated, 8,498,005 shares issued and outstanding (not including treasury stock), and 22,355,609 shares reserved for the following: 14,409,786 shares for conversion of the Class B common stock; 1,827,880 shares for conversion of the Class C common stock; 465,000 shares for issuance pursuant to the DCPS/MBS Merger Agreement; 2,400,000 shares for issuance pursuant to the Stock Subscription Agreement; 2,200,000 shares for issuance pursuant to the 2004 Incentive Plan; 100,000 shares for the exercise of the warrants that we propose to issue to our current directors; 759,733 shares for exercise of existing SurgiCare warrants; 5,210 shares for exercise of vested stock options under SurgiCare's already existing employee stock option plan; and 188,000 shares for conversion of existing convertible debentures.

Class B common stock 25,000,000 shares designated, 11,442,426 shares issued and outstanding.

Table of Contents

Class C common stock 2,000,000 shares designated, 1,827,880 shares issued and outstanding.

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

Voting

The voting power of the stockholders of Orion immediately after the Transactions will be as follows, in each case based on the assumptions herein, on an unconverted basis. Our current stockholders (including the Series AA preferred stockholder and A.I. International), will hold an estimated 3,970,729 shares or 18.5% of the voting equity of Orion. Approximately 3,606,469 of such shares (16.8% of the voting equity of Orion) will be held by stockholders other than our directors and officers. Former IPS equityholders and debtholders will own 4,451,518 Class A shares or 20.7% of the voting equity of Orion, which is approximately equal to the Class A shares held by the current SurgiCare stockholders on a fully-diluted basis. The Class B stockholders will own approximately 11,442,426 shares or 53.2% of the voting equity. The DCPS and MBS equityholders and their designees will own 1,651,518 shares of Class A and Class C common stock or 7.7% of the voting equity. Brantley IV and its affiliates will initially hold approximately 71.4% of the voting power of Orion, and will be able to control all decisions to be made by the Class A, Class B and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion's business, policies and affairs and will be able to elect Orion's entire board of directors, determine, without the approval of Orion's other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure you that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

Dilution

Issuances of our shares in connection with the Acquisitions and the equity financing will significantly dilute the ownership of our current stockholders. Based on the assumptions described above, following the Transactions, our current stockholders (including A.I. International, the current holder of our Series AA preferred stock, holders of options, warrants, and convertible debentures) will own (on a fully-diluted basis) approximately 17.5% of the Fully Diluted Orion Shares. Based on such assumptions, stockholders other than our directors and officers currently own approximately 36,064,694 shares of common stock (90.8% of the total outstanding common stock of SurgiCare, not including treasury stock), and will own approximately 3,606,469 million shares of common stock (14.2% of the Fully-Diluted Orion Shares) after the completion of the Transactions. Our current stockholders may be further diluted in the future by shares issued pursuant to the 2004 Incentive Plan or upon exercise of the warrants proposed to be issued to our current directors. In addition, the ownership of our current stockholders will likely be diluted after the Transactions are complete because of the terms and conversion features of the Class B and Class C common stock.

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

Table of Contents

number of shares, and the dilution to our current stockholders upon conversion of the shares of Class B common stock will be greater. This dilution of the Class A common stock could result in a further decrease in the market value of the Class A common stock.

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

The Companies

SurgiCare, Inc. SurgiCare is a Delaware corporation. We develop, acquire and operate freestanding ambulatory surgery centers. These freestanding ambulatory surgery centers are licensed outpatient surgery centers that are equipped and staffed for a variety of surgical procedures. These freestanding ambulatory surgery centers provide a cost-effective alternative to the delivery of healthcare services at traditional inpatient hospitals. We, through our wholly-owned subsidiaries, own, or have investments in, four ambulatory surgery centers located in Texas and Ohio. Our principal executive offices are currently located at 10700 Richmond Avenue, Suite 300, Houston, Texas 77042 and our telephone number is (713) 973-6675.

Integrated Physician Solutions, Inc. IPS is a Delaware corporation. IPS is a Roswell, Georgia-based 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 28)

The Transactions serve SurgiCare s strategic goals of enhancing its practice management capabilities for physicians and combining businesses that are complementary to its existing operations. The board has determined that the terms of the equity financing, the other Transactions and the other actions proposed in this

Table of Contents

proxy statement are in the best interest of SurgiCare and its stockholders. The board considered the following matters, among others, in making this determination:

If we do not complete the equity financing and the other Transactions, we will not be able to obtain the capital needed to fund our business plan and operations from other sources. The equity financing will allow us to address our liquidity issues, support our working capital requirements, strengthen our balance sheet and support our strategic goals and our business plan for Orion. It will provide an infusion of cash for use in operations for 2004. Even after the restructuring, SurgiCare still expects to have a working capital deficit in excess of \$1 million, but the Transactions are subject to refinancing the existing debt, which will improve the working capital deficit.

The pro forma revenue for the combined entities, which will become Orion HealthCorp, Inc., for the year ended December 31, 2003, is approximately of \$41.7 million. The combined entities will have a pro forma net loss of approximately \$9.2 million, for the year ended December 31, 2003. See Unaudited Pro Forma Condensed Combined Financial Statements.

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

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

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

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

In Spring 2002, SurgiCare's management realized that the Company would not be able to reverse its negative cash flow and the increasing problems related thereto. Initially, management sought to restructure SurgiCare's debt and contacted various lenders. Negotiations with these parties did not progress beyond preliminary meetings. Management realized that, due to SurgiCare's poor financial position at the time, it would be unable to incur more funding through debt and opted to seek an equity partner to supply the necessary working capital to keep the Company operating. SurgiCare's management contacted various individuals and companies who are in the business of developing and managing ambulatory surgery centers. Although letters of intent were executed between SurgiCare and United Surgical Partners and Neurotech Development Corporation, all negotiations for potential transactions ended in the early stages of due diligence. On July 11, 2002, SurgiCare engaged a third-party finder, Daniel Krzyzanowski, to assist in locating an equity partner. In June 2002, Mr. Krzyzanowski introduced prior SurgiCare management to Mr. Paul Cascio with Brantley Partners. Thereafter, SurgiCare management and Brantley Partners held a series of meetings at which the details of the Transactions were formalized resulting in a definitive agreement being entered into November 18, 2003.

Interests of Directors and Executive Officers in the Transactions (See Page 33)

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.

Table of Contents

Certain officers of SurgiCare, IPS, DCPS and MBS will enter into employment contracts with Orion and so may have a special interest in completing the Transactions. Keith G. LeBlanc, who is currently an officer of SurgiCare, and Terrence L. Bauer, Stephen H. Murdock, Dennis Cain and Tom M. Smith are expected to enter into employment agreements as described in The Transactions Interests of Certain Persons in the Transactions on page 33. The four current members of our board of directors will each receive warrants to purchase 25,000 shares each (for a total of 100,000 shares) of Class A common stock (which collectively represent approximately 0.4% of the Fully-Diluted Orion Shares as adjusted to reflect the exercise of such warrants) upon the consummation of the Transactions as described in Proposal Twelve Approval of Warrant Issuances in exchange for services performed in 2003. The current members of our board of directors are Sherman Nagler, Michael A. Mineo, Jeffrey J. Penso, and Bruce Miller. As of August 10, 2004, the aggregate number of shares of common stock owned by directors, officers, and their affiliates is 3,642,591 shares (prior to giving effect to the Reverse Stock Split), representing 12.6% of the outstanding shares of common stock (including treasury stock). The total number of shares of common stock beneficially owned by such persons, including shares issuable upon exercise of unexercised warrants on or prior to October 9, 2004, and shares subject to proxies is 14,730,857 shares (prior to giving effect to the Reverse Stock Split) or 36.8% of the outstanding shares of common stock (including treasury stock), shares of common stock issuable upon the exercise of such warrants and shares of common stock subject to such proxies.

Keith G. LeBlanc, as of August 10, 2004, and prior to giving effect to the Reverse Stock Split, owns 80,000 shares of common stock, or 0.3% of our outstanding shares of common (including treasury stock). The total number of shares of common stock beneficially owned by Mr. LeBlanc prior to giving effect to the Reverse Stock Split, including shares issuable upon exercise of unexercised warrants on or prior to October 9, 2004, and the 8,750,000 shares of our common stock to be issued to our Series AA preferred stockholder for which Mr. LeBlanc holds an irrevocable proxy in his capacity as Chief Executive Officer is 11,168,266 shares or 27.9% of the outstanding shares of common stock (including treasury stock), shares of common stock issuable upon the exercise of such warrants and the shares of common stock subject to the proxy. These holdings would convert to approximately 1,116,827 shares of Class A common stock, which is approximately 4.4% of the Fully-Diluted Orion Shares. Keith G. LeBlanc has an existing employment agreement with SurgiCare. Upon consummation of the Transactions, it is anticipated that Mr. LeBlanc will enter into a new employment agreement with Orion and terminate his existing employment agreement with SurgiCare.

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

Brantley Partners and its Affiliates Interests in the Transactions

Certain affiliates of Brantley Partners have outstanding loans to IPS in the aggregate amount of \$4,227,322, as of August 10, 2004, which includes accrued interest as of such date. These Brantley Partners affiliates will receive 1,254,399 shares of Class A common stock, with an aggregate value approximately equal to such debt in exchange for the contribution of the debt to SurgiCare pursuant to the Debt Exchange Agreement. Debt in respect of accrued dividends in the amount of \$593,100 will also be contributed to SurgiCare by a Brantley Partners affiliate for Class A common stock pursuant to the Debt Exchange Agreement. Pursuant to the terms of the Debt Exchange Agreement, this portion of the debt is to be exchanged for Class A common stock with an approximately equal aggregate value, subject to reduction to the extent necessary to allocate 200,000 shares of the Class A common stock to be awarded to the IPS stockholders and debtholders pursuant to the Debt Exchange Agreement and the IPS merger Agreement to the holders of IPS common stock. Based on the assumptions herein, 145,477 shares of Class A common stock will be issued in exchange for such debt. These affiliates of Brantley Partners also hold 1,653,000 shares of the Series A-2 convertible preferred stock of IPS with an aggregate liquidation preference of approximately \$8,486,665 and will receive approximately 2,518,298 shares of Class A common stock pursuant to the IPS Merger Agreement. Such shares are intended to approximate the value of such liquidation preference, but are subject to reduction to the extent necessary to achieve the guaranteed allocation to IPS common stockholders described above. A wholly-owned subsidiary of Brantley IV has outstanding loans to SurgiCare in the aggregate amount of \$2,186,751, as of August 10, 2004, which includes accrued interest as of such date, and to IPS in the aggregate amount of approximately

Table of Contents

\$2,544,472 as of August 10, 2004, which includes accrued interest as of such date. Brantley IV, or its assignees, will receive approximately 11,442,426 shares of Class B common stock, for an aggregate cash purchase price of \$10 million plus the Base Bridge Interest Amount, pursuant to the Stock Subscription Agreement. A portion of the cash paid by Brantley IV will be used to pay the outstanding debt owed to Brantley IV's subsidiary by IPS and SurgiCare. Pursuant to the Stock Subscription Agreement, Brantley IV will also receive the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closing of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the date of the closing of such investment.

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

Change of Control Provisions in Existing Contracts

Because the current SurgiCare stockholders will own only a minority interest in Orion after completion of the Transactions, change of control provisions will be triggered in some of our contractual obligations. Our management agreement with Tuscarawas Ambulatory Surgery Center, LLC, one of our four surgery centers, requires approval of the surgery center in the event of a change of control such as the one contemplated in the Transactions. See *Information About SurgiCare Description of Business Tuscarawas Ambulatory Surgery Center, LLC*. Receiving consents pursuant to, or waivers of, all change of control provisions in material contracts is a condition of the closing of the Transactions. SurgiCare's management agreement with the physician partners at its Tuscarawas facility requires approval of the physician partners in the event of a change of control such as that contemplated by the Transactions. SurgiCare has reached an oral agreement with those physician partners in which the physician partners approved the Transactions without requiring any other changes in SurgiCare's management agreement and expects to reduce the agreement to writing prior to consummation of the Transactions. In addition, our employment agreement with Keith LeBlanc, our Chief Executive Officer, has a change of control provision giving him certain severance and compensation rights in a change of control. We have negotiated a new employment agreement with Mr. LeBlanc to be signed as part of consummation of the Transactions.

The Special Meeting (See Page 21)

Our stockholders' meeting will be held at the principal office of SurgiCare, located at 10700 Richmond Avenue, Suite 300, Houston, Texas 77042, on _____, 2004, starting at 5:30 p.m., local time.

Holders of shares of our common stock and holders of shares of our Series AA preferred stock, if any, as of July 22, 2004 are entitled to notice of, and to vote at, the special meeting.

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

The Acquisitions

Summary of the IPS Merger (See Page 39)

Structure. We will acquire IPS by merging a newly-formed, wholly-owned subsidiary organized by us with and into IPS, with IPS as the surviving corporation. As a consequence of the merger, IPS will become a wholly-owned subsidiary of SurgiCare. However, IPS will be treated as the acquiring party for

Table of Contents

accounting purposes because we will account for the IPS Merger under the purchase method of accounting for business combinations.

Consideration. In connection with the IPS Merger, and based on the assumptions used in this proxy statement, IPS equityholders and certain IPS debtholders that are affiliates of Brantley IV will receive an aggregate of approximately 4,451,518 shares of Class A common stock (which represents approximately the total number of shares of SurgiCare stock outstanding on a fully-diluted basis, calculated as described in the section Assumptions , and approximately 17.5% of the Fully-Diluted Orion Shares)

SurgiCare will issue 1,399,876 shares (or approximately 5.5% of the Fully-Diluted Orion Shares) to the IPS debtholders referred to above in exchange for the contribution of debt by such debtholders to SurgiCare in an aggregate principal amount of approximately \$3,256,619 and \$593,100 of debt in respect of accrued dividends, and the approximately 3,051,642 remaining shares of Class A common stock (or approximately 12.0% of the Fully-Diluted Orion Shares) will be issued to the IPS equityholders.

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

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

We have attached the IPS Merger Agreement as Annex A to this document.

Summary of the DCPS/MBS Merger (See Page 52)

Structure. We will acquire MBS by merging a newly-formed, wholly-owned subsidiary organized by us with and into MBS, with MBS as the surviving corporation. As a consequence of the merger, MBS will become a wholly-owned subsidiary of SurgiCare. DCPS will be acquired by the contribution of the units of limited partnership interest in DCPS to SurgiCare. The limited liability company interests of the limited liability company that is the general partner of DCPS will also be contributed to SurgiCare. Immediately following the closing of the MBS merger and the DCPS acquisition, the interests in DCPS and its general partner will be transferred to MBS, and DCPS will be a wholly-owned subsidiary of MBS.

Consideration. Equityholders of DCPS and MBS will receive an aggregate of \$3.5 million in cash, promissory notes of SurgiCare in an aggregate principal amount of \$500,000 and 1,575,760 shares of Class C common stock (or, if the fair market value of SurgiCare common stock, based on the average of the high and low price per share over the five trading days immediately prior to the closing, is greater than or equal to \$0.70, an aggregate of \$2.9 million in cash, promissory notes of SurgiCare in an aggregate principal amount of \$500,000 and 1,827,880 shares of Class C common stock), subject to retroactive increase or decrease. In addition, 75,758 shares of our Class A common stock will be reserved for issuance at the direction of the DCPS/MBS Sellers based on the assumptions in this proxy statement, and assuming no retroactive increase in purchase price, if the fair market value of our common stock is less than \$0.70, the DCPS/MBS equityholders, and their designees will own approximately 6.6% of the Fully-Diluted Orion Shares, (as reduced by the amount of potential retroactive increase) and if the fair market value of our common stock is greater than or equal to \$0.70, the DCPS/MBS equityholders and their designees will own approximately 7.5% of the Fully-Diluted Orion Shares (as reduced by the amount of the potential retroactive increase and increased for the additional shares to be issued at such market value). Under certain circumstances, the MBS and DCPS

Table of Contents

equityholders may receive other payments as described in The Transactions The DCPS/ MBS Merger The DCPS/ MBS Merger Agreement Additional Issuances, Advances and Payments.

Adjustments to Consideration. The purchase price described above is subject to retroactive increase (including issuance of up to 465,000 shares of Class A common stock and payment of up to \$1,012,500) or decrease based on the financial results of the newly-formed company in the two years following the DCPS/ MBS Merger. Based on the assumptions in this proxy statement, and assuming the maximum retroactive increase in purchase price, if the fair market value of our common stock is less than \$0.70, the DCPS/ MBS equityholders and their designees will own approximately 8.3% of the Fully-Diluted Orion Shares, and if the fair market value of our common stock is greater than or equal to \$0.70, the DCPS/ MBS equityholders and their designees will own approximately 9.2% of the Fully-Diluted Orion Shares (as increased for the additional shares to be issued at such market value). See The Transactions The DCPS/ MBS Merger The DCPS/ MBS Merger Agreement Purchase Price Adjustments for a detailed description of the potential adjustments to the consideration for the DCPS/ MBS Merger.

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

Regulatory Approvals

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

Tax Consequences (See Pages 40 and 54)

SurgiCare stockholders generally will not recognize taxable gain or loss as a result of the IPS Merger or the DCPS/MBS Merger. See The Transactions The IPS Merger Material U.S. Federal Income Tax Consequences of the IPS Merger and The Transactions The DCPS/ MBS Merger Material U.S. Federal Income Tax Consequences of the DCPS/ MBS Merger below for more detailed discussions of the tax considerations that may be relevant. The tax discussion in this proxy statement does not address the tax considerations that may be relevant to IPS stockholders, MBS stockholders, DCPS owners, or Brantley IV or any of its affiliates, and does not address whether the Transactions, when analyzed on a combined basis, qualify as an exchange to which Section 351 of the Internal Revenue Code of 1986 (the Code) applies nor any adverse tax consequences applicable to SurgiCare and its current stockholders in their capacity as such that may result from a determination that Code Section 351 does not apply.

Accounting Treatment of the Acquisitions (See Pages 41 and 55)

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

Accounting Treatment of the DCPS/ MBS Merger. SurgiCare intends to account for the DCPS/ MBS Merger as a purchase transaction for financial reporting and accounting purposes in accordance with Statement of Financial Accounting Standards No. 141. The purchase price, which is equal to the total

Table of Contents

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 intangible assets. See The Transactions The DCPS/ MBS Merger Accounting Treatment of the DCPS/ MBS Merger below for additional information regarding the accounting treatment.

Conditions to Completion of the Acquisitions (See Pages 43 and 59)

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

Termination of the IPS Merger Agreement and the DCPS/ MBS Merger Agreement (See Pages 48 and 64)

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

if the merger governed by the agreement is not completed by September 30, 2004;

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

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

Fees upon Termination of the Acquisitions (See Pages 50 and 65)

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

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

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

Business Combination as used above means (i) a merger, consolidation, share exchange, business combination or similar transaction involving SurgiCare as a result of which SurgiCare's stockholders prior to such transaction cease to own at least 80% of the voting securities of the entity surviving or resulting

Table of Contents

from such transaction (or the ultimate parent entity thereof) in the proportion they owned such shares prior to such transaction, (ii) a sale, lease, exchange, transfer, public offering in respect of, or other disposition of more than 20% of the assets of SurgiCare and the SurgiCare subsidiaries, taken as a whole, in either case, in a single transaction or a series of related transactions, or (iii) the acquisition, by a person, group or entity of beneficial ownership of more than 20% of SurgiCare's outstanding common stock (or in the case of any person, group or entity beneficially owning in excess of 20% of SurgiCare's common stock outstanding on February 9, 2004, the acquisition of any additional shares of SurgiCare's common stock by such person, group or entity), in either case, whether from SurgiCare or by tender or exchange offer or otherwise.

Completion and Effectiveness of the Acquisitions (See Pages 39 and 52)

We will complete each of the Acquisitions when all of the conditions to completion in the merger agreement governing such acquisition are satisfied or waived in accordance with such merger agreement. The IPS Merger and the MBS Merger will become effective when we file the certificate or certificates of merger for such acquisition with the secretary of state of the applicable jurisdiction, or at such later time specified in such certificate of merger. The DCPS acquisition will become effective upon the closing of the contribution of the DCPS equity to SurgiCare. Immediately following the closing of the MBS merger and the DCPS acquisition, the interests in DCPS and its general partner will be transferred to MBS, and DCPS will be a wholly-owned subsidiary of MBS. We expect to complete the Acquisitions and issue the stock to be issued pursuant to the Acquisitions promptly after the meeting of our stockholders which is scheduled for , 2004.

The Equity Financing (See Page 66)

Summary

Pursuant to the Stock Subscription Agreement, Brantley IV will purchase shares of Class B common stock for cash in the amount of \$10 million plus the Base Bridge Interest Amount. A portion of the cash contributed will be used by Orion to pay outstanding debt owed to Brantley IV's subsidiary by SurgiCare and IPS. As of August 10, 2004, the aggregate principal amount of the outstanding debt is \$4,555,411 and the accrued interest on this debt was \$175,812. Therefore, it is estimated that the net cash proceeds to be received by SurgiCare will total approximately \$5,361,287, of which \$3.5 million will be used to complete the DCPS/ MBS Merger.

The Stock Subscription Agreement also provides that Brantley IV has the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closings of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the date of the closing of such investment.

In exchange for Brantley IV's cash contribution, and based on the assumptions used in this proxy statement, Brantley IV will receive approximately 11,442,426 shares of Class B common stock, which will initially represent, on an as-converted basis, approximately 56.7% of the Fully-Diluted Orion Shares and, on an unconverted basis, approximately 53.2% of the voting power of Orion. Assuming everything else remains the same, the percentage interest of Brantley IV upon conversion will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock, less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price less the Base Bridge Interest Amount (which as of August 10, 2004 was \$92,510), 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, as stockholders and debtholders of IPS, further increases the ownership interest of Brantley IV affiliates in Orion. Because

Table of Contents

Brantley IV and its affiliates will hold common stock which initially represents, on an unconverted basis, approximately 71.4% of the voting power of Orion, they will be able to control all decisions to be made by the Class A common stock, Class B common stock and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion's business, policies and affairs and will be able to elect Orion's entire board of directors, determine, without the approval of Orion's other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure you that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, \$1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV's ownership will be decreased by the number of shares valued at \$1 million, or approximately 1,113,755 shares of Class B common stock as of August 10, 2004, which initially represent, on an as-converted basis approximately 4.4% of the Fully-Diluted Orion Shares.

Overview of Equity Financing Documents

The Stock Subscription Agreement contains customary closing conditions, along with additional conditions, including the requirement that SurgiCare complete additional financing to refinance existing debt obligations of IPS, DCPS, MBS, and SurgiCare of approximately \$10.1 million and that the closing conditions to the IPS Merger Agreement and the DCPS/MBS Merger Agreement be satisfied, as well as representations, warranties and covenants. It also imposes certain indemnification obligations on the parties and provides for payment by SurgiCare of a non-refundable fee of \$3 million and reasonable out-of-pocket expenses to Brantley IV if the IPS Merger Agreement is terminated under certain specified circumstances.

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

Tax Consequences

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

Brantley IV's Affiliates

Brantley IV is an affiliate of Brantley Venture Partners III, L.P. and Brantley Capital, both of which are stockholders and creditors of IPS, and which are party to the Debt Exchange Agreement that is being entered into as part of the Transactions. Brantley IV and Brantley Venture Partners III, L.P., are private equity partnerships and Brantley Capital is a public business development company. Brantley Capital Management,

Table of Contents

L.L.C., a registered investment adviser, serves as investment adviser for, and receives fees from, Brantley Capital. Brantley Management Company, whose principals include principals of Brantley Capital Management, L.L.C., acts as investment adviser for, and receives fees from, Brantley IV and Brantley Venture Partners III, L.P. Brantley Capital files reports with the Securities Exchange Commission. Trades in the common stock of Brantley Capital are reported on the NASDAQ National Market under the symbol BBDC.

The 2004 Incentive Plan (See Page 146)

The 2004 Incentive Plan provides for issuance of up to 2.2 million shares of Class A common stock to key employees, directors and consultants of the company. This amount is approximately 6.8% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan, issuance of 2,100,000 shares of common stock (pre-Reverse Stock Split) to A.I. International and issuance of 8,750,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock). Approximately 5,758,852 shares (575,885 after giving effect to the Reverse Stock Split) remained issuable in connection with outstanding awards under prior SurgiCare plans as of August 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 8.6% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan, issuance of 2,100,000 shares of common stock (pre-Reverse Stock Split) to A.I. International, and issuance of 8,750,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock).

Currently, there are no specific grants proposed to be made under the 2004 Incentive Equity Plan. None of the proposed employment agreements with Keith G. LeBlanc, Terrence L. Bauer, Stephen H. Murdock, Dennis Cain and Tom M. Smith are contingent upon those individuals receiving grants under the 2004 Incentive Plan. The purpose of the 2004 Incentive Plan is to enable Orion to attract and retain key personnel and directors. Since Orion's Board of Directors has not been elected at the time of the filing, no plans to issue a specific number or amount of securities to directors or executive officers of Orion pursuant to the 2004 Incentive Plan, have been made. However, it is anticipated by SurgiCare's current management that the recipients of option grants under the 2004 Incentive Plan will include the directors, executive officers, and key personnel of Orion.

Controlled Company Status

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

Table of Contents

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

financial condition;

revenues and results of operations;

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

description of businesses;

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

plans, objectives and composition of management;

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

our listing application with the AMEX and listing status;

potential and existing customers;

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

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

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

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

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

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

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

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

the effect of the transactions on our AMEX listing status;

the impact of control by Brantley IV and its affiliates;

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

future regulatory changes; and

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

Table of Contents

THE SPECIAL MEETING

What is the Purpose of the Meeting?

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

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

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

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

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

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

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

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

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

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

Proposal 10. 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 11. To approve a new incentive plan, the Orion HealthCorp, Inc. 2004 Incentive Plan, to replace our 2001 Stock Option Plan.

Proposal 12. To approve the issuance of warrants to purchase an aggregate of 100,000 shares of Class A common stock to the current members of our board of directors.

Proposal 13. To transact such other business as may properly come before the meeting and any adjournment thereof.

If our stockholders adopt these proposals, we intend to amend and restate our certificate of incorporation to reflect Proposal One through Proposal Six, complete the IPS Merger (and the issuance of Class A common stock to IPS debtholders) and the DCPS/ MBS Merger, and to issue the shares of Class B common stock to Brantley IV (and in the future, at Brantley IV's option, Class A common stock). See The Transactions and Proposal One through Proposal Nine.

Who May Attend and Vote?

Stockholders who owned SurgiCare common stock and stockholders who owned Series AA preferred stock, if any, at the close of business on July 22, 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 28,857,285 shares of SurgiCare common stock issued and outstanding and 900,000 shares of Series AA preferred stock issued and outstanding. Each share of SurgiCare common stock and Series AA preferred stock is entitled to one vote on each matter to come before the special meeting.

Table of Contents

How Do I Vote?

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

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

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

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

What Does the Board of Directors Recommend?

The Board recommends that you vote FOR:

1. approving the reverse stock split;
2. approving the increase in the number of shares of authorized common stock;
3. approving the reclassification of common stock;
4. approving the establishment of Class B common stock;
5. approving the establishment of Class C common stock;
6. approving the change of name;
7. approving the issuance of shares of Class A common stock pursuant to the IPS Merger Agreement and the Debt Exchange Agreement;
8. approving the issuance of shares of Class C common stock and Class A common stock pursuant to the DCPS/ MBS Merger Agreement;
9. approving the issuance of shares of Class B common stock and Class A common stock to Brantley IV or its assignees in connection with the financing transactions related to the Acquisitions;
10. electing the slates of directors listed in this proxy statement for the terms specified;
11. approving the adoption of the 2004 Incentive Plan;
12. approving the issuance of warrants to the current members of our board of directors; and
13. 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?

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

A majority of the shares entitled to be cast on a particular matter, present in person or represented by proxy, constitutes a quorum as to any proposal. Each proposal other those which relate to amending the certificate of incorporation, and the election of directors must be approved by the affirmative vote of the holders

Table of Contents

of a majority of the shares of our common stock and shares of our Series AA preferred stock, if any, properly cast in person or by proxy at the special meeting, voting together as a single class.

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

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

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

The Transaction Documents require that we obtain the approval of Proposal One through Proposal Eleven by a majority of the outstanding shares of our common stock and the outstanding shares of our Series AA preferred stock, if any, 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.

Table of Contents

THE TRANSACTIONS

Introduction

History

SurgiCare's Business Opportunities Leading up to Negotiations of the Transactions

In Spring 2002, SurgiCare's management realized that the Company would not be able to reverse its negative cash flow and the increasing problems related thereto. SurgiCare's management contacted various individuals and companies who are in the business of developing and managing ambulatory surgery centers. On July 11, 2002, SurgiCare engaged a third-party finder, Daniel Krzyzanowski, to assist in locating an equity partner. In June 2002, Mr. Krzyzanowski introduced prior SurgiCare management to Mr. Paul Cascio with Brantley Partners. Limited discussions occurred with SurgiCare's prior management. In September 2002, SurgiCare hired a new Chief Executive Officer, Mr. Keith LeBlanc. Mr. LeBlanc and certain members of SurgiCare's corporate staff began monthly meetings with Brantley Partners, particularly Messrs. Paul Cascio and Jeff Kadlic in Ohio, during their monthly trips to SurgiCare's Ohio facility. Meetings were held between these parties throughout 2002 and early 2003. On two occasions during this time period, Dr. Jeffrey Penso, a member of the SurgiCare board of directors, also attended these monthly meetings. At the initial meetings, the parties discussed Brantley Partners' interest in an investment in SurgiCare, possible structures for such investment, Brantley Partners' significant investment in a pediatric practice management company and a rehabilitation company, and Brantley Partners' plans for these companies.

From Spring 2002 through the August 2003, SurgiCare's management continued pursuing potential equity partner relationships. Specifically, discussions were held with Talmage Capital, LLC (Talmage), Magna Partners, LLC (Magna), and BBK Structured Finance, Inc. (BBK). Although letters of intent were proposed by Talmage and Magna, SurgiCare's Board of Directors declined to sign the Talmage letter of intent, and the Magna letter of intent was rescinded. SurgiCare entered into a letter of intent with BBK on June 19, 2003. The circumstances and subject matter of those various discussions are discussed below. All information given to Talmage, Magna, BBK or any of their affiliates was the information reported in the most recent periodic disclosure of SurgiCare filed with the SEC at the time such disclosure of information was made.

a. Talmage Capital, LLC

Several discussions were held between Mr. LeBlanc and Mr. Phillip Scott (SurgiCare's former Chief Financial Officer) and Mr. John Maxwell from Talmage during early March 2003. At that time, Messrs. LeBlanc and Scott met once with Mr. Maxwell at Talmage's New York office. Talmage sent a letter of intent to SurgiCare dated March 13, 2003, which set forth the terms of Talmage's engagement as SurgiCare's exclusive financial advisor and investment banker with respect to structuring a reorganization, refinancing of existing debt, or finding an equity partner. In exchange for those services, Talmage required a cash retainer of \$40,000 (credited toward final payment), equity compensation of 8% of equity-linked securities, placement warrants in the amount of 10% of the total amount of equity-linked securities. SurgiCare would be required to pay all of Talmage's expenses during the engagement. SurgiCare did not execute the letter of intent since the Board of Directors of SurgiCare found the Transactions set forth herein to be in the best interests of the SurgiCare stockholders.

b. Magna Partners, LLC

Magna was introduced to SurgiCare through Dr. Shelly Glass, a contact of Mr. LeBlanc. During June and July 2003, Messrs. LeBlanc and Scott from SurgiCare conferenced with Dr. Glass and the other owners of Magna via telephone. Dr. Glass met with SurgiCare's Board of Directors at the June 26, 2003 meeting of the board. Magna sent an letter of intent to SurgiCare dated July 31, 2003 which provided terms of an investment by Magna of \$2.2 million (representing the cash infusion requirements of SurgiCare at that time) plus, investment by Magna in the amount of any cash required for SurgiCare's debt resolution with DVI in exchange for SurgiCare securities equal to the total amount invested by Magna divided by SurgiCare's stock price at the close of business on the date of the execution of the letter. In that letter, Magna also set forth an overview of its objectives for SurgiCare after Magna's investment, which involved expansion of SurgiCare's core surgery center

Table of Contents

business through acquisitions, development and re-syndication of existing partnerships and the addition of services, such as diagnostic imaging healthcare services and billing services for physician practice groups. Shortly after sending the letter, Magna withdrew its offer due to the bankruptcy of DVI, in which Magna held a significant interest. Dr. Glass and Mr. LeBlanc continued periodic telephone conferences over the following 90-day period, hoping that DVI would emerge from bankruptcy and Magna would have the ability to continue negotiations with SurgiCare. At the end of that three-month period, it became evident that DVI would not successfully resolve its financial issues and therefore, Magna would be unable to fulfill the requirements of the originally proposed equity investment.

c. BBK Structured Finance, Inc.

On September 30, 2003, SurgiCare entered into a letter of intent with BBK in which BBK agreed to act as SurgiCare's broker to secure debt restructuring from a senior lender in the amount of \$8-10 million, amortized with a fixed term of at least 84 months and a variable interest per annum equal to 100 basis points plus the prime rate at the time, or 5%. The lender would be given .5 points for closing the loan. SurgiCare paid BBK a performance and expense deposit of \$30,000. In the event BBK successfully obtained the loan for SurgiCare, BBK would receive 5% of the loan amount in consideration for its consultation services, less the \$30,000 deposit. BBK would receive a 2.5% of any additional amount borrowed by SurgiCare from that senior lender after the closing of the loan. Although BBK contacted various lenders, it was unable to deliver a contract for any loan. SurgiCare may seek to recover the expense deposit from BBK but has not taken any formal actions to do so at this time.

SurgiCare Board Meetings Leading up to the Transactions

On April 30, 2003, Messrs. LeBlanc and Scott met with all the members of the SurgiCare board of directors to discuss the business direction which the board thought most prudent for SurgiCare, considering its financial condition at the time. As a result of that meeting and the board of director's instruction, management sought an equity investment partner for SurgiCare or debt restructure.

On June 5, 2003, the entire board of directors met with Messrs. LeBlanc and Scott to discuss the status of the potential loan restructure of the debt owed to DVI and the board directed management to prepare and present a debt restructure proposal to DVI.

On June 26, 2003, three directors, Drs. Mineo, Penso, and Miller, met with Messrs. LeBlanc and Scott and a representative from Strasburger & Price, LLP, legal counsel to SurgiCare, to discuss the DVI debt restructure. Mr. LeBlanc stated to the Board that the loan restructure would not be possible at that time due to SurgiCare's lack of collateral to support more borrowing. Management then proposed a 60-day extension on payments on the outstanding loan, extending such date to August 17, 2003, to which DVI agreed. At this same meeting, Mr. LeBlanc stated that the board had various other opportunities worth considering, including a potential partnership with Magna. Dr. Shelly Glass, a representative of Magna, attended part of the board of directors meeting in order to give background information on Magna and its business plan to the board. Mr. LeBlanc also presented the possible equity finance possibility with Brantley Partners. The board authorized Mr. LeBlanc to travel to Cleveland, Ohio, to meet at Brantley Partners' offices and to travel to a meeting in Chicago, Illinois, to meet with Magna. Mr. LeBlanc reported that he would also contact various potential lenders, including BBK and Talmage, in an attempt to obtain alternative debt financing.

On July 16, 2003, all of the members of SurgiCare's board of directors met with Messrs. LeBlanc and Scott and a representative from Strasburger & Price, LLP to discuss the opportunities brought up at the June 26, 2003 meeting. Mr. Scott presented the positive and negative aspects of each potential deal. SurgiCare still lacked sufficient collateral to restructure its debt financing. The potential partnership with Magna, including the start-up of an additional surgery center would not provide the immediate working capital that SurgiCare needed. At that time, the board of directors did not favor the potential Brantley Partners transaction because at that time, Brantley Partners only committed to investing \$5,000,000, which would not be sufficient to restructure the debt of SurgiCare and leave sufficient working capital to fund ongoing short-term operations.

Table of Contents

On August 4, 2003, all the members of the board of directors met again with Messrs. LeBlanc and Scott and were joined by Mr. Paul Cascio of Brantley Partners. The parties discussed the impending bankruptcy of DVI and the potential for a debt restructure, as well as a merger of IPS, DCPS/ MBS and SurgiCare, along with an equity investment by Brantley Partners. Mr. LeBlanc informed the board of directors that the potential Magna transaction was unlikely to proceed due to Magna's significant investment in DVI and the complications of the DVI bankruptcy. The board of directors decided SurgiCare should aggressively pursue the Brantley Partners possibility (along with the DCPS/ MBS and IPS merger) which could ultimately maximize the current customer base for all the companies involved and allow IPS and SurgiCare to jointly negotiate their existing debt with DVI.

SurgiCare presented Brantley Partners with the estimated financial projections based upon generic assumptions of potential revenues for the four ambulatory surgery centers, assuming infusion of working capital and reduction in debt. SurgiCare did not use its actual financials for those projections, due to the continually decreasing volume of cases performed at the four ambulatory surgery centers. Management believes the decrease in volume at its four ambulatory surgery centers was due to the reluctance of physicians to bring their surgery cases to SurgiCare, which was suffering financially. The original pro forma projections served as the template for the continuous and voluminous financial calculations prepared by management resulting in the pro forma financial projections included in this proxy statement. The original pro forma projections reviewed by SurgiCare's board of directors are attached hereto as Annex Q. The original pro forma projections have been amended since the original draft in August 2003 to reflect the changes in SurgiCare's core business and reimbursement changes, which financial information is included in SurgiCare's periodic reports filed with the SEC. The current pro forma financial projections presented herein utilize the same methodologies and industry standards as those set forth in the original pro forma projections.

Brantley and IPS

During 2002 and 2003, Brantley Partners (through its affiliates) was in negotiations with IPS regarding an additional equity investment. Brantley Venture Partners III, L.P. originally invested in IPS in October 1996. Brantley Venture Partners III, L.P. and Brantley Capital both invested in IPS during January 1999 and continued to invest through 2003.

SurgiCare and DCPS/ MBS

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

Discussions of Merger of SurgiCare, IPS, and DCPS/ MBS

In May 2003, Robert P. Pinkas, the Managing General Partner of Brantley Partners, contacted Terrence Bauer, President and Chief Executive Officer of IPS, to discuss merging IPS with SurgiCare, DCPS and MBS. In June 2003, Messrs. Bauer and Mr. Stephen Murdock, the Chief Financial Officer of IPS, met with Messrs. LeBlanc and Scott at SurgiCare's principal executive offices in Houston, Texas. At this meeting, the parties discussed the possible benefits to both parties of a combination of IPS, SurgiCare, DCPS and MBS in a merger transaction, due to the growth of the customer base for the combined entity. Exchange of information for due diligence review purposes between IPS and SurgiCare began shortly after this meeting. After due diligence review by IPS and SurgiCare, Messrs. Bauer and Murdock from IPS, Messrs. LeBlanc and Scott from SurgiCare, Mr. Cain from DCPS, Mr. Smith from MBS, and Mr. Cascio from Brantley Partners began merger negotiations. From that point on, SurgiCare communicated approximately two times per week, separately, with

Table of Contents

DCPS and MBS, IPS and Brantley Partners as to the deal structure and status of the merger negotiations. Some meetings with DCPS and MBS occurred in person and were generally attended by Messrs. LeBlanc, Cain and Smith, since SurgiCare, MBS and DCPS are all principally located in Houston, Texas. Mr. LeBlanc continued his regular monthly meetings with SurgiCare's ambulatory surgery center in Ohio and met with Mr. Cascio from Brantley Partners during those regularly scheduled trips, and communicated by telephone with Mr. Cascio at least once per week. Mr. LeBlanc and Messrs. Bauer and Murdock from IPS held telephone conferences during this period. Once per month, representatives from SurgiCare, IPS, DCPS, MBS, and Brantley Partners met by telephone to discuss the status of the due diligence and possible deal structure. During these telephone conferences and meetings, the parties discussed current financial statements of the merger companies, projections of the combined merger entity, debt restructuring possibilities, assumptions for growth, deal structure and percentages of ownership for the shareholders of the various merger entities and Brantley Partners. On August 3, 2003, pro forma projections were provided to Messrs. Bauer, Murdock, Cain and Smith. On August 22, 2003, the letter of intent to merge IPS and DCPS/MBS with SurgiCare was executed, along with a commitment letter from Brantley IV to contribute a \$6,000,000 equity investment in the combined entities. All parties were represented by separate counsel. IPS's legal counsel is Morris, Manning & Martin, LLP in Atlanta, Georgia. DCPS's legal counsel is Mr. Peter Workin in Houston, Texas. MBS's legal counsel is Mr. Ron Freeman in Houston, Texas. SurgiCare's legal counsel is Strasburger & Price, LLP in Houston, Texas. Brantley IV's legal counsel is Ropes & Gray, LLP in Boston, Massachusetts.

Definitive agreement negotiations commenced in September 2003 as due diligence moved forward. The parties estimate that at least forty different meetings and telephone conferences occurred among management of the merger entities and Brantley Partners between the signing of the letter of intent and the signing of the original definitive agreements on November 18, 2003. The parties' respective counsel participated in certain of such telephone conferences. During the negotiations, the parties discussed the various contract terms relating to the merger documents and potential refinancing of existing indebtedness of the parties. On October 24, 2003, there was a meeting at the offices of Brantley Partners among Messrs. LeBlanc, Bauer, Cascio and DiMarco. Representatives of Strasburger & Price, LLP, Morris, Manning & Martin, LLP and Ropes & Gray, LLP were also present. Structure, pricing and timing were all discussed. On November 18, 2003, definitive agreements were executed by IPS, SurgiCare, Brantley IV and its affiliates. Negotiations with DCPS/MBS continued during this period and definitive agreements for that portion of the transaction were executed as of February 9, 2004.

At various meetings between the parties, it was determined that the \$6,000,000 equity investment by Brantley IV would not be sufficient to fund working capital needs. After discussion between the parties, the investment was increased to its current level of \$10 million plus the Base Bridge Interest Amount, with the additional 2,176,000 shares of Class B common stock to be issued pursuant to the July 16, 2004 amendment to the Stock Subscription Agreement issued for a higher price than those shares being issued pursuant to the terms of the initial definitive agreement.

Engagement of Independent Financial Advisor

After the execution of the definitive agreements, SurgiCare's legal counsel advised management that a fairness opinion would be appropriate to present to the SurgiCare stockholders regarding their interests in the Transactions. Counsel introduced SurgiCare to Mr. Gilbert Herrera of G. A. Herrera & Co., LLC (GAH), financial advisors, who prepared fairness opinions for some of counsel's other clients. GAH prepared a fairness opinion without meeting with the management of SurgiCare, IPS, DCPS/MBS or Brantley Partners affiliates.

Settlement with Finder

SurgiCare and Mr. Krzyzanowski originally disputed the amount of money owed to Mr. Krzyzanowski for introducing SurgiCare to Brantley IV. On May 27, 2004, SurgiCare and Mr. Krzyzanowski entered into a settlement agreement which included a full and final release from Mr. Krzyzanowski in exchange for a payment of \$18,000 as a finder's fee.

Table of Contents

Classes of Stock to be Issued in Transactions

Brantley IV's investment in SurgiCare was conditioned on Brantley IV receiving stock which provides for an increasing preference payment originally equal to its deemed purchase price and for a one-to-one conversion and share in distributions once this preference has been paid. The DCPS and MBS equityholders negotiated to receive shares of common stock that would participate in any future growth in the value of our company but would also have downside protection in the form of a fixed preference amount. As a result, the Class B common stock and Class C common stock are being created in order to provide the rights and preferences that the parties agreed should be accorded to Brantley IV and DCPS and MBS, respectively. The existing common stock will be reclassified as Class A common stock to differentiate it from the new classes being created.

The Transactions

On November 18, 2003, we entered into an agreement and plan of merger with IPS, which was amended and restated on February 9, 2004, and amended on July 16, 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. The DCPS/ MBS Merger Agreement was amended and restated on July 16, 2004, to provide for the acquisition of DCPS via a contribution of the equity of DCPS and its general partner to SurgiCare and then to the MBS surviving entity rather than via merger. 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 and limited liability company interests in the general partner of DCPS. We will also issue shares of our Class A common stock to certain IPS debtholders in connection with the IPS Merger in exchange for contribution to SurgiCare of the IPS debt owed to such debtholders. 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 cash payment of \$10 million plus the Base Bridge Interest Amount. A portion of the cash contributed will be used by Orion to pay outstanding debt owed to Brantley IV's subsidiary by SurgiCare and IPS. As of August 10, 2004, the aggregate amount of such debt, including interest, was \$4,731,223. The Stock Subscription Agreement also provides Brantley IV the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closing of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the closing of such investment.

Material Contacts and Transactions

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

SurgiCare's Reasons for the Transactions

In reaching its decision to approve the Transactions, our board of directors consulted with management, as well as with our financial advisors, independent accountants and legal advisors. The board has determined that the terms of the equity financing, the other Transactions and the other actions proposed in this proxy statement are in the best interest of SurgiCare and its stockholders. In the board's view, the Transactions serve SurgiCare's

Table of Contents

strategic goals of enhancing its practice management capabilities for physicians and combining businesses that are complementary to its existing operations. The pro forma revenues for the combined entities for the year ended December 31, 2003, is approximately \$41.7 million. The combined entities will have a pro forma net loss of approximately \$9.2 million, for the year ended December 31, 2003. See Unaudited Pro Forma Condensed Combined Financial Statements. The resulting, significantly larger company will be better equipped to achieve additional growth in its core businesses and to expand into new areas of outpatient healthcare delivery, including through future acquisitions. This integrated healthcare services delivery model will focus on serving the needs of the healthcare providers who utilize our services and their clients and on better enabling them to meet the demands of the outpatient marketplace. Orion will also continue to supply IPS s, DCPS s and MBS s physician and practice management services and tools to their existing users and will seek to expand its client base for these services.

The board believed that current cash and cash equivalents would be insufficient to continue to fund our operations. The board concluded that if we do not complete the equity financing and the other Transactions, we will not be able to obtain the capital needed to fund our business plan and operations from other sources. The equity financing will allow us to address our liquidity issues, support our working capital requirements, strengthen our balance sheet and support our strategic goals and our business plan for Orion. The equity financing will provide needed cash for operations. We believe that, after the equity financing, we will have sufficient cash to fund operations for approximately twelve months from the closing of the Transactions. We still expect to have a working capital deficit of approximately \$1 million. In connection with the Transactions, however, the combined current liabilities of IPS and SurgiCare will be reduced by more than \$8.8 million as a result of contribution and subsequent cancellation of debt owed to Brantley Partners affiliates, and payment of debt owed to Brantley Partners affiliates with cash received in the Transactions. In addition, we are required, and expect, to refinance the remaining existing debt of SurgiCare, IPS, DCPS, and MBS prior to the consummation of the Transactions, which will also improve working capital. The Transactions significantly decrease the current stockholders' overall equity in our company and effect a change of control. However, the board believed that the necessity of obtaining capital to fund the business plan and the advantages to be gained from expanding SurgiCare's business through the proposed acquisitions outweighed the dilution to current common stockholders that will occur because of the issuance of new equity in the Transactions. IPS and SurgiCare completed negotiations with DVI Business Credit Corp. and DVI Financial Services, Inc. (DVI) which resulted in a decrease of their combined debt of approximately \$10.1 million to a combined principal amount of approximately \$6.5 million including a buy-out of the revolving lines of credit. As part of that agreement, the companies have executed restated loan agreements with U.S. Bank Portfolio Services (USBPS), as servicer for payees, for payment of the revolving line of credit and renegotiated the term loan amounts. Under the terms of the restated loan agreements, as of the closing date of the Transactions the Companies will pay the sum of \$2 million in cash to USBPS, as servicer for DVI BC and issue a promissory note in the original principal amount of \$750,000 to USBPS, in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various revolving lines of credit previously held by DVI BC. The \$750,000 promissory note will be payable in two installments, with the first such installment of \$500,000 plus accrued interest payable on the date which is 12 months after the closing of the Transactions, and the second installment of \$250,000 plus accrued interest payable on the date which is 18 months after the closing of the Transactions. Additionally, the restated loan agreement for the existing term loans previously held by DVI FS requires the Companies to issue, as of the closing date of the Transactions, a promissory note in the original principal amount of \$3,750,144 to USBPS, as servicer for DVI FS, in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various term loans previously held by DVI FS. The term loan promissory note is a non-interest bearing note and the principal balance is payable in monthly installments of \$2,500 for the first 24 months in \$2,500, monthly installments of \$45,628 for the following 48 months, and a final payment of \$1,500,000 due on the sixth anniversary of the closing of the Transactions. The restated loan agreements expired on August 15, 2004, and the Companies are currently negotiating the terms of extensions of both restated loan agreements with the lenders. As a part of the restructuring of the DVI loan facilities, the companies have signed a term sheet for a new revolving line of credit, which will be used to pay off the DVI revolving line of credit. The requirement that we refinance the revolving line of credit is not expected to substantially impede or delay our ability to consummate the Transactions as contemplated in this

Table of Contents

proxy statement. We expect that the refinancing will take the form of bank or other financial institution loans and will not involve the issuance of additional equity securities or have any dilutive effect on existing stockholders; however, we cannot be sure what the ultimate amount or terms of the refinancing will be.

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

The board of directors received a written opinion from GAH, that, as of November 18, 2003, the Transactions as described in such written opinion, are fair to the SurgiCare stockholders from a financial standpoint. Because certain terms of the Transactions had changed since GAH issued its opinion, on February 12, 2004, GAH provided a supplement to its written opinion indicating that such changes were of no material consequence. SurgiCare did not request GAH to give a fairness opinion regarding the amendments made to the Transaction Documents, dated July 16, 2004. Those amendments reflect the increase in the amount of Class C common stock to be issued to DCPS and MBS equityholders and an increased investment by Brantley IV. The equityholders of DCPS and MBS will receive 363,638 additional shares of Class C common stock 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, otherwise, the owners of DCPS and MBS will receive 421,819 additional shares of Class C common stock. Those amendments also reflect the right of Brantley IV to receive the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closing of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the date of the closing of such investment. Pursuant to the amendment to the Stock Subscription Agreement, Brantley IV's initial investment amount was increased by \$2.72 million, for which 2,176,000 additional shares of Class B common stock will be issued to Brantley IV upon the closing of the Transactions. See "Opinion of SurgiCare's Financial Advisor" below. Copies of the opinion and supplement are attached hereto as Annex D. GAH did not consider the Transactions independently, but rather, considered the Transactions taken as a whole. GAH charged \$22,884 for its fairness opinion and supplement, of which \$20,427 has been paid. GAH will also be paid to prepare the purchase price allocation. That service will be billed on an hourly basis. To date, GAH has billed SurgiCare for \$30,742 and has been paid \$16,323, for services relating to the purchase price allocation. Payments to GAH are not dependent upon the Transactions closing.

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

Opinion of SurgiCare's Financial Advisor

GAH is a Houston based private financial advisory and consulting firm with proven expertise in merger and acquisition advisory services, debt and equity placements, valuations, fairness opinions, impairment studies and expert testimony. GAH has completed numerous fairness opinions for public and private transactions. GAH's active participation in the valuation field and specific healthcare industry expertise provides GAH with extensive knowledge with respect to valuation theory and Internal Revenue Service rulings and guidelines which are significant factors in the determination of fairness opinions. Requests for bids were submitted to three investment banking firms, and GAH was selected based upon its ability to meet the necessary time frames and

Table of Contents

its fees. There have been no other material relationships and none are contemplated between SurgiCare (or its affiliates) and GAH (or any of its affiliates).

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

- the nature and history of the business;
- the economic outlook in general and the current condition and prospects for SurgiCare's business;
- the total stockholders' equity, liquidity and financial condition of SurgiCare;
- the historical and future earning capacity of SurgiCare;
- the dividend paying capacity of SurgiCare;
- SurgiCare's goodwill or other intangible value;
- relevant sales of SurgiCare stock and the economic impact of the Transactions; and
- the market price of public companies engaged in the same or similar lines of business as SurgiCare.

GAH's fairness opinion is included with this proxy statement as Annex D. GAH prepared its fairness opinion on November 17, 2003 to evaluate the fairness, from a financial standpoint, of the recapitalization of SurgiCare in conjunction with the proposed investment by Brantley Partners and mergers with DCPS/MBS and IPS. That opinion did not undertake a valuation in the traditional sense, but rather utilized a fair market value standard, as set forth in Internal Revenue Service Revenue Ruling, Number 59-60 for purposes of determining the fairness of the proposed recapitalization to SurgiCare's stockholders. GAH supplemented its original fairness opinion on February 12, 2004 to include a review of additional factors in the proposed transactions, including bridge loans made by Brantley Partners, exchange rates used in the calculations of stock prices, new proposed classes of stock, and the dilutive effect thereof on the SurgiCare stockholders. In that supplemental report, GAH determined there was no material effect to the SurgiCare stockholders. On July 10, 2004, GAH prepared an analysis of intangible assets and allocations of purchase price for the proposed transactions as of March 31, 2004. In their analysis, GAH utilized traditional valuation methodologies as further discussed herein.

As the basis for its fairness opinion GAH completed an analysis of the Transactions by using an income approach, a comparable public company approach and a comparable private transaction approach. For purposes of performing the public company methodology, GAH selected comparable companies that were publicly traded from a preliminary list of approximately 30 companies offering various medical services. This initial search criteria was based on company size. GAH narrowed the preliminary list by choosing companies with similar ambulatory surgical services, numbers of centers, practices and earnings.

The income approach utilized a discounted cash flow analysis based on management financial projections over a three-year time horizon utilizing a weighted average cost of capital of 17.40%. GAH used a terminal growth rate of 2.8% per annum for SurgiCare, and a 3.5% rate for Orion in preparing its valuations.

The comparable public company approach valued SurgiCare on trailing twelve months (TTM) multiples of earnings before interest, taxes, depreciation and amortization (EBITDA) and of revenue against the range of multiples of five comparable public companies. The comparison multiples for these companies follow:

Company	EBITDA	TTM Multiple Revenue
Dynacq International (Symbol DYII)	6.5	3.7
AmSurg Corp. (AMSG)	6.9	3.1
U.S. Physical Therapy, Inc. (USPH)	7.5	1.7

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United Surgical Partners International, Inc. (USPI)	10.1	3.4
MedCath Corporation (MDTH)	6.2	0.9

Table of Contents

	<u>2004 EBITDA</u>	<u>TTM Revenue</u>
SurgiCare	0.7	11.6

GAH selected comparable transactions based upon available information on transaction size. Due to public disclosure requirements, information about transactions involving publicly traded companies is more readily available than that of privately held companies. However there were no transactions identified that were completed in reasonably close proximity involving publicly traded companies which were comparable to the Transactions. Therefore, GAH searched for information regarding transactions involving privately held entities. The search criteria was based on medical service companies of a similar size and produced approximately 20 transaction candidates. GAH narrowed the initial search by choosing four of the transactions which were deemed to be the closest match to SurgiCare's proposed recapitalization from a size and business model standpoint. The comparable transaction approach valued SurgiCare on TTM multiples of EBITDA and revenue against the range of multiples of four recent comparable private transactions:

<u>Seller</u>	<u>Purchaser</u>	<u>EBITDA</u>	<u>TTM Multiple Revenue</u>
CDL Medical Technologies, Inc.	In Sight Health Services, Corp.	6.2	3.1
Surgicoe Corp.	United Surgical Partners International, Inc.	NA	2.5
National HealthCare Resources, Inc.	Welsh Carson Anderson & Stowe	18.9	0.9
US Medical Group, Inc.	Private Group led by Winters Langley and Thompson	3.6	1.5

	<u>2004 EBITDA</u>	<u>TTM Revenue</u>
SurgiCare	0.7	11.6

After determining a business enterprise value under each of the three methodologies, the debt was then subtracted from that amount to determine the net equity value for the SurgiCare stockholders. The valuations of SurgiCare under each of the methodologies in which SurgiCare did not complete the Transaction resulted in a negative net equity value for the SurgiCare stockholders in an amount ranging from \$3,700,000 to \$5,000,000. The value of the SurgiCare stockholders under the Transaction as valued on a discounted cash flow method yielded a value of nearly \$3,000,000. GAH's opinion, as of the date of the report, was that the terms and conditions of the Transactions are fair to the stockholders from a financial standpoint. GAH did not opine as to each of the mergers and equity financing independently, rather they reviewed the transactions as a whole.

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

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

GAH did not perform any valuation work for IPS, DCPS, or MBS, and our board did not receive independent advice on whether the price to be paid for these companies was fair to SurgiCare and its

Table of Contents

stockholders. In making its determination that the price to be paid for these companies is fair to SurgiCare and its stockholders, the directors considered the reports they had received from management as well as presentations from Brantley Partners regarding the company's own financing alternatives and needs, and the opportunities presented by the acquisition of these companies together with the expected infusion of capital from Brantley IV. SurgiCare's board of directors considered, and decided to pursue the proposed transactions based on the impact that the transactions had on both (i) the economic impact to the SurgiCare stockholders and (ii) the long term viability of the Orion business plan. The directors based their recommendation that the stockholders approve the proposed transactions on their assessment that the proposed mergers were negotiated at arms length between the parties and represented what a willing buyer would pay and a willing seller would accept for the three merger candidates as a whole, including the additional investment by Brantley IV.

GAH charged \$22,884 for its fairness opinion and supplement, of which \$20,427 has been paid. GAH will also be paid to prepare the purchase price allocation. That service will be billed on an hourly basis. To date, GAH has billed SurgiCare for \$30,742 and has been paid \$16,323, for services relating to the purchase price allocation. Payment to GAH is not dependent on the Transactions being consummated.

Interests of Certain Persons in the Transactions

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

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

Keith G. LeBlanc, the current Chief Executive Officer of SurgiCare, will continue to run the SurgiCare business of Orion. He will enter into an employment agreement with Orion and will become president of Orion, reporting to its board of directors. He has been nominated for election to the Orion board of directors. As of August 10, 2004 and prior to giving effect to the Reverse Stock Split, he owned 80,000 shares (0.3% of our outstanding common stock, including treasury stock). The total number of shares beneficially owned by Mr. LeBlanc prior to giving effect to the Reverse Stock Split, including shares issuable upon exercise of unexercised warrants on or prior to October 9, 2004 and the 8,750,000 shares of our common stock to be issued to our Series AA preferred stockholder for which Mr. LeBlanc holds an irrevocable proxy in his capacity as Chief Executive Officer is 11,168,266 shares, or 27.9% of the outstanding shares of common stock (including treasury stock), shares issuable upon the exercise of such warrants, and the shares of common stock subject to the proxy. Mr. LeBlanc's warrants have an exercise price of \$0.32 with the exception of 40,000 warrants which have an exercise price of \$0.45. These holdings would convert to approximately 1,116,827 shares of Class A common stock, which is approximately 4.4% of the Fully Diluted Orion Shares. Simultaneously with the execution of the new employment agreement, Mr. LeBlanc will terminate his existing employment agreement with SurgiCare.

Terrence L. Bauer, the current President and Chief Executive Officer of IPS, will continue to run the IPS business of Orion. He will enter into an employment agreement with Orion and will become Chief Executive Officer of Orion, reporting to its board of directors. He has been nominated for election to the Orion board of directors. As of August 10, 2004, he owned 200,000 shares (7.1%) of IPS's common stock, which would convert to approximately 13,110 shares of Class A common stock, which is approximately 0.1% of the Fully-Diluted Orion Shares.

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

Dennis Cain, the current President of DCPS, will enter into an employment agreement to become the Chief Executive Officer of DCPS/MBS. Pursuant to the DCPS/MBS Merger Agreement, he may have

Table of Contents

the authority to appoint a member to any advisory board established by the Orion board of directors. As of August 10, 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 787,880 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 3.4% 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 August 10, 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 709,092 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 3.1% 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 936,000 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 3.9% 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 to disclose confidential information or engage in an activity that interferes with Orion until the second anniversary of (i) the end of the executive's employment agreement or (ii) termination of the executive's employment (Non-Competition Period). If an executive's employment is terminated without cause, the agreements provide for continuation of the executive's base salary until the expiration of the Non-Competition Period and a minimum bonus of 50% of the average of the bonus payments made to the executive in the two years immediately preceding the termination. All options would also vest at that time. Orion's base annual salary commitments under the employment agreements are as follows: \$240,000 to each of Keith G. LeBlanc and Terrence L. Bauer; and, \$175,000 to each of Stephen H. Murdock, Dennis Cain and Tom M. Smith.

The proposed salary described above for Mr. LeBlanc represents a decrease from the \$298,000 annual salary to which he is entitled under his current employment agreement with SurgiCare, although it represents an increase from the \$188,942 that he actually received in 2003. See Proposal Ten Election of Directors Executive Compensation, page 168. Mr. LeBlanc's current employment agreement with SurgiCare also entitles him to two years' severance pay if he is terminated without cause or in the event of a change of control of SurgiCare, which would include the ownership change contemplated by the Transactions. In contrast, the severance provisions in the form of the Orion employment agreement for executives, described above, require only that salary be continued during the Non-Competition Period. Mr. LeBlanc will give up his right to severance payments from SurgiCare as part of his employment agreement with Orion. Under the terms of both his existing SurgiCare agreement and the proposed form of the Orion employment agreement, Mr. LeBlanc will be entitled to benefits comparable to those paid to other executives.

The aggregate number of shares of common stock owned by Directors, Officers and their affiliates as of August 10, 2004 is 3,642,591 shares (prior to giving effect to the Reverse Stock Split) representing 12.6% of our outstanding common stock (including treasury stock). The total number of shares of common stock beneficially owned by such persons, including shares issuable upon exercise of unexercised warrants on or prior to October 9,

Table of Contents

2004 and shares subject to proxies would total 14,730,857 shares (prior to giving effect to the Reverse Stock Split), or 36.8% of our outstanding common stock (including treasury stock) and the shares issuable upon exercise of such warrants and subject to such proxies.

SurgiCare is seeking approval to issue to Bruce Miller, Michael A. Mineo, Sherman Nagler and Jeffrey J. Penso, its current directors, as compensation for their services as directors of SurgiCare, warrants to purchase 25,000 shares (100,000 shares total) of Class A common stock, which collectively represent approximately 0.4% of the Fully-Diluted Orion Shares as adjusted to reflect the exercise of such warrants) upon the consummation of the Transactions. See Proposal Twelve Approval of Warrant Issuances . These warrants are being issued separately and not pursuant to the 2004 Incentive Plan.

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

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, and vice president and secretary of Brantley Capital Management, L.L.C. Mr. Finn is the president and a stockholder of Brantley Capital 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. Brantley Management Company, whose principals include principals of Brantley Capital Management, L.L.C., acts as investment adviser for, and receives fees from, Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley IV.

Pursuant to the Stock Subscription Agreement, Brantley IV will purchase 11,442,426 shares of new Class B common stock for a cash purchase price of \$10 million plus the Base Bridge Interest Amount. A portion of this cash investment will be used by Orion to pay outstanding debt owed to Brantley IV's subsidiary by SurgiCare and IPS. As of August 10, 2004, the aggregate amount of such debt, including interest, was \$4,731,223. The Stock Subscription Agreement also provides that Brantley IV has the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closing of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the date of the closing of such investment.

Brantley Capital 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 and Brantley Venture Partners III, L.P. are each entitled to receive Class A common stock with a fair market value (based on the daily average of the high and low price per share of SurgiCare common stock over the five trading days immediately prior to the closing) equal to the amount owing to it under its loan to IPS in exchange for contribution of such debt to SurgiCare. Pursuant to the Debt Exchange Agreement, Brantley Capital 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 in exchange for the contribution of such indebtedness, provided that the amount of shares to be received in respect of such dividends is subject to reduction to the extent necessary to achieve the guaranteed allocation of shares of Class A common stock to the holders of IPS common stock pursuant to the IPS Merger Agreement. As of August 10, 2004, the aggregate amount of debt to be exchanged by the parties to the Debt Exchange Agreement was \$4,227,322 which includes accrued interest as of such date and \$593,100 of debt in respect of accrued dividends.

Brantley Venture Partners III, L.P. and Brantley Capital own an aggregate of 1,653,000 shares of the Series A-2 convertible preferred stock of IPS with a liquidation preference of approximately \$8,486,665, and will receive approximately 2,518,298 shares of Class A common stock pursuant to the IPS Merger Agreement. Such

Table of Contents

shares are intended to approximate the value of such liquidation preference, but are subject to reduction to the extent necessary to achieve the guaranteed allocation to IPS common stockholders described above.

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.

IPS and SurgiCare completed negotiations with DVI Business Credit Corp. and DVI Financial Services, Inc. (DVI) which resulted in a decrease of their combined debt of approximately \$10.1 million to a combined principal amount of approximately \$6.5 million including a buy-out of the revolving lines of credit. As part of that agreement, the companies have executed restated loan agreements with U.S. Bank Portfolio Services (USBPS), as servicer for payees, for payment of the revolving line of credit and renegotiated the term loan amounts. Under the terms of the restated loan agreements, as of the closing date of the Transactions the Companies will pay the sum of \$2 million in cash to USBPS, as servicer for DVI BC and issue a promissory note in the original principal amount of \$750,000 to USBPS, in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various revolving lines of credit previously held by DVI BC. The \$750,000 promissory note will be payable in two installments, with the first such installment of \$500,000 plus accrued interest payable on the date which is 12 months after the closing of the Transactions, and the second installment of \$250,000 plus accrued interest payable on the date which is 18 months after the closing of the Transactions. Additionally, the restated loan agreement for the existing term loans previously held by DVI FS requires the Companies to issue, as of the closing date of the Transactions, a promissory note in the original principal amount of \$3,750,144 to USBPS, as servicer for DVI FS, in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various term loans previously held by DVI FS. The term loan promissory note is a non-interest bearing note and the principal balance is payable in monthly installments of \$2,500 for the first 24 months in \$2,500, monthly installments of \$45,628 for the following 48 months, and a final payment of \$1,500,000 due on the sixth anniversary of the closing of the Transactions. The restated loan agreement expired on August 15, 2004, and the Companies are currently negotiating the terms of extensions of both restated loan agreements with the lenders. As a part of the restructuring of the DVI loan facilities, the companies have signed a term sheet for a new revolving line of credit, which will be used to pay off the DVI revolving line of credit. The requirement that we refinance the revolving line of credit is not expected to substantially impede or delay our ability to consummate the Transactions as contemplated in this proxy statement. We expect that the refinancing will take the form of bank or other financial institution loans and will not involve the issuance of additional equity securities or have any dilutive effect on existing stockholders; however, we cannot be sure what the ultimate amount or terms of the refinancing will be.

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

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

At any time Orion otherwise proposes to register any of its equity securities under the Securities Act, Brantley IV and/or its permitted transferees may request the registration of Registrable Shares. However, Orion will not be obligated to effect any registration of shares incidental to the registration of Orion securities in

Table of Contents

connection with a Form S-8 or a Form S-4 relating to the acquisition or merger, by Orion or Orion's subsidiaries, of or with any other business.

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

Brantley IV will have registration rights for all of the shares of Class A common stock issuable upon conversion of its shares of Class B common stock. Initially, this will be approximately 14,409,786 shares, but, assuming everything else remains the same, the number of shares of Class A common stock as to which Brantley IV has registration rights will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price from time to time outstanding less the Base Bridge Interest Amount, without compounding, from the date the Class B common stock was first issued to the date of conversion. Brantley IV and its permitted transferees will also have registration rights for any additional shares of Class A common stock (including Class A common stock into which other securities of Orion are convertible) issued to them. The third-party beneficiaries will have registration rights for one year with respect to an aggregate of up to approximately 6,355,156 shares of Class A common stock. If the registration rights are exercised and the underlying shares are offered or sold, our stock price could decline.

Upon closing of the Transactions, Brantley IV will own shares of Class B common stock and Brantley Venture Partners III, L.P. and Brantley Capital 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 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 and Brantley Venture Partners III, L.P., which together will initially represent, on an as-converted basis, approximately 72.1% of the Fully-Diluted Orion Shares, and on an unconverted basis, approximately 71.4% of the outstanding voting power of Orion. Assuming everything else remains the same, the percentage interest of Brantley IV upon conversion will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price less the Base Bridge Interest Amount, without compounding, from the date the Class B common stock was first issued to the date of conversion. Messrs. Cascio and Finn disclaim beneficial ownership of such shares except to the extent of their pecuniary interests therein.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, \$1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV's ownership will be decreased by the number of shares valued at \$1 million, or approximately 1,113,755 shares of Class B common stock as of August 10, 2004, which initially represent, on an as-converted basis, approximately 4.4% of the Fully-Diluted Orion Shares.

Regulatory Approvals

We are not aware of any governmental approvals or actions that are required to complete the Transactions, apart from regulatory notifications and approvals that could be required by CMS or State Medicaid Offices or

Table of Contents

Departments of Health in connection with changes in control of Medicare and Medicaid providers and state licensed health care facilities. We plan to provide appropriate notifications to these regulatory agencies, seek any required governmental approval, and take any other necessary action to consummate the Transactions.

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

Table of Contents

THE IPS MERGER

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

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

Vote Required for the IPS Merger

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

Completion and Effectiveness of the IPS Merger

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

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

Structure and Effect of the IPS Merger and Consideration Paid

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

Consideration. When the IPS Merger is completed, and based on the assumptions used in this proxy statement, the IPS equityholders and certain IPS debtholders affiliated with Brantley IV will receive an aggregate of approximately 4,451,518 shares of Class A common stock (which will represent approximately 17.5% of the Fully-Diluted Orion Shares) in exchange for their shares of IPS common and preferred stock and contribution to SurgiCare for cancellation of all debt, including accrued interest, owed under certain notes issued by IPS having an aggregate principal amount as of August 10, 2004 of approximately \$3,256,619 and \$593,100 of debt in respect of accrued dividends. Of these shares of Class A common stock, an aggregate of approximately 3,918,174 shares (representing approximately 15.4% of the Fully-Diluted Orion Shares) will be issued to IPS equityholders and debtholders affiliated with Brantley IV.

Terms of the Class A Common Stock

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

Table of Contents

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

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

The following discussion briefly summarizes material U.S. federal income tax considerations relating to the IPS Merger that may be relevant to holders of SurgiCare common stock. It assumes that the other Transactions described herein occur in the manner described. SurgiCare obtained a legal opinion from its counsel, Strasburger & Price, LLP, regarding the material U.S. federal income tax consequences applicable to SurgiCare and the holders of SurgiCare common stock resulting from the IPS Merger and the other Transactions described herein. This discussion is based upon advice we have received from Strasburger & Price, LLP regarding the currently existing provisions of 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, the owners of DCPS, 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 warrant holders 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. Subject to exceptions provided in the Treasury Regulations that arguably may be applicable to a portion of such debt, if the Class A common stock that is exchanged by SurgiCare for the contribution of debt owing by IPS 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 as follows:

The amount of such taxable 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. To the extent the debt is exchanged for Class A common stock with a fair market value equal to the amount of the debt, no cancellation of indebtedness will arise.

The debt will be exchanged for Class A common stock with a value equal to the debt for which it is exchanged using Class A Common Closing Price as the value of the Class A common stock for this purpose. The Class A Common Closing Price, which is based on the average of the daily average of the high and low price per share of the SurgiCare common stock on the AMEX for the five trading days immediately preceding the Closing Date, may differ from the actual trading price on the date of the Transactions. The actual amount of cancellation of indebtedness income will depend on the actual trading price on the date of the Transactions, as well as on certain other factors such as the tax treatment of the accrued dividends being exchanged and the amount of interest accrued and previously deducted.

Table of Contents

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

Except as set forth in the discussion above, SurgiCare expresses no opinion as to the federal, state, local or foreign tax consequences to any party, other than SurgiCare and its current stockholders, of the IPS Merger, the MBS Merger, the DCPS Acquisition, the Debt Exchange, the Equity Financing or the Reverse Stock Split. In addition, SurgiCare expresses no opinion (i) as to whether or not the Transactions when analyzed on a combined basis, qualify as an exchange to which Code Section 351 applies or (ii) regarding any adverse tax consequences applicable to SurgiCare and its current stockholders in their capacity as such that may result from a determination that the Transactions, when analyzed on a combined basis, do not qualify as an exchange to which Code Section 351 applies. If the Transactions do not qualify as an exchange to which Code Section 351 applies, the IPS stockholders, MBS stockholders and holders of DCPS interests may recognize taxable gain or loss in connection with the Transactions. Such holders are urged to consult their own tax advisors regarding the tax consequences to them of participating in the Transactions.

Furthermore, this summary does not apply to any tax considerations that may be relevant to any party to the Transactions other than SurgiCare and its current stockholders in their capacity as such. The opinion issued by SurgiCare's counsel is being furnished only to SurgiCare in connection with the IPS Merger, the DCPS/MBS Merger, the Debt Exchange, the Equity Financing and the Reverse Stock Split and is solely for SurgiCare's benefit in connection therewith. It may not be used or relied upon for any other purposes, and except for purposes of this proxy statement, may not be circulated, quoted or otherwise referred to for any other purpose without the express written consent of SurgiCare's counsel.

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 76 of this proxy statement.

The IPS Merger Agreement

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

Table of Contents

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 4,451,518 shares of our Class A common stock (representing approximately 17.5% 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, which debt will be contributed to SurgiCare for cancellation. Pursuant to the Debt Exchange Agreement, Brantley Capital 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 in exchange for the contribution of such indebtedness, provided that the amount of shares to be received in respect of such dividends may be reduced as necessary to achieve the guaranteed allocation of shares of Class A common stock to the holders of IPS common stock pursuant to the IPS Merger Agreement.

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

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

The shares of our Class A common stock that IPS stockholders and certain IPS debtholders will receive in connection with the IPS Merger will be issued in a transaction exempt from the registration requirements of the Securities Act and any applicable state securities laws and may not be transferred until we register such shares under the Securities Act or unless the shares are transferred in a transaction not requiring registration under the Securities Act, such as a transfer pursuant to Rule 144 under the Securities Act. The IPS stockholders and debtholders receiving shares of Class A common stock will be third-party beneficiaries to the registration rights

Table of Contents

agreement between Orion and Brantley IV. Until the first anniversary of the date of the registration rights agreement, the IPS stockholders and debtholders will be permitted to cause Orion to add their shares of Class A common stock to a registration statement on which Brantley IV's shares are being registered. A form of the registration rights agreement is attached hereto as Annex G.

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

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

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

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

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

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

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

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

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

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

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

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

The continued truthfulness and accuracy of the representations and warranties in all material respects, except that representations and warranties that address matters only as of a particular date shall remain true and correct in all material respects as of such date (representations or warranties that are qualified by materiality shall continue to be true and accurate in all respects) and the performance or compliance

Table of Contents

with all agreements and covenants required by the IPS Merger Agreement, and receipt from the other party of a certificate of an officer certifying to the foregoing;

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

capitalization of the companies and their subsidiaries;

authority to enter into the IPS Merger Agreement;

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

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

possession of authorizations, licenses, permits, certificates, approvals and orders of any government or other authority thereof, or any body exercising any other authority necessary or advisable for each of the companies and their subsidiaries to own, lease and operate their properties and to carry on their business as currently conducted;

compliance with applicable laws;

absence of undisclosed liabilities;

absence of certain changes or events since December 31, 2002;

absence of material litigation;

employee benefit matters;

material contracts;

environmental matters;

title to properties and absence of liens and encumbrances;

intellectual property;

taxes;

insurance;

opinion of financial advisor;

use of brokers;

labor matters;

transactions with affiliates;

absence of stockholder rights agreements; and

absence of unlawful or prohibited payments.

Table of Contents

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

compliance with all applicable SEC filing requirements and accuracy and completeness of SEC filings;

effectiveness of the DCPS/ MBS Merger Agreement; and

validity of the offering.

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

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

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

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

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

Amend or otherwise change its charter or bylaws;

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

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

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

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

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

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

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

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

Except for the acceleration of vesting of unvested stock options and warrants outstanding on the date of the IPS Merger Agreement, waive any stock repurchase or acceleration rights, otherwise amend or

Table of Contents

change the terms of any options, warrants or restricted stock, or reprice options granted under its stock option plan or warrants or authorize cash payments in exchange for any options or warrants;

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

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

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

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

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

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

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

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

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

No Solicitation Provision. Each of SurgiCare and IPS has agreed not to, and not to permit any of its subsidiaries, officers, directors, or agents to, directly or indirectly through any officer, director, agent or otherwise, initiate, solicit, negotiate, engage in discussions regarding, encourage or provide confidential information to facilitate any proposal or offer to acquire (i) any material part of its or its subsidiaries' business or properties (which includes, but is not limited to any part of such business or properties constituting 10% or more of its and its subsidiaries' net revenues, net income or assets) or (ii) any of its or its subsidiaries' capital stock. Each of SurgiCare and IPS has also agreed to cease and cause to be terminated all activities, discussions or negotiations with respect to any offer or proposal with respect to any such acquisition transaction other than

Table of Contents

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

Table of Contents

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 September 30, 2004;

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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 September 30, 2004, assuming the parties amend the agreement to extend this date), then under the terms of the IPS Merger Agreement, the party responsible for triggering the underlying cause for the termination will reimburse the other party for all of its reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, financing sources, appraisers, investment bankers, experts and consultants). Except as set forth above, each party to the IPS Merger Agreement will pay its fees and expenses.

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

By either SurgiCare or IPS if the IPS Merger is not completed on or prior to September 30, 2004, except that the expenses are only payable if at the time of such termination, any of the conditions to the obligations of IPS to consummate the IPS Merger set forth in Section 7.03 of the IPS Merger Agreement have not been satisfied, and the fee is only payable if within 18 months of such termination SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare's board of directors resolves to enter into such agreement or letter of intent with respect to) a Business Combination (as defined below) with any person, entity or group;

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

By IPS if the board of directors of SurgiCare:

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

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

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

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

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

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

Table of Contents

satisfied, except that the fee is only payable if within 18 months of such termination SurgiCare consummates, or enters into an agreement or letter of intent with respect to (or SurgiCare's board of directors resolves to enter into such agreement or letter of intent with respect to) a Business Combination with any person, entity or group;

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

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

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

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

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

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

Table of Contents

THE DCPS/ MBS MERGER

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

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

Vote Required for the DCPS/ MBS Merger

Under our certificate of incorporation and under Delaware law, we do not require the approval of our stockholders to consummate the DCPS/ MBS Merger. However, we are required by our certificate of incorporation and Delaware law to obtain the approval majority of each class of our stockholders, voting as separate classes, and voting together as a single class, in order to amend and restate our certificate of incorporation. In addition, the AMEX rules require that we obtain the approval of our stockholders for the issuance of our common stock in connection with the IPS Merger and the DCPS/ MBS Merger. The Transaction Documents require that we obtain our stockholders' approval of the DCPS/ MBS Merger and all of the related proposals in this proxy statement, other than the proposal to issue warrants to the current members of our board of directors. The Transaction Documents specifically require that these proposals which require approval be approved by a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, 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 Merger are satisfied or, to the extent legally permissible, waived, including the adoption of the DCPS/ MBS Merger Agreement by the stockholders of IPS. The MBS merger will become effective upon the filing of the certificate of merger with the Texas Secretary of State or such later time as may be specified in the certificate of merger. The DCPS acquisition will become effective upon the closing of the contribution of the DCPS equity to SurgiCare. Immediately following the closing of the MBS merger and the DCPS acquisition, the interests in DCPS and its general partner will be transferred to MBS, and DCPS will be a wholly-owned subsidiary of MBS.

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 be acquired by the contribution of the units of limited partnership interest in DCPS to SurgiCare. The limited liability company interests of the limited liability company that is the general partner of DCPS will also be contributed to SurgiCare. Immediately following the closing of the MBS merger and the DCPS acquisition, the interests in DCPS and its general partner will be transferred to MBS. Following the Acquisitions, IPS and MBS will be wholly-owned subsidiaries of SurgiCare, and DCPS will be a wholly-owned subsidiary of MBS.

Table of Contents

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 787,880 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 1,040,000 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 787,880 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 57.

DCPS/MBS Ownership

Based on the assumptions in this proxy statement, including the fair market value of our common stock being less than \$0.70, and assuming receipt of the maximum number of shares of Class A common stock pursuant to the earn-out provisions of the DCPS/MBS Merger Agreement, the DCPS and MBS equityholders and their designees will own approximately 8.3% of the Fully-Diluted Orion Shares. If the fair market value of our common stock is greater than or equal to \$0.70, but all other assumptions remain the same, the DCPS/MBS equityholders and their designees will own approximately 9.2% of the Fully-Diluted Orion Shares, as adjusted for the issuance of additional shares of Class C common stock at such fair market value.

Terms of the Class C Common Stock

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

The shares of Class C common stock to be issued, and the shares of Class A common stock into which they are convertible, will each be restricted securities as that term is defined in Rule 144 adopted by the SEC. No market for resale of the Class C common stock to be issued is ever expected to develop. The Class A common stock into which the Class C common stock is convertible may be sold in compliance with

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Rule 144. Rule 144 provides an exemption for sales in compliance with the rule and generally provides that the stock must be held for more than one (1) year after issuance before it may be sold in the market in brokered transactions,

Table of Contents

requires Orion to be current in its reporting requirements, and imposes volume limitations on the amount of stock that may be sold in any three (3) month period.

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

The following discussion briefly summarizes the material U.S. federal income tax considerations relating to the DCPS/MBS Merger that may be relevant to holders of SurgiCare common stock. It assumes that the other Transactions described herein occur in the manner described. SurgiCare obtained a legal opinion from its counsel, Strasburger & Price, LLP, regarding the material U.S. federal income tax consequences applicable to SurgiCare and the holders of SurgiCare common stock resulting from the DCPS/MBS Merger and the other Transactions described herein. This discussion is based upon advice we have received from Strasburger & Price, LLP regarding the currently existing provisions of the Code, existing and proposed Treasury Regulations promulgated thereunder, IRS rulings and pronouncements, and judicial decisions, all in effect as of the date hereof and all of which are subject to change (possibly retroactively) at any time. This summary does not address all tax considerations that may be relevant; in particular, it does not address any tax considerations under state, local or foreign laws, or any tax considerations that may be relevant to certain stockholders in light of their particular circumstances. This summary also does not address any tax considerations that may be relevant to IPS stockholders, MBS stockholders, the owners of DCPS, 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 warrant holders 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 Acquisition. 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 acquisition. 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 unpaid corporate-level taxes arising prior to the DCPS acquisition. If, however, DCPS were not a validly electing S corporation prior to the DCPS acquisition, DCPS would be liable for corporate-level taxes on its earnings prior to the DCPS acquisition. We cannot be certain that DCPS will be a validly electing S corporation at the time of the DCPS acquisition, and if it were not a validly electing S corporation, there may be unpaid taxes for which DCPS would be liable.

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

Except as set forth in the discussion above, SurgiCare expresses no opinion as to the federal, state, local or foreign tax consequences to any party, other than SurgiCare and its current stockholders, of the IPS Merger, the MBS Merger, the DCPS Acquisition, the Debt Exchange, the Equity Financing or the Reverse Stock Split. In addition, SurgiCare expresses no opinion (i) as to whether or not the Transactions when analyzed on a combined basis, qualify as an exchange to which Code Section 351 applies or (ii) regarding any adverse tax consequences applicable to SurgiCare and its current stockholders in their capacity as such that may result from a determination that the Transactions, when analyzed on a combined basis, do not qualify as an exchange to which Code Section 351 applies. If the Transactions do not qualify as an exchange to which Code Section 351 applies, the IPS stockholders, MBS stockholders and holders of DCPS interests may recognize taxable gain or loss in connection with the Transactions. Such holders are urged to consult their own tax advisors regarding the tax consequences to them of participating in the Transactions.

Furthermore, this summary does not apply to any tax considerations that may be relevant to any party to the Transactions other than SurgiCare and its current stockholders in their capacity as such. The opinion issued by SurgiCare's counsel is being furnished only to SurgiCare in connection with the IPS Merger, the

Table of Contents

DCPS/MBS Merger, the Debt Exchange, the Equity Financing and the Reverse Stock Split and is solely for SurgiCare's benefit in connection therewith. It may not be used or relied upon for any other purposes, and except for purposes of this proxy statement, may not be circulated, quoted or otherwise referred to for any other purpose without the express written consent of SurgiCare's counsel.

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 76 of this proxy statement.

The DCPS/ MBS Merger Agreement

We will acquire DCPS and MBS by merging DCPS/ MBS Acquisition, Inc., a wholly-owned subsidiary of SurgiCare, with MBS, with MBS as the surviving corporation. DCPS will be acquired by the contribution of the units of limited partnership interest in DCPS to SurgiCare. The limited liability company interests of the limited liability company that is the general partner of DCPS will also be contributed to SurgiCare. Immediately following the closing of the MBS merger and the DCPS acquisition, the interests in DCPS and its general partner will be transferred to MBS. As a consequence of the DCPS/MBS Merger, MBS will be a wholly-owned subsidiary of SurgiCare, and DCPS will be a wholly-owned subsidiary of MBS. The following is a summary of material provisions of the DCPS/ MBS Merger Agreement. This summary is qualified in its entirety by reference to the complete text of the DCPS/ MBS Merger Agreement which is attached as Annex B to this proxy statement. We urge you to read the full text of the DCPS/ MBS Merger Agreement.

Effective Time. The MBS merger will become effective upon the filing of the certificate of merger with the Texas Secretary of State or such later time as may be specified in the certificate 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. The DCPS acquisition will become effective upon the closing of the contribution of the DCPS equity to SurgiCare. Immediately following the closing of the MBS merger and the DCPS acquisition, the interests in DCPS and its general partner will be transferred to MBS, and DCPS will be a wholly-owned subsidiary of MBS.

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

787,880 shares of Class C common stock in exchange for all of the outstanding stock of MBS, subject to retroactive adjustment.

Table of Contents

Otherwise,

an aggregate of \$1.4 million in cash, and

1,040,000 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

Upon the closing of the DCPS acquisition all partnership interests in DCPS issued and outstanding immediately prior to the effective time of the closing and all limited liability company interests in the general partner of DCPS will be contributed to SurgiCare in exchange for, in the aggregate:

an aggregate of \$1.5 million in cash;

subordinated promissory notes of SurgiCare which bear interest (computed on the basis of a 360-day year of twelve 30-day months) at a rate of 8% per annum in an aggregate principal amount of \$500,000, subject to retroactive adjustment (the DCPS Note); and

787,880 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 acquisition will be issued in a transaction exempt from the registration requirements of the Securities Act and any applicable state securities laws and may not be transferred until we register such shares under the Securities Act or unless the shares are transferred in a transaction not requiring registration under the Securities Act, such as a transfer pursuant to Rule 144 under the Securities Act. The DCPS equityholders will be third-party beneficiaries to the registration rights agreement between Orion and Brantley IV. Until the first anniversary of the date of the registration rights agreement, the DCPS equityholders will be permitted to cause Orion to add their shares of Class A common stock (received upon conversion of the Class C common stock or otherwise pursuant to the DCPS/ MBS Merger Agreement) to a registration statement on which Brantley IV's shares are being registered. A form of the registration rights agreement is attached hereto as Annex G.

Table of Contents*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, DCPS partnership interests and limited liability company interests in the general partner of DCPS 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 Transactions do not qualify as transfers to a corporation controlled by transferors under the provisions of Section 351 of the Code and an additional tax is therefore payable. 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 and the Transactions do not qualify as transfers to a corporation controlled by transferors under the provisions of Section 351 of the Code, 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 787,880 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; and

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

Table of Contents

Amount, annually, the DCPS/ MBS equityholders will be entitled to additional cash and Class A common stock from Orion based on the following formula:

- 1) The difference between the actual EBITDA and the Negotiated Amount each year shall be called the Additional Consideration Amount.
- 2) Twenty percent (20%) of the Additional Consideration Amount shall be paid to the MBS equityholders in cash, up to a maximum of \$450,000 over the two year period.
- 3) Twenty-five percent (25%) of the Additional Consideration Amount shall be paid to the DCPS equityholders in cash, up to a maximum of \$562,500 over the two year period.
- 4) The MBS equityholders shall receive a number of shares of Class A common stock equal to 80% of the Additional Consideration Amount divided by 7.5, up to a maximum of 240,000 shares over the two year period.
- 5) The DCPS equityholders shall receive a number of shares of Class A common stock equal to 20% of the Additional Consideration Amount divided by 7.5, up to a maximum of 225,000 shares over the two year period.

Effect of Sale; Termination of Key Employees without Cause. In the event that (a) the employment of Tom M. Smith is terminated by SurgiCare without Cause (as defined in his employment agreement) or (b) SurgiCare sells all of the capital stock, or all or substantially all of the assets, of DCPS/MBS 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 DCPS/ MBS, as pro-rated for a full year based upon the EBITDA of DCPS/ MBS 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 DCPS/ MBS 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 DCPS/ MBS, as pro-rated for a full year based upon the EBITDA of DCPS/ MBS 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, DCPS/ MBS performs billing and collection, contracting and/or management services for SurgiCare, SurgiCare agrees to pay DCPS/ MBS a rate 10% greater than the minimal amount needed to cover all costs associated with such services. SurgiCare also agrees to assist DCPS/ MBS in the development and marketing of a surgery center

Table of Contents

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

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

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

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

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

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

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

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

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

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

The continued truthfulness and accuracy of the representations and warranties in all material respects, except that representations and warranties that address matters only as of a particular date shall remain true and correct in all material respects as of such date (representations or warranties that are qualified by materiality shall continue to be true and accurate in all respects) and the performance or compliance

Table of Contents

in all material respects with all agreements and covenants required by the DCPS/ MBS Merger Agreement, and receipt from the other party of a certificate of an officer certifying to the foregoing;

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

capitalization of the companies and their subsidiaries;

authority to enter into the DCPS/ MBS Merger Agreement;

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

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

possession of authorizations, licenses, permits, certificates, approvals and orders of any government or other authority thereof, or any body exercising any other authority necessary or advisable for each of the companies and their subsidiaries to own, lease and operate their properties and to carry on their business as currently conducted;

compliance with applicable laws;

absence of undisclosed liabilities;

absence of certain changes or events since December 31, 2002 (in the case of MBS, since September 30, 2003);

absence of material litigation;

employee benefit matters;

material contracts;

environmental matters;

title to properties and absence of liens and encumbrances;

intellectual property;

taxes;

insurance;

opinion of financial advisor;

use of brokers;

labor matters;

transactions with affiliates;

absence of stockholder rights agreements; and

absence of unlawful or prohibited payments.

Table of Contents

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

compliance with all applicable SEC filing requirements and accuracy and completeness of SEC filings;

effectiveness of the IPS Merger agreement; and

validity of the offering.

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

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

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

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

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

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

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

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

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

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

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

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

Enter into any contracts or agreements requiring payment or receipt of payment in excess of \$250,000 with respect to SurgiCare and in excess of \$100,000 with respect to DCPS and MBS, or modify, amend,

Table of Contents

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.

Table of Contents

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 September 30, 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); and

Table of Contents

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.

Table of Contents

THE EQUITY FINANCING

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

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

Vote Required for the Equity Financing

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

The Equity Financing

Brantley IV will contribute cash in the amount of \$10 million plus the Base Bridge Interest Amount. Brantley IV has, through an entity wholly-owned by Brantley IV, bridge loans outstanding to both SurgiCare and IPS. A portion of the cash invested by Brantley IV will be used by Orion to pay this debt. With respect to the bridge loans owing by IPS, Orion will pay such debt on behalf of IPS. As of August 10, 2004, the aggregate amount of the outstanding indebtedness, including interest thereon, was \$4,731,223.

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 issuance of 2,100,000 shares of common stock to A.I. International and the conversion of all of our Series AA preferred stock for 8,750,000 shares of common stock and cashless exercise of in-the-money options or warrants) divided by 0.49 plus \$2,720,000 divided by \$1.25. 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.

Brantley IV will also receive the option to purchase shares of Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closing of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the date of the closing of such investment.

Based on the assumptions used in this proxy statement, including the assumed market price of the SurgiCare common stock, Brantley IV would receive approximately 11,442,426 shares (based on the market price of SurgiCare Common Stock as of August 10, 2004) of Class B common stock. Prior to the DCPS/ MBS Merger, the shares of Class B common stock issued to Brantley IV will represent, on an as-converted basis, approximately 62.7% 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 56.7% 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

Table of Contents

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 less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price less the Base Bridge Interest Amount, without compounding, from the date the Class B common stock was first issued to the date of conversion.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, \$1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV's ownership will be decreased by the number of shares valued at \$1 million, or approximately 1,113,755 shares of Class B common stock as of August 10, 2004, which initially represent, on an as-converted basis, approximately 4.4% of the Fully-Diluted Orion Shares.

In addition, the conversion ratio of the Class B common stock is tied to the price of the Class A common stock. The Class B common stock conversion ratio, which is initially approximately 1.26 shares of Class A common stock for each share of Class B common stock, is determined upon conversion by adding one to a fraction whose numerator is the Class B common stock purchase price less the Base Bridge Interest Amount (plus 9% per annum) and whose denominator is the market price of the Class A common stock at that time. Thus, a decline in the price of Class A common stock will increase the Class B common stock conversion ratio because the multiplier for calculating the conversion ratio increases as the stock price used in its denominator decreases.

The fraction obtained by dividing the purchase price of the Class B common stock less the Base Bridge Interest Amount (approximately \$0.874 per share) by the market price of the Class A common stock is added to 1 to arrive at the Class B conversion ratio. The initial conversion price of 1.26 assumes a Class A common stock price of \$3.37 per share, and is calculated as follows:

$$\$0.874 \div \$3.37 = 0.26 + 1 = 1.26$$

If the price of the Class A common stock rises, the conversion ratio decreases, and if the Class A common price falls, the conversion ratio increases. For example, assume that nothing else changes but the price of the Class A common stock declines by 25% from \$3.27 per share to \$2.53. The conversion ratio would increase as follows:

$$\$0.874 \div \$2.53 = 0.35 + 1 = 1.35$$

Terms of the Class B Common Stock

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

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

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

Table of Contents

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. IPS and SurgiCare completed negotiations with DVI Business Credit Corp. and DVI Financial Services, Inc. (DVI) which resulted in a decrease of their combined debt of approximately \$10.1 million to a combined principal amount of approximately \$6.5 million including a buy-out of the revolving lines of credit. As part of that agreement, the companies have executed restated loan agreements with U.S. Bank Portfolio Services (USBPS), as servicer for payees, for payment of the revolving line of credit and renegotiated the term loan amounts. Under the terms of the restated loan agreements, as of the closing date of the Transactions the Companies will pay the sum of \$2 million in cash to USBPS, as servicer for DVI BC and issue a promissory note in the original principal amount of \$750,000 to USBPS, in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various revolving lines of credit previously held by DVI BC. The \$750,000 promissory note will be payable in two installments, with the first such installment of \$500,000 plus accrued interest payable on the date which is 12 months after the closing of the Transactions, and the second installment of \$250,000 plus accrued interest payable on the date which is 18 months after the closing of the Transactions. Additionally, the restated loan agreement for the existing term loans previously held by DVI FS requires the Companies to issue, as of the closing date of the Transactions, a promissory note in the original principal amount of \$3,750,144 to USBPS, as servicer for DVI FS, in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various term loans previously held by DVI FS. The term loan promissory note is a non-interest bearing note and the principal balance is payable in monthly installments of \$2,500 for the first 24 months in \$2,500, monthly installments of \$45,628 for the following 48 months, and a final payment of \$1,500,000 due on the sixth anniversary of the closing of the Transactions. The restated loan agreement expired on August 15, 2004 and the Companies are currently negotiating the terms of extensions of both restated loan agreements with the lenders. As a part of the restructuring of the DVI loan facilities, the companies have signed a term sheet for a new revolving line of credit, which will be used to pay off the DVI revolving line of credit. The requirement that we refinance the revolving line of credit is not expected to substantially impede or delay our ability to consummate the Transactions as contemplated in this proxy statement. We expect that the refinancing will take the form of bank or other financial institution loans and will not involve the issuance of additional equity securities or have any dilutive effect on existing stockholders; however, we cannot be sure what the ultimate amount or terms of the refinancing will be.

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

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

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

organization, existence and good standing of SurgiCare;

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

Table of Contents

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

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

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

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

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

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

Brantley IV's legal capacity, power and authority to execute and deliver the Stock Subscription Agreement and perform its obligations; and

the investment qualifications of the Brantley IV and the information provided to Brantley IV.

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

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

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

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

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

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

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

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

Brantley IV will indemnify SurgiCare against losses resulting from any breach of any representation, warranty or agreement of Brantley IV in the Stock Subscription Agreement or any misrepresentation of

Table of Contents

Brantley IV in the Stock Subscription Agreement. Brantley IV and its affiliates will not be liable to SurgiCare or its affiliates for any act or omission by Brantley IV that does not constitute either a breach of the Stock Subscription Agreement or gross negligence or willful misconduct.

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

Registration Rights Agreement

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

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

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

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

Brantley IV will have registration rights for all of the shares of Class A common stock issuable upon conversion of its shares of Class B common stock. Initially, this will be approximately 14,409,786 shares (as converted on a fully-diluted basis), but, assuming everything else remains the same, the number of shares of Class A common stock as to which Brantley IV has registration rights will continually increase, since the conversion factor for the Class B common stock is designed to yield additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price less the Base Bridge Interest Amount from time to time outstanding, without compounding, from the date the Class B common stock was first issued to the date of conversion. Brantley IV and its permitted transferees will also have registration rights for any additional shares of Class A common stock (including Class A common stock into which other securities of Orion are convertible) issued to them. The third-party beneficiaries will have registration rights for one year with respect to an aggregate of up to approximately 6,355,156 shares of Class A common stock. If the registration rights are exercised and the underlying shares are offered or sold, our stock price could decline.

Orion will use its best efforts to effect the registration under the Securities Act of the Registrable Shares which Orion has been requested to register and cause the registration statement to become effective within

Table of Contents

60 days after filing. Orion will file a shelf registration statement if Orion is eligible for the use thereof and Orion is asked to file a shelf registration statement. Orion will prepare and file amendments and supplements necessary to keep the registration statement effective until the stockholders requesting the registration statement have sold their Registrable Shares.

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

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

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

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

The following discussion briefly summarizes material U.S. federal income tax considerations relating to the equity financing that may be relevant to holders of SurgiCare common stock. It assumes that the other Transactions described herein occur in the manner described. SurgiCare obtained a legal opinion from its counsel, Strasburger & Price, LLP, regarding the material U.S. federal income tax consequences to SurgiCare and the holders of SurgiCare common stock resulting from the equity financing and the other Transactions described herein. This discussion is based upon advice we have received from Strasburger & Price, LLP regarding the currently existing provisions of the Code, existing and proposed Treasury Regulations promulgated thereunder, IRS rulings and pronouncements, and judicial decisions, all in effect as of the date hereof and all of which are subject to change (possibly retroactively) at any time. This summary does not address all tax considerations that may be relevant. In particular, it does not address any tax considerations under state, local or foreign laws, or any tax considerations that may be relevant to certain stockholders in light of their particular circumstances. Also, it does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. This summary also does not address any tax considerations that may be relevant to IPS stockholders, MBS stockholders, the owners of DCPS, 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 warrant holders 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.

Except as set forth in the discussion above, SurgiCare expresses no opinion as to the federal, state, local or foreign tax consequences to any party, other than SurgiCare and its current stockholders, of the IPS Merger, the MBS Merger, the DCPS Acquisition, the Debt Exchange, the Equity Financing or the Reverse Stock Split. In addition, SurgiCare expresses no opinion (i) as to whether or not the Transactions when analyzed on a combined basis, qualify as an exchange to which Code Section 351 applies or (ii) regarding any adverse tax consequences applicable to SurgiCare and its current stockholders in their capacity as such that may result from a determination that the Transactions, when analyzed on a combined basis, do not qualify as an exchange to

Table of Contents

which Code Section 351 applies. If the Transactions do not qualify as an exchange to which Code Section 351 applies, the IPS stockholders, MBS stockholders and holders of DCPS interests may recognize taxable gain or loss in connection with the Transactions. Such holders are urged to consult their own tax advisors regarding the tax consequences to them of participating in the Transactions.

Furthermore, this summary does not apply to any tax considerations that may be relevant to any party to the Transactions other than SurgiCare and its current stockholders in their capacity as such. The opinion issued by SurgiCare's counsel is being furnished only to SurgiCare in connection with the IPS Merger, the DCPS/MBS Merger, the Debt Exchange, the Equity Financing and the Reverse Stock Split and is solely for SurgiCare's benefit in connection therewith. It may not be used or relied upon for any other purposes, and except for purposes of this proxy statement, may not be circulated, quoted or otherwise referred to for any other purpose without the express written consent of SurgiCare's counsel.

Table of Contents

THE NEW CLASSES OF COMMON STOCK

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

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

Voting Rights

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

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, less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price less the Base Bridge Interest Amount, without compounding, from the date the Class B common stock was first issued.

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

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

Table of Contents

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

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

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

Conversion

Holders of shares of Class B common stock have the option to convert their shares of Class B common stock into shares of Class A common stock at any time based on a conversion factor in effect at the time of the conversion. The conversion factor is designed to yield one share of Class A common stock per share of Class B common stock converted, plus such additional shares of Class A common stock, or portions thereof, necessary to approximate the unpaid portion of the return of the original purchase price for the Class B common stock less the Base Bridge Interest Amount, plus an amount equal to nine percent (9%) per annum on the amount of the original purchase price less the Base Bridge Interest Amount, 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 less the Base Bridge Interest Amount, 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 less the Base Bridge Interest Amount 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 1.26 (one share of Class B common stock converts into approximately 1.26 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

Table of Contents

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 56.7% 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 less the Base Bridge Interest Amount, 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, as stockholders and debtholders of IPS, further increases the ownership interest of Brantley IV affiliates in Orion. Because Brantley IV and its affiliates will hold common stock which initially represents, on an unconverted basis, approximately 71.4% of the voting power of Orion, they will be able to control all decisions to be made by the Class A common stock, Class B common stock and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion's business, policies and affairs and will be able to elect Orion's entire board of directors, determine, without the approval of Orion's other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure you that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions, \$1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its right to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV's ownership will be decreased by the number of shares valued at \$1 million, or, as of August 10, 2004, approximately 1,113,755 shares of Class B common stock, which initially represent, on an as-converted basis, approximately 4.4% of the Fully-Diluted Orion Shares.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed financial statements are presented to illustrate the effect on the historical financial position and operating results as a result of the proposed IPS Merger, with IPS being treated as the acquirer for accounting purposes, and the proposed DCPS/ MBS Merger. The unaudited pro forma condensed combined statements also give effect to the Brantley IV equity financing transaction, the debt exchange agreement between SurgiCare and certain affiliates of Brantley IV, the restructuring of IPS and SurgiCare debt with DVI as well as the conversion of SurgiCare's Series AA Preferred Stock and the contribution of land for debt. The following two unaudited pro forma condensed combined statements of earnings are presented using SurgiCare's, IPS's, and DCPS's results for the year ended December 31, 2003 and the six months ended June 30, 2004 and MBS's results for the year ended September 30, 2003 and the six months ended March 31, 2004. There have been no unusual events or transactions related to MBS during the quarter ended June 30, 2004 which would require disclosure in the pro forma condensed combined statement of earnings. The following unaudited pro forma condensed combined balance sheet is presented using SurgiCare's, IPS's, MBS's and DCPS's condition as of June 30, 2004. The DCPS/ MBS pro forma adjustments are combined for purposes of the unaudited pro forma condensed combined financial statements because the mergers of these two entities into the subsidiary of SurgiCare are contingent on each other. DCPS and MBS are related entities that use a shared information system, respond to request for proposals jointly, have common clients and shared business arrangements and collectively share the responsibility for sales and marketing efforts, though they do not have common ownership or accounting relationships. We have determined that showing the pro forma adjustments combined instead of separately would be consistent with the proposed merger transactions with DCPS and MBS.

SurgiCare expects to account for the IPS Merger as a reverse acquisition in accordance with generally accepted accounting principles, with IPS being designated as the accounting acquirer. The IPS merger is the result of consideration of various alternatives by IPS to obtain additional funding to finance the operations of its physician practice management company and IntegriMED, its application service provider. Brantley Venture Partners III, L.P. and Brantley Capital, current investors in IPS, did not have the ability, based on investment limitations defined in their by-laws, to provide additional equity capital to IPS. SurgiCare had approached Brantley's general partners about funding for their operations during the same time that IPS was looking at funding alternatives. Brantley's general partners, through Brantley IV, viewed the IPS merger as an attractive alternative to help fund the operations of IPS while expanding into two other desirable businesses, surgery centers and physician billing companies. In accordance with FAS 141, all else being equal, the acquiring entity is the combining entity whose owners as a group retained or received the larger portion of the voting rights in the combined entity. Although there is no majority shareholder of IPS, the Brantley affiliates, on an as-converted basis, hold the largest share of IPS stock at 30.6%. After completion of the merger, the Brantley affiliates, who are current owners of IPS, (other than Brantley IV) will receive 82.5% of the total shares of SurgiCare Class A Common Stock issued to IPS stockholders. Immediately after the Transactions, on a fully-diluted, as-converted basis, IPS stockholders and Brantley affiliates will own 71.4% of the Class A Common Stock of the SurgiCare entity post-transaction (Orion). Brantley IV and its affiliates had no ownership of SurgiCare stock prior to the signing of the IPS merger agreement. Another criteria used to determine the acquiring entity according to FAS 141 is the composition of the governing body of the combined entity. Post-transaction, Brantley affiliates and IPS stockholders will own 70.8% of the voting rights of Orion, and will therefore have the ability to elect a voting majority of the governing body of Orion. The final criteria considered by management in determining the acquiring entity in accordance with FAS 141 is the composition of senior management of the combined entity. After completion of the merger, it is anticipated that the non-executive Chairman of the Board will be Paul Cascio, a Brantley general partner, the Chief Executive Officer (CEO) of Orion will be the current CEO of IPS, the President of Orion will be the current CEO of SurgiCare, and the Chief Financial Officer (CFO) of Orion will be the current CFO of IPS.

The DCPS/ MBS Merger will be accounted for as a purchase in accordance with generally accepted accounting principles. The pro forma adjustments were applied to the respective historical financial statements to reflect and account for each merger using the purchase method of accounting. Accordingly, the total purchase costs will be allocated to the tangible and intangible assets acquired and liabilities assumed of SurgiCare, DCPS

Table of Contents

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 June 30, 2004. The unaudited pro forma condensed combined statements of earnings assumes that the Mergers and the other transactions contemplated thereby had occurred on January 1, 2003. The pro forma adjustments are based on the information and assumptions available and considered reasonable at the time of the printing of this proxy statement.

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

Because the unaudited pro forma condensed combined 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/A of SurgiCare for the fiscal year ended December 31, 2003 included in Annex C to this proxy statement;
- (ii) the quarterly report on Form 10-QSB of SurgiCare for the quarter ended June 30, 2004 included in Annex P 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 IPS, included in Annex I to this proxy statement;
- (iv) 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
- (v) 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.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

As of June 30, 2004

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	SurgiCare, Inc.	Integrated Physician Solutions, Inc.	Medical Billing Services, Inc.	Dennis Cain Physicians Solutions, LLC	SurgiCare/ IPS Pro Forma Adjustments	DCPS/ MBS Pro Forma Adjustments	(A)+ (B) +(C) + (D) + (E)+ (F) Pro Forma Combined
	as reported 30-Jun-04	as reported 30-Jun-04	as reported 30-Jun-04	as reported 30-Jun-04			
					10,138,336 (i) (3,993,747)(i) (220,000)(b)		
Cash and cash equivalents	\$ 280,001	\$ 136,079	\$ 644,557	\$ 126,185	\$ 103,932 (a)	\$ (3,700,000)(k)	\$ 3,515,343
Accounts receivable and other	893,446	1,917,249	656,456	359,150			3,826,301
Inventory	341,957	185,676					527,633
Prepaid expenses and other current assets	194,748	369,793	20,805	15,329			600,675
Total current assets	1,710,152	2,608,797	1,321,818	500,664	6,028,521	(3,700,000)	8,469,952
Property, Plant & Equipment	3,178,702	341,122	75,365	82,099			3,677,288
Other Long Term Assets					16,173,022 (e)		
Intangibles, including goodwill	8,110,235	7,618,111			(8,110,235)(c)	9,231,300 (k)	33,022,433
Real estate	2,612,412				(2,612,412)(a)		
Other assets	912,598	68,677	32,445				1,013,720
Total other long term assets	11,635,245	7,686,788	32,445		5,450,375	9,231,300	34,036,153
Total assets	\$ 16,524,099	\$ 10,636,707	\$ 1,429,628	\$ 582,763	\$ 11,478,896	\$ 5,531,300	\$ 46,183,393
Current Liabilities					(922,574)(h)		
Accounts payable and accrued expenses	\$ 5,517,599	\$ 3,987,210	\$ 164,777	\$ 112,767	\$ (1,329,583)(b)	\$ (84,850)(k)	\$ 7,445,346
Income taxes payable			400,144				400,144
Current portion of long-term-debt and capital lease obligation	9,845,348	8,325,817	15,351		(1,179,227)(j) (1,904,741)(j) (2,028,505)(j) (3,993,747)(i) (3,849,719)(h) (1,000,000)(b) (1,070,980)(a)		3,159,597
Total current liabilities	15,362,947	12,313,027	580,272	112,767	(17,279,076)	(84,850)	11,005,087
Long Term Liabilities							
Long term debt and capital lease obligations	545,057	2,203,739	23,500		1,179,227 (j)	500,000 (k)	4,451,523
Total long term liabilities	545,057	2,203,739	23,500		1,179,227	500,000	4,451,523
Redeemable Convertible Preferred Stock		12,622,113			(12,622,113)(d)		
Stockholders Equity							
Preferred Stock	900				(900)(a) 11,442 (i)		

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					1,386 (h)		
					(344,543)(f)		
					152,582 (d)		
					(2,821)(d)		
					10,500 (b)	1,652 (k)	
Common stock, Class A, B and C	144,743	2,821	1,000		43,750 (a)	(1,000)(k)	21,512
					1,904,741 (j)		
					10,126,894 (i)		
					4,770,907 (h)		
					(15,685,811)(g)		
					344,543 (f)		
					16,173,022 (e)		
					(149,761)(d)		
					(625,000)(d)		
					12,622,113 (d)		
					(8,110,235)(c)		
					697,200 (b)		
Additional paid-in-capital	17,604,714	9,392,506	114,000		(1,480,350)(a)	6,296,350 (k)	53,995,833
					2,028,505 (j)		
					15,685,811 (g)		
Retained Earnings (Accumulated Deficit)	(17,087,694)	(25,272,499)	740,856	469,996	1,401,883 (b)	(1,210,852)(k)	(23,243,994)
Treasury stock	(38,318)	(625,000)	(30,000)		625,000 (d)	30,000 (k)	(38,318)
Shareholders receivable	(8,250)						(8,250)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders equity	616,095	(16,502,172)	825,856	469,996	40,200,858	5,116,150	30,726,783
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders equity	\$ 16,524,099	\$ 10,636,707	\$ 1,429,628	\$ 582,763	\$ 11,478,896	\$ 5,531,300	\$ 46,183,393
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET****As of June 30, 2004**

(a) To reflect the conversion of the Preferred Stock Series AA to Common Stock Class A as required by the Merger Agreement and an agreement between SurgiCare, Inc. and American International Industries, Inc. (AIII) dated June 23, 2004 and to reflect the transfer of real estate and assumption of debt in the amount of \$1,070,980 as part of that agreement

1,200,000 of preferred stock series AA with a par value of \$0.001 was originally issued to purchase real estate for \$6,000,000. Additionally, the preferred stock series AA was convertible to common stock at a pre-set price of \$0.41 per common share. In 2002, 300,000 shares of the preferred stock series AA was converted to common stock, leaving 900,000 shares outstanding. The agreement with AIII stipulated that the 900,000 shares of preferred series AA (convertible into \$4,500,000 shares of common stock at \$0.41 per share, or 10,975,610 shares) would be exchanged for 8,750,000 shares of common stock with a then market price of \$0.35 per share, or \$3,062,500 in common stock value. The difference in the conversion preference of the preferred stock series AA and the common stock value would be an adjustment to equity, taking into account the differences in par value of the preferred stock series AA and the common stock par value of \$0.005.

Additionally, as partial compensation for the difference in the conversion preference in the preferred series AA and the common stock value, AIII received the real estate with a book value as of June 30, 2004 of \$2,612,412, assumed the debt of \$1,070,980 and paid SurgiCare cash of \$250,000 less closing costs of \$146,068.

The loss on impairment of real estate was recorded in the quarter ended June 30, 2004, and was calculated as follows:

Real estate received by AIII	\$ 4,000,000
Common Stock value received by AIII (8,750,000 shares at \$0.35)	3,062,500
Less:	
Debt assumed	(1,070,980)
Preferred stock series AA conversion preference (900,000 shares)	(4,500,000)
Cash payment less closing costs (\$250,000 - \$146,068)	(103,932)
	<hr/>
Loss on impairment of real estate	\$ 1,387,588
	<hr/>

The adjustment to record the various components of the AIII transaction are as follows:

Real estate transferred to AIII (\$4,000,000 - \$1,387,588)	\$(2,612,412)
Debt assumed by AIII	(1,070,980)
Exchange preferred stock series AA (900,000 shares, par value \$0.001)	(900)
Issue common stock (8,750,000 shares, par value \$0.005)	43,750
Cash payment less closing costs	103,932
Adjust additional paid-in capital for the difference in common stock and preferred stock series AA:	
Preferred stock series AA (\$4,500,000 less \$900 par value)	(4,499,100)
Common Stock (\$3,062,500 less \$43,750 par value)	3,018,750
	<hr/>
Net reduction in additional paid-in capital	(1,480,350)
	<hr/>

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

(b) To reflect the negotiated pay-off of the A.I. International Corporate Holdings, Ltd. and First National Bank S.A.L. of Lebanon note based on a settlement agreement as required by the merger agreement

The agreement exchanges the total debt and accrued interest for \$220,000 in cash and 2,100,000 shares of Common Stock Class A (pre-reverse split, 210,000 shares post-reverse split) to be paid at closing of the merger transaction.

Loan balance as of June 30, 2004		\$ 1,000,000
Accrued interest as of June 30, 2004		1,329,583
Common Stock Class A:		
Number of Shares (Pre-reverse split)	2,100,000	
Par value of \$0.005		10,500
Additional paid in capital for common stock issued		697,200
Retained earnings-gain on debt restructuring (\$220,000 cash and \$707,700 Common Stock Class A in exchange for \$2,329,583 in debt and accrued interest)		\$ 1,401,883

(c) To eliminate the historical balance of goodwill for SurgiCare, Inc.

(d) To record the recapitalization of IPS to reflect the conversion of IPS redeemable preferred stock into IPS common then its exchange for SurgiCare common in accordance with the formula described in The IPS Merger Agreement-Conversion of Securities.

IPS redeemable convertible preferred stock as of June 30, 2004	\$ 12,622,113
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To eliminate the treasury stock balance of IPS

IPS treasury stock balance as of June 30, 2004	\$ 625,000
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(The elimination of IPS treasury stock is made through an adjustment to additional paid-in capital)

To record the recapitalization of IPS for the number of SurgiCare, Inc. shares received in the merger transaction.

30,516,420 shares @ \$0.005 per share	\$ 152,582
Less: IPS historical balance	2,821
	<hr/>
Adjustment to additional paid-in capital	\$ 149,761
	<hr/>

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

(e) To record the tentative allocation of the purchase price at estimated fair values and the elimination of historical additional paid-in capital balance of SurgiCare, Inc.

To record the merger transactions related to SurgiCare, Inc.'s balance sheet as of June 30, 2004:

	SurgiCare, Inc.		
	As Reported	Adjustments	As Adjusted
Current assets		\$ 103,932	
Cash and cash equivalents	\$ 280,001	(220,000)	\$ 163,933
Accounts receivable and other	893,446		893,446
Inventory	341,957		341,957
Prepaid expenses and other assets	194,748		194,748
Total current assets	1,710,152	(116,068)	1,594,084
Property, Plant and Equipment	3,178,702		3,178,702
Other Long-Term Assets			
Intangibles, including goodwill	8,110,235	(8,110,235)	
Real estate	2,612,412	(2,612,412)	
Other assets	912,598		912,598
Total other long-term assets	11,635,245	(10,722,647)	912,598
Total assets	\$ 16,524,099	\$(10,838,715)	\$ 5,685,384
Current Liabilities			
Accounts payable and accrued expenses	\$ 5,517,599	\$ (1,329,583)	\$ 4,188,016
Income taxes payable		(1,070,980)	
Current portion of long-term debt and capital lease obligations	9,845,348	(1,904,741)	5,869,627
Total current liabilities	15,362,947	(5,305,304)	10,057,643
Long-Term Liabilities			
Long-term debt and capital lease obligations	545,057		545,057
Total long-term liabilities	545,057		545,057
Redeemable convertible preferred stock			
Stockholders' Equity			
Preferred stock	900	(900)	
Common stock, Class A, B & C	144,743	10,500	198,993
Capital		1,904,741	
Additional paid-in capital	17,604,714	(1,480,350)	
Retained earnings (accumulated deficit)	(17,087,694)	697,200	10,616,070
		1,401,883	(15,685,811)

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

	SurgiCare, Inc.		
	As Reported	Adjustments	As Adjusted
Treasury stock	(38,318)		(38,318)
Shareholders' receivable	(8,250)		(8,250)
Total stockholders' equity	616,095	(5,533,411)	(4,917,316)
Total liabilities and stockholders' equity	\$ 16,524,099	\$(10,838,715)	\$ 5,685,384
			Purchase Price
Purchase price includes:			
Market capitalization of SurgiCare, Inc. at effective date of Merger:			
SurgiCare, Inc. outstanding shares of Class A common stock	28,948,685		
Market price per share (assuming measurement date of August 10, 2004)	\$ 0.337		\$ 9,755,706
Direct merger transaction costs			1,500,000
Total purchase price			\$ 11,255,706
			Fair Value
Allocated as follows:			
Cash			\$ 163,933
Receivables			893,446
Inventory			341,957
Other current assets			194,748
Property and equipment			3,178,702
Investments/other			912,598
Merger Goodwill and Identifiable intangible assets			16,173,022
Debt			(6,414,684)
Accounts payable-trade and accruals			(4,188,016)
Net assets acquired			\$ 11,255,706

The outstanding Common Stock Class A used in the purchase price allocation is based on the shares outstanding as of June 30, 2004. The market price per share used was calculated in accordance with paragraph 22 of SFAS 141, using the average of the daily average of the high and low trading prices of the common stock for the five trading days ended on August 10, 2004.

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

As of June 30, 2004, identifiable intangible assets and goodwill related to SurgiCare are estimated to be as follows:

Joint venture interest Surgery Centers	\$ 6,458,784
Management contracts Surgery Centers	2,008,765
Joint venture interest MRI	1,698,767
Management contracts MRI	210,857
Non-compete agreements	182,949
Trained workforce (to be classified with goodwill for financial statement purposes)	590,580
Public shareholder list (to be classified with goodwill for financial statement purposes)	500,000
Goodwill	4,522,320
	<hr/>
Total goodwill and identifiable intangibles	\$ 16,173,022
	<hr style="border-top: 3px solid black;"/>

Reconciliation of total purchase price to net adjustment to additional paid-in-capital:

Total purchase price		\$ 11,255,706
Net assets to be acquired based on historical balances	(616,095)	
Adjustments:		
Cash related to real estate transfer in note (a) above	(103,932)	
Cash related to the debt retirement in note (b) above	220,000	
Real estate related to transfer in note (a) above	2,612,412	
Historical goodwill balance related to note (c) above	8,110,235	
Accrued interest related to the debt retirement in note (b) above	(1,329,583)	
Debt related to real estate transfer in note (b) above	(1,070,980)	
Debt related to the debt retirement in note (b) above	(1,000,000)	
Fair value adjustment to debt in note (j) below	(1,904,741)	
	<hr/>	
Subtotal	5,533,411	
Net adjustments to net assets acquired		4,917,316
		<hr/>
Total adjustment to additional paid-in capital		\$ 16,173,022
		<hr style="border-top: 3px solid black;"/>

(f) To adjust the par value of the SurgiCare, Inc. Common Stock Class A from \$0.005 to \$0.001 and reflect the one for ten reverse stock split as required by the Merger Agreement

The outstanding shares as of June 30, 2004, prior to the debt exchange, the Brantley IV equity financing and the DCPS/ MBS acquisition were as follows:

	<u>Par Value</u>	<u>Shares</u>
SurgiCare shares outstanding as of June 30, 2004	\$ 144,743	28,948,685
IPS recapitalization	152,582	30,516,420
Shares issued to AIII as part of real estate transaction	43,750	8,750,000
Shares issued to A. I. International Corporate Holdings, LTD. and First National Bank S.A.L. of Lebanon as part of note exchange	10,500	2,100,000

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Total	<u>351,575</u>	<u>70,315,105</u>
Reverse Split and change in par value from \$0.005 to \$0.001	7,032	7,031,511
Adjustment	<u>\$ (344,543)</u>	

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

Outstanding shares at closing (assuming the June 30, 2004 outstanding shares for SurgiCare), on a post-reverse split basis, would be:

	<u>Par Value</u>	<u>Shares</u>
SurgiCare stockholders (including the shares issued as part of the real estate transaction and the note exchanges as described in notes (a) and (b) above)	\$ 3,980	3,979,869
IPS common stockholders (Class A)	3,052	3,051,642
Brantley IV (Class B)	11,442	11,442,426
Brantley III loan conversion (Class A)	540	539,876
Brantley Capital Corporation loan conversion (Class A)	846	846,411
DCPS/ MBS equityholders (Class A and C)	1,652	1,651,518
	<u> </u>	<u> </u>
Total	\$21,512	21,511,742
	<u> </u>	<u> </u>

The outstanding shares at closing, assuming the measurement date of August 10, 2004 used elsewhere in the proxy, on a post-reverse split basis, prior to conversion of the Class B shares or any earn-out shares issued as part of the DCPS/ MBS acquisition, would be:

	<u>Par Value</u>	<u>Shares</u>
SurgiCare stockholders (including the shares issued as part of the real estate transaction and the note exchanges as described in notes (a) and (b) above)	\$ 4,452	4,451,518
IPS common stockholders (Class A)	3,052	3,051,642
Brantley IV (Class B)	11,442	11,442,426
Brantley III loan conversion (Class A)	546	546,320
Brantley Capital Corporation loan conversion (Class A)	854	853,556
DCPS/ MBS equityholders (Class A and C)	1,652	1,651,518
	<u> </u>	<u> </u>
Total	\$21,997	21,996,980
	<u> </u>	<u> </u>

The differences noted are related to options and warrants for current SurgiCare stockholders, which are assumed converted for purposes of determining the number of shares issued in the IPS merger, and differences between the IPS debt exchanged for SurgiCare Class A common stock as of June 30, 2004 and August 10, 2004 (see note (h)).

(g) To eliminate SurgiCare's retained earnings as follows:

Historical retained earnings as of June 30, 2004	\$(17,087,694)
Adjustment to retained earnings related to the debt retirement in note (b) above	1,401,883
	<u> </u>
Total adjustment to eliminate SurgiCare retained earnings	\$(15,685,811)
	<u> </u>

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)****(h) Conversion of Brantley Venture Partners III, LLP and Brantley Capital Corporation debt to SurgiCare, Inc. Common Stock**

Represents the conversion of outstanding IPS notes (and related interest) payable to Brantley affiliates into an estimate of 1,386,287 (on a post reverse split basis) shares of SurgiCare, Inc. Common Stock Class A and B as follows:

Brantley Venture Partners III, LLP (IPS) as of June 30, 2004	\$ 1,819,381
Brantley Capital Corporation (IPS) as of June 30, 2004	2,952,912
Total liabilities converted	4,772,293
Common Stock (1,386,287 shares at \$0.001 par value)	\$ 1,386
Additional paid in capital	4,770,907
	<hr/>
Total	\$4,772,293
	<hr/>

The share estimate was calculated using the debt outstanding as of June 30, 2004, with a market price based on the average of the daily of the high and low trading prices of the common stock for the five trading days ended on August 10, 2004. If the share estimate had been calculated using the debt outstanding at the measurement date of August 10, 2004, the debt would have been converted into 1,399,875 shares of SurgiCare, Inc. Common Stock Class A and B.

Of the total debt, \$922,574 represents accrued interest and will reduced accrued expenses on the balance sheet, with the remaining difference of \$3,849,719 reducing current portion of long-term debt. (See note (j) below for the proper classification of debt between current and long-term portions.)

(i) To record the additional equity investment by Brantley IV

Represents the investment by Brantley IV of cash in exchange for SurgiCare Common Stock Class B, \$10,138,336, of which \$3,993,747 will be used to retire the Lakepoint Acquisition (an affiliate of Brantley IV) and Brantley debt, including accrued interest of \$138,336. Brantley will receive a number of shares of Common Stock Class B equal to 1.02 times the SurgiCare shares outstanding (giving effect to in-the-money options and warrants) divided by 0.49, plus \$2,720,000 divided by \$1.25 per share (on a post reverse split basis).

On a post-reverse split basis, the total outstanding share for purposes of this calculation as of June 30, 2004 is assumed to be 4,451,518, total post-reverse split on a fully-diluted basis. Therefore, the number of shares of Common Stock Class B to be issued to Brantley IV would be calculated as follows:

Total SurgiCare, Inc. post-reverse split shares outstanding as of June 30, 2004	4,451,518
multiplied by	1.02
	<hr/>
	4,540,548
divided by	0.49
	<hr/>
	9,266,426
\$2,720,000 divided by \$1.25	2,176,000
	<hr/>
Shares of Common Stock Class B to be issued to Brantley IV	11,442,426
	<hr/>

The allocation of the Brantley IV investment between common stock and additional paid-in capital would be as follows:

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Common stock (11,442,426 shares at \$0.001 par value)	\$ 11,442
Additional paid-in capital	10,126,894
	<hr/>
Total investment	\$10,138,336
	<hr/>

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

The total outstanding shares of Common Stock Class A,B and C, assuming a market price of \$3.37 (post reverse split) would be as follows (on a fully-diluted basis):

Brantley IV (Class B)	11,442,426
Brantley III loan conversion (Class A)	546,320
Brantley Capital Corporation loan conversion (Class A)	853,556
SurgiCare Stockholders (Class A)	4,451,518
IPS Stockholders (Class A) (includes Brantley affiliates)	3,051,642
DCPS/ MBS equityholders (Class C) (before earn-out shares)	1,651,518
	<hr/>
Total shares outstanding	21,996,980
	<hr/>

(j) To record the restructuring of IPS and SRG revolving lines of credit and term loans with DVI Business Credit Corporation and DVI Financial Services, Inc. (DVI) and properly classify debt between current and long-term.

On August 25, 2003 DVI announced that it was seeking protection under Chapter 11 of the United States Bankruptcy laws. Both IPS and SurgiCare have loans outstanding to DVI in the form of term loans and a revolving lines of credit. As part of the merger transaction, both IPS and SurgiCare have negotiated a discount on the term loans and a buy-out of the revolving lines of credit. As part of that agreement, the companies have executed a restated loan agreement with U.S. Bank Portfolio Services (USBPS), as Servicer for payees, for payment of the revolving lines of credit and renegotiation of the term loans. Additionally, as part of that transaction, the companies have signed a term sheet with another lender for a new revolving line of credit, which will be used to pay-off the DVI revolving line of credit. The transaction, which is to occur at closing, is as follows:

Outstanding loans to DVI (U.S. Bank NA as trustee):	Term Loans	Revolver	Total
<hr/>	<hr/>	<hr/>	<hr/>
IPS	\$ 2,710,623	\$ 2,383,545	\$ 5,094,168
SurgiCare	3,413,434	1,369,928	4,783,362
	<hr/>	<hr/>	<hr/>
Total	6,124,057	3,753,473	9,877,530
Negotiated discount on loans (gain on debt restructure)	(2,959,106)	(974,141)	(3,933,246)
	<hr/>	<hr/>	<hr/>
Bank debt outstanding at close	3,164,951	2,779,332	5,944,283
	<hr/>	<hr/>	<hr/>
Payment due at closing		(2,000,000)	(2,000,000)
	<hr/>	<hr/>	<hr/>
Balance after closing	\$ 3,164,951	\$ 779,332	\$ 3,944,283
	<hr/>	<hr/>	<hr/>
IPS portion of gain on debt restructure	51.6%		\$ 2,028,505
SurgiCare portion of gain on debt restructure	48.4%		1,904,741
			<hr/>
			\$ 3,933,246
			<hr/>

The gain on the cancellation of debt of \$3,933,246 has been allocated based on the historical note balances of IPS and SurgiCare.

The gain allocated to SurgiCare reduces the amount of debt assumed in the purchase accounting adjustments in note (e) above.

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The gain allocated to IPS is not included in the pro forma statement of earnings because the adjustment will not have a continuing impact on the operations of the new entity.

The \$3,750,144 term loan is an interest free loan. In accordance with FAS 15, if the total future cash payments specified by the new terms of a payable including both payments designated as interest and those

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

designated as face amount, are less than the carrying amount of the payable, the debtor shall reduce the carrying amount to an amount equal to the total future cash payments specified by the new terms and shall recognize a gain on restructuring of payable equal to the amount of the reduction. Thereafter, all cash payments under the terms of the payable shall be accounted for as reductions of the carrying amount of the payable, and no interest expense shall be recognized on the payable for any period between the restructuring and maturity of the payable. Therefore, no interest expense is recognized on the renegotiated loans for IPS. Because SurgiCare is not the accounting acquirer, interest would be imputed on their portion of the loan amount, and the carrying value adjusted to reflect the present value of total payments due. The restructured loans have been allocated between SurgiCare and IPS based on their respective loan balances prior to the restructure. The restructured loan related to the revolvers is a \$750,000 loan bearing interest at 6.5%, payable in two installments, \$500,000 due 12 months from the closing date and \$250,000 due 18 months from the closing date.

Loan balance allocation:	Original Balance	%	New Loan Balance	
			Term Loan	Revolver Loan
IPS	\$5,094,168	51.6%	\$1,934,073	\$386,800
SurgiCare	4,783,362	48.4%	1,816,071	363,200
Total	\$9,877,530		\$3,750,144	\$750,000

For IPS, the interest due on the Revolver portion of the loan would be added to the total carrying value, and for the term loan portion the total amount of payments to be paid would be the carrying value (\$1,934,073). For SurgiCare, the interest due on the Revolver portion of the loan would be expensed over the appropriate periods, and the carrying value would be \$363,200. For the term loan portion for SurgiCare, the carrying value would be the present value of the total payments due of \$1,816,071 as follows:

	Principal to be Paid		Interest to be Paid		Total Payments	
	Term	Revolver	Term	Revolver	Term	Revolver
IPS	\$1,934,073	\$416,132			\$1,934,073	\$416,132
SurgiCare	1,230,878	363,200	\$585,193	\$27,543	1,816,071	390,743
Total	\$3,164,951	\$779,332	\$585,193	\$27,543	\$3,750,144	\$806,875

The allocation of the restructured debt between current and long term is as follows:

	Restructured	New Revolver	Total
Current	\$ 679,035	\$2,000,000	\$2,679,035
Long-term	3,265,248		3,265,248
Total	\$3,944,283	\$2,000,000	\$5,944,283

The total debt, after all adjustments related to debt restructuring and the MBS/ DCPS acquisition would be as follows:

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	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
U.S. Bank	\$ 679,035	\$ 3,265,248	\$ 3,944,283
New Revolver	2,000,000		2,000,000
Capital Leases	480,562	686,275	1,166,837
DCPS acquisition note		500,000	500,000
	<u> </u>	<u> </u>	<u> </u>
Total	\$3,159,597	\$4,451,523	\$7,611,120
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

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

Purchase price includes:

Cash, at closing	\$ 3,500,000
Note Payable (8% interest, due 3 years from the closing date)	500,000
Common Stock Class A and C (1,651,518 shares)	5,780,313
Liabilities assumed	631,689
	<hr/>
Total purchase price	\$ 10,412,002
	<hr/>

The DCPS/ MBS merger agreement includes contingent future payments (the earnout) to the sellers and contingent return of debt and stock (the clawback) to SurgiCare based on post acquisition earnings targets for 2004 and 2005 of \$1.6 million in EBITDA. The contingent earnout or clawback has not been reflected in the purchase price allocation. The contingent earnout or clawback, if realized, will be accounted for at that time as an addition to (earnout) or reduction in (clawback) the cost of the acquisition and goodwill and other identifiable intangibles will be adjusted accordingly. In accordance with FAS 141, the measurement date for the merger is based on the amended merger agreement dated July 16, 2004, and the closing Market price of SurgiCare s stock as of that date is used to calculate the total purchase price.

Allocated as follows:

	Historical NBV			As Adjusted
	MBS	DCPS	Adjustments	
Cash	\$ 644,557	\$ 126,185	\$ (200,000)	\$ 570,742
Accounts receivable-trade and other	656,456	359,150		1,015,606
Other current assets	20,805	15,329		36,134
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	1,321,818	500,664	(200,000)	1,622,482
Property and equipment	75,365	82,099		157,464
Goodwill and identifiable intangible assets			9,231,300	9,231,300
Other assets	32,445			32,445
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	1,429,628	582,763	9,031,300	11,043,691
Accounts payable and accruals	(564,921)	(112,767)	84,850	(592,838)
LT debt and capital leases	(38,851)			(38,851)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets acquired	\$ 825,856	\$ 469,996	\$ 9,116,150	\$ 10,412,002
	<hr/>	<hr/>	<hr/>	<hr/>

The \$200,000 adjustment to cash represents the amount of cash taken out at closing by the sellers, in accordance with the merger agreement.

The \$84,850 adjustment to accrued expenses represents excess accrued vacation not assumed by SurgiCare as part of the transaction.

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
BALANCE SHEET (Continued)**

As of June 30, 2004, identifiable intangible assets and goodwill related to DCPS/ MBS are estimated to be as follows:

Client relationships	\$6,166,508
Non-compete agreement	1,467,777
Acquired software	489,259
Trained workforce (to be classified with goodwill for financial reporting purposes)	1,107,756
Goodwill	_____
Total	\$9,231,300 _____

The additional paid-in capital adjustment related to the DCPS/ MBS merger agreement was calculated as follows:

Total purchase price	\$ 10,412,002
Less: Cash purchase price	(3,500,000)
Note payable issued as part of purchase	(500,000)
Elimination of MBS historical additional paid-in capital	(114,000)

Net equity adjustment	6,298,002
Less: Common stock issued at \$0.001 per share, post-reverse split	(1,652)
Adjustment to additional paid-in capital	\$ 6,296,350 _____

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF EARNINGS**

For the six months ended June 30, 2004

	(A) SurgiCare, Inc. as reported 30-Jun-04	(B) Integrated Physician Solutions, Inc. as reported 30-Jun-04	(C) Medical Billing Services, Inc. as reported 31-Mar-04	(D) Dennis Cain Physicians Solutions, LLP as reported 30-Jun-04	(E) SurgiCare/ IPS Pro Forma Adjustments	(F) DCPS/ MBS Pro Forma Adjustments	(G) (A)+(B)+(C)+ (D)+(E)+(F) Pro forma combined
Operating revenues	\$ 3,343,484	\$ 10,093,661	\$ 3,078,378	\$ 2,230,459			\$ 18,745,982
Cost of services	2,161,642	6,247,055					8,408,697
Gross margin	1,181,842	3,846,606	3,078,378	2,230,459			10,337,285
General and administrative expenses:							
Salaries and benefits	751,156	2,277,444	2,029,620	1,056,943		(211,400)(g)	5,903,763
Facility rent and related costs	685,437	675,791	142,543	79,989			1,583,760
Depreciation and amortization	375,348	278,494	25,389	23,727	773,761(e)	504,029(i)	1,980,748
Professional and consulting fees	940,983	303,581	58,750	18,896			1,322,210
Insurance	107,234	298,728	10,122	1,992			418,076
Provision for doubtful accounts	116,488	526,543					643,031
Other	303,530	710,637	476,573	479,564			1,970,304
Total general and administrative	3,280,176	5,071,218	2,742,997	1,661,111	773,761	292,629	13,821,892
Other operating (income) expenses:							
Charge for impairment of intangible assets							
Loss (gain) on sale of assets							
Forgiveness of debt	(58,625)						(58,625)
Impairment on investment in land	1,387,588						1,387,588
Total other operating expenses	1,328,963						1,328,963
Total operating expenses	4,609,139	5,071,218	2,742,997	1,661,111	773,761	292,629	15,150,855
Operating income (loss)	(3,427,297)	(1,224,612)	335,381	569,348	(773,761)	(292,629)	(4,813,570)
Other income (expense)							
Interest expense	(1,165,119)	(468,910)	(1,866)		365,000(d) 220,680(c) 213,644(b)	(20,000)(h)	(856,571)
Interest income			599	92			691
Equity in (earnings) losses of limited partnerships	20,586						20,586
Other income	2,549						2,549
Other expense, net		(13,325)					(13,325)
Total other expense, net	(1,141,984)	(482,235)	(1,267)	92	799,324	(20,000)	(846,070)
	(4,569,281)	(1,706,847)	334,114	569,440	25,563	(312,629)	(5,659,640)

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Income (loss) before income taxes							
Income tax expense (recovery)			126,768				126,768
Net Income (loss)	(4,569,281)	(1,706,847)	207,346	569,440	25,563	(312,629)	(5,786,408)
Preferred stock dividends		(330,600)			330,600(a)		
Net Income (loss) attributable to common stockholders	\$ (4,569,281)	\$ (2,037,447)	\$ 207,346	\$ 569,440	\$ 356,163	\$ (312,629)	\$ (5,786,408)

See Accompanying Introduction and Notes to Unaudited Pro Forma Condensed

Combined Statements of Earnings

Table of Contents

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

	For the six months ended June 30, 2004			Pro Forma
	Historical			
	SurgiCare, Inc.	Integrated Physician Solutions, Inc.	Medical Billing Services, Inc.	
Net Loss	\$ (4,569,281)	\$ (2,037,447)	\$ 207,346	\$ (5,786,408)
Weighted average shares outstanding (post-split)	2,837,348	2,821,500	1,000	31,232,810(f)
Dilutive stock options and warrants	(A)			
Conversion of preferred shares	(B)			
Conversion of debt	(C)			
Weighted average shares outstanding for diluted net loss per share				
Net Loss per share Primary	\$ (1.61)	\$ (0.72)	\$ 207.36	\$ (0.19)
Net Loss per share Diluted	\$ (1.61)	\$ (0.72)	\$ 207.36	\$ (0.19)

The following potentially dilutive securities are not included in the 6/30/04 Historical and Pro Forma calculation of common shares outstanding for diluted net earnings per share, because their effects would be anti-dilutive due to the net loss on a historical basis:

(A) SurgiCare, Inc. had 8,085,261 options and warrants outstanding at June 30, 2004. Integrated Physician Solutions, Inc. had 1,116,611 options and warrants outstanding at June 30, 2004.

(B) 900,000 shares of SurgiCare, Inc. Series AA Preferred stock were convertible into \$4,500,000 of common shares and 1,225,000 shares of SurgiCare, Inc. Series A Preferred stock are convertible into 1,225,000 common shares as of June 30, 2004.

(C) \$1,000,000 of debentures related to SurgiCare, Inc. were convertible into common stock at a price equal to \$1.50 per share (pre-reverse split) as of June 30, 2004. \$470,000 of notes payable related to SurgiCare, Inc. were convertible into common stock at a price of \$0.25 per share as of June 30, 2004.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF EARNINGS**

For the year ended December 31, 2003

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	SurgiCare, Inc. as reported 31-Dec-03	Integrated Physician Solutions, Inc. as reported 31-Dec-03	Medical Billing Services, Inc. as reported 30-Sep-03	Dennis Cain Physicians Solutions, LLP as reported 31-Dec-03	SurgiCare/ IPS Pro Forma Adjustments	DCPS/ MBS Pro Forma Adjustments	(A)+(B)+(C)+ (D)+(E)+(F) Pro forma combined
Operating revenues	\$ 8,064,523	\$ 23,545,522	\$ 6,060,302	\$ 4,010,797			\$ 41,681,144
Cost of services	4,528,644	14,689,694					19,218,338
Gross margin	3,535,879	8,855,828	6,060,302	4,010,797	\$	\$	22,462,806
General and administrative expenses:							
Salaries and benefits	1,576,831	4,068,408	4,547,114	2,525,068		(676,007)(g)	12,041,414
Facility rent and related costs	1,299,268	1,355,230	253,281	137,058			3,044,837
Depreciation and amortization	858,924	643,371	50,779	47,570	1,547,521(e)	1,008,058(i)	4,156,223
Professional and consulting fees	1,097,264	885,973	75,906	20,597			2,079,740
Insurance	178,161	553,201	20,872	10,508			762,742
Provision for doubtful accounts	289,823	1,758,819					2,048,642
Other	799,921	1,506,954	957,133	514,731			3,778,739
Total general and administrative	6,100,192	10,771,956	5,905,085	3,255,532	1,547,521	332,051	27,912,337
Other operating (income) expenses:							
Charge for impairment of intangible assets		2,598,029					2,598,029
Loss (gain) on sale of assets	144,260						144,260
Impairment on investment in land	579,385						579,385
Total other operating expenses	723,645	2,598,029					3,321,674
Total operating expenses	6,823,837	13,369,985	5,905,085	3,255,532	1,547,521	332,051	31,234,011
Operating income (loss)	(3,287,958)	(4,514,157)	155,217	755,265	(1,547,521)	(332,051)	(8,771,205)
Other income (expense)							
Interest expense	(1,922,315)	(784,008)	(4,552)		730,000(d) 931,520(c) 306,180(b)	(40,000)(h)	(783,175)
Interest income			2,595	546			3,141
Equity in (earnings) losses of limited partnerships	194,444						194,444
Other income	32,205		512				32,717
Other expense, net		(23,580)					(23,580)
Total other expense, net	(1,695,666)	(807,588)	(1,445)	546	1,967,700	(40,000)	(576,453)
	(4,983,624)	(5,321,745)	153,772	755,811	420,179	(372,051)	(9,347,658)

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Income (loss) before income taxes							
Income tax expense (recovery)	(173,407)		52,194				(121,213)
Net income (loss)	(4,810,217)	(5,321,745)	101,578	755,811	420,179	(372,051)	(9,226,445)
Preferred stock dividends		(738,085)			738,085(a)		
Net income (loss) attributable to common stockholders	\$ (4,810,217)	\$ (6,059,830)	\$ 101,578	\$ 755,811	\$ 1,158,264	\$ (372,051)	\$ (9,226,445)

See Accompanying Introduction and Notes to Unaudited Pro Forma Condensed Combined

Statements of Earnings

Table of Contents

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

For the Year Ended December 31, 2003

	Historical			Pro Forma
	SurgiCare, Inc.	Integrated Physician Solutions, Inc.	Medical Billing Services, Inc.	
Net loss	\$(4,810,217)	\$(6,059,830)	\$ 101,578	\$ (9,226,445)
Weighted average shares outstanding (post-split)	2,475,405	2,903,424	1,000	30,870,867(f)
Dilutive stock options and warrants	(A)			(A)
Conversion of preferred shares	(B)			(B)
Conversion of debt	(C)			(C)
Weighted average shares outstanding for diluted net loss per share primary	\$ (1.94)	\$ (2.09)	\$ 101.58	\$ (0.30)
Net loss per share diluted	\$ (1.94)	\$ (2.09)	\$ 101.58	\$ (0.30)

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

(A) SurgiCare, Inc. had 9,654,297 options and warrants outstanding at December 31, 2003. Integrated Physician Solutions, Inc. had 1,116,611 options and warrants outstanding at December 31, 2003.

(B) 900,000 shares of SurgiCare, Inc. Series AA Preferred stock were convertible into \$4,500,000 of common shares and 1,137,700 shares of SurgiCare, Inc. Series A Preferred stock were convertible into 1,137,700 common shares as of December 31, 2003.

(C) \$1,000,000 of debentures were convertible into common stock at a price equal to \$1.50 per share (pre-reverse split) as of December 31, 2003.

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF EARNINGS**

For the year ended December 31, 2003 and the six months ended June 30, 2004

- (a) To eliminate historical preferred stock dividends on IPS Series A-2 redeemable preferred stock of 1,653,000 shares

YTD 6/30/04	Y/E 12/31/03
\$ 330,600	\$ 738,085

- (b) To eliminate historical interest expense on IPS indebtedness converted to SurgiCare common as part of the merger.

YTD 6/30/04	Y/E 12/31/03
\$ 213,644	\$ 306,180

Reconciliation of interest expense to accrued interest:

1999	\$ 25,630
2000	101,964
2001	103,144
2002	172,011
2003	306,180
Six months ended 6/30/04	213,644
	<hr/>
Total accrued interest	\$922,574

- (c) To adjust interest expense for the debt restructuring

	YTD 6/30/04	Y/E 12/31/03
Interest on SurgiCare's allocation of restructured loans (see note(j) to the pro forma balance sheet) \$1,230,878 + \$363,200 at 6.5%	\$ 51,808	\$ 103,615
Interest on re-financed revolving line of credit of \$2,000,000 at prime plus 3% (7.25%)	72,500	145,000
	<hr/>	<hr/>
Total interest on new debt	124,308	248,615
Less: interest on historical debt	(344,988)	(1,180,135)
	<hr/>	<hr/>
Adjustment	\$ (220,680)	\$ (931,520)

The \$3,750,000 term loan is an interest free loan. In accordance with FAS 15, if the total future cash payments specified by the new terms of a payable, including both payments designated as interest and those designated as face amount, are less than the carrying amount of the payable, the debtor shall reduce the carrying amount to an amount equal to the total future cash payments specified by the new terms and shall recognize a gain on restructuring of payable equal to the amount of the reduction. Thereafter, all cash payments under the terms of the payable shall be accounted for as reductions of the carrying amount of the payable, and no interest expense shall be recognized on the payable for any

period between the restructuring and maturity of the payable. Therefore, no interest expense is recognized on the renegotiated loans for IPS. The amount of the loans allocated to SurgiCare, because it is not the accounting acquirer, have been adjusted to impute interest. The loans have been allocated to IPS and SurgiCare based on their respective loan balances prior to the restructuring.

Table of Contents**Outstanding loans to DVI (U.S. Bank NA as trustee):**

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
IPS	\$ 5,094,168	\$ 5,195,367
SurgiCare	4,783,362	5,001,198
	<hr/>	<hr/>
Total	9,877,530	10,196,565
Negotiated discount on loans (gain on debt restructure)	(3,933,246)	(4,252,282)
Bank debt outstanding at close	\$ 5,944,283	\$ 5,944,283
	<hr/>	<hr/>
IPS portion of gain on debt restructure 51.6%	\$ 2,028,505	\$ 2,193,042
SurgiCare portion of gain on debt restructure 48.4%	1,904,741	2,059,240
	\$ 3,933,246	\$ 4,252,282
	<hr/>	<hr/>

The gain on debt restructure has been allocated based on the historical note balances of IPS and SurgiCare.

The gain allocated to SurgiCare reduces the amount of debt assumed in the purchase accounting adjustments in note (e) to the pro forma balance sheet.

The gain allocated to IPS is not included in the pro forma income statements because the adjustment will not have a continuing impact on the operations of the new entity.

(d) To eliminate interest on the A. I. International Corporated Holdings, Ltd. and First National Bank S.A.L. of Lebanon debt based on an agreement dated July 15, 2004 whereby SurgiCare will exchange a \$1,000,000 note and accrued interest for \$220,000 in cash and 2,100,000 shares of Class A common stock

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
	\$ 365,000	\$ 730,000
	<hr/>	<hr/>
Reconciliation of interest expense to accrued interest:		
2002		\$ 234,583
2003		730,000
YTD 6/30/04		365,000
		<hr/>
Total accrued interest		\$ 1,329,583
		<hr/>

(e) To record the amortization of SurgiCare identifiable intangible assets as follows:

	<u>Amount</u>	<u>Useful Life</u>
Joint venture interest Surgery Centers	\$ 6,458,784	7.5 yrs (average contract life)
Management contracts Surgery Centers	2,008,765	7.5 yrs (average contract life)
Joint venture interest MRI	1,698,767	5.0 years
Management contracts MRI	210,857	5.0 years
Non-compete agreements	182,949	5.0 years (contract life)

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Total identifiable intangible assets	
Goodwill and intangible assets with infinite lives	5,466,832
	<u> </u>
	\$ 16,026,954
	<u> </u>

The contracts related to the MRI facility are for 25 years, however, due to the technology changes inherent with MRI s, management believes a useful life of 5 years is more appropriate.

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
Amortization expense	\$ 773,761	\$ 1,547,521
	<u> </u>	<u> </u>

Table of Contents**(f) The weighted average shares outstanding on a pro forma basis was calculated as follows:**

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
Weighted average shares outstanding	28,373,482	24,754,050
1 for 10 reverse stock split	2,837,348	2,475,405
Transaction consideration (Post reverse split):		
Debt Conversion	1,399,876	1,399,876
IPS merger	3,051,642	3,051,642
DCPS/ MBS merger	1,651,518	1,651,518
AIII settlement	8,750,000	8,750,000
Bank of Lebanon conversion	2,100,000	2,100,000
Equity financing	11,442,426	11,442,426
Weighted average shares outstanding-pro forma	31,232,810	30,870,867

The assumed market price per share for the transaction consideration calculations, on a pre-reverse split basis, was based on the average of the daily high and low trading prices of the common stock for the five trading days ended on August 10, 2004, the assumed measurement date, which was \$0.337 per share. The number of shares used for the DCPS/ MBS merger was based on the fixed shares issued as part of that amended merger agreement dated July 16, 2004.

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

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
Total DCPS/ MBS historical compensation subject to adjustment	\$ 386,400	\$ 1,026,007
Less: Total DCPS/ MBS annual compensation per employment contractual agreement to be signed as part of the merger	(175,000)	(350,000)
DCPS/ MBS historical employee compensation adjustment	\$ 211,400	\$ 676,007

(h) To record the interest expense on the note payable due to DCPS as part of the DCPS acquisition

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
\$500,000 @ 8.0%	\$20,000	\$40,000

(i) To record amortization of DCPS/ MBS identifiable intangible assets as follows:

	<u>Amount</u>	<u>Useful Life</u>
Client relationships	\$6,166,508	10 years (average client term)
Non-compete agreements	1,467,777	5 years (contract life)
Acquired software	489,259	5 years
Total identifiable intangible assets		

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Goodwill and intangible assets with infinite lives	1,107,756
	<u> </u>
	\$9,231,300
	<u> </u>

	<u>YTD 6/30/04</u>	<u>Y/E 12/31/03</u>
Amortization expense	\$ 504,029	\$ 1,008,058
	<u> </u>	<u> </u>

Table of Contents

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 June 30, 2004, SurgiCare owned a majority interest in three surgery centers and a minority interest as general partner in one additional center. Three of SurgiCare s centers are located in Texas and one is located in Ohio. In limited circumstances, SurgiCare, or its subsidiaries, may also furnish anesthesia services in support of the activities of the surgery centers. Our ASCs perform various types of procedures including: orthopedic surgery, colonoscopy, ophthalmic laser surgery, pain injections and various pediatric surgeries. The most common procedures performed in our ASCs include knee arthroscopy, lumbar nerve block and sacral injection, colonoscopy, hammertoe correction, sinus endoscopic biopsy, cataract removal, breast biopsy, Mitchell procedures and cystourethroscopy.

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

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

Prior to the proposed amendments to its certificate of incorporation, SurgiCare is authorized to issue up to 50,000,000 shares of common stock, par value \$.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 10700 Richmond Avenue, Suite 300, Houston Texas 77042, and its telephone number is 713-973-6675.

Table of Contents

Bellaire SurgiCare, Inc.

Bellaire owns and operates an ASC located in Houston, Texas. The ASC has been in operation for 14 years, first as The Institute for Eye Surgery, and since March of 1995, as Bellaire SurgiCare, Inc. (Bellaire). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology, as well as reconstructive and general surgery utilize this facility. The surgeons performing surgery at Bellaire generally charge their patients for the professional services they provide, while Bellaire only charges the patients for the facility fee. While Bellaire is currently a wholly-owned subsidiary of SurgiCare, we have begun the process of restructuring the ownership of the surgery center owned and operated by Bellaire to allow for the sale of investment interests to operating physicians in such surgery center. In 2003, there were 1,803 patients treated at Bellaire by approximately 30 doctors, 14 of which have an ownership interest in Bellaire.

SurgiCare Memorial Village, L.P.

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

San Jacinto Surgery Center, L.P.

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

Tuscarawas Ambulatory Surgery Center, LLC

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

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

Industry Overview

ASCs are licensed outpatient surgery centers, generally equipped and staffed for a wide variety of surgical procedures. These procedures are generally lower-risk and considered appropriate for the freestanding ambulatory setting. In recent years, government programs, private insurance companies, managed care organizations and self-insured employers have implemented various cost-containment measures to limit the growth of healthcare expenditures. These cost-containment measures, together with technological advances, have

Table of Contents

resulted in a significant shift in the delivery of healthcare services away from traditional inpatient hospitals to more cost-effective alternative sites, including ASCs. This shift is illustrated by an outpatient market study, performed by Verispan, L.L.C., that shows an 81% increase in surgeries provided outside traditional hospitals, over a 7-year period from 1996 to 2003.

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

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

Lower facility development costs;

More efficient use of staffing and space utilization; and

Specialized operating environment focused on cost containment.

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

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

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

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

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

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

Business Philosophy

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

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

Table of Contents

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

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

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

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

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

Strategy

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

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

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

Growth through selective domestic acquisitions and development of surgical facilities. SurgiCare typically targets the acquisition or development of surgery centers that provide high volume, non-emergency, lower risk procedures in several medical specialties. Our focus is on under-performing centers where acquisition prices are modest and the leverage returns for operational performance improvements is high. SurgiCare's development staff first identifies existing centers that are potential acquisition candidates. The candidates are then evaluated against SurgiCare's project criteria which may be expected to include several factors such as number of procedures currently being performed by the practice, competition from and the fees being charged by other surgical providers, relative competitive market position of the surgery centers under consideration, ability to contract with payors in the market and state certificate of need (CON) requirements for development of a new center. SurgiCare is in the process

Table of Contents

of identifying ASCs as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of centers, although there are no signed letters of intent or any verbal or other offers to acquire any surgery centers. SurgiCare expects that the acquisition of other surgery centers will take the form of mergers, stock-for-stock exchanges or stock-for-assets exchanges and that in most instances, the target company will wish to structure the business combination to be within the definition of a tax-free reorganization under Section 368 of the Code, as amended. SurgiCare may, however, use other acquisition structuring techniques including purchases of assets or stock for cash or cash and stock, or through formation of one or more limited partnerships or limited liability companies. SurgiCare will typically acquire a minority interest in a particular center.

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

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

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

Acquisition and Development of Surgery Centers

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

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

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

1. SurgiCare's model of minority interest, allowing the physicians or limited partners to own a majority of the center.
2. Simplified administrative procedures.
3. The ability to schedule consecutive cases without preemption by inpatient or emergency procedures.
4. Rapid turnaround time between cases.
5. The high technical competency of the center's clinical staff that performs only a limited number of specialized procedures, and state-of-the-art surgical equipment.

Table of Contents

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

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

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

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

Surgery Center Locations

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

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

AAAH Accreditation

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

Revenues

SurgiCare's principal source of revenues is a surgical facility fee charged to patients for surgical procedures performed in its surgery centers. SurgiCare depends upon third-party programs, including governmental and private health insurance programs to pay these fees on behalf of their patients. Patients are responsible for the co-payments and deductibles when applicable. The fees vary depending on the procedure, but usually include all

Table of Contents

charges for operating room usage, special equipment usage, supplies, recovery room usage, nursing staff and medications. Facility fees do not include the charges of the patient's surgeon, anesthesiologist or other attending physicians, which are billed directly to third-party payors by such physicians. In addition to the facility fee revenues, SurgiCare also earns management fees from its operating facilities and development fees from centers that it develops.

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

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

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

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

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

Competition

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

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

Managed Care Contracts

SurgiCare's participation in managed care contracts, often referred to as HMOs and PPOs, in most cases simply makes it more convenient and cost-effective for a potential patient to allow their doctor to choose a SurgiCare facility. Participation in most managed care contracts is helpful, but not material to SurgiCare's business. SurgiCare believes that its current centers can provide lower-cost, high quality surgery in a more comfortable environment for the patient in comparison to hospitals and to hospital-based surgery centers with

Table of Contents

which SurgiCare competes for managed care contracts. SurgiCare intends that any additional center which it may acquire will be similarly situated. In competing for managed care contracts, it is important that SurgiCare be able to show insurance companies that it provides quality healthcare at affordable, competitive prices.

Government Regulation

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

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

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

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

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

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

Reimbursement. SurgiCare depends upon third-party programs, including governmental and private health insurance programs; to reimburse its ASCs for services rendered to patients in its centers. In order to receive

Table of Contents

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

Medicare-Medicaid Illegal Remuneration Provisions. The anti-kickback statute makes unlawful knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe, or rebate) directly or indirectly to induce or in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under Medicare or Medicaid. Violation is a felony punishable by a fine of up to \$25,000 or imprisonment for up to five years, or both. The Medicare and Medicaid Patient Program Protection Act of 1987 (the 1987 Act) provides administrative penalties for healthcare practices which encourage over-utilization or illegal remuneration when the costs of services are reimbursed under the Medicare program. Loss of Medicare certification and severe financial penalties are included among the 1987 Act's sanctions. The 1987 Act, which adds to the criminal penalties under preexisting law, also directs the Inspector General of 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 stockholder, the operating physician has the potential to benefit from the profitability of the facility. Where a physician is in a position to direct referrals or business to an entity or facility in which such physician has an ownership interest, and, therefore will benefit from the financial profitability of such entity or facility, there is risk under federal and state law, including the Medicare-Medicaid Illegal Remuneration Provisions. If the facility where a surgeon performs surgery is considered an extension of the surgeon's practice, this may reduce the risk of a violation of the anti-kickback statutes of the Medicare-Medicaid Illegal Remuneration Provisions.

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

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

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

Prohibition on Physician Ownership of Healthcare Facilities. The Stark II provisions of the Omnibus Budget Reconciliation Act of 1993 amend the federal Medicare statute to prohibit a referral by a physician for designated health services to an entity in which the physician has an investment interest or other financial relationship, subject to certain exceptions. A referral under Stark II that does not fall within an exception is

Table of Contents

strictly prohibited. This prohibition took effect on January 1, 1995. Sanctions for violating Stark II can include civil monetary penalties and exclusion from Medicare and Medicaid.

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

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

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

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

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

Administrative Simplification and Privacy Requirements. There are currently numerous legislative and regulatory initiatives at the state and federal levels addressing patient privacy concerns. In particular, on December 28, 2000, DHHS released final health privacy regulations implementing portions of the Administrative Simplification Provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and in August 2002 published revisions to the final rules. These final health privacy regulations generally required compliance by April 14, 2003 and extensively regulate the use and disclosure of individually identifiable health-related information. In addition, HIPAA requires DHHS to adopt standards to protect the security of health-related information. DHHS released final security regulations on February 20, 2003. The security regulations will generally become mandatory on April 21, 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

Table of Contents

that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations became mandatory on October 16, 2002. However, entities that filed for an extension before October 16, 2002 had until October 16, 2003 to comply with the regulations. SurgiCare filed extensions for its centers before October 16, 2002, and we believe that we were in compliance with the standards by October 16, 2003. We believe that the cost of compliance with these regulations will not have a material adverse effect on our business, financial position or results of operations. If we fail to comply with these regulations, we could suffer civil penalties up to \$25,000 per calendar year for each provision violated and criminal penalties with fines of up to \$250,000 per violation. In addition, our facilities will continue to remain subject to any state laws that are more restrictive than the privacy regulations issued under HIPAA. These statutes vary by state and could impose additional penalties.

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

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

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

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

Employees

As of August 10, 2004, SurgiCare and its subsidiaries employed approximately 105 persons, 66 of whom were full-time employees and 39 of whom were part-time employees. Of the above, nine were employed at SurgiCare's corporate office in Houston, Texas and the remaining employees were employed by SurgiCare's surgery centers. These employees work in the following positions: corporate management (9); business office (15); administrators (3); nurses (58); and technicians (20). SurgiCare believes its relationship with its employees to be good. SurgiCare does not have any employment or labor contracts, except with its Chief Executive Officer and former Chief Financial Officer (see Note 18 to the accompanying financial statements in the Form 10-KSB included in Annex C to this proxy statement). Additionally, SurgiCare does not currently plan on having any such contracts with any operating physician on staff at any of its facilities. At this time, SurgiCare believes that all of its nurses and other employees have at-will employment relationships with SurgiCare.

SurgiCare's former Chief Financial Officer, Phillip C. Scott, terminated his employment with SurgiCare on June 25, 2004. Mr. Scott owns 80,000 shares of common stock (0.3% of our outstanding common

Table of Contents

stock). The total number of shares beneficially owned by Mr. Scott prior to giving effect to the Reverse Stock Split, including shares issuable upon exercise of unexercised warrants on or prior to October 9, 2004, is 2,215,478 shares, or 7.1% of the outstanding shares of common stock and shares issuable upon the exercise of such warrants. Mr. Scott's warrants have an exercise price of \$0.32 with the exception of 40,000 warrants which have an exercise price of \$0.45. These holdings would convert to approximately 221,547 shares of Class A common stock, which together is approximately 0.9% of the Fully-Diluted Orion Shares. Although Mr. Scott has not taken any formal legal action, the letter SurgiCare received from Mr. Scott on June 25, 2004, alleges claims for two years severance pay (which would total \$596,000), unpaid base salary in the amount of \$62,000, full vesting of all 1,149,138 remaining unvested warrants granted pursuant to the employment agreement, certain bonuses, expense reimbursement and warrant repricing.

Physician Stockholders

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

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

Description of Property

SurgiCare's principal office is located at 10700 Richmond, Suite 300, Houston, Texas 77042. The Richmond property is approximately 21,118 square feet, located on the 3rd floor of the building. This property is leased from an unaffiliated third party for an initial term that expires in September, 2011. Annual rental of \$295,652.04 is payable monthly in the amount of \$24,637.67 for months 1 through 38, and annual rental in the amount of \$316,770.00 is payable in the amount of \$26,397.50 for month 39 through 86. Additionally, a rent credit for SurgiCare's prior principal office lease for property at 12727 Kimberley Lane, Suite 200, Houston, Texas 77042 in the amount of \$134,373.33 shall be applied to the rent in equal monthly increments of \$4,976.79 for 27 consecutive calendar months commencing upon the first month of the lease. SurgiCare maintains tenant commercial general liability insurance, all risk property insurance, and other insurance on its property located in such building in an amount deemed adequate by SurgiCare. SurgiCare has also entered into a sublease agreement with MBS for 12,403 square feet of the Richmond property. The sublease will terminate upon the sooner of: (i) the consummation of the DCPS/MBS merger, or (ii) such time as SurgiCare, for any reason, is no longer the lawful lessee of the premises. MBS is currently paying SurgiCare a monthly rent equal to MBS's pro rata share of the rent for the 21,118 square foot property. The four surgery centers in operation on August 10, 2004 comprise lease space ranging from 10,000 to 14,000 square feet with remaining lease terms ranging from month-to-month to 8 1/2 years.

In June 2002, SurgiCare acquired five properties from American International Industries, Inc. ("AII"), 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. 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 22.38 acre tract of land located on the east side of US 59 at the Old Humble/Atascocita Road exit, and an adjacent 14.25 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,

Table of Contents

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 (collectively, the Properties). SurgiCare currently has contracts to sell two of these properties the tract adjacent to the Anahuac National Wildlife Refuge and the tract on Alameda Road. Pursuant to a December 11, 2002 agreement, AII guaranteed a resale price on the land of \$4 million, and agreed to make up for any shortfall.

On June 23, 2004, SurgiCare entered into an agreement with AII, which is the sole owner of all outstanding Series AA preferred stock, pursuant to which SurgiCare will issue 8,750,000 shares of its common stock (prior to giving effect to the Reverse Stock Split) to AII in exchange for the conversion of all 900,000 shares of Series AA preferred stock. The conversion of the Series AA preferred stock to common stock will take place upon the later to occur of the approval for listing of the shares of common stock on the AMEX or the fulfillment by AII of its obligations under the agreement to acquire the Properties and to assume or eliminate SurgiCare's obligations with respect thereto, and to pay SurgiCare \$250,000. On or about July 27, 2004 SurgiCare transferred the Properties to AII, and AII has no further obligations regarding the resale guarantee of the Properties in the December 11, 2002 agreement. If the conversion does not occur by July 30, 2004, SurgiCare is required by the certificate of designations of the Series AA preferred stock filed pursuant to the agreement to either convert or redeem 300,000 shares of Series AA preferred stock on each of July 30, 2004, June 4, 2005, and June 4, 2006. Each share of Series AA preferred stock would be convertible into the number of shares of common stock determined by the following formula: \$5.00 divided by the greater of (a) the average of the closing price of the common stock on the twenty trading days immediately preceding the conversion date or (b) \$0.41. The redemption price of each share of Series AA preferred stock would be \$5.00. The real property purchase agreement relating to the Properties between AII and SurgiCare states that AII will indemnify SurgiCare for expenses involved in the settlement of the termination of the contracts for the sale of the tract adjacent to the Anahuac National Wildlife Refuge and the tract on Alameda Road. SurgiCare filed a listing application for the listing of the shares of common stock and is waiting to receive approval of same from AMEX.

Legal Proceedings

On February 10, 2003, SurgiCare, Inc. was named as a defendant in a suit entitled *S.E. Altman v. SurgiCare, Inc.* S.E. Altman sued for breach of contract, alleging that SurgiCare did not pay monies owed under a Finders Fee Contract. Plaintiff asserted damages in the amount of \$217,000, plus interest and attorneys' fees. The case was dismissed in favor of arbitration. In March 2004, the parties executed a Settlement Agreement and Release of Claims to resolve the dispute in which SurgiCare agreed to issue Mr. Altman 540,000 shares of common stock in exchange for his services under the Finder's Fee Contract.

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 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 an interest rate of 10%, with an underlying settlement of approximately \$200,000 in the event of a breach in the payment plan. A balance of \$48,890.84 remains on this settlement as of July 14, 2004.

In April of 2003, International Diversified Corporation Limited sued SurgiCare, Inc. alleging breach of contract for SurgiCare's alleged failure to release shares of stock allegedly owed to International Diversified Corporation Limited. The parties signed a settlement agreement on or about August 26, 2003 whereby SurgiCare tendered the stock certificate to Plaintiff and released Plaintiff from its obligation to reimburse SurgiCare \$400,000 under the previous agreement. In addition, Plaintiff acquired a promissory note held by SurgiCare in the amount of \$223,177.78. Plaintiff currently claims a breach of this settlement agreement and has filed a Motion to Retain and an amended answer. At issue is whether SurgiCare had an obligation to release restrictions on the shares of stock it issued pursuant to the underlying contract and settlement. Plaintiff alleges damages in the amount of approximately \$350,000 for failure to release these restrictions in a timely manner.

Table of Contents

SurgiCare maintains that it has no such obligation and intends to file a motion for summary judgment to resolve the case.

On April 1, 2003, Jackson Walker brought suit against SurgiCare for breach of contract in relation to unpaid attorneys' fees. Jackson Walker claimed damages of \$52,247.18, plus interest. The parties filed an agreed judgment on or about June 21, 2004 for \$40,000.00.

On April 13, 2004, David Russell as Trustee for McIntosh Charitable Remainder Unitrust and Elizabeth Osher brought a garnishment action against SurgiCare, seeking any property that SurgiCare might owe to Odyssey Capital, L.L.C. and Odyssey Capital Investments, L.P. This garnishment action followed a lawsuit whereby Plaintiffs obtained a judgment against Odyssey Capital, L.L.C. and Odyssey Capital Investments, L.P. On June 7, 2004, SurgiCare filed an answer requesting that the court allow it to place the warrants, which are allegedly owed to Odyssey Capital, L.L.C., in the registry of the court, thus removing SurgiCare from this controversy.

On April 14, 2003, SurgiCare, Inc. was named as a defendant in a suit entitled A.I. International Corporate Holdings, Ltd. v. SurgiCare, Inc. in the U.S. District Court for the Southern District of New York. Subsequently, SurgiCare filed suit against A.I. International Corporate Holdings, Ltd. and First National Bank, S.A.L. of Lebanon in the 215th Judicial District Court of Harris County, Texas. The New York case involves allegations that SurgiCare defaulted on its loan agreement. The plaintiffs in the New York case are suing SurgiCare for \$834,252 representing the loan amount and interest, plus \$219,000, representing damages for No-filing Charges and Non-Effective Charges under the contract. SurgiCare's lawsuit in Texas asserted that the loan agreement is usurious. The parties have reached an agreement to settle this matter which will close after the consummation of the Transactions. Pursuant to this settlement, SurgiCare will pay Plaintiffs \$220,000 in cash and issue 2,100,000 shares of SurgiCare common stock (210,000 shares on a post-Reverse Stock Split basis) after the closing of the Transactions.

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 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 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 Messrs. 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. AII has agreed to indemnify SurgiCare, Inc., Keith LeBlanc and Philip Scott for all claims asserted in this litigation by agreement dated June 23, 2004.

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, should not 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.

Table of Contents**Stock Price Data**

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

Fiscal 2004

	<u>High</u>	<u>Low</u>
Quarter ended March 31, 2004	\$0.67	\$0.35
Quarter ended June 30, 2004	\$0.52	\$0.31

Fiscal 2003

	<u>High</u>	<u>Low</u>
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

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

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

Holdings

SurgiCare believes that as of June 30, 2004, there were approximately 412 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 August 10, 2004, there were 52,091 options outstanding.

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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 and the number of warrants outstanding as of August 10, 2004 to employees or former employees was 5,706,761 with exercise prices ranging from \$0.32 to \$2.00, and with a weighted average exercise price of \$0.425 per share. There were

Table of Contents

no changes in the exercise price of outstanding warrants through cancellation and re-issuance or otherwise, except price changes resulting from the normal operation of anti-dilution provisions of the warrants.

Incorporation by Reference

We incorporate by reference in this proxy statement the following documents which have been previously filed with the SEC and are attached to this proxy statement as Annex C and Annex P:

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

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

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

Our quarterly report on Form 10-QSB for the quarter ended June 30, 2004, which contains:

Our unaudited financial statements for the quarter ended June 30, 2004; and

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

Table of Contents

INFORMATION ABOUT IPS

Description of Business

Overview

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

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

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

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

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

IPS owns all the assets used in the operation of the medical groups and the physicians are equity owners in IPS. IPS manages the day-to-day business operations of each medical group and provides the assets for the physicians to use in their practice, for a fixed fee or percentage of the net operating income of the medical group. All revenues are collected by IPS, the fixed fee or percentage payment to IPS is taken from the net

Table of Contents

operating income of the medical group and the remainder of the net operating income of the medical group is paid to the physicians as a salary and treated as an expense on IPS's accounting records. This accounting method is allowed by Emerging Issues Task Force (EITF) 97-2.

Customers

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

Competition

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

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

Government Regulation

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

Employees

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

Description of Property

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

Legal Proceedings

On January 1, 1999, IPS acquired Children's Advanced Medical Institutes, Inc. (CAMI) in a merger transaction. On that same date, IPS began providing management services to the Children's Advanced Medical Institutes, P.A. (the P.A.), an entity owned by the physicians affiliated with CAMI. The parties' rights and obligations were memorialized in a merger agreement, a management services agreement and certain other agreements.

On February 7, 2000, the P.A., certain physicians affiliated with the P.A., and the former shareholders of CAMI filed suit against IPS in the U.S. District Court for the Northern District of Texas, Dallas Division, Civil Action File No. 3-00-CV-0536-L. On May 9, 2001, IPS (which was formerly known as Pediatric Physician Alliance, Inc.) filed suit against the P.A., certain physicians who were members of the P.A., and Patrick Solomon as Escrow Agent of CAMI. The case was filed in the U.S. District Court for the Northern District of Texas, Dallas Division, Civil Action File No. 3-01CV0877-L. Certain settlements were reached in the cases.

Table of Contents

The two cases were referred to arbitration pursuant to the arbitration clauses in the agreements between the parties. The arbitration includes all remaining claims in both lawsuits.

The P.A., the physicians and the former shareholders of CAMI seek recovery of premerger accounts receivable they claim were collected by IPS after the merger, but belong to CAMI under the merger agreement and agreements between CAMI and the affiliated physicians. IPS has asserted a right of set-off for over-payments that it made after the merger to the physicians. IPS also asserts a claim against the physicians for breach of the management services agreement and other agreements. In their complaint, the P.A., the former shareholders of CAMI and the physicians assert a claim against IPS for approximately \$500,000 (which includes interest and attorneys' fees) for which IPS has accrued approximately \$540,000 prior to 2003 for possible losses related to this claim. IPS asserted a claim against the physicians for over \$5,000,000 due to the overpayments and their alleged breach of the agreements. An arbitration hearing was held on the claim filed by the former shareholders of CAMI in January 2004, and the Arbitrator issued an award against IPS in the amount of approximately \$517,000. IPS is seeking reversal/ modification of that award in the District Court. IPS's claims against the physicians are still pending.

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 June 30, 2004. There were 759,111 options outstanding as of June 30, 2004. There were 357,500 warrants outstanding as of June 30, 2004. There were 2,223,403 shares of preferred stock outstanding and convertible into shares of common stock as of June 30, 2004. 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 three and six months ended June 30, 2004 and 2003 and the years ended 2003 and 2002 and related notes thereto appearing in Annex I to this proxy statement.

Overview of Business Operations

General

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

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

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

Table of Contents*Certain Recent Developments*

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

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

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

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

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

Critical Accounting Policies and Estimates

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

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

Table of Contents

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

On September 19, 2003, IPS entered into a Mutual Release and Settlement Agreement (the Settlement Agreement) with Dr. Jane Kao and PediApex Heart Center for Children, P.A. (the Heart Center) to settle disputes as to the existence and enforceability of certain contractual obligations. As part of the Settlement Agreement, Dr. Kao, the Heart Center and IPS agreed that, until December 31, 2004, each party would conduct their operations under the terms established by the MSA. Additionally, among other provisions, after December 31, 2004, Dr. Kao and the Heart Center will be released from any further obligation to IPS arising from any previous agreement, and Dr. Kao will purchase the accounts receivable related to the Heart Center and IPS will terminate its ownership and management agreement with the Heart Center. The operating results of the Heart Center are not included in the consolidated statements of operations of IPS after September 19, 2003 because this medical group does not meet the criteria for consolidation after that date in accordance with EITF 97-2.

Revenue Recognition. IPS records revenue based on patient services provided by its affiliated medical groups and for services provided by IntegriMED to its customers. Net patient service revenue is impacted by billing rates, changes in Current Procedural Terminology (CPT) code reimbursement and collection trends. IPS reviews billing rates at each of its affiliated medical groups on at least an annual basis and adjusts those rates based on each insurer's current reimbursement practices. Amounts collected by IPS for treatment by its affiliated medical groups of patients covered by Medicare, Medicaid and other contractual reimbursement programs, which may be based on cost of services provided or predetermined rates, are generally less than the established billing rates of IPS's affiliated medical groups. IPS estimates the amount of these contractual allowances and records a reserve against accounts receivable based on historical collection percentages for each of the affiliated medical groups, which include various payer categories. When payments are received, the contractual adjustment is written off against the established reserve for contractual allowances. The historical

Table of Contents

collection percentages are adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. Additionally, IPS tracks cash collection percentages for each medical group on a monthly basis, setting quarterly and annual goals for cash collections, bad debt write-offs and aging of accounts receivable. IPS is not aware of any material claims, disputes or unsettled matters with third-party payers and there have been no material settlements with third party payers for the years ended December 31, 2003 and 2002.

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

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

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

Goodwill and Other Intangible Assets. In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates pooling-of-interest accounting and requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires IPS to evaluate goodwill for impairment on an annual basis by applying a fair value test. SFAS No. 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value-based approach at least annually.

IPS adopted SFAS No. 142 effective January 1, 2002. As a result, IPS determined that its long-term MSAs, executed as part of the medical group business combinations consummated in 1999, are an identifiable intangible asset in accordance with paragraph 39 of SFAS No. 141. Effective January 1, 2002, previously recorded goodwill was allocated to the identifiable intangible assets the MSAs which arise as a result of the contractual rights of IPS with respect to those agreements. IPS has determined that the appropriate estimate of the useful economic life of the MSAs and the resulting amortization period is 25 years. This determination is based on the following facts and circumstances: (1) the MSAs are 40 year contracts, with 35 years remaining as of December 31, 2003. Most of the medical groups owned by PPA have been in existence for many years, some for as long as 60 years. Given that the MSA contracts are with the physician groups from whom PPA originally purchased the clinics in 1999, the composition of the individual physicians within the physician group has little impact on the term or enforceability of the MSAs. As individual physicians terminate their relationship with the physician groups, they are required by the MSA to find a replacement, unless that particular contract provision is waived by IPS; (2) each individual physician who practices as part of the

Table of Contents

physician groups has a non-compete agreement which restricts the physician's ability to see patients within a defined geographic area, depending on the specific nature of the type of medical group. For example, a very specialized practice, such as pediatric cardiology or neonatology has a broader non-compete geographic area than a general pediatric practice. General pediatric practices typically draw patients within a very small geographic region, and these pediatricians spend years developing a patient base and reputation. Moving a medical practice outside of the non-compete area for any of these practices would require a significant amount of time and effort to re-build a patient base and establish a satisfactory reputation; (3) the clinics owned by IPS consist of a pediatric cardiology practice, a hospital-based neonatology practice, an allergy specialist practice and five general pediatric practices. All of these types of practices have very stable operations, either because of the type of specialty, or the length of time the practice has been in operation in a specific area; (4) although two of the medical groups will have terminated their relationship with IPS by the end of 2004 (NIP was sold in 2002 and the remaining individual pediatric cardiologist relationship with IPS will end on December 31, 2004), there are very unusual circumstances involved in both situations and these terminations are not an indication of a probable economic life of the MSAs. The physician group from whom IPS originally purchased NIP offered to purchase the clinic from IPS at a time when the physician group was attempting to challenge the enforceability of the MSA. IPS concluded that the selling price of approximately \$2 million and the resulting gain on sale of approximately \$245,000 outweighed the cost of trying to enforce the MSA. The Heart Center was originally part of a clinic purchased by IPS where all of the other physicians abandoned the clinic and disregarded the MSA in 2001. IPS is seeking restitution through arbitration from these physicians and certain other hospitals, but maintain that the MSA is enforceable. IPS tested its intangible assets for impairment under the new standard in the fourth quarter of 2002, determining that no impairment had occurred for the year ended December 31, 2002. In the third quarter of 2003, IPS tested the intangible assets for impairment using several different methodologies, including comparisons of the medical groups' earnings before interest, taxes, depreciation and amortization (EBITDA), sales multiples of EBITDA, terminal value to intangible assets and present value of future cash flows. As a result, IPS recorded a \$2,598,029 charge for impairment of intangible assets, primarily related to the agreement signed on September 19, 2003, which releases the Heart Center from the MSA on December 31, 2004. IPS has also determined that, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, this component does not qualify for discontinued operations treatment until it is disposed of at the end of 2004. However, the operations and assets and liabilities of this component are not included in the consolidated statements of operations and balance sheets after September 19, 2003 because this medical group does not meet the criteria for consolidation after that date in accordance with EITF 97-2.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. Many such instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for fiscal years beginning after December 15, 2004 for nonpublic entities. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance of the date of 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, Guarantors 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

Table of Contents

December 31, 2002. The application of the requirements of FIN 45 did not have any impact on IPS's financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. FIN No. 46 (as revised in December 2003) clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at 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.

	Six Months Ended June 30,		Twelve Months Ended December 31,	
	2004	2003	2003	2002
Revenues:				
Net patient service revenue	98.6%	99.2%	98.2%	99.2%
IntegriMED and other	1.4%	0.8%	1.8%	0.8%
Total revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Physician compensation	39.1%	42.8%	42.0%	43.3%
Direct clinical expenses	22.8%	19.7%	20.4%	19.1%
Operating expenses	22.5%	17.0%	17.3%	17.3%
General and administrative expenses	16.7%	14.4%	14.5%	13.8%
Provision for bad debts	5.2%	8.1%	7.5%	7.4%
Professional and consulting fees	3.0%	3.6%	3.8%	4.1%
Depreciation and amortization	2.8%	2.8%	2.7%	3.3%
Charge for impairment of intangible assets	0.0%	0.0%	11.0%	0.0%
Total operating expenses	112.1%	108.4%	119.2%	108.3%
Loss from continuing operations before other income (expenses) and income taxes	(12.1)%	(8.4)%	(19.2)%	(8.3)%
Other income (expenses)				
Interest expense	(4.7)%	(2.8)%	(3.3)%	(2.7)%
Other expenses	(0.1)%	(0.2)%	(0.1)%	(0.1)%
Total other income (expenses)	(4.8)%	(3.0)%	(3.4)%	(2.8)%
Loss from continuing operations before income taxes	(16.9)%	(11.4)%	(22.6)%	(11.1)%
Income taxes	0.0%	(0.0)%	0.0%	0.0%
Loss from continuing operations	(16.9)%	(11.4)%	(22.6)%	(11.1)%
Discontinued operations				
Income from operations of discontinued components, including gain on disposal of \$245,438 in 2002	0.0%	0.0%	0.0%	2.1%

Table of Contents

	Six Months Ended June 30,		Twelve Months Ended December 31,	
	2004	2003	2003	2002
Net loss	(16.9)%	(11.4)%	(22.6)%	(9.0)%
Preferred stock dividends	(3.3)%	(3.3)%	(3.1)%	(3.6)%
Net loss attributable to common stockholders	(20.2)%	(14.7)%	(25.7)%	(12.6)%

Year Ended December 31, 2003 as Compared to Year Ended December 31, 2002

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

	2003	2002	Variance
Revenues:			
Net patient service revenue	\$23,123,671	\$22,149,751	\$ 973,920
IntegriMED and other	421,851	174,918	246,933
Total revenues	23,545,522	22,324,669	1,220,853
Operating expenses:			
Physician compensation	9,890,143	9,668,073	222,070
Direct clinical expenses	4,799,551	4,267,596	531,955
Operating expenses	4,068,408	3,860,027	208,381
General and administrative expenses	3,415,386	3,076,857	338,529
Provision for bad debts	1,758,819	1,660,516	98,303
Professional and consulting fees	885,973	912,795	(26,822)
Depreciation and amortization	643,371	730,660	(87,289)
Charge for impairment of intangible assets	2,598,029		2,598,029
Total operating expenses	28,059,679	24,176,524	3,883,155
Loss from continuing operations before other income (expenses) and income taxes	(4,514,158)	(1,851,855)	(2,662,302)
Other income (expenses)			
Interest expense	(784,008)	(599,392)	(184,616)
Other expense	(23,580)	(31,077)	7,498
Total other income (expenses)	(807,588)	(630,469)	(177,119)
Loss from continuing operations before income taxes	(5,321,745)	(2,482,324)	(2,839,421)
Income taxes			
Loss from continuing operations	(5,321,745)	(2,482,324)	(2,839,421)
Discontinued operations			
Income from operations of discontinued components, including gain on disposal of \$245,438 in 2002		463,330	(463,330)

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Net loss	(5,321,745)	(2,018,994)	(3,302,751)
Preferred stock dividends	(738,085)	(793,000)	54,915
	<u> </u>	<u> </u>	<u> </u>
Net loss attributable to common stockholders	\$ (6,059,830)	\$ (2,811,994)	\$ (3,247,836)
	<u> </u>	<u> </u>	<u> </u>

Net patient service revenue increased \$973,920, or 4.4%, to \$23,123,671 for the year ended December 31, 2003, as compared with \$22,149,751 for the same period in 2002. Under EITF 97-2, which governs the ability of a PPM to consolidate the operations of a medical group with which it has a contractual relationship, effective September 19, 2003, the Heart Center is no longer being consolidated into IPS financial statements. This

Table of Contents

change in consolidation resulted in a \$788,396 reduction in net patient service revenue in 2003. Heart Center operations were fully consolidated in 2002. Including the Heart Center, net patient service revenue for the year ended December 31, 2003 increased \$1,762,316 over the same period in 2002. This increase in net patient service revenue was primarily the result of: (i) price increases implemented by several medical groups during the year; (ii) increased patient volume as a result of two medical groups extending their clinic hours to evenings and weekends; (iii) five additional providers added in 2003; and (iv) improved managed care contract negotiations.

IntegriMED and other revenues were \$174,918 in 2002, increasing 141.2%, or \$246,933, to \$421,851 for the year ended December 31, 2003. Management fee revenue related to the Heart Center, which was fully consolidated in 2002 and eliminated in consolidation, was ineligible for consolidation under EITF 97-2 after September 19, 2003. Management fee revenue totaling \$50,766 was recorded for the remainder of September and the fourth quarter of 2003. Of the total remaining increase, \$62,671 relates to additional net revenue related to the operations of IntegriMED, as ten new customer practices were added to the employee benefits programs and practice management, electronic medical records and electronic data interchange applications offered by IntegriMED. Revenue from the IPS Vaccine Alliance, a group purchasing alliance for vaccines and medical supplies increased \$133,496 over 2002 to \$213,797.

Pursuant to the terms of the MSAs governing each of IPS's affiliated medical groups, the physicians of each medical group are compensated after the payment of all clinic facility expenses as well as a management fee to IPS. The management fee revenue and expense, which is eliminated in the consolidation of the financial statements, is either a fixed fee, or is calculated based on a percentage of net operating income and represented approximately 14.3% of physician medical group net operating income in 2003 compared to 14.6% in 2002. Physician compensation increased \$222,070, or 2.3%, for the year ended December 31, 2003 to \$9,890,143, as compared with \$9,668,073 for the year ended December 31, 2002. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$287,684 reduction in physician compensation in 2003. Including the Heart Center, physician compensation for the year ended December 31, 2003 increased \$509,754 over the same period in 2002. As a percentage of net patient service revenue, physician compensation decreased 1.3% to 42.0% in 2003, because of increasing medical group expenses. The increase in compensation in 2003 was directly related to an increase in net patient service revenue, which was primarily the result of: (i) price increases implemented by several medical groups during 2003; (ii) increased patient volume as a result of lengthened clinic hours; and (iii) additional providers added in 2003.

Direct clinical expenses are directly related to the practice of medicine by the physicians who practice at the affiliated medical groups managed by IPS. For the year ended December 31, 2003, direct clinical expenses increased \$531,955, or 12.5%, from the same period in 2002 to \$4,799,551. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$62,802 reduction in direct clinical expenses in 2003. Heart Center operations were fully consolidated in 2002. Including the Heart Center, 2003 direct clinical expenses increased \$594,757 over the year ended December 31, 2002. As a percentage of total revenue, direct clinical expenses increased slightly, from 19.1% in 2002 to 20.4% in 2003. Vaccine and medical supplies expense for IPS's affiliated medical groups accounted for \$348,365 of the increase, which is directly related to the increase in patient volume during the year. Additionally, the price of several key vaccines used by the affiliated medical groups increased in 2003 when compared to 2002. The remainder of the increase was primarily the result of approximately \$230,000 in additional salary and employee benefits expense related to the hiring of new nurse practitioners and nurses in 2003 to support the added patient volume associated with extended clinic hours and the addition of new physician providers at several affiliated medical groups.

Operating expenses represent the employee-related costs of all non-clinical practice personnel and the IPS corporate staff in Roswell, Georgia. Operating expenses increased \$208,381, or 5.4%, from \$3,860,027, for the year ended December 31, 2002 to \$4,068,408 for the same period in 2003. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$32,602 reduction in operating expenses in 2003. Heart Center operations were fully consolidated in 2002. Including the Heart Center, operating expenses for the twelve months ended December 31, 2003 increased \$240,983 over the year ended December 31, 2002. This increase can be attributed primarily to: (i) eight new employees hired in response to growth in the IntegriMED business; and (ii) the growing costs associated with medical benefits offered to IPS employees, as well as cost of

Table of Contents

living adjustments to employee compensation. As a percentage of total revenue these expenses were consistent with the prior year at 17.3%.

General and administrative expenses were \$3,415,386 for the year ended December 31, 2003, which represents an increase of 11.0% over the same period in 2002. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$83,136 reduction in general and administrative expenses in 2003. Heart Center operations were fully consolidated in 2002.

Including the effect of the Heart Center, general and administrative expenses for the twelve months ended December 31, 2003 increased \$421,665 over the year ended December 31, 2002. The increase was primarily due to: (i) a 31.4%, or \$107,639, increase in professional liability insurance for affiliated physicians; (ii) rent increases totaling \$37,546 related to medical group facilities, IPS's corporate office in Roswell, Georgia and a new IntegriMED satellite sales office in Charlotte, North Carolina; (iii) a \$58,014 increase in equipment leasing and data communications expenses related to IntegriMED; and (iv) a \$177,168 increase in bank charges in 2003 as a result of revolving credit facility over-advances beginning in August 2002.

The provision for bad debts increased \$98,303 for the year ended December 31, 2003. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$227,745 reduction in bad debt expense in 2003. Heart Center operations were fully consolidated in 2002. Including the Heart Center, bad debt expense for the twelve months ended December 31, 2003 increased \$326,048 over the year ended December 31, 2002. As a percentage of total revenue, bad debt expense was consistent with the prior year. The total collection rate after contractual allowances, for IPS's affiliated medical groups was 61.4% in 2003, which was comparable to a 61.2% rate in 2002.

Professional and consulting fees, which totaled \$885,973 for the year ended December 31, 2003, decreased \$26,822 from the same period in the prior year. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$43,205 reduction in professional and consulting fees in 2003. Heart Center operations were fully consolidated in 2002. Including the Heart Center, professional and consulting fees for the twelve months ended December 31, 2003 increased \$16,383 over the year ended December 31, 2002.

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates pooling-of-interest accounting and requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires IPS to evaluate goodwill for impairment on an annual basis by applying a fair value test. SFAS No. 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value-based approach at least annually.

IPS adopted SFAS No. 142 effective January 1, 2002. As a result, IPS determined that its long-term MSAs, executed as part of the medical group business combinations consummated in 1999, are an identifiable intangible asset in accordance with paragraph 39 of SFAS No. 141. Effective January 1, 2002, previously recorded goodwill was allocated to the intangible assets—the MSAs, which arise as a result of the contractual rights of IPS with respect to those agreements. The MSAs are 40-year contracts; however, IPS is amortizing the intangible assets over 25 years. IPS tested its intangible assets for impairment under the new standard in the fourth quarter of 2002, determining that no impairment had occurred for the year ended December 31, 2002.

Depreciation and amortization expense totaled \$643,371 in 2003, a decrease of \$87,289 from the year ended December 31, 2002. Amortization expense related to the MSAs totaled \$485,870 and \$522,993 for the years ended December 31, 2003 and 2002, respectively. Amortization expense for intangible assets decreased \$37,123 for the year ended December 31, 2003, which represents the amortization related to the intangible assets associated with the Heart Center, which were written off effective September 19, 2003. The decrease in depreciation expense relates solely to retirements of fixed assets at the affiliated medical groups and corporate office during 2003.

In the third quarter of 2003, IPS tested the intangible assets for impairment using several different methodologies, including comparisons of the medical groups' earnings before interest, taxes, depreciation and amortization (EBITDA), sales multiples of EBITDA, terminal value to intangible assets and present value of

Table of Contents

future cash flows. As a result, IPS recorded a \$2,598,029 charge for impairment of intangible assets, primarily related to the agreement signed on September 19, 2003, which releases the Heart Center from the MSA on December 31, 2004. IPS has also determined that, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, this component does not qualify for discontinued operations treatment until it is disposed of at the end of 2004.

Interest expense increased \$184,616 or 30.8%, to \$784,008 for the year ended December 31, 2003. The increase over 2002 can be explained generally by the following events:

On March 26, 2003, IPS refinanced with DVI Financial Services (DVI FS) its \$2,075,000 five-year term loan, with an effective interest rate of 10.75%, with a new \$3 million five-year term loan. The new loan bears interest at the 31-month Treasury note rate, which is currently equal to 9.0%. The decrease in interest rate, net of the increase in note principal, will reduce interest expense approximately \$20,000 per year over the term of the new loan.

On July 31, 2003, Brantley Capital exchanged 329,500 shares of the IPS Series A-2 redeemable convertible preferred stock in exchange for a convertible debenture in the amount of \$1,318,000, bearing interest at 10% per annum.

Additionally, IPS borrowed \$1,640,000 from Brantley Capital and its affiliate, Lakepoint Acquisition, Inc., for ongoing working capital needs.

Other expenses, which totaled \$23,580 for the year ended December 31, 2003 and represent franchise taxes at IPS's affiliated medical groups, were comparable to 2002. The change in consolidation status of the Heart Center effective September 19, 2003 resulted in a \$455 reduction in other expenses in 2003. Heart Center operations were fully consolidated 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. Dividends accrue, even if not declared, and may 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, or continue to accrue until such time as payment is demanded by the preferred stockholders. Preferred stock dividends in the amount of \$738,085 and \$793,000 were accrued for the years ended December 31, 2003 and 2002, respectively. No cash payments of dividends were made in 2003 or 2002.

	Six Months Ended June 30,		Twelve Months Ended December 31,	
	2004	2003	2003	2002
Revenues:				
Net patient service revenue	98.6%	99.2%	0.0%	99.2%
IntegriMED and other	1.4%	0.8%	1.8%	0.8%
Total revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Physician compensation	39.1%	42.8%	42.0%	43.3%
Direct clinical expenses	22.8%	19.7%	20.4%	19.1%
Operating expenses	22.6%	17.0%	17.3%	17.3%
General and administrative expenses	16.7%	14.4%	14.5%	13.8%
Provision for bad debts	5.2%	8.1%	7.5%	7.4%
Professional and consulting fees	3.0%	3.7%	3.8%	4.1%
Depreciation and amortization	2.8%	2.8%	2.7%	3.3%
Charge for impairment of intangible assets	0.0%	0.0%	11.0%	0.0%
Total operating expenses	112.0%	108.4%	119.2%	108.3%

Table of Contents

	Six Months Ended June 30,		Twelve Months Ended December 31,	
	2004	2003	2003	2002
Loss from continuing operations before other income (expenses) and income taxes	(12.0)%	(8.4)%	(19.2)%	(8.3)%
Other income (expenses)				
Interest expense	(4.6)%	(2.8)%	(3.3)%	(2.7)%
Other expenses	(0.1)%	(0.1)%	(0.1)%	(0.1)%
Total other income (expenses)	(4.8)%	(2.9)%	(3.4)%	(2.8)%
Loss from continuing operations before income taxes	(16.8)%	(11.4)%	(22.6)%	(11.1)%
Income taxes	0.0%	(0.0)%	0.0%	0.0%
Loss from continuing operations	(16.8)%	(11.3)%	(22.6)%	(11.1)%
Discontinued operations				
Income from operations of discontinued components, including gain on disposal of \$245,438 in 2002	0.0%	0.0%	0.0%	2.1%
Net loss	(16.8)%	(11.3)%	(22.6)%	(9.0)%
Preferred stock dividends	(3.3)%	(3.3)%	(3.1)%	(3.6)%
Net loss attributable to common stockholders	(20.1)%	(14.6)%	(25.7)%	(12.6)%

Six Months Ended June 30, 2004 as Compared to Six Months Ended June 30, 2003

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

	6/30/2004	6/30/2003	Variance
	(Unaudited)	(Unaudited)	
Revenues:			
Net patient service revenue	\$ 9,953,874	\$ 11,973,607	\$ (2,019,733)
IntegriMED and other	139,787	99,529	40,258
Total revenues	10,093,661	12,073,136	(1,979,476)
Operating expenses:			
Physician compensation	3,943,436	5,163,039	(1,219,603)
Direct clinical expenses	2,303,619	2,378,618	(74,999)
Operating expenses	2,277,444	2,054,552	222,892
General and administrative expenses	1,685,156	1,738,525	(53,369)
Provision for bad debts	526,543	976,124	(449,581)
Professional and consulting fees	303,581	444,670	(141,090)
Depreciation and amortization	278,494	335,875	(57,381)
Charge for impairment of intangible assets			
Total operating expenses	11,318,273	13,091,403	(1,773,131)

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Loss from continuing operations before other income (expenses) and income taxes	(1,224,612)	(1,018,267)	(206,345)
Other income (expenses)			
Interest expense	(468,910)	(341,858)	(127,052)
Other expenses	(13,325)	(13,915)	590
	<u>(482,235)</u>	<u>(355,773)</u>	<u>(126,462)</u>

125

Table of Contents

	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>Variance</u>
Loss from continuing operations before income taxes	(Unaudited) (1,706,847)	(Unaudited) (1,374,040)	(337,807)
Income taxes			
Loss from continuing operations	(1,706,847)	(1,374,040)	(337,807)
Discontinued operations			
Income from operations of discontinued components			
Net loss	(1,706,847)	(1,374,040)	(337,807)
Preferred stock dividends	(330,600)	(396,502)	65,902
Net loss attributable to common stockholders	\$ (2,037,447)	\$ (1,770,542)	\$ (266,905)

Net patient service revenue decreased \$2,019,733, or 16.9%, to \$9,953,874 for the six months ended June 30, 2004, as compared with \$11,973,607 for the same period in 2003. Net revenue generated by the Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, accounted for \$1,505,083, or 74.5%, of the decrease. Net patient service revenue at IPS office-based general pediatric medical groups decreased \$738,873 in the first six months of 2004, when compared to the same period in 2003, primarily as a result of productivity decreases related to a slower than expected flu and cold season. New and established office visits, which totaled 89,328 for the first six months of 2003, decreased 15.7% to 75,272 for the same period in 2004. Additionally, there were 4,274, or 10.2%, fewer immunizations administered during the first six months of 2004 when compared to the same period in 2003. Net patient service revenue at two of IPS specialty practices increased \$224,223, collectively, which partially offset the revenue decline at IPS primary care medical groups. The pediatric allergy & respiratory disease group performed 125,774 procedures in the first six months of 2004, an increase of 9.3% over the first two quarters of 2003, and posted a net revenue increase of \$201,251 over the same period in 2003. There were 6.5 full time equivalent (FTE) providers at a pediatric neonatology practice for the six months ended June 30, 2004 as compared to 5.0 FTE providers for the same period in 2003, which factored into a net revenue increase of \$22,972 in the first half of 2004.

IntegriMED and other revenues, which totaled \$99,529 for the six-month period ended June 30, 2003, increased to \$139,787 for the first six months of 2004. Management fee revenue related to the Heart Center, which was consolidated in the first quarter of 2003 and the management fee eliminated in consolidation, but is not eligible for consolidation under EITF 97-2 in 2004, totaling \$64,800 was recorded in the first half of 2004. Net revenue from the operations of IntegriMED decreased \$17,404 in the first six months of 2004 when compared to the same period in 2003. While new customer practices were added to the employee benefits programs and practice management, electronic medical records and electronic data interchange applications offered by IntegriMED in the last three quarters of 2003, which accounted for increases of \$48,987 and \$22,699 in subscription fee revenue and training revenue, respectively, over the first two quarters of 2003, there were several factors which accounted for the decrease in net revenue. First, two of the new practices added to the IntegriMED suite of applications in 2003 were medical groups affiliated with IPS and the resulting revenue, which totaled \$56,111 for the six months ended June 30, 2004, was eliminated in consolidation. Additionally, training costs rose at a rate greater than the revenue generated, largely as a result of the use of third party trainers and the hiring of new training and implementation specialists, which did not have an immediate impact on revenue due to the necessity of internal training and certification on the applications offered by IntegriMED. Net revenue from the IPS Vaccine Alliance, a group purchasing alliance for vaccines and medical supplies, for the six months ended June 30, 2004 increased \$17,243 over the same period in 2003.

Pursuant to the terms of the MSAs governing each of IPS 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 14.0% of physician medical group net operating income for the six months ended June 30, 2004 compared to 14.4% for the same period in 2003. Physician compensation decreased \$1,219,603, or 23.6%, for the

Table of Contents

six-month period ended June 30, 2004 to \$3,943,436, as compared with \$5,163,039 for the six months ended June 30, 2003. Physician compensation for the Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, was \$593,247 for the six months ended June 30, 2003. As a percentage of net patient service revenue, physician compensation decreased 3.7% to 39.1% for the first two quarters of 2004. The decrease in compensation in the first six months of 2004 was directly related to a decrease in net patient service revenue, which was primarily the result of productivity decreases at IPS office-based general pediatric medical groups related to a slower than expected flu and cold season.

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 six months ended June 30, 2004, direct clinical expenses decreased \$74,999 from the same period in 2003 to \$2,303,619. Direct clinical expenses for the Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, were \$132,943 for the six months ended June 30, 2003. The year over year increase in direct clinical expenses, excluding the effect of the Heart Center, was the result of the following: (i) a \$42,290 increase in nursing and other clinical salaries as the result of merit increases and cost of living adjustments; (ii) a 44.6% increase in health insurance benefits costs; and (iii) an \$8,247 increase in the continuing medical education costs incurred by affiliated physicians in the first six months of 2004.

Operating expenses represent the employee-related costs of all non-clinical practice personnel and IPS corporate staff in Roswell, Georgia. Operating expenses increased \$222,892 from \$2,054,552 for the six months ended June 30, 2003 to \$2,277,444 for the six months ended June 30, 2004. The operating expenses associated with the Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, totaled \$45,966 for the first two quarters of 2003. The year over year increase in operating expenses, excluding the effect of the Heart Center, is primarily the result of hiring 13.5 FTE employees at the corporate and IntegriMED levels in the second half of 2003 and the first half of 2004. As a percentage of total revenue, operating expenses increased from 17.0% for the six months ended June 30, 2003 to 22.5% for the same period in 2004. Although four additional help desk technicians and two additional training and implementation specialists were hired between the second quarter of 2003 and the second quarter of 2004 in response to growth in the IntegriMED business, these employees did not have an immediate impact on IntegriMED revenue due to the necessity of internal training and certification on the applications offered by IntegriMED.

General and administrative expenses were \$1,685,156 for the six months ended June 30, 2004, which represents a \$53,369, or 3.1%, decrease from the same period in 2003. General and administrative expenses for the Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, were \$147,683 for the six months ended June 30, 2003. The year over year increase in administrative expenses, excluding the effect of the Heart Center, was the result of the following: (i) an 18.7%, or \$54,778, increase in professional liability insurance for affiliated physicians; (ii) a \$25,152 increase in equipment leasing and data communications expenses related to IntegriMED; and (iii) a \$29,874 increase in direct mail marketing communications for IntegriMED.

The provision for bad debts decreased \$449,581 for the six months ended June 30, 2004. The Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, recorded bad debt expense totaling \$415,413 for the six months ended June 30, 2003. As a percentage of total revenue, bad debt expense, excluding the Heart Center, increased from 4.6% for the first two quarters of 2003 to 5.2% for the same period in 2004.

Professional and consulting fees, which totaled \$444,670 for the six months ended June 30, 2003, decreased \$141,090 to \$303,581 for the same period in 2004. The Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, had professional and consulting fees totaling \$66,098 in the first two quarters of 2003. Year over year, excluding the effect of the Heart Center, the decrease in professional and consulting fees was the result of the following: (i) the role of IPS in-house counsel, who was paid on a contract basis, was restructured in 2003, resulting in a savings of \$17,168 in the first half of 2004; (ii) purchased services related to direct mail and marketing efforts decreased \$45,212; and (iii) an

Table of Contents

\$18,618 credit related to sales taxes which were incorrectly charged by a third party billing services organization used by an affiliated medical group.

Depreciation and amortization expense totaled \$278,494 for the six months ended June 30, 2004, a decrease of \$57,381 from the six months ended June 30, 2003. Amortization expense for intangible assets decreased \$66,166 in the first two quarters of 2004, which represents the amortization related to the intangible assets associated with the Heart Center, which were written off in the third quarter of 2003.

Interest expense increased \$127,052, or 37.2%, to \$468,910 for the six months ended June 30, 2004. The increase over the same period in 2003 can be explained generally by the following events:

On March 26, 2003, IPS refinanced with DVI Financial Services (DVI FS) its \$2,075,000 five-year term loan, with an effective interest rate of 10.75%, with a new \$3 million five-year term loan. The new loan bears interest at the 31-month Treasury note rate, which is currently equal to 9.0%. The decrease in interest rate, net of the increase in note principal, will reduce interest expense approximately \$20,000 per year over the term of the new loan.

On July 31, 2003, Brantley Capital exchanged 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.

Additionally, IPS borrowed \$1,050,000 from Lakepoint Acquisition, Inc., an affiliate of Brantley Capital, for ongoing working capital needs in the first six months of 2004.

Other expenses, which totaled \$13,325 for the six months ended June 30, 2004 and represent franchise taxes at IPS affiliated medical groups, were comparable to the six months ended June 30, 2003. Other expenses related to the Heart Center, which was consolidated for the first six months of 2003, but is not eligible for consolidation under EITF 97-2 in 2004, totaled \$956 for the first six months of 2003.

IPS 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. Dividends accrue, even if not declared, and may 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, or continue to accrue until such time as payment is demanded by the preferred stockholders. Preferred stock dividends in the amount of \$330,600 and \$396,502 were accrued for the six months ended June 30, 2004 and 2003, respectively. No cash payments of dividends were made in 2004 or 2003.

Liquidity and Capital Resources

For the year ended December 31, 2003, net cash used in operating activities was \$2,324,808 compared to \$2,070,854 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: (i) a \$58,014 increase in equipment leasing and data communications expenses related to IntegriMED; (ii) a \$177,168 increase in bank charges in 2003 as a result of revolving credit facility over-advances beginning in August 2002; and (iii) the loss of cash available from the operating activities of a medical group sold in 2002.

For the six-month period ended June 30, 2004, net cash used in operating activities was \$770,896 compared to \$1,110,396 in net cash used by operating activities for the same period in 2003.

Net cash used by investing activities was \$16,428 for the year ended December 31, 2003 compared to \$1,859,736 in net cash provided by investing activities for the year ended December 31, 2002. The sole investing activity in 2003 consisted of purchases and retirements of property and equipment. Purchases of property and equipment at the IPS corporate and affiliated medical group locations were offset in 2002 by the cash proceeds from the same of NIP in March 2002 with cash proceeds totaling \$1,904,502. IPS has made essentially no capital expenditures in each of the most recent two years and no material expenditures are planned in the next fiscal year.

Table of Contents

Net cash used by investing activities was \$151,630 for the six-month period ended June 30, 2004 compared to \$132,150 for the six months ended June 30, 2003. The sole investing activity in both periods consisted of purchases of property and equipment. IPS has made essentially no capital expenditures in each of the most recent two years and no material expenditures are planned in the next fiscal year.

Net cash provided by financing activities was \$2,382,634 for the year ended December 31, 2003 compared to \$109,697 in net cash provided by financing activities for the same period in 2002. Payments totaling \$267,337 on IPS capital lease obligations and line of credit were made in the ordinary course of business operations during 2003. In March 2003, IPS five-year \$2,075,000 term loan with DVI FS was refinanced with a new \$3 million five-year term loan. Additionally, during the third and fourth quarters of 2003, IPS borrowed \$1,640,000 from Brantley Capital and its affiliate, Lakepoint Acquisition, Inc., for ongoing working capital needs.

Net cash provided by financing activities was \$1,009,073 for the six months ended June 30, 2004 compared to \$1,241,261 in net cash provided by financing activities for the same period in 2003. Net payments totaling \$23,315 on IPS capital lease obligations and line of credit were made in the ordinary course of business operations during the first half of 2004. Additionally, during the first six months of 2004, IPS borrowed \$1,050,000 from Lakepoint Acquisition, Inc., an affiliate of Brantley Capital, for ongoing working capital needs.

As of December 31, 2003, IPS had \$49,532 of cash and cash equivalents on hand as compared to \$8,134 at December 31, 2002. Additionally, IPS had negative working capital of \$8,104,728 at December 31, 2003 compared to the \$5,678,301 working capital deficit at December 31, 2002.

As of June 30, 2004, IPS had \$136,079 of cash and cash equivalents on hand as compared to \$6,849 at June 30, 2003. Additionally, IPS had negative working capital of \$9,704,230 at June 30, 2004 compared to the \$5,520,316 working capital deficit at June 30, 2003.

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, 2003 and 2002, the outstanding borrowings under the Term Loan and RLOC are classified in IPS balance sheet in accordance with the debt repayment schedules. As security for the borrowings under the Term Loan, IPS has granted DVI FS a first priority perfected interest in, and lien on, all of its assets.

On March 26, 2003, IPS refinanced with DVI FS its \$2,075,000 five-year term loan with a new \$3 million five-year term loan. The new loan bears interest at the 31-month Treasury note rate. Repayments are \$62,275 monthly representing principal and interest. Amounts outstanding under the Term Loan totaled approximately \$2,741,000 and \$1,627,000 as of December 31, 2003 and 2002, respectively.

Under the terms of the RLOC agreement, revolving credit loans are to be used for general operating and capital needs, as long as requests do not exceed the borrowing base, which is equal to the lesser of (a) maximum revolving credit amount, (b) amount equal to the lesser of (i) 85% of the expected net receivable amount of eligible accounts or (ii) monthly accounts receivable collections over the immediately preceding three-month period. As security for the borrowings under the RLOC, IPS has granted DVI BC a perfected security interest in all present and future accounts receivable. Amounts outstanding under the RLOC bear interest at the prime rate plus 2.35%, and interest is payable monthly. The Term Loan and RLOC contain certain affirmative and negative covenants. Amounts outstanding under the RLOC as of December 31, 2003 and 2002 totaled approximately \$2,454,000 and \$2,600,000, respectively, and are classified as short-term in the accompanying consolidated balance sheet.

During fiscal year 1999, IPS issued subordinated promissory notes payable to Brantley Venture Partners, III and Brantley Capital Corporation in connection with the acquisition of physician practices. Total amounts issued were \$668,619, 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 September 30, 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 September 30, 2004.

Table of Contents

On July 31, 2003, Brantley Capital Corporation exchanged 329,500 shares of the Series A-2 redeemable convertible preferred stock for a convertible debenture in the amount of \$1,318,000, bearing interest at 10% per annum. The debenture may be converted into IPS Series A-2 redeemable convertible preferred stock on demand.

During fiscal year 1999, IPS issued a \$240,000 non-interest bearing note payable in connection with treasury shares purchased by IPS. Repayment of the note is \$4,000 monthly, starting January 1, 1999 and ending December 31, 2003. The carrying value of the note payable, which is reflected on a discounted present value basis, was approximately \$45,000 as of December 31, 2002 and was paid in full as of December 31, 2003.

IPS financial statements have been prepared assuming IPS will continue as a going concern. IPS has suffered recurring losses from operations, has negative working capital and has a net capital deficiency, and scheduled maturities of debt aggregate \$7.2 million in 2004. Additionally, on August 25, 2003 DVI, Inc., the parent organization of IPS 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 RLOC with DVI BC expired on January 15, 2004 and is being extended on a month-to-month basis.

IPS plans to merge with SurgiCare include the simultaneous acquisition by SurgiCare of DCPS and MBS. Additionally, Brantley IV will make a cash investment in the newly combined entities. On June 10, 2004, IPS, Surgicare, and U.S. Bank Portfolio Services (USBPS), the agent for U.S. Bank National Association, the bankruptcy trustee for the noteholders which purchased notes issued by DVI BC, executed a loan agreement for the existing revolving lines of credit previously held by DVI BC. Under the terms of the restated agreement, Orion will pay, as of the closing date of the restated agreement, the sum of \$2 million in cash to USBPS and issue a promissory note, which will contain deferred payment provisions, to USBPS, as servicer for DVI BC, in the original principal amount of \$750,000 in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various revolving lines of credit previously held by DVI BC. Additionally, on June 10, 2004, IPS, SurgiCare and USBPS executed a restated loan agreement for the existing term loans previously held by DVI FS. Under the terms of the restated agreement, Orion will issue, as of the closing date of the restated agreement, a promissory note, which will contain deferred payment provisions, to USBPS, as servicer for DVI FS, in the original principal amount of \$3,750,144 in full and final satisfaction of the indebtedness incurred by IPS and SurgiCare pursuant to the various term loans previously held by DVI FS. This loan agreement expired on August 15, 2004 and the Companies are in the process of finalizing extensions from the lenders. The additional debt available from the restructured debt, the combined cash flow of the newly combined entities and the cash investment by Brantley will be used to finance the capital resource needs of the newly combined entities, including IntegriMED. There are currently no plans to add additional medical group affiliates; however, cash generated from the operating activities of the medical groups will be used to finance the internal growth of those medical groups.

Contractual Obligations

IPS has been authorized to issue 772,900 shares of Series A redeemable convertible preferred stock (Series A), 71,028 shares of Series A-1 redeemable convertible preferred stock (Series A-1), 2,200,000 shares of Series A-2 redeemable convertible preferred stock (Series A-2), 474,375 shares of Series B redeemable convertible preferred stock (Series B), and 190,000 shares of Series C redeemable convertible preferred stock (Series C). Holders of Series A and Series A-2 are entitled to vote with the number of votes equal to the number of common shares into which such Series A and Series A-2 may be converted. Series A-1, Series B, and Series C are nonvoting.

During 1996, IPS issued 772,900, 24,600, and 474,378 shares of Series A, Series A-1, and Series B preferred stock, respectively, to certain investors. Series A and Series A-1 were issued at \$4 per share, and Series B was issued at \$1 per share.

On January 26, 1999, in connection with the medical group business combinations, IPS entered into an agreement to exchange the Series A and Series B shares, including accrued dividends, owned by Brantley Venture Partners III, L.P., at book value, which approximates the redemption value. Total shares redeemed by IPS were 686,000 shares of Series A at \$4 per share and 171,500 shares of Series B at \$1 per share. Total

Table of Contents

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 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 common stock to Brantley Venture Partners III, L.P. and Brantley Capital, respectively, at \$3.17 per share. The warrants expire on January 28, 2009. Holders of Series A and Series A-2 are entitled to vote with the number of votes equal to the number of common shares into which such Series A and Series A-2 may be converted. On July 31, 2003, Brantley Capital exchanged 329,500 shares of the Series A-2 redeemable convertible preferred stock for a convertible debenture in the amount of \$1,318,000, bearing interest at 10% per annum. The convertible debenture may be converted into IPS Series A-2 redeemable convertible preferred stock on demand.

At August 10, 2004, IPS has reserved 3,684,408 shares of common stock and 150,000 shares of Series C for the redemption of the convertible preferred stock, exercise of warrants, and other future issuances.

Series A and Series A-1 preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable (i) one-half in Series A or Series A-1 shares at the annual rate of \$0.05 per share 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 \$0.05 per share for each share or (b) cash at the annual rate of \$0.20 for each share. Such dividends shall accrue, even if not declared, until December 31, 2000, unless a public offering or merger occurs, at which time they shall be due and payable, as provided in the Amended and Restated Certificate of Incorporation dated January 27, 1999. Dividends have been accrued through December 31, 2000.

The Series A-2 preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable at the annual rate of \$0.40 for each share. Such dividends shall accrue, even if not declared, and shall be declared and paid in cash in equal installments on the first day of January, April, July, and October immediately following the original issue date. Dividends have been accrued through December 31, 2003.

The Series B preferred stockholders are entitled to receive, when, as, and if declared by the board of directors, cumulative dividends payable (i) one-half in Series B at the annual rate of \$0.05 per share for each share and (ii) one-half, at the board's discretion, of either (a) Series B at the annual rate of \$0.05 per share for each share or (b) cash at the annual rate of \$0.05 for each share, but only if all accrued dividends and distributions on the Series A, Series A-1, and Series A-2 preferred stock have been paid in full prior to the date of any such declaration. Such dividends shall accrue, even if not declared, until December 31, 2000, unless a public offering or merger occurs, at which time they shall be due and payable as provided in the Amended and Restated Certificate of Incorporation dated January 27, 1999. Dividends have been accrued through December 31, 2000.

Each share of Series A, Series A-1, Series A-2, and Series B preferred stock may be converted, at the option of the holder, into one share of common stock. Any preferred shares that remain outstanding on the closing date of a public offering or a merger or consolidation of IPS with another company shall automatically convert on the same basis and at the same conversion price into common stock.

On or after October 6, 2002, each share of Series A, Series A-1, and Series B preferred stock is redeemable at the request of the holders if any of the following have not occurred: (i) a public offering, (ii) a public merger, or (iii) any liquidation, dissolution, or winding up of affairs. The redemption price is equal to the greater of the fair market value of the shares or \$4 per share, plus accrued and unpaid dividends, whether declared or not, for Series A and A-1, and \$1 per share, plus accrued and unpaid dividends, whether declared or not, for Series B. Redemption, at the request of the holder, shall occur as follows: (i) one-third of the outstanding shares shall be redeemed on October 6, 2002, (ii) one-third of the outstanding shares shall be redeemed on October 6, 2003, and (iii) one-third of the outstanding shares shall be redeemed on October 6, 2004. As of December 31, 2003, no shares have been redeemed.

On or after January 27, 2005, each share of Series A-2 preferred stock is redeemable at the request of the holders if any of the following have not occurred: (i) a public offering, (ii) a public merger, or (iii) any liquidation, dissolution, or winding up of affairs. The redemption price is equal to the greater of the fair market

Table of Contents

value of the shares or \$4 per share, plus accrued and unpaid dividends, whether declared or not. Redemption, at the request of the holder, shall occur as follows: (i) one third of the outstanding shares shall be redeemed on January 27, 2005, (ii) one-third of the outstanding shares shall be redeemed on January 27, 2006 and (iii) one-third of the outstanding shares shall be redeemed on January 27, 2007.

In the event of IPS 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 as of December 31, 2003.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Future aggregate annual maturities of long-term debt	\$ 9,441,983	\$7,231,054	\$ 1,994,884	\$216,045	\$
Future capital lease minimum payments	87,505	58,059	29,446		
Minimum annual rental commitments under noncancelable operating leases with terms in excess of one year	4,111,546	1,099,786	2,379,630	316,348	315,782
Total	\$13,641,034	\$8,388,899	\$4,403,960	\$532,393	\$315,782

Table of Contents

INFORMATION ABOUT DCPS AND MBS

Description of the DCPS Business

Overview

DCPS is based in Houston, Texas and was organized as a Texas limited liability company on September 16, 1998. DCPS reorganized as a Texas limited partnership on August 31, 2003. DCPS provides physician management services to hospital-based physicians and clinics. These services include:

Billing accounts receivable management;

Management trend analysis;

Custom reporting;

Current Procedural Technology (CPT) and Independent Diagnosis Code (ICD-9) coding;

Managed care contract negotiation, review and recommendation;

Managed care contract database reporting and master file creation;

Medicare, Medicaid, and Blue Cross Blue Shield provider number application and follow through;

Fee schedule development;

Retention and storage of records in accordance with federal and state statutes;

HIPAA compliance;

Pre-billing reviews and edits;

Submission of electronic and secondary insurance claims; and

Prompt processing of all insurance and patient correspondence.

Customers

DCPS provides services to approximately 25 customers located in the Houston area. These customers range in size from individual doctors to practice groups with up to 50 providers. The following are examples of the types of customers DCPS serves:

Anesthesiologists

Imaging Centers

Pathologists

Comprehensive Breast Centers

Radiologists

Cardio-Thoracic Surgeons

Hospital Labs

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.

Table of Contents***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 21, 2005. These security regulations will require healthcare providers like DCPS's clients to implement administrative, physical and technical practices to protect the security of individually identifiable health-related information that is electronically maintained or transmitted. DHHS has also adopted, as required by HIPAA, final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations became mandatory on October 16, 2002. However, entities that filed for an extension before October 16, 2002 had until October 16, 2003 to comply with the regulations. DCPS is affected by all of these regulations because it must consider the healthcare regulatory framework in which its clients operate in order to provide them with services and products that will not compromise their regulatory compliance. In addition, as a business associate of its clients, DCPS is contractually bound to adhere to some or all of these regulations through written agreements with clients who are directly regulated by such regulations. DCPS believes that the cost of compliance with its client's requirements arising from these regulations will not have a material adverse effect on its business, financial position or results of operations. If DCPS's clients fail to comply with these regulations, they could suffer civil penalties up to \$25,000 per calendar year for each provision violated and criminal penalties with fines of up to \$250,000 per violation. In addition, DCPS's clients, and therefore DCPS indirectly, will continue to remain subject to any state laws that are more restrictive than the privacy regulations issued under HIPAA. These statutes vary by state and could impose additional penalties. DCPS may itself be subject to certain federal and state privacy laws.

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

DCPS is subject to state and federal laws that govern the submission of claims for reimbursement because DCPS's customers are regulated by these laws and DCPS must consider the healthcare regulatory framework in which its clients operate in order to provide them with services and products that will not compromise their regulatory compliance. These laws generally prohibit an individual or entity from knowingly and willfully presenting a claim (or causing a claim to be presented) for payment from Medicare, Medicaid or other third party payors that is false or fraudulent. The standard for knowing and willful often includes conduct that amounts to a reckless disregard for whether accurate information is presented by claims processors.

Table of Contents

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

Employees

Currently, DCPS employs approximately 50 persons, all of whom are full-time employees. These DCPS employees work in the following areas: corporate management (6), medical coding (3) and billing and collections (41).

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 June 30, 2004. There are no warrants or options outstanding as of June 30, 2004.

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.

Table of Contents

Services

Medical Practice Management Services. MBS provides a wide range of management services to medical practices. These management services help create a more efficient medical practice and provide assistance with the business aspects associated with operating a medical practice. MBS' s management services include the following:

Accounting and bookkeeping services;

Evaluation of staffing needs;

Provision of temporary staff services;

Quality assurance program development;

Physician credentialing assistance;

Fee schedule review, specific to locality;

Formulation of scheduling systems;

Training and continuing education programs; and

Billing and reimbursement analysis.

Billing and Collection Services. MBS provides billing and collection services to its clients. These include coding, reimbursement services, charge entry, claim submission, collection activities, and financial reporting services. The coding and reimbursement services include:

Current Procedural Technology (CPT) and Independent Diagnosis Code (ICD-9) utilization reviews;

Charge ticket (superbill) evaluations;

Fee schedule analyses;

Reimbursement audits; and

Training seminars.

Managed Care Consulting Services. MBS provides consulting services aimed at assisting clients with navigating and interacting with managed care organizations. The following are some of the managed care consulting services routinely provided by MBS:

Establishing the actual ownership of the managed care organization and determining that the entity is financially sound;

Negotiating the type of reimbursement offered;

Assuring that there are no withholds beyond the discount agreed upon;

Determining patient responsibility for non-covered services, as well as co-pays and deductibles;

Tracking managed care payments to verify the correctness of the reimbursement rate;

Evaluating the appeals process in case of disputes concerning payment issues, utilization review, and medical necessity; and

Confirming the length of the contract, the renewal process, and the termination options.

Customers

MBS provides services to approximately 31 customers throughout Texas. These customers include anesthesia, pathology, radiology and surgery groups.

Table of Contents

Revenues

MBS's principal source of revenues is fees charged to clients based on a percentage of collections. All clients are invoiced at the end of the month and MBS is usually paid in full within 30 days. The fees vary depending on specialty, size of practice, payor mix, and complexity of the billing. In addition to the collection fee revenue, MBS also earns consulting fees from the various consulting services that MBS provides, including medical practice management services, managed care contracting, coding and reimbursement services.

Competition

MBS has the same competitors at DCPS which are set forth in this section under the subheading Competition.

Government Regulation

MBS is subject to the same healthcare regulations as DCPS which are set forth in this section under the subheading Government Regulation.

Employees

Currently, MBS employed approximately 91 persons, 87 of whom were full-time employees and four of whom were part-time employees. These MBS employees work in the following areas: corporate management (7), medical coding (4), technical support (3), billing and collection (69), and banking liaisons (4).

Description of Property

MBS is currently based in Houston, Texas where it leases an office facility. MBS also leases offices in Arlington, Texas. The leases relating to these facilities have terms that expire beginning in November 2004 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 June 30, 2004. There were no shares of preferred stock outstanding as of June 30, 2004.

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 three and six months ended June 30, 2004 and 2003 and the years ended December 31, 2003 and December 31, 2002 and related notes thereto appearing in Annex J to this proxy statement.

Table of Contents**Overview of Business Operations**

General. DCPS was founded in 1998 as a medical billing company to provide billing and collection services to anesthesia, radiology, and pathology practices. DCPS currently provides comprehensive billing and collection, administrative and other business services to its clients in selected markets in and around Houston, Texas. DCPS's headquarters are in Houston, Texas.

Critical Accounting Policies and Estimates.

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States, which requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. DCPS bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. DCPS believes the following critical accounting policies affect the most significant areas involving management's judgments and estimates. In addition, please refer to the Summary of Significant Accounting Policies section of DCPS's December 31, 2003 and December 31, 2002 Audited Financial Statements included in Annex J to this proxy statement for further discussion of DCPS's accounting policies.

Revenue Recognition. DCPS earns revenues based on a percentage of collections of its customers' receivables. DCPS's revenues are recognized during the period in which its customers receive the collections. Consulting fees are based on project fees or hourly rates. Revenue is recognized when the services are provided.

Accounts Receivable. DCPS records uncollectible accounts receivable using the direct write-off method of accounting for bad debts. Historically, DCPS has experienced minimal credit losses and has not written-off any material accounts during 2003 or 2002.

Property and Equipment. Property, plant and equipment is stated at cost. DCPS depreciates property and equipment over the estimated useful lives by the straight-line method.

Fair Value of Financial Instruments. DCPS estimates that the carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term and long-term debt, approximate their fair values due to the relatively short maturity of these instruments.

Results of Operations

The following table sets forth selected statements of operations data, expressed as a percentage of DCPS's total revenue for the respective periods. DCPS's historical results and period-to-period comparisons are not necessarily indicative of the results for any future period.

	Twelve Months Ended December 31	
	2003	2002
Revenues	100.0%	100.0%
Operating Expenses	81.2%	100.6%
Income From Operations	18.8%	(0.6)%
Other Income (Expense)		
Interest expense	0.0%	0.0%
Interest income	0.0%	0.1%
Total Other Income (Expense)	0.0%	0.0%

Net Income

18.8%

(0.6)%

Table of Contents*Year Ended December 31, 2003 as Compared to Year Ended December 31, 2002*

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

	Twelve Months Ended December 31		Variance
	2003	2002	
Revenues	4,010,797	3,767,024	243,773
Operating Expenses	3,255,532	3,790,120	(534,588)
Income From Operations	755,265	(23,096)	778,361
Other Income (Expense)			
Interest expense		(1,727)	1,727
Interest income	546	2,457	(1,911)
Total Other Income (Expense)	546	730	(184)
Net Income	755,811	(22,366)	778,177

Net revenues increased \$243,773, or 6.5%, to \$4,010,797 for the year ended December 31, 2003, as compared with \$3,767,024 for the same period in 2002. The increase in net revenues was primarily the result of additional clients added during the year.

Operating expenses, which represent the employee-related costs as well as supplies and general and administrative expense decreased \$534,588, or 14.1%, to \$3,255,532 for the year ended December 31, 2003, as compared to \$3,790,120 for the same period in 2002. This decrease was also reduced compensation expense associated primarily with DCPS management.

In 2002, DCPS expensed \$800,000 paid out as bonuses to owners/management. In 2003, DCPS changed its ownership structure to a limited partnership. As a result, amounts that would have been paid out in prior years as bonuses were paid out as distributions to partners.

Interest expense was \$0 for the year ended December 31, 2003, compared to \$1,727 for the previous year. The interest reduction is due to the pay-off of a working capital line of credit.

Liquidity and Capital Resources

Net cash provided by operating activities was \$755,811 for the year ended December 31, 2003 compared to \$94,749 in net cash provided by operating activities for the same period in 2002. The increase in net cash provided by operations was primarily the result of the increased revenues and decreased operating expenses.

Net cash used in investing activities was \$44,807 for the year ended December 31, 2003 compared to \$104,752 in net cash used in investing activities for the year ended December 31, 2002. Purchases of property and equipment at the DCPS corporate office decreased in 2003 compared to the purchases in 2002 to handle the increased clients added that year.

Net cash used in financing activities was \$582,882 for the year ended December 31, 2003 compared to \$195,850 in net cash used in financing activities for the same period in 2002. This was due to increased distributions.

As of December 31, 2002, DCPS had \$388,030 of cash and cash equivalents on hand as compared to \$238,211 at December 31, 2002. Additionally, DCPS had positive working capital of \$527,733 at December 31, 2003, an increase of \$175,575 from the working capital of

\$352,158 at December 31, 2002.

Table of Contents*Six Months Ended June 30, 2004 as Compared to Six Months Ended June 30, 2003 Results of Operations*
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.

	Six Months Ended June 30,	
	2004	2003
Revenues	100.0%	100.0%
Operating Expenses	74.5%	78.4%
Income From Operations	25.5%	21.6%
Other Income (Expense)		
Interest expense	0.0%	0.0%
Interest income	0.0%	0.0%
Total Other Income (Expense)	0.0%	0.0%
Net Income	25.5%	21.6%

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

	Six Months Ended June 30,		
	2004	2003	Variance
Revenues	\$2,230,459	\$2,033,786	\$196,673
Operating Expenses	1,661,110	1,595,133	65,977
Income From Operations	569,349	438,653	130,696
Other Income:			
Interest income	92	94	(2)
Total Other Income	92	94	(2)
Net Income	\$ 569,441	\$ 438,747	\$130,694

Net revenues increased \$196,673, or 9.7% to \$2,230,459 for the six months ended June 30, 2004 from \$2,033,786 for the same period in 2003. The increase was the result of additional clients added since the prior year.

Operating expenses increased \$65,977, or 4.1%, to \$1,661,110 for the six months ended June 30, 2004 from \$1,595,133 for the same period in 2003. The increase is due to additional employee costs (\$49,851) and other costs (\$16,126) needed in order to support the revenue growth.

Liquidity and Capital Resources

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Net cash provided by operating activities was \$469,881 and \$306,994 for the six months ended June 30, 2004 and 2003, respectively. The increase was primarily the result of increased net income between the two periods.

Net cash used in investing activities was \$6,048 and \$3,189, for the six months ended June 30, 2004 and 2003, respectively. The increase was primarily due to purchases of equipment of \$7,326 to support the revenue growth in the 2004 period compared to purchases of \$2,639 in the 2003 period.

Net cash used in financing activities was \$725,678 and \$380,454 in the six months ended June 30, 2004 and 2003, respectively. The increase was due to higher distributions in the 2004 period compared to the 2003 period.

Table of Contents

As of June 30, 2004, DCPS had cash and cash equivalents of \$126,185 and working capital of \$387,897 as compared with cash and cash equivalents of \$388,030 and working capital of \$527,733 as of December 31, 2003. The decrease in both cash and working capital is primarily due to the cash provided by operating activities (discussed above) less the distributions made of \$725,678.

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 three and nine months ended June 30, 2004 and 2003 and 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.

Table of Contents**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)

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Net Income	\$ 101,578	\$ 86,197	\$ 15,381
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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

Table of Contents

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.

Three Months Ended June 30, 2004 as Compared to Three Months Ended June 30, 2003**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.

	Three Months Ended June 30,	
	2004	2003
Revenues	100.0%	100.0%
Operating Expenses	87.6%	105.7%
Income (Loss) From Operations	12.4%	(5.7)%
Other Income (Expense)		
Interest expense		
Interest income		
Total Other Income (Expense)		
Income (Loss) Before Federal Income Taxes	12.4%	(5.7)%
Federal Income Tax Benefit (Expense)	(4.7)%	2.2%
Net Income (Loss)	7.7%	(3.5)%

Table of Contents

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

	Three Months Ended June 30,		
	2004	2003	Variance
Revenues	\$ 1,491,178	\$ 1,652,994	\$ (161,816)
Operating Expenses	1,306,085	1,747,036	(440,951)
Income (Loss) From Operations	185,093	(94,042)	279,135
Other Income (Expense)			
Interest expense	(826)	(1,106)	280
Interest income	492	892	(400)
Total Other Income (Expense)	(334)	(214)	(120)
Income (Loss) Before Federal Income Taxes	184,759	(94,256)	279,015
Federal Income Tax Benefit (Expense)	(70,208)	35,817	(106,025)
Net Income (Loss)	\$ 114,551	\$ (58,439)	\$ 172,990

Net revenues decreased \$161,816, or 9.8%, to \$1,491,178 for the three months ended June 30, 2004 from \$1,652,994 for the same period in 2003. The decrease in net revenues was due to a decrease in business from existing clients.

Operating expenses decreased \$440,951 or 25.2%, to \$1,306,085 for the three months ended June 30, 2004 from \$1,747,036 for the same period in 2003. The decrease is due primarily to management bonuses of \$517,000 in the three months ended June 30, 2003, which was somewhat offset by a decrease in operating expenses related to the decrease in revenues.

Interest expense of \$826 and \$1,106 in the three months ended June 30, 2004 and 2003, respectively resulted from a capital lease for computer equipment.

Federal income tax expense increased \$106,025 to expense of \$70,208 for the three months ended June 30, 2004 from a benefit of \$35,817 the same period in 2003, resulting from the increase in pre-tax income of \$279,015 between the two three month periods. As a percentage of pre-tax income, both three months periods were approximately 38%.

***Nine Months Ended June 30, 2004 as Compared to Nine Months Ended June 30, 2003
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.

Nine Months Ended June 30,	
2004	2003

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Revenues	100.0%	100.0%
Operating Expenses	88.6%	87.7%
	<u> </u>	<u> </u>
Income From Operations	11.4%	12.3%
Other Income (Expense)		
Interest expense	(0.1)%	(0.1)%
Interest income		
	<u> </u>	<u> </u>
Total Other Income (Expense)	(0.1)%	(0.1)%
	<u> </u>	<u> </u>
Income Before Federal Income Taxes	11.3%	12.2%
Federal Income Tax Expense	(4.3)%	(4.6)%
	<u> </u>	<u> </u>
Net Income	7.0%	7.6%
	<u> </u>	<u> </u>

Table of Contents

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

	Nine Months Ended June 30,		
	2004	2003	Variance
Revenues	\$4,569,556	\$4,610,102	\$(40,546)
Operating Expenses	4,049,083	4,044,178	(4,905)
Income From Operations	520,473	565,924	(45,451)
Other Income (Expense):			
Interest expense	(2,692)	(3,515)	823
Interest income	1,091	1,898	(807)
Total Other Income (Expense)	(1,601)	(1,617)	16
Income Before Federal Income Taxes	518,872	564,307	(45,435)
Federal Income Tax Expense	(196,976)	(214,437)	17,461
Net Income	\$ 321,896	\$ 349,870	\$(27,974)

Net revenues decreased marginally by \$40,546, or 0.9%, to \$4,569,556 for the nine months ended June 30, 2004 from \$4,610,102 for the same period in 2003. The decrease in net revenues was due to slight decline in business from existing clients.

Operating expenses increased \$4,905, or 0.1%, to \$4,049,083 for the nine months ended June 30, 2004 from \$4,044,178 for the same period in 2003. Legal costs increased \$19,234 due to costs of selling the company and rent increase by \$21,751 due to additional space added during the nine months ended June 30, 2004. These increases were offset by a decrease in operating costs of approximately \$36,400 related to the decrease in revenues discussed above.

Interest expense of \$2,692 and \$3,515 in the nine months ended June 30, 2004 and 2003, respectively resulted from a capital lease for computer equipment.

Federal income tax expense decreased \$17,461 or 8.1% to \$196,976 for the nine months ended June 30, 2004 from \$214,437 for the same period in 2003, resulting from the decrease in pre-tax income between the two nine month periods. As a percentage of pre-tax income, both three months periods were approximately 38%.

Liquidity and Capital Resources

Net cash provided by operating activities was \$608,765 and \$525,885 for the nine months ended June 30, 2004 and 2003, respectively. The increase in cash provided was primarily the result of the decrease in accounts receivable of \$114,304 in the nine months ended June 30, 2004 as compared to the prior year period, related to a large customer catching up on overdue receivables.

Net cash used in investing activities was \$14,386 and \$31,859 for the nine months ended June 30, 2004 and 2003, respectively, consisting of purchases of equipment to support the business in those periods.

Net cash used in financing activities was \$10,736 and \$9,913 in the nine months ended June 30, 2004 and 2003, respectively, consisting of principal payments on a capital lease in those periods.

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As of June 30, 2004, MBS had cash and cash equivalents of \$644,557 and working capital of \$741,546 as compared with cash and cash equivalents of \$60,914 and working capital of \$408,091 as of September 30, 2003. The increase in cash of \$583,643 is primarily due to net income of \$321,896 the reduction of accounts receivable of \$114,304 and the increase in deferred income tax payable of \$196,976. The increase in working capital of \$333,455 is primarily due to net income of \$321,896.

Table of Contents

2004 INCENTIVE PLAN

The following is a summary of the material features of the 2004 Incentive Plan. It may not contain all of the information important to you. We urge you to read the entire 2004 Incentive Plan, a copy of which appears as Annex O to this Proxy Statement. The 2004 Incentive Plan provides for issuance of up to 2.2 million shares of Class A common stock. This amount is approximately 6.8% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan, issuance of 2,100,000 shares of common stock (pre-Reverse Stock Split) to A.I. International, and issuance of 8,750,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock). Approximately 5,758,852 shares (575,885 after giving effect to the Reverse Stock Split) remained issuable in connection with outstanding awards under prior SurgiCare plans as of August 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 8.6% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of all convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan, issuance of 2,100,000 shares of common stock (pre-Reverse Stock Split) to A.I. International, and issuance of 8,750,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock).

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

The purpose of the 2004 Incentive Plan is to advance the interests of SurgiCare and its affiliated corporations by providing for the grant to participants of stock-based and other incentive awards, all as more fully described below.

The 2004 Incentive Plan will become effective on the date of its approval by the stockholders and will terminate when there are no remaining shares available for awards. No Incentive Stock Options (ISOs) may be granted under the 2004 Incentive Plan after the date that is ten years after the plan is adopted, although ISOs granted before such date may extend beyond that date. A maximum of 2.2 million shares of Class A common stock may be delivered in satisfaction of awards made under the 2004 Incentive Plan. For purposes of the preceding sentence, shares that have been forfeited in accordance with the terms of the applicable award and shares held back in satisfaction of the exercise price or tax withholding requirements from shares that would otherwise have been delivered pursuant to an award shall not be considered to have been delivered under the 2004 Incentive Plan. Also, the number of shares delivered under an award shall be determined net of any previously acquired shares tendered by the participant in payment of the exercise price or of withholding taxes.

The maximum number of shares of Class A common stock for which stock options may be granted to any person in any calendar year and the maximum number of shares of Class A common stock subject to stock appreciation rights, or SARs , granted to any person in any calendar year will each be 1,000,000. The maximum benefit that will be paid to any person under other awards in any calendar year will be, to the extent paid in shares, 1,000,000 shares, and, to the extent paid in cash, \$1 million. However, stock options and SARs that are granted with an exercise price that is less than the fair market value of the underlying shares on the date of the grant will be subject to both of the limits imposed by the two preceding sentences. These limitations will be construed in a manner consistent with Section 162(m) of the Code.

In the event of a stock dividend, stock split or other change in our capital structure, the Administrator (as defined below) will make appropriate adjustments to the limits described above and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, any exercise prices relating to awards and any other provisions of awards affected by the change. The Administrator may also make similar adjustments to take into account other distributions to stockholders or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the 2004 Incentive Plan and to preserve the value of awards.

Table of Contents

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 Orion, such committee shall be comprised solely of two or more directors, all of whom are outside directors within the meaning of Section 162(m) of the Code and non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The term Administrator is used in this proxy statement to refer to the person (the board or committee, and their delegates) charged with administering the 2004 Incentive Plan. The Administrator has full authority to determine who will receive awards and to determine the types of awards to be granted as well as the amounts, terms, and conditions of any awards. Awards may be in the form of options, SARs, restricted or unrestricted stock, Deferred Stock (hereafter defined) or performance awards. The Administrator has the right to determine any questions that may arise regarding the interpretation and application of the provisions of the 2004 Incentive Plan and to make, administer, and interpret such rules and regulations as it deems necessary or advisable. Determinations of the Administrator made under the 2004 Incentive Plan are conclusive and bind all parties.

Eligibility

Participation is limited to those key employees and directors, as well as consultants and advisors, who in the Administrator's opinion are in a position to make a significant contribution to the success of Orion 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 Orion within a specified period of time at a specified price. Two types of stock options may be granted under the 2004 Incentive Plan: ISOs, which are subject to special tax treatment as described below, and nonstatutory options (NSOs). Eligibility for ISOs is limited to employees of SurgiCare and its subsidiaries.

The exercise price of an ISO cannot be less than the fair market value of the Class A common stock at the time of grant. In addition, the expiration date of an ISO cannot be more than ten years after the date of the original grant. In the case of NSOs, the exercise price and the expiration date are determined in the discretion of the Administrator. The Administrator also determines all other terms and conditions related to the exercise of an option, including the consideration to be paid, if any, for the grant of the option, the time at which options may be exercised and conditions related to the exercise of options. Unless the Administrator determines otherwise, and in all events in the case of any stock option intended to qualify as an ISO and any stock option or SAR (other than a Performance Award subject to Section 6(a)(7) of the 2004 Incentive Plan) intended to qualify as performance-based for purposes of Section 162(m), the exercise price of an award requiring exercise will not be less than the fair market value of the stock subject to the award determined as of the date of grant.

The closing price of SurgiCare common stock as reported on AMEX on August 10, 2004 was \$0.34 per share, which corresponds to an implied price of \$3.40 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

Table of Contents

subject to the requirement that the shares be forfeited or resold to Orion 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 Orion, 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 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 Orion (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 Orion is not the surviving corporation or which results in the acquisition of substantially all of Orion'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 Orion's assets or a dissolution or liquidation of Orion, 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

Table of Contents

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 August 10, 2004. 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	52,091	2.05	1,347,910
Equity compensation plans not approved by security holders	5,706,761	.425	0
Total	<u>5,758,852</u>	<u>.444</u>	<u>1,347,910</u>

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 Orion) 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 Orion 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 Orion is not entitled to a deduction.

Table of Contents

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 Orion; 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 Orion 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 Orion 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 Orion 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 Orion.

Table of Contents

PROPOSAL ONE REVERSE STOCK SPLIT

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to effect a Reverse Stock Split of all of the outstanding shares of our common stock at a ratio of one share for every ten shares outstanding. If the Reverse Stock Split is approved, we will amend and restate our certificate of incorporation to effect the Reverse Stock Split, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the Reverse Stock Split. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. We cannot complete the Transactions unless this proposal to effect a Reverse Stock Split is approved at the special meeting. This proposal is described in detail below.

The Reverse Stock Split as reflected in the amended and restated certificate of incorporation does not alter or change the powers, preferences, or special rights of the holders of shares of SurgiCare common stock. The IPS Merger Agreement requires that, unless otherwise agreed by IPS, all outstanding shares of our Series AA preferred stock will be redeemed or converted into SurgiCare common stock as a condition to closing. We have no current intention of issuing additional shares of preferred stock to any person after the Transactions are completed, but the amended and restated certificate of incorporation does give the board of directors authority to issue preferred stock and to establish the terms thereof.

The Reverse Stock Split

The amended and restated certificate of incorporation will effect a Reverse Stock Split of all of our outstanding shares of SurgiCare common stock by reducing the number of outstanding shares of SurgiCare common stock by a one-for-ten ratio (the Split Ratio). The par value of SurgiCare common stock will be changed from \$0.005 per share to \$0.001 per share in connection with the Reverse Stock Split.

Reasons for the Reverse Stock Split

The purpose of the Reverse Stock Split is to increase the market price of our common stock, which is currently listed on the AMEX. The board of directors has determined that the continued listing of our common stock on the AMEX is in the best interests of SurgiCare and its stockholders. In considering whether a security warrants continued trading and/or listing, the AMEX, pursuant to Section 1001 of the AMEX's Company Guide, looks at the value of the securities and whether the securities have suitable characteristics for auction market trading.

SurgiCare's board believes that the Reverse Stock Split should raise the market price of our common stock to a level that will prevent the AMEX from considering suspending or delisting our common stock. If our common stock were delisted, the board believes that the liquidity in the trading market for our common stock would be significantly decreased, which could reduce the trading price and increase the transaction costs of trading shares of our common stock.

There can be no assurance, however, that the market price of our common stock will rise in proportion to the reduction in the number of outstanding shares resulting from the Reverse Stock Split, that a sufficiently high per share trading price of our common stock can be maintained or that our common stock will not be delisted for other reasons.

Potential Effects of the Reverse Stock Split

Pursuant to the Reverse Stock Split, each holder of SurgiCare common stock immediately prior to the effectiveness of the Reverse Stock Split will become the holder of fewer shares of Class A common stock after consummation of the Reverse Stock Split.

Although the Reverse Stock Split will not, by itself, affect our assets or prospects, the Reverse Stock Split could result in a decrease in the aggregate market value of our common stock and adversely affect share liquidity by reducing the number of shares outstanding after the reverse stock split. The Board believes that this

Table of Contents

risk is outweighed by the benefits of the continued listing of our common stock on the AMEX. If approved, the Reverse Stock Split will result in some stockholders owning odd-lots of less than 100 shares of SurgiCare common stock. Brokerage commissions and other costs of transactions in odd-lots are generally higher than the costs of transactions in round-lots of even multiples of 100 shares. Based on approximately 39,707,285 shares of SurgiCare common stock outstanding as of August 10, 2004 (which assumes issuance of 8,750,000 million shares to the holder of our 900,000 outstanding shares of Series AA preferred stock and the issuance of 2,100,000 shares to A.I. International and does not include treasury stock), the following table reflects the approximate percentage reduction in the outstanding shares of SurgiCare common stock and the approximate number of shares of SurgiCare common stock that would be outstanding as a result of the Reverse Stock Split:

<u>Stock Split Ratio</u>	<u>Percentage Reduction</u>	<u>Shares to be Outstanding</u>
1-for-10	90%	3,970,729

The table shows the share amounts immediately after the Reverse Stock Split, but prior to the other proposed amendments to the certificate of incorporation. All outstanding options and warrants to acquire shares of SurgiCare common stock will be appropriately adjusted, as required by their terms, for the Reverse Stock Split automatically on the Effective Date (as defined below). The Reverse Stock Split will not affect any stockholder's proportionate equity interest in SurgiCare except to the extent that the Reverse Stock Split results in any of our stockholders owning fractional shares. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares of SurgiCare common stock not evenly divisible by the Split Ratio will be entitled to receive a cash payment in lieu of fractional shares. Following the Reverse Stock Split, each share of Class A common stock will entitle the holder thereof to one vote per share and will otherwise be identical to SurgiCare common stock in all material respects.

Shares of Common Stock Issued and Outstanding

Based on the outstanding shares (not including treasury stock) as of August 10, 2004 and assuming issuance of 8,750,000 million shares of common stock to the holder of our 900,000 outstanding shares of Series AA preferred stock and 2,100,000 shares of common stock to A.I. International, prior to the Reverse Stock Split, the number of shares of common stock authorized, issued and outstanding and reserved for issuance are 50,000,000, 39,707,285, and 9,529,413 respectively. As a result of the Reverse Stock Split, the number of outstanding shares of SurgiCare common stock will decrease by the Split Ratio with fractional shares of SurgiCare common stock paid in cash. After the Reverse Stock Split, but prior to other proposed amendments to our certificate of incorporation, the approximate number of shares of common stock authorized, issued and outstanding, and reserved for issuance will be 5,000,000, 3,970,729 and 952,941 respectively, based on the same assumptions as above. It is not anticipated that our financial condition, the percentage ownership of management, the number of our stockholders, or any aspect of our business would materially change as a result of the Reverse Stock Split. We are subject to the periodic reporting and other requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). The proposed Reverse Stock Split will not affect the registration of SurgiCare common stock under the Exchange Act.

Effectiveness of the Reverse Stock Split

If this proposal and the other proposals necessary to consummate the Transactions are approved, the Reverse Stock Split will become effective upon the filing with the Secretary of State of the State of Delaware of the amended and restated certificate of incorporation (the Effective Date). It is expected that such filing will take place immediately prior to the completion of the Transactions.

Commencing on the Effective Date, each SurgiCare common stock certificate will be deemed for all corporate purposes to evidence ownership of the reduced number of shares of Class A common stock (assuming the reclassification of currently outstanding common stock as Class A common stock pursuant to Proposal Three is also approved) resulting from the Reverse Stock Split. As soon as practicable after the Effective Date, transmittal forms will be mailed to each holder of record of SurgiCare common stock, to be used in forwarding such holder's stock certificates for surrender and exchange for certificates evidencing the number of shares of Class A common stock such holder is entitled to receive as a consequence of the Reverse Stock Split. The transmittal forms will be accompanied by instructions specifying other details of the exchange. Upon receipt of

Table of Contents

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 stockholders' equity will remain unchanged.

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

The following is a summary of the material United States federal income tax consequences of the Reverse Stock Split on the current holders of SurgiCare common stock and does not purport to be a complete discussion of all of the possible United States federal income tax consequences of the Reverse Stock Split. Further, it does not address any state, local or foreign income or other tax consequences. Also, it does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. We have not obtained, and do not intend to obtain, an IRS ruling regarding the tax consequences of the Reverse Stock Split. SurgiCare obtained a legal opinion from its counsel, Strasburger & Price, LLP, regarding the material U.S. federal income taxes applicable to SurgiCare and the holders of SurgiCare common stock resulting from the Reverse Stock Split. This discussion is based upon advice we have received from Strasburger & Price, LLP regarding the provisions of the United States federal income tax law as of the date hereof, which is subject to change retroactively as well as prospectively. This summary assumes that the other Transactions described herein occur in the manner described and also assumes that the SurgiCare common stock was, and the Class A common stock will be, held as a capital asset, as defined in the Code (i.e., generally, property held for investment).

Table of Contents

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.

Except as set forth in the discussion above, SurgiCare expresses no opinion as to the federal, state, local or foreign tax consequences to any party, other than SurgiCare and its current stockholders, of the IPS Merger, the MBS Merger, the DCPS Acquisition, the Debt Exchange, the Equity Financing or the Reverse Stock Split. In addition, SurgiCare expresses no opinion (i) as to whether or not the Transactions when analyzed on a combined basis, qualify as an exchange to which Code Section 351 applies or (ii) regarding any adverse tax consequences applicable to SurgiCare and its current stockholders in their capacity as such that may result from a determination that the Transactions, when analyzed on a combined basis, do not qualify as an exchange to which Code Section 351 applies. If the Transactions do not qualify as an exchange to which Code Section 351 applies, the IPS stockholders, MBS stockholders and holders of DCPS interests may recognize taxable gain or loss in connection with the Transactions. Such holders are urged to consult their own tax advisors regarding the tax consequences to them of participating in the Transactions.

Furthermore, this summary does not apply to any tax considerations that may be relevant to any party to the Transactions other than SurgiCare and its current stockholders in their capacity as such. The opinion issued by SurgiCare's counsel is being furnished only to SurgiCare in connection with the IPS Merger, the DCPS/MBS Merger, the Debt Exchange, the Equity Financing and the Reverse Stock Split and is solely for SurgiCare's benefit in connection therewith. It may not be used or relied upon for any other purposes, and except for purposes of this proxy statement, may not be circulated, quoted or otherwise referred to for any other purpose without the express written consent of SurgiCare's counsel.

No Dissenter's Rights

Under the DGCL, our stockholders are not entitled to dissenter's rights with respect to the Reverse Stock Split, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Reverse Stock Split

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the Reverse Stock Split and the proposed amendment and restatement of our certificate of incorporation to effect the Reverse Stock Split. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the Reverse Stock Split, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE REVERSE STOCK SPLIT.

Table of Contents

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents**PROPOSAL TWO INCREASE THE NUMBER OF SHARES OF AUTHORIZED COMMON STOCK**

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to increase the number of shares of authorized common stock from 5 million shares to 90 million shares, after giving effect to the Reverse Stock Split, and to leave the number of authorized shares of preferred stock at 20 million. If the increase in the number of shares of authorized common stock is approved, we will amend and restate our certificate of incorporation to effect the increase, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the increase in the number of shares of authorized common stock. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. We cannot complete the Transactions unless this proposal to effect the increase in the number of shares of authorized common stock is approved at the special meeting.

The increase in the number of shares of authorized common stock as reflected in the amended and restated certificate of incorporation does not alter or change the powers, preferences, or special rights of the holders of shares of SurgiCare common stock.

Increase in the Number of Shares of Authorized Common Stock

The amended and restated certificate of incorporation will increase the number of shares of authorized SurgiCare common stock from 5 million shares to 90 million shares, of which 63 million shares will be designated Class A common stock (see Proposal Three), 25 million shares will be designated as Class B common stock (see Proposal Four) and 2 million shares will be designated as Class C common stock (see Proposal Five), after giving effect to the Reverse Stock Split.

The board of directors recommends increasing the number of authorized shares of our common stock in order to have a sufficient number of shares of our common stock available to pay the consideration due under the IPS Merger Agreement and the DCPS/ MBS Merger Agreement and in connection with the equity financing. Assuming the Transactions are approved, we will be obligated to issue up to 4,527,276 shares of our Class A common stock (in addition to the shares outstanding immediately after the Reverse Stock Split), 11,442,426 shares of our Class B common stock and up to 1,827,880 shares of our Class C common stock. We would be unable to issue all of these shares based on the current number of authorized and unissued shares of our common stock available to us, after giving effect to the Reverse Stock Split. In addition, we must also have shares available for issuance in connection with previously granted stock options and other stock based awards as well as any future grants under our 2004 Incentive Plan and our other option plans.

The following table provides details regarding the approximate number of shares of our common stock authorized, issued and outstanding and reserved as of the periods indicated. Treasury stock is not included in these figures.

Period	August 10, 2004(1)	Post-Reverse Split(3)	Post-Transactions(5)		
			Class A common stock	Class B common stock	Class C common stock
Authorized	50,000,000	5,000,000	63,000,000	25,000,000	2,000,000
Issued and outstanding	28,857,285	3,970,729	8,498,005	11,442,426	1,827,880
Reserved	20,379,143(2)	952,941(4)	22,355,609(6)	0	0

- (1) Shares numbers are prior to giving effect to the Reverse Stock Split, and do not include the 8,750,000 shares of common stock to be issued in exchange for the Series AA preferred stock pursuant to the agreement with the holder of the Series AA preferred stock described below or the 2,100,000 shares of common stock to be issued to A.I. International.
- (2) Shares are reserved for exercise of outstanding options and warrants, conversion of convertible debentures and for issuance of 8,750,000 shares of common stock to the Series AA preferred stockholder and 2,100,000 shares of common stock to A.I. International.

Table of Contents

- (3) Share numbers are after giving effect to the Reverse Stock Split, but prior to any other amendments of our Certificate of Incorporation, and prior to the effectiveness of the Transactions. Share numbers assume issuance of 8,750,000 shares of common stock to the holder of our Series AA preferred stock and issuance of the 2,100,000 shares of common stock to A.I. International prior to the Reverse Stock Split.
- (4) Shares are reserved for exercise of outstanding options and warrants and conversion of convertible debentures.
- (5) Share numbers are based on the assumptions contained in this proxy, but assume the maximum initial issuance of shares in the DCPS/MBS Merger.
- (6) Shares are reserved for issuance upon conversion of the Class B common stock and Class C common stock and pursuant to the DCPS/MBS Merger Agreement, the Stock Subscription Agreement, the 2004 Incentive Plan, exercise of existing SurgiCare warrants, exercise of vested stock options under SurgiCare's already existing employee stock option plan, conversion of existing convertible debentures and the exercise of 100,000 warrants that we propose to issue to our current directors.

SurgiCare has recently entered into a Settlement Agreement with Sig Altman to resolve a lawsuit surrounding a Finders Fee Agreement between SurgiCare and Mr. Altman. SurgiCare issued Mr. Altman 540,000 shares of stock registered on Form S-8 as payment in full for his services provided under the Finders Fee Agreement.

In November, 2003, SurgiCare issued a \$470,000 convertible debenture. The holders of the debenture can convert to common stock at \$0.25 per share or a total of 1,000,000 shares if fully converted.

On June 23, 2004, SurgiCare entered into an agreement with AII, which is the sole owner of all outstanding Series AA preferred stock, pursuant to which SurgiCare will issue 8,750,000 shares of its common stock (prior to giving effect to the Reverse Stock Split) to AII in exchange for the conversion of all 900,000 shares of Series AA preferred stock. The conversion of the Series AA preferred stock to common stock will take place upon the later to occur of the approval for listing of the shares of common stock on the AMEX or the fulfillment by AII of its obligations under the agreement to acquire certain parcels of land owned by SurgiCare and to assume or eliminate SurgiCare's obligations with respect thereto, and to pay SurgiCare \$250,000. If the conversion does not occur by July 30, 2004, SurgiCare is required by the certificate of designations of the Series AA preferred stock filed pursuant to the agreement to either convert or redeem 300,000 shares of Series AA preferred stock on each of July 30, 2004, June 4, 2005, and June 4, 2006. Each share of Series AA preferred stock would be convertible into the number of shares of common stock determined by the following formula: \$5.00 divided by the greater of (a) the average of the closing price of the common stock on the twenty trading days immediately preceding the conversion date or (b) \$0.41. The redemption price of each share of Series AA preferred stock would be \$5.00.

Table of Contents

In addition, SurgiCare has outstanding options and warrants that could be exercised for common stock. The following table summarizes the outstanding options and warrants.

Type	Expiration Date	Issued To	Number	Exercisable (as of 7/8/04)	Exercise Price
Options	10/05/11	Employees	52,090	34,727	2.05
Warrants	10/05/11	Former Employees	191,667	191,667	1.90
Warrants	04/02/07	Former Employee	175,000	175,000	2.00
Warrants	11/12/12	Officer	3,244,616	2,095,478	0.32
Warrants	11/12/12	Former Employee	2,095,478	2,095,478	0.32
Warrants	04/01/07	DVI	200,000	200,000	3.00
Warrants	06/01/07	TASC Shareholders	35,000	35,000	0.01
Warrants	03/01/07	Consultant	50,000	50,000	1.00
Warrants	12/02/07	Aspen Shareholders	336,786	336,786	0.32
Warrants	11/12/07	Odyssey Capital	526,531	526,531	0.35
Warrants	01/31/08	Odyssey Capital	526,531	526,531	0.35
Warrants	01/31/08	Officers	40,000	40,000	0.45
Warrants	01/31/08	Officers	40,000	40,000	0.45
Warrants	11/05/03	Convertible Debt	335,713	335,713	0.35
Warrants	07/15/05	Convertible Debt	235,849	235,849	2.12

SurgiCare is currently negotiating a settlement of its \$1 million convertible debentures held by A.I. International and the First Bank of Lebanon. Settlement discussions have included converting part or all of the debenture to common stock.

We have no current agreements, arrangements, or plans to issue additional shares of common stock other than as described above and in connection with the Transactions and the other proposals in this proxy statement. We may need to issue additional common shares in the future to settle outstanding debts or liabilities, to attract or retain key employees, and to make future acquisitions.

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.

No Dissenter's Rights

Under the DGCL, our stockholders are not entitled to dissenter's rights with respect to the increase in the number of shares of authorized common stock, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Increase in the Number of Shares of Authorized Common Stock

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the increase in the number of shares of authorized common stock and the proposed amendment and restatement of our certificate of incorporation to effect the increase. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the increase in the number of shares of authorized common stock, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE INCREASE IN THE NUMBER OF SHARES OF AUTHORIZED COMMON STOCK.

Table of Contents

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL THREE RECLASSIFICATION OF COMMON STOCK

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to reclassify SurgiCare common stock as Class A common stock. If the reclassification of common stock is approved, we will amend and restate our certificate of incorporation to effect the reclassification, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the reclassification of common stock. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. We cannot complete the Transactions unless this proposal to effect the reclassification of common stock is approved at the special meeting. This proposal is described in detail below.

The Reclassification

The amended and restated certificate of incorporation reflects the reclassification of all of our outstanding shares of SurgiCare common stock as Class A common stock. The par value of SurgiCare Class A common stock will be changed to \$0.001 per share. The reclassification of our currently authorized common stock as Class A common stock is necessary to effect the Transactions, as the Transactions contemplate two new classes of stock being established as described in Proposal Four and Proposal Five. The reclassification of common stock as reflected in the amended and restated certificate of incorporation does not alter or change the powers, preferences, or special rights of the holders of shares of SurgiCare common stock. However, the establishment of Class B common stock as described in Proposal Four and Class C common stock as described in Proposal Five will effect the powers, preferences and rights of the holders of Class A common stock.

The terms of our Class A common stock are described in The Transactions The New Classes of Common Stock .

No Dissenter s Rights

Under the DGCL, our stockholders are not entitled to dissenter s rights with respect to the reclassification of common stock, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Reclassification of Common Stock

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the reclassification of authorized common stock and the proposed amendment and restatement of our certificate of incorporation to effect the reclassification. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the reclassification of common stock, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE RECLASSIFICATION OF COMMON STOCK.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL FOUR ESTABLISHMENT OF CLASS B COMMON STOCK

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to establish a new class of common stock entitled Class B common stock, \$0.001 par value per share. If the establishment of Class B common stock is approved, we will amend and restate our certificate of incorporation to effect the establishment of Class B common stock, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the establishment of Class B common stock. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. We cannot complete the Transactions unless this proposal to establish Class B common stock is approved at the special meeting. This proposal is described in detail below.

Class B Common Stock

In connection with the equity financing, which is described more fully in The Transactions The Equity Financing, Brantley IV or its assignees will receive shares of Class B common stock. The terms of our Class B common stock are described in The Transactions The New Classes of Common Stock.

No Dissenter's Rights

Under the DGCL, our stockholders are not entitled to dissenter's rights with respect to the establishment of Class B common stock, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Establishment of Class B Common Stock

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the establishment of Class B common stock and the proposed amendment and restatement of our certificate of incorporation to effect the establishment of Class B common stock. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the establishment of Class B common stock, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE ESTABLISHMENT OF CLASS B COMMON STOCK.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL FIVE ESTABLISHMENT OF CLASS C COMMON STOCK

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to establish a new class of common stock entitled Class C common stock, \$0.001 par value per share. If the establishment of Class C common stock is approved, we will amend and restate our certificate of incorporation to effect the establishment of Class C common stock. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the establishment of Class C common stock, subject to the approval of the other proposals required to consummate the Transactions. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. We cannot complete the Transactions unless this proposal to establish Class C common stock is approved at the special meeting. This proposal is described in detail below.

Class C Common Stock

In connection with the DCPS/MBS Merger, which is more fully described under The Transactions DCPS/MBS Merger, DCPS and MBS equityholders will receive, in addition to other consideration, shares of Class C common stock.

The terms of our Class C common stock are described in The Transactions The New Classes of Common Stock .

No Dissenter s Rights

Under the DGCL, our stockholders are not entitled to dissenter s rights with respect to the establishment of Class C common stock, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Establishment of Class C Common Stock

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the establishment of Class C common stock and the proposed amendment and restatement of our certificate of incorporation to effect the establishment of Class C common stock. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the establishment of Class C common stock, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE ESTABLISHMENT OF CLASS C COMMON STOCK.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL SIX CHANGE OF NAME

Our board of directors has approved and is recommending to our stockholders for approval at the special meeting a proposal to change the name of the corporation to Orion HealthCorp, Inc. As part of the negotiation of the Transaction Documents, SurgiCare, IPS, DCPS, and MBS agreed that SurgiCare would be renamed. If the change of name is approved, we will amend and restate our certificate of incorporation to effect the change of name, subject to approval of the other proposals required to consummate the Transactions. A copy of the amended and restated certificate of incorporation is attached as Annex L to this proxy statement. A vote for this proposal constitutes approval of the amended and restated certificate of incorporation as to the change of name. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. We cannot complete the Transactions unless this proposal to change the name of SurgiCare is approved at the special meeting.

No Dissenter's Rights

Under the DGCL, our stockholders are not entitled to dissenter's rights with respect to the change of name, and we will not independently provide stockholders with any such right.

Stockholder Approval of the Change of Name

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, entitled to vote on this proposal, each voting as a separate class and voting together as a single class, is required to approve the change of name and the proposed amendment and restatement of our certificate of incorporation to effect the change of name. As such, abstentions and broker non-votes will have the same effect as a vote against this proposal. If our stockholders approve the change of name, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of Delaware, which is expected to take place immediately prior to the completion of the Transactions.

THE BOARD OF DIRECTORS OF SURGICARE RECOMMENDS THAT ALL STOCKHOLDERS VOTE FOR APPROVAL OF THE CHANGE OF NAME.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL SEVEN ISSUANCE OF SHARES OF CLASS A COMMON STOCK

IN CONNECTION WITH THE IPS MERGER

Section 712 of the AMEX's Company Guide requires AMEX-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 4,451,518 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 2,368,638 shares of our Class A and Class C common stock in connection with the DCPS/MBS Merger. Such maximum amount includes (a) the shares of Class C common stock issuable 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) the shares of Class A common stock issuable 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 26.5% 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. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. 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 outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, 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 outstanding shares of Series AA preferred stock, if any, 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 ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

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

Section 712 of the AMEX's Company Guide requires AMEX-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 2,368,638 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 4,451,518 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 26.5% 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. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Twelve. We cannot complete the Transactions unless this proposal to 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 outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, 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 outstanding shares of our Series AA preferred stock, if any, 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 AND CLASS A COMMON STOCK IN CONNECTION WITH THE DCPS/ MBS MERGER.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL NINE ISSUANCE OF SHARES OF CLASS B COMMON STOCK AND CLASS A COMMON STOCK IN CONNECTION WITH THE EQUITY FINANCING

Section 713 of the AMEX's Company Guide requires AMEX-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 and Class A 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 and Class A 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 11,442,426 shares of Class B common stock for its cash investment of \$10 million plus the Base Bridge Interest Amount. These shares of Class B common stock are initially convertible into approximately 14,409,786 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 56.8% 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. A portion of the cash investment will be used by Orion to pay debt owed to a subsidiary of Brantley IV by SurgiCare and IPS. As of August 10, 2004, the outstanding amount of such indebtedness, including interest was \$4,731,223. As of August 10, 2004, the net cash proceeds to be received by SurgiCare are approximately \$5,361,287. Accordingly, the Board is seeking your approval of the issuance of the Class B common stock to Brantley IV. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven. 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.

Brantley IV will also receive the option to purchase shares of capital Class A common stock for cash in an amount up to an aggregate of \$3 million from time to time after the closing of the Transactions, subject to the approval of a majority of the unaffiliated members of the board of directors of Orion, at a price equal to the lesser of \$1.25 per share or 70% of the daily average of the high and low trading prices of the Class A common stock for the twenty trading days preceding the date of the closing of such investment.

The Class B common stock issued to Brantley IV will initially represent, on an as-converted basis, approximately 56.7% 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, as stockholders and debtholders of IPS, further increases the ownership interest of Brantley IV affiliates in Orion. Because Brantley IV and its affiliates will hold common stock which initially represents, on an unconverted basis, approximately 71.4% of the voting power of Orion they will be able to control all decisions to be made by the Class A common stock, Class B common stock and Class C common stock voting together as a single class. As a result of their stock ownership, Brantley IV and its affiliates will control Orion's business, policies and affairs and will be able to elect Orion's entire board of directors, determine, without the approval of Orion's other stockholders, the outcome of any corporate transaction or other matter submitted to the vote of the stockholders voting as a single class for approval, including mergers, consolidations and sales of substantially all of our assets. They will also be able to prevent or cause a change in, control of Orion and an amendment to its certificate of incorporation and by-laws (subject to certain supermajority provisions contained therein). We cannot assure that the interests of Brantley IV and its affiliates will be consistent with your interests as a stockholder.

Table of Contents

In connection with the Transactions, Brantley IV entered into an agreement on March 4, 2004 with certain of its limited partners, pursuant to which such limited partners have agreed to acquire, subject to the satisfaction of certain conditions \$1 million worth of the Class B common stock which Brantley IV has agreed to purchase pursuant to the Stock Subscription Agreement and Brantley IV has agreed to assign to such limited partners its rights to acquire such shares. To the extent such limited partners acquire such shares, Brantley IV's ownership will be decreased by the number of shares valued at \$1 million, or approximately as of August 10, 2004 approximately 1,113,755 shares of Class B common stock, which initially represent, on an as-converted basis, approximately 4.4% of the Fully-Diluted Orion Shares.

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, 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 outstanding shares of our Series AA preferred stock, if any, 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 AND CLASS A COMMON STOCK.

THE TRANSACTION DOCUMENTS REQUIRE THAT OUR STOCKHOLDERS APPROVE PROPOSALS ONE THROUGH ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents**PROPOSAL TEN 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. If elected, these members will serve as the sole directors until the closing of the Transactions. Upon the closing of the Transactions, these directors will cease to be members of the board. If the Transactions are not consummated, however, then these board members will continue to serve as board members until the next election of directors.

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.

Table of Contents

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	46	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 cofounded IPS in 1996 and has served as Chairman of the board of directors of IPS since 1999. Prior to cofounding 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 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. Principals of Brantley

Table of Contents

Management Company, including Mr. Cascio, serve as investment adviser for 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 since its formation in 1996, and is a manager of Brantley Capital Management, L.L.C., which serves as investment adviser for Brantley Capital. Principals of Brantley Management Company, including Mr. Finn, serve as investment adviser for Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley IV. 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 cofounded 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.

Table of Contents

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

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 AMEX. 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 SEC. 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. The initial members of the Audit Committee upon the closing of the Acquisitions shall be Messrs. Crane, McIntosh and Valley. At least one of the directors on the committee, initially, Mr. Crane, will be an audit committee financial expert or will be financially sophisticated as such term is used in the AMEX 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 AMEX 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 AMEX 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 AMEX, perform the nominating function. Upon the closing of the Transactions, Orion will be a controlled company and will not be required by the AMEX to maintain a

Table of Contents

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 our company when such recommendation is submitted in accordance with the Bylaws then in effect, the procedures described in this proxy statement under "Stockholder Proposals" and the applicable rules of the SEC. The proposed Bylaws for Orion, attached hereto as Annex N, contain detailed provisions regarding nominations by stockholders. Prior to the adoption of the Orion Bylaws, stockholders can submit candidates for consideration for board membership in writing to Keith LeBlanc, mailed to our company's address.

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 AMEX 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 AMEX).

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

Table of Contents

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 four current directors, Michael Mineo, Jeff Penso, Sherman Nagler, and Bruce Miller, for their services during the fiscal year ended December 31, 2003 and until the consummation of the Transactions with warrants to purchase 25,000 shares (100,000 shares total) of Class A common stock, which collectively represent approximately 0.5% of the Fully-Diluted Orion Shares (as adjusted to reflect the exercise of such warrants) upon the consummation of the Transactions as described in Proposal Twelve Approval of Warrant Issuances in exchange for services performed in 2003. The warrants will immediately vest upon the closing of the Transaction. The warrants will have an exercise price set at the market price on the closing date.

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.

Name and Principal Position(a)	Year(b)	Annual Compensation		Long-Term Compensation(3)
		Salary (\$)(c)	Other Annual compensation (\$)(d)	Awards
				Securities Underlying Options/ SARS (#)(e)
Keith G. LeBlanc, President and CEO	2003	188,942	28,828(2)	3,244,616
	2002	56,654(1)	3,072(4)	
	2001			
Phillip C. Scott (Former CFO)	2003	186,154	11,120(5)	3,244,616
	2002	56,654(1)	2,017(5)	
	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 Administraff. Specific costs are not individually specified.

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

(5) Includes living expenses.

173

Table of Contents**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	0	1,729,902	1,554,714	101,394	93,283
Phillip C. Scott	0	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 August 10, 2004. The information in this table does not reflect the Reverse Stock Split.

Plan category	(a)	(b)	(c)
	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	52,091	2.05	1,347,910
Equity compensation plans not approved by security holders	5,706,761	.425	0
Total	5,758,852	.444	1,347,910

Security Ownership Of Certain Beneficial Owners And Management

The following table sets forth, as of August 10, 2004, 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 August 10, 2004, there were 28,948,685 shares of SurgiCare common stock outstanding (prior to giving effect to the Reverse Stock Split).

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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

Table of Contents

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.

Name and Address of Beneficial Owner	Shares Owned Beneficially			
	Common Stock(1)		Series AA Preferred Stock(1)	
	Number	Percent	Number	Percent
Keith G. LeBlanc, 10700 Richmond Avenue, Suite 300, Houston, TX 77024	11,168,266(2)(5)	27.89	900,000(6)	100
Roger Huntington, 10700 Richmond Avenue, Suite 300, Houston, TX 77024				
Jeffery J. Penso, 11006 Westheimer, Houston, TX 77042	944,036	3.26		
International Diversified Corporation, 601 Hanson Road, Kemah, TX 77565	10,459,024(3)(4)(5)	27.74	900,000(3)(6)	100
Michael A. Mineo, 6699 Chimney Rock, Houston, TX 77081	959,409	3.31		
Sherman Nagler, 1200 Binz, Houston, TX 77004	807,610	2.79		
Bruce Miller, 13737 S.W. Freeway, Sugarland, TX 77478	851,536	2.94		
All directors and executive officers as a group (6 persons)	14,730,857	36.79	900,000(6)	100

- (1) Share numbers and 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 October 9, 2004.
- (2) Includes 2,298,266 shares issuable upon the exercise of warrants which are exercisable on or prior to October 9, 2004.
- (3) Elkana Faiwuszewicz has all the investment and voting control of the shares held by International Diversified Corporation (IDC).
- (4) Includes 8,750,000 shares of common stock which AII, which is majority owned by IDC, is entitled to receive upon conversion of the Series AA preferred stock pursuant to the terms of its agreement with SurgiCare described below under Certain Relationships and Related Transactions Summary of Transactions with Daniel Dror, AII, and IDC, etc. If the conversion does not occur by July 30, 2004, SurgiCare is required by the certificate of designations of the Series AA preferred stock filed pursuant to the agreement to either redeem or convert 300,000 shares of Series AA preferred stock on each of July 30, 2004, June 4, 2005 and June 4, 2006. Each share of Series AA preferred stock would be convertible into the number of shares of common stock determined by the following formula: \$5.00 divided by the greater of (a) the average of the closing price of the common stock on the twenty trading days immediately preceding the conversion date or (b) \$0.41. The redemption price of each share of Series AA preferred stock would be \$5.00.
- (5) Includes 8,750,000 shares of common stock for which Keith G. LeBlanc, in his capacity as the Chief Executive Office of SurgiCare, holds an irrevocable proxy pursuant to the agreement between SurgiCare and AII referenced in note 4. The proxy expires with respect to any such shares of common stock upon the earlier of (a) the sale thereof by AII in an open market transaction to an unaffiliated third party, (b) 60 days after the record date for the special meeting or (c) December 31, 2004.

Table of Contents

- (6) Includes 900,000 shares of Series AA preferred stock for which Keith G. LeBlanc, in his capacity as the Chief Executive Officer of SurgiCare, holds an irrevocable proxy pursuant to the agreement between SurgiCare and AII referenced in note 4. The proxy expires on December 31, 2004.

Employment Agreements

Effective November 10, 2002, SurgiCare entered into an employment agreement with Keith G. LeBlanc, Chief Executive Officer. The term of the agreement is three years. The agreement has a base salary of \$198,000 for the first year and \$298,000 for the following years. Pursuant to the employment agreement, Mr. LeBlanc has 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 agreement and has purchased other warrants and common stock of SurgiCare. The agreement provides for payments of two times annual base salary if Mr. LeBlanc 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.

Effective November 10, 2002, SurgiCare entered into an employment agreement with Phillip C. Scott, for the position of Chief Financial Officer. Mr. Scott terminated his employment with SurgiCare on June 25, 2004. The agreement had a base salary of \$198,000 for the first year and \$298,000 for the subsequent two years of the contract term. Pursuant to the employment agreement, Mr. Scott received warrants to purchase 2,095,478 shares (without giving effect to the Reverse Stock Split) of SurgiCare common stock with an exercise price of \$0.32 per share and has purchased other warrants and common stock of SurgiCare. Although Mr. Scott has not taken any formal legal action, the letter SurgiCare received from Mr. Scott on June 25, 2004, alleges claims for two years severance pay (which would total \$596,000), unpaid base salary in the amount of \$62,000, full vesting of all 1,149,138 remaining unvested warrants granted pursuant to the employment agreement, certain bonuses, expense reimbursement and warrant repricing.

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

As of December 31, 2002, the Company 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 shortened the term of the contract from five years to six months. The contract has now expired.

Bellaire leases space on a month-to-month basis for its offices in a medical office building owned by a partnership in which Dr. Michael Mineo, a director and shareholder, has a 25% interest. In 2003, Bellaire paid approximately \$195,000 as rent to the partnership. In 2002, Bellaire paid approximately \$195,000 as rent to the partnership.

In February 2003, Dr. Mineo purchased 100,000 shares of SurgiCare common stock in a private placement for a purchase price of \$35,000.

In March 2003, Dr. Penso and Dr. Miller each purchased 34,284 shares of SurgiCare common stock in a private placement for a purchase price of \$11,999.40 each.

Table of Contents

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) and brother of Daniel Dror. IDC is the majority owner of AII. 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 AII. In June 2002, SurgiCare acquired five properties (the 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 Properties are undeveloped properties.

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 Properties 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.

On June 23, 2004, SurgiCare and AII entered into an agreement which provides for the conversion of all 900,000 shares of Series AA preferred stock for 8,750,000 shares of common stock. The conversion of the Series AA preferred stock to common stock will take place upon the later to occur of the approval for listing of the shares of common stock on the AMEX or the fulfillment by AII of its obligations under the agreement to acquire the Properties and to assume or eliminate SurgiCare's obligations with respect thereto, and to pay SurgiCare \$250,000. On or about July 27, 2004, SurgiCare transferred the Properties to AII, and AII has no further obligations regarding the resale guarantee of the Properties in the December 2002 agreement or the indemnification agreement referenced in the December 2002 agreement. If the conversion does not occur by July 30, 2004, SurgiCare is required by the certificate of designations of the Series AA preferred stock filed pursuant to the agreement to either convert or redeem 300,000 shares of Series AA preferred stock on each of July 30, 2004, June 4, 2005, and June 4, 2006. Each share of Series AA preferred stock would be convertible into the number of shares of common stock determined by the following formula: \$5.00 divided by the greater of (a) the average of the closing price of the common stock on the twenty trading days immediately preceding the conversion date or (b) \$0.41. The redemption price of each share of Series AA preferred stock would be \$5.00. SurgiCare filed a listing application for the listing of the shares of common stock and is waiting to receive approval of same from AMEX.

At the time of the original acquisition of the Properties, AII and its affiliates and associates were unrelated third parties with respect to SurgiCare and SurgiCare believes that the acquisition and subsequent negotiations and transactions described above were entered after arms-length negotiations on terms as favorable as could have been obtained from other, unrelated third parties.

Table of Contents

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 \$2,115,411 as of August 10, 2004, which will be paid by Orion with a portion of the cash contributed by Brantley IV. 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. At the time the loan was made, Mr. Cascio, Mr. Finn and Brantley IV were unrelated third parties with respect to SurgiCare, and the loan was made after arms length negotiations on terms the company believes were as favorable as could be obtained from other unrelated third parties.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 and SEC 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 AMEX 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 former 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, 2002, or 2003 (with the exception of Keith G. LeBlanc and Phillip C. Scott, as noted above).

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, 2002, and 2003 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

Table of Contents

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, if any, 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 outstanding shares of our Series AA preferred stock, if any, each voting as a separate class and voting together as a single class. Upon consummation of the Transaction, if elected, the Post-Acquisition Nominees will serve as the board of directors. The Pre-Acquisition Nominees, if elected, will serve until the consummation of the Transactions. Therefore, if the Transactions are not consummated, the Pre-Acquisition Nominees, if elected, will serve out their full terms as directors, unless they resign or are removed.

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 ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL ELEVEN 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 AMEX's Company Guide requires AMEX-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. Approval of this proposal is contingent upon approval of the remainder of Proposals One through Eleven.

Description of the 2004 Incentive Plan

The 2004 Incentive Plan provides for issuance of up to 2.2 million shares of Class A common stock to key employees, directors and consultants of the company. This amount is approximately 6.8% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan, issuance of 2,100,000 shares of common stock (pre-Reverse Stock Split) to A.I. International and issuance of 8,750,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock). Approximately 5,758,852 shares (575,885 after giving effect to the Reverse Stock Split) remained issuable in connection with outstanding awards under prior SurgiCare plans as of August 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 8.6% of the fully-diluted shares of Orion (assuming exercise of all outstanding options and warrants, conversion of convertible debentures, issuance of all shares issuable pursuant to the 2004 Incentive Plan, issuance of 2,100,000 shares of common stock (pre-Reverse Stock Split) to A.I. International and issuance of 8,750,000 shares of common stock (pre-Reverse Stock Split) in exchange for the Series AA preferred stock).

The terms of our proposed 2004 Incentive Plan are summarized in the section entitled "The 2004 Incentive Plan". We urge you to read the entire 2004 Incentive Plan, a copy of which appears as Annex O to this Proxy Statement.

Stockholder Approval of 2004 Incentive Plan

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, 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 outstanding shares of our Series AA preferred stock, if any, 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 ELEVEN IN ORDER FOR US TO CONSUMMATE THE TRANSACTIONS. APPROVAL OF THIS PROPOSAL IS CONTINGENT UPON APPROVAL OF THE REMAINDER OF PROPOSALS ONE THROUGH ELEVEN.

Table of Contents

PROPOSAL TWELVE 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 AMEX's Company Guide requires AMEX-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 current director (Sherman Nagler, Bruce Miller, Michael A. Mineo, and Jeffrey J. Penso) would receive warrants to purchase 25,000 shares (100,000 shares total) of Class A common stock, which collectively represent approximately 0.4% of the Fully-Diluted Orion Shares (as adjusted to reflect the exercise of such warrants), 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. We propose to grant these warrants to the four directors to compensate them for their services during the fiscal year ended December 31, 2003 and until the consummation of the Transactions.

The affirmative vote of the holders of a majority of the outstanding shares of our common stock and outstanding shares of our Series AA preferred stock, if any, 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.

Table of Contents

PROPOSAL THIRTEEN 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, and any matters incidental to the conduct of the meeting. This proposal will not be used to authorize an adjournment of the meeting for the purpose of soliciting additional proxies.

Table of Contents

INDEPENDENT PUBLIC ACCOUNTANTS

We expect that representatives of UHY Mann Frankfort Stein & Lipp CPAs, L.L.P. (formerly Mann Frankfort Stein & Lipp CPAs, L.L.P.), 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 UMFSL 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.

Audit Matters

UMFSL was selected to audit our financial statements for the fiscal year ending December 31, 2003 and have reported 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 UMFSL 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 UMFSL 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 UMFSL 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 Form S-8 consents.

Table of Contents

STOCKHOLDER PROPOSALS

Stockholder proposals to be considered at the annual meeting of stockholders in 2005 must be received by _____, 2005, 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 by contacting us at our principal offices at 10700 Richmond Avenue, Suite 300, Houston, Texas 77042. 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.

Table of Contents

INDEX TO FINANCIAL STATEMENTS

SurgiCare, Inc. Financial Statements and related notes; Management Discussion and Analysis	Annex C (10-KSB/A) and Annex P (10-QSB)
IPS Financial Statements and related notes	Annex I
MBS Financial Statements and related notes	Annex J
DCPS Financial Statements and related notes	Annex K

Table of Contents

ANNEX A

AMENDED AND RESTATED
AGREEMENT AND PLAN OF MERGER

by and among

SURGICARE, INC.

IPS ACQUISITION, INC.

and

INTEGRATED PHYSICIAN SOLUTIONS, INC.

Conformed copy dated as of February 9, 2004,
as amended by
First Amendment to Agreement and Plan of Merger dated as of July 16, 2004

Table of Contents

TABLE OF CONTENTS

	Page
ARTICLE I	
THE MERGER	3
SECTION 1.01 The Merger	3
SECTION 1.02 Closing; Effective Time.	3
SECTION 1.03 Effect of the Merger	3
SECTION 1.04 Subsequent Actions	4
SECTION 1.05 Certificate of Incorporation and By-Laws.	4
SECTION 1.06 Directors and Officers	4
ARTICLE II	
CONVERSION OF SECURITIES; EXCHANGE OF CERTIFICATES	4
SECTION 2.01 Conversion of Securities.	4
SECTION 2.02 Exchange of Certificates.	6
SECTION 2.03 Stock Transfer Books	9
SECTION 2.04 Stock Options and Warrants	9
SECTION 2.05 Closing Certificates	9
ARTICLE III	
REPRESENTATIONS AND WARRANTIES OF SURGICARE AND MERGER SUB	9
SECTION 3.01 Organization and Qualification; Subsidiaries.	9
SECTION 3.02 Certificate of Incorporation and By-Laws	10
SECTION 3.03 Capitalization.	10
SECTION 3.04 Authority Relative to this Agreement.	12
SECTION 3.05 No Conflict; Required Filings and Consents.	13
SECTION 3.06 Permits; Accreditation.	13
SECTION 3.07 Compliance with Laws.	14
SECTION 3.08 SEC Filings; Financial Statements.	16
SECTION 3.09 Undisclosed Liabilities	17
SECTION 3.10 Absence of Certain Changes or Events	17
SECTION 3.11 Absence of Litigation	19
SECTION 3.12 Employee Benefit Matters.	19
SECTION 3.13 Material Contracts.	21
SECTION 3.14 Environmental Matters	23
SECTION 3.15 Title to Properties; Absence of Liens and Encumbrances.	23
SECTION 3.16 Intellectual Property.	24
SECTION 3.17 Taxes.	25
SECTION 3.18 Insurance.	26
SECTION 3.19 Opinion of Financial Advisor	26
SECTION 3.20 Brokers	26
SECTION 3.21 Employees	26
SECTION 3.22 Transactions with Affiliates	27
SECTION 3.23 Stockholder Rights Agreement	27
SECTION 3.24 DCPS/MBS Acquisition Agreement	27
SECTION 3.25 Offering Valid	27
SECTION 3.26 Certain Payments	27

Table of Contents

	Page
ARTICLE IV	
REPRESENTATIONS AND WARRANTIES OF IPS	28
SECTION 4.01 Organization and Qualification; Subsidiaries.	28
SECTION 4.02 Certificate of Incorporation and By-Laws	28
SECTION 4.03 Capitalization.	29
SECTION 4.04 Authority Relative to this Agreement.	30
SECTION 4.05 No Conflict; Required Filings and Consents.	31
SECTION 4.06 Permits; Accreditation.	31
SECTION 4.07 Compliance with Laws.	32
SECTION 4.08 Financial Statements.	33
SECTION 4.09 Undisclosed Liabilities	34
SECTION 4.10 Absence of Certain Changes or Events	34
SECTION 4.11 Absence of Litigation	35
SECTION 4.12 Employee Benefit Matters.	36
SECTION 4.13 Material Contracts.	37
SECTION 4.14 Environmental Matters	39
SECTION 4.15 Title to Properties; Absence of Liens and Encumbrances.	39
SECTION 4.16 Intellectual Property.	40
SECTION 4.17 Taxes.	41
SECTION 4.18 Insurance.	43
SECTION 4.19 Brokers	43
SECTION 4.20 Employees	43
SECTION 4.21 Transactions with Affiliates	44
SECTION 4.22 Stockholder Rights Agreement	44
SECTION 4.23 Opinion of Financial Advisor	44
SECTION 4.24 Certain Payments	44
ARTICLE V	
CONDUCT OF BUSINESS PENDING THE MERGER	44
SECTION 5.01 Conduct of Business by SurgiCare Pending the Merger	44
SECTION 5.02 Conduct of Business by IPS Pending the Merger	47
SECTION 5.03 Notification of Certain Matters	50
ARTICLE VI	
ADDITIONAL AGREEMENTS	50
SECTION 6.01 Proxy Statement; Stockholders Meetings.	50
SECTION 6.02 Access to Information; Confidentiality	52
SECTION 6.03 No Solicitation of Transactions by SurgiCare.	53
SECTION 6.04 No Solicitation of Transactions by IPS.	55
SECTION 6.05 Directors and Officers Indemnification and Insurance.	57
SECTION 6.06 Further Action; Consents	57
SECTION 6.07 Public Announcements	58
SECTION 6.08 IPS Stock Options	58
SECTION 6.09 AMEX Listing	58
SECTION 6.10 Listing of SurgiCare Class A Common Shares	58
SECTION 6.11 Amendment or Waiver of Agreements	58
SECTION 6.12 Form S-3 Eligibility	59
SECTION 6.13 IPS Audited Financial Statements	59

Table of Contents

	Page
ARTICLE VII	
CONDITIONS TO THE MERGER	59
SECTION 7.01 Conditions to the Obligations of Each Party	59
SECTION 7.02 Conditions to the Obligations of SurgiCare and Merger Sub	59
SECTION 7.03 Conditions to the Obligations of IPS	61
ARTICLE VIII	
TERMINATION, AMENDMENT, WAIVER AND EXPENSES	64
SECTION 8.01 Termination	64
SECTION 8.02 Effect of Termination	66
SECTION 8.03 Expenses.	67
ARTICLE IX	
GENERAL PROVISIONS	68
SECTION 9.01 Non-Survival of Representations, Warranties and Agreements	68
SECTION 9.02 Notices	68
SECTION 9.03 Certain Definitions	69
SECTION 9.04 Amendment	74
SECTION 9.05 Waiver	74
SECTION 9.06 Severability	75
SECTION 9.07 Assignment; Binding Effect; Benefit	75
SECTION 9.08 Specific Performance	75
SECTION 9.09 Governing Law; Forum	75
SECTION 9.10 Headings	75
SECTION 9.11 Counterparts	75
SECTION 9.12 Entire Agreement	76
SECTION 9.13 Waiver of Jury Trial	76
EXHIBIT A Form of SurgiCare Restated Charter	
EXHIBIT B Form of Debt Exchange Agreement	
EXHIBIT C Form of Stock Subscription Agreement	
EXHIBIT D Form of New Equity Plan	
EXHIBIT E Form of Employment Agreement	
EXHIBIT F Form of Opinion of Morris, Manning & Martin, LLP	
EXHIBIT G Form of Investment Letter	
EXHIBIT H Form of Opinion of Strasburger & Price, LLP	
EXHIBIT I Form of SurgiCare Amended and Restated By-Laws	
EXHIBIT J Form of Registration Rights Agreement	
EXHIBIT K Form of DCPS/MBS Acquisition Agreement	

Table of Contents**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)
Contract	Section 3.03(b)
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

Table of Contents

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

Table of Contents

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)
PBGC	Section 9.03
Person or person	Section 9.03
Prohibited Transaction	Section 9.03
Proxy Statement	Section 6.01
Recapitalization	Recitals
Required Consents	Section 3.05(b)
Reverse Split Fraction	Section 9.03
Reverse Stock Split	Recitals
Rule 145 Affiliate	Section 6.08(a)

Table of Contents

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)

Table of Contents

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

Table of Contents

**AMENDED AND RESTATED
AGREEMENT AND PLAN OF MERGER**

THIS AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER dated as of February 9, 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;

Table of Contents

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, together with the right to receive certain other amounts owed by IPS to Brantley Capital, 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, 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, (i) 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); and (ii) the Merger, together with the DCPS/MBS Acquisition, the Debt Exchange and the Equity Financing, are intended to qualify as transfers to a corporation controlled by the transferors under the provisions of Section 351 of 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

Table of Contents

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

Table of Contents

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

Table of Contents

(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

Table of Contents

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

Table of Contents

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.

Table of Contents

(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

Table of Contents

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.

Table of Contents

(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, (v) 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

Table of Contents

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

Table of Contents

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 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,

Table of Contents

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,

Table of Contents

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.

Table of Contents

(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,

Table of Contents

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

Table of Contents

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;

Table of Contents

(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;

Table of Contents

(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.

Table of Contents

(2) All required reports and descriptions (including Form 5500 Annual Reports, Summary Annual Reports, PBGC-1 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.

Table of Contents

(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);

Table of Contents

(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 principles 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.

Table of Contents

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

Table of Contents

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

Table of Contents

(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 statute 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. Herrera & 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. Herrera & 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. Herrera & 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,

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

(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

Table of Contents

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

Table of Contents

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

Table of Contents

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;

Table of Contents

(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

Table of Contents

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-1 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

Table of Contents

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

Table of Contents

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;

Table of Contents

(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.

Table of Contents

(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.

Table of Contents

(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

Table of Contents

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 statute 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.

Table of Contents

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.

Table of Contents

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

Table of Contents

(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

Table of Contents

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;

Table of Contents

(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 Subsidiaries' 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 Subsidiaries' 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 Subsidiaries 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

Table of Contents

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;

Table of Contents

(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

Table of Contents

(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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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's 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

Table of Contents

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

Table of Contents

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 or on The NASDAQ SmallCap Market.

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.

Table of Contents

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:

Table of Contents

(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

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

(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 or NASDAQ Listing. The SurgiCare Class A Common Shares to be issued in the Merger shall have been authorized for listing on the AMEX or on The NASDAQ SmallCap Market, 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 September 30, 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

Table of Contents

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

Table of Contents

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's 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's 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

Table of Contents

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

Table of Contents

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

Table of Contents

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, rounded up to the nearest whole share, equal to the sum of (i) the Brantley Capital Loan Amount *divided by* the Class A Common Closing Price plus (ii) the Brantley Capital Dividend Securities (as defined in the Debt Exchange Agreement), if any. It is understood that there shall not be any Brantley Capital Dividend Securities if the IPS Common/Series C Merger Consideration is less than the product of 2,000,000 *multiplied by* the Reverse Split Fraction.
- (i) **Class A Common Closing Price** means an amount equal to the Five Day Average Price *divided by* the Reverse Split Fraction.

Table of Contents

(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(1).

(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

Table of Contents

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)

Table of Contents

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-

Table of Contents

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.

Table of Contents

(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,

Table of Contents

(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

Table of Contents

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.

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Table of Contents

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 LeBlanc
Name: Keith LeBlanc
Title: CEO

IPS ACQUISITION, INC.

By: \s\ Keith LeBlanc
Name: Keith LeBlanc
Title: President

INTEGRATED PHYSICIAN SOLUTIONS, INC.

By: \s\ Terrence L. Bauer
Name: Terrence L. Bauer
Title: President and CEO

-77-

Table of Contents

Annex B

AMENDED AND RESTATED
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 July 16, 2004

Table of Contents

TABLE OF CONTENTS

	Page
ARTICLE I THE ACQUISITIONS	3
SECTION 1.01 The Acquisitions	3
SECTION 1.02 Closing; MBS Effective Time	3
SECTION 1.03 Effect of the Merger	4
SECTION 1.04 Subsequent Actions	4
SECTION 1.05 Certificate of Incorporation and By-Laws	4
SECTION 1.06 Directors and Officers	4
ARTICLE II CONVERSION AND SALE OF SECURITIES; EXCHANGE OF CERTIFICATES	5
SECTION 2.01 Conversion and Sale of Securities	5
SECTION 2.02 Deliveries at the Closing	6
SECTION 2.03 No Further Rights in MBS Common Shares or DCPS Interests	7
SECTION 2.04 No Fractional Shares	7
SECTION 2.05 Withholding Rights	7
SECTION 2.06 Transfer Books	7
SECTION 2.07 Adjustments to Acquisition Consideration	7
SECTION 2.08 Additional DCPS Consideration	12
SECTION 2.09 MBS Representative	13
SECTION 2.10 MBS Tax	13
ARTICLE III REPRESENTATIONS AND WARRANTIES OF SURGICARE AND NEWCO	13
SECTION 3.01 Organization and Qualification; Subsidiaries	13
SECTION 3.02 Certificate of Incorporation and By-Laws	14
SECTION 3.03 Capitalization	14
SECTION 3.04 Authority Relative to this Agreement	16
SECTION 3.05 No Conflict; Required Filings and Consents	17
SECTION 3.06 Permits; Accreditation	17
SECTION 3.07 Compliance with Laws	18
SECTION 3.08 SEC Filings; Financial Statements	20
SECTION 3.09 Undisclosed Liabilities	21
SECTION 3.10 Absence of Certain Changes or Events	21
SECTION 3.11 Absence of Litigation	23
SECTION 3.12 Employee Benefit Matters	23
SECTION 3.13 Material Contracts	25
SECTION 3.14 Environmental Matters	26
SECTION 3.15 Title to Properties; Absence of Liens and Encumbrances	27
SECTION 3.16 Intellectual Property	28
SECTION 3.17 Taxes	29
SECTION 3.18 Insurance	30
SECTION 3.19 Opinion of Financial Advisor	31
SECTION 3.20 Brokers	31
SECTION 3.21 Employees	31
SECTION 3.22 Transactions with Affiliates	32

Table of Contents

	Page
SECTION 3.23 Stockholder Rights Agreement	32
SECTION 3.24 IPS Acquisition Agreement, Stock Subscription Agreement and Debt Exchange Agreement	32
SECTION 3.25 Offering Valid	32
SECTION 3.26 Certain Payments	32
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF DCPS, MBS AND THE SELLERS	33
SECTION 4.01 Organization and Qualification; Subsidiaries	33
SECTION 4.02 Certificate of Incorporation and By-Laws	34
SECTION 4.03 Capitalization	34
SECTION 4.04 Authority Relative to this Agreement	35
SECTION 4.05 No Conflict; Required Filings and Consents	35
SECTION 4.06 Permits; Accreditation	36
SECTION 4.07 Compliance with Laws	37
SECTION 4.08 Financial Statements	38
SECTION 4.09 Undisclosed Liabilities	38
SECTION 4.10 Absence of Certain Changes or Events	39
SECTION 4.11 Absence of Litigation	40
SECTION 4.12 Employee Benefit Matters	40
SECTION 4.13 Material Contracts	42
SECTION 4.14 Environmental Matters	43
SECTION 4.15 Title to Properties; Absence of Liens and Encumbrances	44
SECTION 4.16 Intellectual Property	44
SECTION 4.17 Taxes	45
SECTION 4.18 Insurance	47
SECTION 4.19 Brokers	48
SECTION 4.20 Employees	48
SECTION 4.21 Transactions with Affiliates	48
SECTION 4.22 Stockholder Rights Agreement	48
SECTION 4.23 Certain Payments	48
SECTION 4.24 Investment Representations	49
ARTICLE V CONDUCT OF BUSINESS PENDING THE ACQUISITIONS	49
SECTION 5.01 Conduct of Business by SurgiCare Pending the Acquisitions	49
SECTION 5.02 Conduct of Business by DCPS, DCM and MBS Pending the Acquisitions	52
SECTION 5.03 Notification of Certain Matters	55
ARTICLE VI ADDITIONAL AGREEMENTS	55
SECTION 6.01 Proxy Statement; Stockholders Meetings	55
SECTION 6.02 Access to Information; Confidentiality	57
SECTION 6.03 [Intentionally Omitted]	57
SECTION 6.04 No Solicitation of Transactions by DCPS or MBS	58
SECTION 6.05 Further Action; Consents	58
SECTION 6.06 Public Announcements	58
SECTION 6.07 AMEX Listing	59
SECTION 6.08 Listing of SurgiCare Class A Common Shares	59
SECTION 6.09 Form S-3 Eligibility	59

Table of Contents

	Page
SECTION 6.10 Outsourcing of Services to the Surviving Corporation; Surgery Center Division	59
SECTION 6.11 Right of First Refusal	59
SECTION 6.12 Advisory Board	60
SECTION 6.13 Observer Rights	60
SECTION 6.14 S Corporation Status	61
SECTION 6.15 Reservation of Shares	61
SECTION 6.16 Contribution of DCPS Interests	61
SECTION 6.17 Tax Indemnification	61
ARTICLE VII CONDITIONS TO THE ACQUISITIONS	61
SECTION 7.01 Conditions to the Obligations of Each Party	61
SECTION 7.02 Conditions to the Obligations of SurgiCare and Newco	62
SECTION 7.03 Conditions to the Obligations of DCPS, MBS and the Sellers	64
ARTICLE VIII TERMINATION, AMENDMENT, WAIVER AND EXPENSES	66
SECTION 8.01 Termination	66
SECTION 8.02 Effect of Termination	67
SECTION 8.03 Expenses	67
ARTICLE IX GENERAL PROVISIONS	68
SECTION 9.01 Non-Survival of Representations, Warranties and Agreements	68
SECTION 9.02 Notices	68
SECTION 9.03 Certain Definitions	69
SECTION 9.04 Amendment	74
SECTION 9.05 Waiver	74
SECTION 9.06 Severability	74
SECTION 9.07 Assignment; Binding Effect; Benefit	74
SECTION 9.08 Specific Performance	75
SECTION 9.09 Governing Law; Forum	75
SECTION 9.10 Headings	75
SECTION 9.11 Counterparts	75
SECTION 9.12 Entire Agreement	75
SECTION 9.13 Set-Off	75
SECTION 9.14 Waiver of Jury Trial	75
EXHIBIT A Form of SurgiCare Restated Charter	
EXHIBIT B Form of Seller Note	
EXHIBIT C Form of New Equity Plan	
EXHIBIT D Form of Employment Agreement	
EXHIBIT E Form of Opinions of Fant & Burman, L.L.P. and Peter Workin P.C.	
EXHIBIT F Form of Opinion of Strasburger & Price, LLP	
EXHIBIT G Form of SurgiCare Amended and Restated By-Laws	

Table of Contents**GLOSSARY OF DEFINED TERMS**

Defined Term	Location of Definition
Accountants	Section 2.07(b)
Acquisition Consideration	Section 9.03
Acquisitions	Recitals
Action	Section 3.11
Affiliate or affiliate	Section 9.03
Affiliated Group	Section 3.17(e)
Agreement	Preamble
ALTA	Section 3.15(b)
AMEX	Section 3.05(b)
Appraisal Shares	Section 2.01(a)
Articles of Merger	Section 1.02(b)
Assumed Incremental Gain	Section 2.10
Board Election	Section 3.04(b)
Brantley III	Recitals
Brantley III Notes	Recitals
Brantley IV	Recitals
Brantley Capital	Recitals
Brantley Capital Notes	Recitals
Bridge Notes	Recitals
business day	Section 9.03
Cain	Preamble
Class A Common Closing Price	Section 9.03
Closing	Section 1.02(a)
Closing Date	Section 1.02(a)
Code	Recitals
Confidentiality Agreements	Section 6.02
Consent	Section 3.05(b)
Constructive Sale	Section 9.03
Contract	Section 3.03(b)
control	Section 9.03
DCM	Recitals
DCPS	Preamble
DCPS Cash Consideration	Section 2.01(b)
DCPS EBITDA Shortfall Amount	Section 2.07(d)
DCPS Interests	Recitals
DCPS Notes	Section 2.01(b)
DCPS Note Balance	Section 2.07(d)
DCPS Partnership Agreement	Section 4.02
DCPS Sellers	Preamble
DCPS Share Consideration	Section 2.01(b)
DCPS/MBS Accreditations	Section 4.06(c)

Table of Contents

Defined Term	Location of Definition
DCPS/MBS Acquisition Transaction	Section 6.04
DCPS/MBS Balance Sheets	Section 4.08(b)
DCPS/MBS Disclosure Schedule	Section 9.12
DCPS/MBS Employee Benefit Plan	Section 9.03
DCPS/MBS Intellectual Property	Section 4.16(b)
DCPS/MBS Material Adverse Effect	Section 9.03
DCPS/MBS Material Contracts	Section 4.13(a)
DCPS/MBS Permits	Section 4.06(a)
DCPS/MBS Real Property	Section 4.15(b)
DGCL	Recitals
Earn-out Period	Section 6.10
Employee Pension Benefit Plan	Section 9.03
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
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
Interest Purchase	Recitals
IPS	Recitals
IPS Acquisition	Recitals
IPS Acquisition Agreement	Recitals
IPS Bridge Notes	Recitals
IPS Merger Sub	Recitals
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)
MBS	Preamble
MBS Board	Recitals
MBS By-Laws	Section 4.02

Table of Contents

Defined Term	Location of Definition
MBS Charter	Section 4.02
MBS Common Shares	Section 2.01(a)
MBS Common Stock	Recitals
MBS EBITDA Shortfall Amount	Section 2.07(d)
MBS Effective Time	Section 1.02(b)
MBS Sellers	Preamble
MBS Share Consideration	Section 2.01(a)
Medicaid	Section 3.07(b)
Medicare	Section 3.07(b)
Merger	Recitals
Multiemployer Plan	Section 9.03
New Equity Plan	Section 3.04(a)
Newco	Preamble
Newco Board	Recitals
Newco EBITDA	Section 9.03
Newco EBITDA Excess	Section 2.07(c)
Newco EBITDA Shortfall	Section 2.07(d)
Newco EBITDA Statement	Section 2.07(a)
Newco Net Income	Section 9.03
Newco Sale Event	Section 2.07(e)
Order	Section 7.01(b)
PBGC	Section 9.03
Person or person	Section 9.03
Prohibited Transaction	Section 9.03
Proxy Statement	Section 6.01
Qualifying Termination	Section 2.07(e)
Recapitalization	Recitals
Required Consents	Section 3.05(b)
Reverse Split Fraction	Section 9.03
ROFR	Section 6.11
ROFR Notice	Section 6.11(a)
SEC	Section 3.05(b)
Securities Act	Section 3.08(a)
Sellers	Preamble
Smith	Preamble
Stock Subscription Agreement	Recitals
Stockholder Percentages	Section 2.01(c)
Subordination Agreement	Section 7.02(l)
subsidiary or subsidiaries	Section 9.03
SurgiCare	Preamble
SurgiCare Accreditations	Section 3.06(c)
SurgiCare Balance Sheet	Section 3.08(b)
SurgiCare Board	Recitals
SurgiCare Board Approval	Section 3.04(b)
SurgiCare Bridge Notes	Recitals

Table of Contents

Defined Term	Location of Definition
SurgiCare Capital Stock	Recitals
SurgiCare Charter	Section 3.02
SurgiCare Class A Common Shares	Recitals
SurgiCare Class A Common Stock	Recitals
SurgiCare Class B Common Stock	Recitals
SurgiCare Class C Common Shares	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	Section 3.03(a)
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 Subsidiary	Section 9.03
SurgiCare Warrants	Section 3.03(a)
Surviving Corporation	Section 1.01
Tax or Taxes	Section 9.03
Tax Return	Section 9.03
TBCA	Recitals
Third-Party Offer	Section 6.12(a)
Trademarks	Section 9.03
Transactions	Section 9.03
TRICARE	Section 3.07(b)
U.S. GAAP	Section 3.08(b)
Voting DCPS/MBS Debt	Section 4.03(c)
Voting SurgiCare Debt	Section 3.03(c)

Table of Contents

**AMENDED AND RESTATED
AGREEMENT AND PLAN OF MERGER**

THIS AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER dated as of July 16, 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). This Agreement amends and restates in its entirety the Agreement and Plan of Merger dated as of February 9, 2004 entered into among SurgiCare, Newco, DCPS, MBS, the Sellers and DCM (as defined herein). 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, 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, (i) the SurgiCare Board, the Newco Board and the MBS Board have each approved the merger (the 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 (ii) the SurgiCare Board and the DCPS Sellers have each approved the purchase by SurgiCare, and the sale by the DCPS Sellers (the Interest Purchase and, together with the Merger, the Acquisitions), of all outstanding Units of Limited Partnership Interest in DCPS and all outstanding membership interests in Dennis Cain Management, L.L.C., a Texas limited liability company (DCM) (collectively, the DCPS Interests), in each case upon the terms and subject to the conditions set forth herein;

WHEREAS, (i) pursuant to the Merger, each outstanding share of common stock, par value \$1.00 per share, of MBS (MBS Common Stock), shall be converted into the right to receive the applicable Acquisition Consideration (as defined herein), and (ii) pursuant to the Interest Purchase, the DCPS Sellers shall receive the applicable Acquisition Consideration in exchange for the DCPS Interests, in each case upon the terms and subject to the conditions set forth herein;

WHEREAS, simultaneously with, and as a condition to, the Acquisitions, 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 9, 2004 among SurgiCare, IPS

Table of Contents

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 Acquisitions, (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 February 9, 2004, 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 February 9, 2004, 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 February 9, 2004, 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 9, 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, together with the right to receive certain other amounts owed by IPS to Brantley Capital,

Table of Contents

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 Acquisitions, Brantley IV will purchase, and SurgiCare will issue and sell to Brantley IV, 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 9, 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, (i) 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), and (ii) the Acquisitions, together with the IPS Acquisition, the Debt Exchange and the Equity Financing, are intended to qualify as transfers to a corporation controlled by the transferors under the provisions of Section 351 of the Code; and

WHEREAS, SurgiCare, Newco, DCPS, MBS and the Sellers desire to make certain representations, warranties, covenants and agreements in connection with the Acquisitions and also to prescribe various conditions to the Acquisitions;

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 ACQUISITIONS

SECTION 1.01 The Acquisitions. Upon the terms of this Agreement and subject to the conditions set forth in Article VII, and in accordance with the TBCA, (a) at the MBS Effective Time (as defined below), Newco will be merged with and into MBS, and (b) immediately following the MBS Effective Time, the DCPS Sellers will sell to SurgiCare, and SurgiCare will purchase from the DCPS Sellers, all of the DCPS Interests, free and clear of any Liens other than Liens imposed by applicable securities laws, for the applicable Acquisition Consideration. As a result of the Merger, (i) the separate existence of Newco will cease and (ii) MBS will continue as the surviving corporation of the Merger (the Surviving Corporation) and will continue to be governed by the TBCA.

SECTION 1.02 Closing; MBS Effective Time.

(a) The closing of the Acquisitions (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

Table of Contents

(the Closing Date). Subject to the provisions of Article VII, failure to consummate the Acquisitions 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, MBS, SurgiCare and Newco will cause articles of merger (the Articles of Merger) to be duly prepared, executed and filed with the Secretary of State of the State of Texas as provided in Article 5.04 of the TBCA 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 Articles of Merger are duly filed with the Secretary of State of the State of Texas or at such later times as are specified in the Articles of Merger (the MBS Effective Time).

SECTION 1.03 Effect of the Merger. At the MBS Effective Time, the effect of the Merger will be as provided in this Agreement, the Articles of Merger and the TBCA. Without limiting the generality of the foregoing, and subject thereto, at the MBS 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 MBS and Newco will vest in the Surviving Corporation, and all debts, liabilities, obligations and duties of MBS and Newco will become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.04 Subsequent Actions. If, at any time after the MBS 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 any of MBS or Newco 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 MBS 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 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 MBS Effective Time, 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.

Table of Contents

ARTICLE II
CONVERSION AND SALE OF SECURITIES; EXCHANGE OF CERTIFICATES

SECTION 2.01 Conversion and Sale of Securities.

(a) MBS. At the MBS Effective Time, by virtue of the 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 10,400,000 *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 7,878,800 *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 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 Acquisition 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

Table of Contents

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 Acquisition 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. The consideration to be paid by SurgiCare to the DCPS Sellers for the DCPS Interests shall be, 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 7,878,800 *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 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

Table of Contents

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 the 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 Interests. The Acquisition Consideration delivered upon conversion of the MBS Common Shares and the purchase and sale of the DCPS Interests in accordance with the terms hereof (including any additional Acquisition 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 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 Acquisitions, 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. Newco 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 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 Newco 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 Interests in respect of which such deduction and withholding was made by Newco or SurgiCare, as the case may be.

SECTION 2.06 Transfer Books. At the MBS Effective Time, the stock transfer books of MBS shall be closed and there shall be no further registration of transfers of MBS Common Shares that were outstanding immediately prior to the MBS Effective Time thereafter on the records of MBS. From and after the MBS Effective Time, the holders of certificates representing MBS Common Shares outstanding immediately prior to the MBS Effective Time shall cease to have any rights with respect to such MBS Common Shares, except as otherwise provided in this Agreement or by Law. On or after the MBS Effective Time, any certificates presented to SurgiCare for any reason shall be converted into the applicable Acquisition Consideration.

SECTION 2.07 Adjustments to Acquisition 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

Table of Contents

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 Acquisition Consideration. The Sellers may be eligible to receive additional Acquisition 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);

Table of Contents

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

Table of Contents

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 Acquisition Consideration. The Sellers may be required to forfeit a portion of the Acquisition 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

Table of Contents

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 Acquisition 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 Acquisition 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 Acquisition 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

Table of Contents

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 Consideration. 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 treatment is not available for the DCPS Share Consideration because the Acquisitions, together with the IPS Acquisition, the Debt Exchange and the Equity Financing, do not qualify as transfers to a corporation controlled by the transferors under the provisions of Section 351 of the Code, 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

Table of Contents

\$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 any 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 (i) the Five Day Average Price is less than \$0.70 and (ii) MBS or Smith is notified by the Internal Revenue Service that tax-free treatment is not available for the MBS Share Consideration because the Acquisitions, together with the IPS Acquisition, the Debt Exchange and the Equity Financing, do not qualify as transfers to a corporation controlled by the transferors under the provisions of Section 351 of the Code, and an additional tax is therefore payable in respect of the MBS Share Consideration, SurgiCare will promptly upon request by Smith 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

Table of Contents

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) 900,000 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

Table of Contents

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 Closing, and after giving effect to the Acquisitions, 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 Closing 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.

Table of Contents

(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 Acquisitions 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 Acquisitions, 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 Closing (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 Acquisitions (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 Acquisitions 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

Table of Contents

Acquisitions, 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 Acquisitions 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 Articles of Merger with the Secretary of State of the State of Texas 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,

Table of Contents

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.

Table of Contents

(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,

Table of Contents

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 Closing, (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

Table of Contents

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;

Table of Contents

(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);

Table of Contents

(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-1 s, and Summary Plan Descriptions) have been timely and appropriately filed or distributed with respect to each SurgiCare

Table of Contents

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.

Table of Contents

(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;

Table of Contents

(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

Table of Contents

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

Table of Contents

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,

Table of Contents

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.

Table of Contents

(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 statute 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.

Table of Contents

(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. Herrera & 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. Herrera & 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. Herrera & 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

Table of Contents

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 Acquisitions 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 Acquisitions 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

Table of Contents

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 and DCM) 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 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 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.

(c) DCM is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Texas. DCM is a holding company that engages and has engaged only in the business of holding Units of General Partnership Interest in DCPS. Except for the ownership of Units of General Partnership Interest in DCPS, DCM does not own, directly or indirectly, or have any outstanding contractual obligation to acquire, any capital stock,

Table of Contents

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, all of which are held by the DCPS Sellers. As of the date hereof, Cain is the sole holder of membership interests in DCM. Except as set forth above, as of the date hereof no DCPS Interests or other securities of DCPS or DCM 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 Closing 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 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 Texas law, the DCPS Partnership Agreement, any agreement governing DCM or any Contract to which DCPS or DCM is a party or otherwise bound. Each offer or sale by DCPS or DCM of DCPS 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, DCM 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 Interests may vote (Voting DCPS/MBS Debt).

Table of Contents

(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 any of DCPS, DCM or MBS is a party or by which any of them is bound (i) obligating DCPS, DCM 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, DCM or MBS or any Voting DCPS/MBS Debt, (ii) obligating DCPS, DCM 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 Interests.

(e) There are not any outstanding contractual obligations of DCPS, DCM or MBS, contingent or otherwise, to repurchase, redeem or otherwise acquire any shares of capital stock or other ownership interests of DCPS, DCM 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 Interests that are subject to a repurchase or redemption right in favor of MBS, DCM 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 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 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 Acquisition. 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 Acquisition 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 Acquisitions 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

Table of Contents

does not, and the consummation by each of DCPS, MBS and the Sellers of the applicable Acquisition 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, the DCPS Partnership Agreement or any agreement governing DCM, (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 Acquisition, 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 Acquisitions.

(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.

Table of Contents

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.*

Table of Contents

(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, none of DCPS, DCM or 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.

Table of Contents

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 Interests or any repurchase or redemption for value by MBS of any MBS Common Shares or by DCPS of any DCPS Interests;

(c) any split, combination or reclassification of any MBS Common Shares DCPS 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 Interests;

(d) any issuance by MBS, DCPS or DCM 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;

Table of Contents

(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, DCM or MBS, or any property or asset of DCPS, DCM 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, DCM 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-1 s, and Summary Plan Descriptions) have been timely and appropriately filed or distributed with respect to each DCPS/MBS

Table of Contents

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.

Table of Contents

(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 Acquisitions 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;

Table of Contents

(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 principles 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 Acquisitions 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

Table of Contents

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.

Table of Contents

(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 Acquisitions 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.

Table of Contents

(a) Each of DCPS, DCM 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, DCM 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, DCM and MBS currently are not the beneficiary of any extension of time within which to file any Tax Return. None of DCPS, DCM or MBS has received notice that any claim has been made by an authority in a jurisdiction where any of DCPS, DCM or MBS does not file Tax Returns that they may be subject to taxation by that jurisdiction.

(b) Each of DCPS, DCM 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, DCM or MBS either (i) claimed or raised by any authority in writing received by DCPS, DCM 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, DCM or MBS have been audited, and (ii) none are currently open or the subject of audit. DCPS, DCM 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 any of DCPS, DCM or MBS for the last three taxable years.

(d) None of DCPS, DCM or MBS has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) None of DCPS, DCM or 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). None of DCPS, DCM or MBS has any Liability for the Taxes of any Person other than DCPS, DCM 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) None of DCPS, DCM or MBS has filed a consent under Code Section 341(f) concerning collapsible corporations. None of DCPS, DCM or 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, DCM 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

Table of Contents

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, DCM and MBS in filing their Tax Returns.

(h) Since July 1, 1993, neither DCPS, DCM 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 Closing. 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 Acquisitions. 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

Table of Contents

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 Acquisitions based upon arrangements made by or on behalf of DCPS, DCM 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, DCM or MBS. Without limiting the generality of the foregoing, there are no amounts due or payable by DCPS, DCM or MBS to any of the Sellers or any of their Affiliates or associates in connection with the Acquisitions or otherwise.

SECTION 4.22 Stockholder Rights Agreement. None of DCPS, DCM or 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 Interests or any other equity or debt securities of DCPS, DCM 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 Acquisitions 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.

Table of Contents

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 ACQUISITIONS

SECTION 5.01 Conduct of Business by SurgiCare Pending the Acquisitions. SurgiCare agrees that, between the date of this Agreement and the Closing, 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 Closing, directly or indirectly, do, or propose to do, any of the following

Table of Contents

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;

Table of Contents

(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

Table of Contents

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 Acquisitions;

(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, DCM and MBS Pending the Acquisitions. DCPS, DCM, MBS and the Sellers agree that, between the date of this Agreement and the Closing, 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;

(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; and

(c) DCM will not engage in any business or incur any liability or obligation other than the ownership of Units of General Partnership Interest in DCPS, and none of the DCPS Sellers will transfer or otherwise dispose of any DCPS Interests.

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, none of DCPS, DCM or MBS will, between the date of this Agreement and the Closing, 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):

Table of Contents

(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, DCM 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, DCM 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 Closing 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;

Table of Contents

(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;

Table of Contents

(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 Acquisitions;

(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 Acquisitions, 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 Closing, SurgiCare shall take all or any action required under any applicable federal or state

Table of Contents

securities laws in connection with the issuance of SurgiCare Class C Common Shares (and, if applicable, SurgiCare Class A Common Shares) pursuant to the Acquisitions. 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 Closing, 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 Closing, 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 Acquisitions 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 Closing, 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

Table of Contents

statements therein, in light of the circumstances under which they were made, not misleading. If, at any time prior to the Closing, 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 Acquisitions, 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 Acquisitions, 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 Closing 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 Closing 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].

Table of Contents

SECTION 6.04 No Solicitation of Transactions by DCPS or MBS. After the date hereof and prior to the Closing 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 Acquisitions.

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.

Table of Contents

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 Acquisitions, 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 or on The NASDAQ SmallCap Market.

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 Closing and ending on such date that no further additional Acquisition 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 Closing 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

Table of Contents

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 Closing, 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 Acquisition 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 Acquisition 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 Acquisition 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

Table of Contents

(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.

SECTION 6.16 Contribution of DCPS Interests. Immediately following the Closing, SurgiCare will contribute all of the DCPS Interests to the Surviving Corporation.

SECTION 6.17 Tax Indemnification. The DCPS Sellers shall jointly and severally indemnify SurgiCare from and against any income Taxes that are determined to be payable by DCPS in respect of the 2003 or 2004 tax years.

ARTICLE VII
CONDITIONS TO THE ACQUISITIONS

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

Table of Contents

(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 Acquisitions illegal or otherwise prohibiting consummation of the Acquisitions, 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 Acquisitions 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 Acquisitions.

(e) Equity Financing. The Equity Financing shall have been consummated concurrently with the Acquisitions, and Brantley IV shall have purchased at least \$6,000,000 of SurgiCare Class B Common Stock pursuant to such Equity Financing for cash.

(f) Debt Exchange. The Debt Exchange shall have been consummated concurrently with the Acquisitions.

SECTION 7.02 Conditions to the Obligations of SurgiCare and Newco. The obligations of SurgiCare and Newco to consummate the Acquisitions 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 Closing, as though made at and as of the Closing, 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, 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, DCM 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 Closing 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 Acquisitions shall have been obtained from and made with all Governmental Entities and all

Table of Contents

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 Acquisitions 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, DCM 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, DCM 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 Interests acquired pursuant to the Acquisitions, (iv) seeks to require divestiture by SurgiCare or Newco of any MBS Common Shares or DCPS 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 Closing and such individuals shall be in the employ of DCPS or MBS immediately prior to the Closing and no such individual shall have indicated his intention to terminate his employment with the Surviving Corporation or SurgiCare following the Closing.

(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., counsel to DCPS, 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 Interests shall have been terminated and SurgiCare and Newco shall

Table of Contents

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, DCM 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, DCM 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 Acquisitions 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 Closing, as though made on and as of the Closing, 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), as well as the statements set forth in the footnote in Schedule 3.03(a) of the SurgiCare Disclosure Schedule shall be true in all respects as of the Closing, 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 Closing 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 Acquisitions 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 Acquisitions 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.

Table of Contents

(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, DCM 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, DCM 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 Interests acquired pursuant to the Acquisitions, (iv) seeks to require divestiture by SurgiCare or Newco of any MBS Common Shares or DCPS 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 Closing and such individual shall be in the employ of SurgiCare immediately prior to the Closing and such individual shall not have indicated his intention to terminate his employment with SurgiCare following the Closing.

(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 the SurgiCare Board and the Newco Board 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 or other equityholders approving this Agreement and the Transactions and the tabulation of the stockholder or other equityholder vote thereof, and (iii) the certificate of incorporation and the by-laws (or equivalent organizational documents) 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 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 Closing.

(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 Closing.

Table of Contents

(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 Closing. At the Closing, 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 or NASDAQ Listing. The SurgiCare Class A Common Shares issuable upon conversion of the SurgiCare Class C Common Shares to be issued in the Acquisitions, as well as any SurgiCare Class A Common Shares issuable under Section 2.07, shall have been authorized for listing on the AMEX or on The NASDAQ SmallCap Market, subject to official notice of issuance.

(o) Code Section 351. The Sellers have not reasonably determined, based upon underlying information certified by SurgiCare to be accurate and complete and furnished by SurgiCare to the Sellers prior to Closing and upon the advice of the Seller's independent certified accountant, that the Acquisitions, together with the IPS Acquisition, the Debt Exchange and the Equity Financing, fail to qualify as transfers to a corporation controlled by the transferors under the provisions of Section 351 of the Code. In connection therewith, said information shall include without limitation an update capitalization table, disclosure regarding the number of shares to be issued to SurgiCare employees, options designated by exercise price and the notification of the exercise of any appraisal rights by any IPS equity holder.

**ARTICLE VIII
TERMINATION, AMENDMENT, WAIVER AND EXPENSES**

SECTION 8.01 Termination. This Agreement may be terminated and the Acquisitions and the other transactions contemplated hereby may be abandoned at any time prior to the Closing, 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 Acquisitions; 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 Closing has not occurred on or before September 30, 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

Table of Contents

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 Acquisitions 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 Acquisitions 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

Table of Contents

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 Closing. The covenants and agreements in this Agreement will survive the Closing 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:

Table of Contents

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) **Acquisition Consideration** means the MBS Cash Consideration, the DCPS Cash Consideration, the MBS Share Consideration, the DCPS Share Consideration and the DCPS Notes.

(b) **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.

(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) **Class A Common Closing Price** means an amount equal to the Five Day Average Price *divided by* the Reverse Split Fraction.

Table of Contents

(f) **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.

(g) **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.

(h) **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.

(i) **Employee Pension Benefit Plan** has the meaning set forth in ERISA Section 3(2).

(j) **Employee Welfare Benefit Plan** has the meaning set forth in ERISA Section 3(1).

(k) **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.

(l) **Fiduciary** has the meaning set forth in ERISA Section 3(21).

(m) **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.

(n) **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.

Table of Contents

(o) 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.

(p) 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.

(q) 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 Acquisitions.

(r) 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 Acquisitions, 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

Table of Contents

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.

(s) **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.

(t) **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).

(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

Table of Contents

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 Acquisitions.

(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.

Table of Contents

(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 Acquisitions 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 Closing; 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 Closing, 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

Table of Contents

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]

Table of Contents

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 LeBlanc

Name: Keith LeBlanc

Title: CEO

NEWCO:

DCPS/MBS ACQUISITION, INC.

By: \s\ Keith LeBlanc

Name: Keith 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

Table of Contents

MBS SELLERS:

By: \s\ Tom M. Smith

Tom M. Smith

By: \s\ John Pruitt

John Pruitt

By: \s\ Jane Barnes

Jane Barnes

Table of Contents

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%.

Table of Contents

Schedule 2.01(c)(ii)

DCPS Percentages

Dennis Cain	50%
Valerie Cain	50%

Table of Contents

ANNEX C

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB/A

**AMENDMENT NO. 1 TO
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

SURGICARE, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

**DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)**

**58-1597246
(I.R.S. EMPLOYER IDENTIFICATION NO.)**

**12727 KIMBERLEY LANE, 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	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 No

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.

SurgiCare's revenues for fiscal year ended December 31, 2003: \$8,064,523.

As of March 31, 2004, 28,408,685 shares of the registrant's common stock were outstanding. The aggregate market value of the shares of common stock of the registrant held by non-affiliates on March 31, 2004 was approximately

\$9,386,036 based upon a per share price of \$0.38, the closing price per share for the company's common stock on the American Stock Exchange on that day.

Table of Contents

SURGICARE, INC.

FORM 10-KSB/A

TABLE OF CONTENTS

PART I	3
Item 1. Description of Business	3
Item 2. Description of Property	15
Item 3. Legal Proceedings	15
Item 4. Submission or matters to a Vote of Security Holders	16
PART II	16
Item 5. Market for Common Equity and Related Stockholder Matters.	16
Item 6. Management's Discussion and Analysis or Plan of Operation	18
Item 7. Financial Statements	25
Item 8. Changes in and Disagreements with Accountants	53
Item 8A. Controls and Procedures	53
PART III	54
Item 9. Directors and Executive Officers of the Registrant	54
Item 10. Executive Compensation	56
Item 11. Security Ownership of Certain Beneficial Owners and Management	58
Item 12. Certain Relationships and Related Transactions	59
Item 13. Exhibits and Reports on Form 8-K	61
Item 14. Principal Accounting Fees and Services	62
Signatures	63

Table of Contents

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 9.86 million shares of common stock, par value \$.005 per share (Common Stock) and 1.35 million 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, 2003, the company owned a majority interest in three surgery centers and a minority interest as general partner in one additional center. Three of SurgiCare s centers are located in Texas and one is located in Ohio. In limited circumstances, SurgiCare, or its subsidiaries may also furnish anesthesia services in support of the activities of the surgery centers. Our ASCs perform various types of procedures including: orthopedic surgery, colonoscopy, ophthalmic laser surgery, pain injections and various pediatric surgeries. The most common procedures performed in our ASCs include knee arthroscopy, lumbar nerve block and sacral injection, colonoscopy, hammertoe correction, sinus endoscopic biopsy, cataract removal, breast biopsy, Mitchell procedures and cystourethroscopy.

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

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

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

PROPOSED RESTRUCTURING TRANSACTIONS

We have negotiated a series of transactions that will restructure SurgiCare and result in a change of control. In this report, these proposed transactions are collectively called the Restructuring. The transactions include the acquisition of three new businesses and issuance of new equity securities for cash and contribution of outstanding debt. We also intend to complete a reverse stock split and change our name to Orion HealthCorp, Inc. (Orion). Our board of directors has

Table of Contents

approved all of these actions and a special meeting of stockholders in lieu of an annual meeting will be held to approve them. The highlights of the financial transactions include:

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

Issuing a new class of common stock Class B common stock to Brantley Partners IV, L.P., a private investor (Brantley IV) or its assignees. Brantley IV will purchase the Class B common stock for \$10 million in cash plus cash in the amount of the accrued but unpaid interest immediately prior to the closing of the transactions owed to a subsidiary of Brantley IV by SurgiCare and Integrated Physician Solutions, Inc. (IPS) on amounts advanced prior to October 24, 2003 (the Base Bridge Interest Amount), which as of July 19, 2004 was \$86,252. A portion of Brantley IV s cash investment will be used to pay off the indebtedness owed by SurgiCare and IPS to the subsidiary of Brantley IV. Based on the interest accrued on such indebtedness through July 19, 2004, it is estimated that the net cash proceeds to SurgiCare will be approximately \$5,751,233. The shares to be received by Brantley IV or its assignees will constitute approximately 59.0% of SurgiCare s outstanding equity after the transactions on an as-converted basis. Brantley IV will also receive the option to purchase shares of Class A stock for cash in an amount up to an aggregate of \$3 million after the closing of the transactions.

Acquiring IPS, a holding company whose two business units provide business management services dedicated to the practice of pediatrics and integrated business and clinical software applications for physicians, in a merger in which we will issue Class A common stock to the IPS stockholders and certain IPS creditors. After the transactions, former IPS stockholders and creditors will own approximately 18.1% of our outstanding equity on an as-converted basis.

Acquiring Medical Billing Services, Inc. (MBS), and Dennis Cain Physician Solutions, Ltd. (DCPS), two providers of physician management, billing, consulting and collection services in an acquisition in which we will pay between \$2.9 million and \$3.5 million cash and issue promissory notes in the aggregate principal amount of \$500,000 and Class C common stock to the current equity holders of MBS and DCPS. The amount of consideration received depends upon the fair market value of our common stock at the time of the closing of the transactions, and the consideration is also subject to retroactive increase or decrease, including the issuance of additional shares of Class A common stock. We will also issue shares of Class A common stock as directed by the DCPS and MBS equity holders, and may be required to make additional payments in certain circumstances. Immediately after the transactions, the equity holders of these two companies and their designees will own Class A common stock and Class C common stock which may amount to as much as approximately 7.7% of our outstanding equity on an as-converted basis.

These transactions are contingent upon refinancing SurgiCare s, IPS s and MBS s debt. The transactions and the refinancing will provide SurgiCare with increased revenues and earnings, an improved balance sheet and the opportunity to grow the business. Please review our proxy statement for our special meeting of stockholders in lieu of an annual meeting, filed with the SEC for the full details of the proposed restructuring.

Prior to the proposed amendments to its certificate of incorporation , SurgiCare is authorized to issue up to 50,000,000 shares of common stock, par value \$.005 per share, and 20,000,000 shares of preferred stock, par value \$.001 per share.

OUR SURGICAL CENTERS

Bellaire SurgiCare, Inc.

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

Table of Contents

such surgery center. In 2003, there were 1,803 patients treated at Bellaire by approximately 30 doctors, 14 of which have an ownership interest in the Company.

SurgiCare Memorial Village, L.P.

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

San Jacinto Surgery Center, L.P.

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

Tuscarawas Ambulatory Surgery Center, LLC

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

INDUSTRY OVERVIEW

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

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

Cost-effective Alternative. ASCs are not usually saddled with the high cost and overhead of the ancillary services such as administration, laboratory, radiology, or dietary, that are generally found in the hospital settings. Therefore, surgery is generally less expensive than hospital inpatient surgery. In addition, SurgiCare believes that surgery

performed at a freestanding ASC is also less expensive than hospital-based ambulatory surgery for a number of reasons, including:

Lower facility development costs;

More efficient use of staffing and space utilization; and

Specialized operating environment focused on cost containment.

Table of Contents

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

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

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

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

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

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

BUSINESS PHILOSOPHY

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

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

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

SurgiCare believes that the profitability of freestanding ASCs tends to make them attractive to acquirers. Nevertheless, following the acquisition of a physician owned center, evidence suggests that the typical center's profitability will significantly decrease. SurgiCare believes that this typical decline in profitability can be explained, in part, because in many of such acquisitions, the operating physicians lose control of the center. After a typical

acquisition of an ASC, the control of the center is typically vested in non-physician management. The factors motivating the physician users to insure the center's profitability are therefore typically removed.

SurgiCare's management structure consists of physicians and healthcare professionals. SurgiCare's management has substantial experience in the operation and management of ASCs. SurgiCare also expects that it will issue its own shares, or other equity interests to the physicians who own and operate other centers in which SurgiCare may acquire an interest. SurgiCare believes that it will thereby be able to substantially align the interests

Table of Contents

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

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

STRATEGY

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

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

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

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

Enhance operating efficiencies. We use systems and protocols to enhance operating efficiencies at both existing and newly acquired or developed facilities. These systems and protocols include: patient scheduling and pre-certification process, block scheduling by physicians, dedicating multiple operating rooms to each physician to speed turn-around time, and not offering emergency room services which

Table of Contents

ensures ease in scheduling and availability. We believe that this focus on efficient operations increases our own profitability and encourages physicians to use our facilities by increasing their productivity. In addition, efficient operations are critical to our lower cost model and our competitive advantage in attracting and negotiating with 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 and practice management companies. 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 the healthcare providers who utilize our services. SurgiCare is planning to expand into practice management, which is a core discipline that SurgiCare will need to continue to grow and be profitable. Servicing surgery centers with practice management functions can be a source of potential acquisitions.

ACQUISITION AND DEVELOPMENT OF SURGERY CENTERS

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

The candidates are then evaluated against SurgiCare's project criteria which may be expected to include several factors such as number of procedures currently being performed by the practice, competition from and the fees being charged by other surgical providers, relative competitive market position of the physician practice under consideration, ability to contract with 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 ASC in partnership with SurgiCare, we anticipate that our 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.

SurgiCare, under previous management, developed Bellaire surgery center. SurgiCare, under current management developed Physicians Endoscopy Center, L.P. (Physicians Endoscopy). SurgiCare sold its interest in Physicians Endoscopy in June 2003 and SurgiCare acquired Memorial Village, San Jacinto and Tuscarawas as already established and operating surgery centers. SurgiCare s current management has experience in developing

Table of Contents

surgery centers and was responsible for developing five new centers and managing two centers prior to working for SurgiCare.

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

Going forward, SurgiCare anticipates that its ownership interests in most of its ASCs will be approximately 35%. However, from time to time, SurgiCare may identify centers where it is advantageous to acquire a majority interest. Regardless of the percentage of each center that SurgiCare acquires, the physicians who had owned and operated a center acquired by SurgiCare, or who have newly developed a center in partnership with SurgiCare, generally will become 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, 2003:

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

AAAHC ACCREDITATION

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

REVENUES

SurgiCare s principal source of revenues is a surgical facility fee charged to patients for surgical procedures performed in its surgery centers. SurgiCare depends upon third-party programs, including governmental and private health insurance programs to pay these fees on behalf of their patients. Patients are responsible for the co-payments and deductibles when applicable. The fees vary depending on the procedure, but usually include all charges for

operating room usage, special equipment usage, supplies, recovery room usage, nursing staff and medications. Facility fees do not include the charges of the patient's surgeon, anesthesiologist or other attending physicians, which are billed directly to third-party 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.

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

Table of Contents

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

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

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

SurgiCare believes that all 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 ASCs. Many of these competitors have greater resources than SurgiCare. The principal competitive factors that affect the ability of SurgiCare and its competitors to acquire surgery centers are price, experience, reputation, and access to capital.

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

MANAGED CARE CONTRACTS

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

Table of Contents

similarly situated. In competing for managed care contracts, it is important that SurgiCare be able to show insurance companies that it provides quality healthcare at affordable, competitive prices.

GOVERNMENT REGULATION

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

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

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

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

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

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

specialty physician networks to negotiate payments on a collective basis.

Reimbursement. SurgiCare depends upon third-party programs, including governmental and private health insurance programs to reimburse its ASCs for services rendered to patients in its centers. In order to receive Medicare reimbursement, each ASC must meet the applicable conditions of participation set forth by DHHS relating to the type of facility, its equipment, personnel and standard of medical care, as well as compliance with state and local laws and regulations, all of which are subject to change from time to time. ASCs undergo periodic on-site

Table of Contents

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

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

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

Notwithstanding SurgiCare's belief that the relationship of physician partners to SurgiCare's surgery 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 or similar state laws might not assert a contrary position or that new federal or state laws might not be enacted that would cause the physician partners' ownership interest in SurgiCare to become illegal, or result in the imposition of penalties on SurgiCare or certain of its facilities. Even the assertion of a violation could have a material adverse effect upon SurgiCare.

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

Table of Contents

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

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

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

However, unfavorable future Stark II regulations or subsequent adverse court interpretations concerning the Stark II law or regulations or similar provisions found in similar state statutes could prohibit reimbursement for treatment provided by the physicians affiliated with SurgiCare or its current or future centers to their patients. The negative effect of such unfavorable future Stark II regulations or court rulings may be that investor physicians would not admit their patients to SurgiCare ASCs because of the prohibition on reimbursement for services. This would have a chilling effect on the revenues of SurgiCare and would make its continuing viability questionable. However, due to the positive financial benefits ASCs offer over hospitals, as discussed in *Industry Overview* in this section, SurgiCare believes it is unlikely that the legislature or court will take such unfavorable actions because of the overwhelming financial benefits enjoyed by Medicare by allowing procedures to be performed at ASCs.

Neither SurgiCare nor its subsidiaries are engaged in the corporate practice of medicine. SurgiCare does not employ any physicians to practice medicine on its behalf. SurgiCare and its subsidiaries merely provide the venue for its physicians to perform surgical procedures. SurgiCare submits claims and bills to patients for the facility fee only, and in no way 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 the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and in August 2002 published revisions to the final rules. These final health privacy regulations generally 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 believe that we were in compliance with the standards by October 16, 2003. We believe that the cost of

Table of Contents

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

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

EMPLOYEES

As of December 31, 2003, SurgiCare and its subsidiaries employed approximately 96 persons, 67 of whom were full-time employees and 29 of whom were part-time employees. Of the above, eight were employed at SurgiCare's corporate office in Houston, Texas and the remaining employees were employed by SurgiCare's surgery centers. These employees work in the following positions: corporate management (8); business office (14); administrators (4); nurses (47); and technicians (23). SurgiCare believes its relationship with its employees to be good. SurgiCare does not have any employment or labor contracts, except for its Chief Executive Officer (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 SurgiCare.

PHYSICIAN STOCKHOLDERS

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

Surgeons specializing in podiatry, orthopedics, pain management, gynecology, ophthalmology, reconstructive, as well as general surgery, utilize SurgiCare's facilities. SurgiCare is not dependent on the revenue

Table of Contents

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

In 2003, SurgiCare's principal office was located at 12727 Kimberley Lane, Suite 200, Houston, Texas, 77024. This property is approximately 3,900 square feet, located on the 2nd floor of the Kimberley Medical Office Building above our Memorial Village surgery center. The property was leased from an unaffiliated third party. Annual rental of \$55,272.96 was payable monthly in the amount of \$4,606.08. The Kimberley Medical Office Building Lease terminates at the end of July 2004, at which time SurgiCare will move its principal business office to 10700 Richmond, Suite 300, Houston, Texas 77042. The Richmond property is approximately 21,118 square feet, located on the third floor of the building. This property is leased from an unaffiliated third party for an initial term that expires in September 2011. Annual rental of \$295,652.04 is payable monthly in the amount of \$24,637.67 for months 1 through 38, and annual rental in the amount of \$316,770 is payable in the amount of \$26,397.50 for months 39 through 86. Additionally, a rental credit for the Kimberley Lane lease in the amount of \$1,345,373.33 shall be applied to the rent in equal monthly increments of \$4,976.79 for 27 consecutive months commencing upon the first month of the lease. SurgiCare maintains commercial general liability insurance, all risk property insurance, and other insurance on its property in an amount deemed adequate by SurgiCare. SurgiCare has also entered into a sublease agreement with MBS for 12,403 square feet of the Richmond property. The sublease will terminate upon the sooner of (i) the consummation of the merger contemplated by the Restructuring, or (ii) such time as SurgiCare, for any reason, is no longer the lawful lessee of the premises. MBS is currently paying SurgiCare a monthly rent equal to MBS's pro rata share of the rent for the 21,118 square foot property. The four surgery centers in operation at July 8, 2004, lease space ranging from 10,000 to 14,000 square feet with remaining lease terms ranging from month-to-month to 8 1/2 years.

In June 2002, SurgiCare acquired five properties from American International Industries, Inc., (AII) Texas Real Estate Enterprises, Inc. and MidCity Houston Properties, Inc. in exchange for 1.2 million shares of Series AA Redeemable Preferred Stock. The land holdings are undeveloped properties. 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 22.38 acre tract of land located on the east side of US 59 at the Old Humble/Atascocita Road exit, and an adjacent 14.25 acre tract of land on the west side of Homestead Road in Houston, Harris County, Texas; a 22,248 square foot tract of land located on the northeast corner of Almeda Road and Riverside Drive, in Houston, Harris County, Texas; four tracts of land totaling 26.856 acres located on the southeast, northwest, and northeast corners of Airport Boulevard and Sims Bayou and east side of 4th Street south of Airport Boulevard in Houston, Harris County, Texas; and a 12.216 net acre tract of land located on the southwest corner of Airport Boulevard and Sims Bayou, Houston, Harris County, Texas. SurgiCare currently has contracts to sell two of these properties—the tract adjacent to the Anahuac National Wildlife Refuge and the tract on Almeda Road. Pursuant to a December 11, 2002 agreement, American International Industries, Inc. guaranteed a resale price on the land of \$4 million and agreed to make up any shortfall.

On June 23, 2004, SurgiCare entered into an agreement with AII, which is the sole owner of all outstanding Series AA preferred stock, pursuant to which SurgiCare will issue 8,750,000 shares of its common stock (prior to giving effect to the Reverse Stock Split) to AII in exchange for the conversion of all 900,000 shares of Series AA preferred stock. The conversion of the Series AA preferred stock to common stock will take place upon the later to occur of the approval for listing of the shares of common stock on the AMEX or the fulfillment by AII of its obligations under the agreement to acquire the aforementioned properties and to assume or eliminate SurgiCare's obligations with respect thereto, and to pay SurgiCare \$250,000. Upon compliance by AII with these obligations, SurgiCare will transfer the properties to AII, and AII will have no further obligations regarding the resale guarantee of the properties in the December 11, 2002 agreement. If the conversion does not occur by July 30, 2004, SurgiCare is required by the certificate of designations of the Series AA preferred stock filed pursuant to the agreement to either convert or redeem 300,000 shares of Series AA preferred stock on each of July 30, 2004, June 4, 2005, and June 4, 2006. Each share of Series AA preferred stock would be convertible into the number of shares of common stock determined by the following formula: \$5.00 divided

by the greater of (a) the average of the closing price of the common stock on the twenty trading days immediately preceding the conversion date or (b) \$0.41. The redemption price of each share of Series AA preferred stock would be \$5.00. The real property purchase agreement relating to the Properties between AII and SurgiCare states that AII will indemnify SurgiCare for expenses involved in the settlement of the termination of the contracts for the sale of the tract adjacent to the Anahuac National Wildlife Refuge and the tract on Alameda Road.

ITEM 3. 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. A balance of \$48,890.84 remains on this settlement as of July 19, 2004.

Table of Contents

On July 7, 2003, SurgiCare, Inc. was named as a party in the arbitration entitled Brewer & Pritchard, P.C. vs. SurgiCare, Inc. before the American Arbitration Association. Brewer & Pritchard have claimed breach of contract and demanded payment of \$131,294.88 in billed and unbilled legal fees plus third party expenses, interest at the highest legal rate, costs, legal fees and damages from breach of contract. This case was settled in November 2003 and SurgiCare issued shares of common stock valued at \$117,500 as compensation for past legal fees.

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

On April 14, 2003, SurgiCare, Inc. was named as a defendant in a suit entitled A.I. International Corporate Holdings, Ltd. v. SurgiCare, Inc. in the U.S. District Court for the Southern District of New York. Subsequently, SurgiCare filed suit against A.I. International Corporate Holdings, Ltd. and First National Bank, S.A.L. of Lebanon in the 215th Judicial District Court of Harris County, Texas. The New York case involves allegations that SurgiCare defaulted on its loan agreement. The plaintiffs in the New York case are suing SurgiCare for \$834,252 representing the loan amount and interest, plus \$219,000, representing damages for No-filing Charges and Non-Effective Charges under the contract. SurgiCare's lawsuit in Texas asserted that the loan agreement is usurious. The parties signed an agreement to settle this matter, which will close after the consummation of the Transactions. Pursuant to this settlement, SurgiCare will pay Plaintiffs \$220,000 in cash and issue 2,100,000 shares of SurgiCare common stock (210,000 shares after giving effect to the reverse stock split contemplated in connection with the merger and equity transactions set forth above), to be paid and issued after the closing of such transactions.

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. AII has agreed to indemnify SurgiCare, Inc., Keith LeBlanc and Phillip Scott for all claims asserted in this litigation by agreement dated June 23, 2004.

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.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Table of Contents

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

FISCAL 2004

	HIGH	LOW
	<hr/>	<hr/>
Quarter ended March 31, 2004	\$0.67	\$0.35
Quarter ended June 30, 2004	\$0.52	\$0.31

FISCAL 2003

	HIGH	LOW
	<hr/>	<hr/>
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
	<hr/>	<hr/>
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 March 31, 2004, there were approximately 402 holders of record of the Company's Common 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.

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 2003. As of December 31, 2003, there were 62,706 options outstanding.

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

Table of Contents

RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is certain information concerning issuances of securities by SurgiCare during the quarter ended December 31, 2003.

On October 24, 2003, the Company issued 228,310 shares of common stock to Charles Cohen, a former officer and director, in settlement of claims by Cohen for compensation for services while he was employed by the Company. The stock was issued to Mr. Cohen, an accredited investor, for services rendered in reliance on the exemption provided by Section 4(2) of the Securities Act.

On November 10, 2003, the Company issued 682,035 shares of common stock to Long Nguyen, M.D., David Roberts, Gerald McIntosh, Hank Moore, and SMT Marketing, LLC, each of whom are accredited investors for services rendered by each of them under separate agreements with the Company. The stock was issued in reliance on the exemption provided by Section 4(2) of the Securities Act.

On December 9, 2003, the Company issued 41,833 shares of common stock to U.S. Billing & Contracting, LLC, an accredited investor, for services rendered, in reliance on 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, our ability to continue our expansion strategy, changes in federal or state healthcare laws and regulations or third party payer practices, our 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 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-KSB/A 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.

Table of Contents

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 to the accompanying Consolidated Financial Statements. Our preparation of this 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 payers. Contractual allowances are estimated primarily using each surgery center's collection experience. Contractual rates and fee schedules are also helpful in this process. On a rolling average basis, the Company tracks collections as a percentage of related billed charges. This percentage, which is adjusted on a quarterly basis, has proved to be the best indicator of expected realizable amounts from patients and third-party payers. Contractual adjustments and accounts deemed uncollectible are applied against the allowance account. The Company is not aware of any material claims, disputes or unsettled matters with third-party payers.

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.

These general partnership interests were accounted for as investment in limited partnerships due to the interpretation of FAS 94/ARB 51 and the interpretations of such by Issue 96-16 and SOP 78-9. Under those interpretations, SurgiCare could not consolidate its interest in those facilities in which it held a minority general interest partnership interest due to management restrictions, shared operating decision-making, capital expenditure and debt approval by limited partners and the general form versus substance analysis. Therefore, SurgiCare recorded them as investments in limited partnerships.

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.

Upon adoption of SFAS 142, as well as December 31, 2003 and 2002, the Company performed an impairment test of its goodwill and determined that no impairment of the recorded goodwill existed. Under SFAS No. 142, goodwill is tested annually and more frequently if an event occurs which indicates the goodwill may be impaired.

Table of Contents**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 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 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.

	2003	2002
	<hr/>	<hr/>
Revenues, net	100.00%	100.00%
Expenses:		
Direct Cost of Services	56.16%	46.55%
General & Administrative Expenses	75.64%	106.54%
Other Operating Expenses	8.97%	31.60%
Total Operating Expenses	140.77%	184.69%
Operating Loss	-40.77%	-84.69%
Other Loss	-21.03%	-12.62%
Minority Interest in Losses of Limited Partnerships		6.77%
Loss Before Federal Income Tax Expense	-61.80%	-90.54%
Federal Income Tax Benefit:		
Current	-2.15%	-1.94%
Deferred		-11.99%
Net Loss	-59.65%	-76.60%

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003 (2003) vs. YEAR ENDED DECEMBER 31, 2002 (2002)

Net Revenue. On a consolidated basis, case volume decreased 7.9% to 6,791 in 2003 compared to 7,374 cases in 2002. Revenue declined \$3,487,916, or 30.2% to \$8,064,523 in 2003 from \$11,552,439 in 2002. On a per-case basis, revenue decreased to \$1,188 in 2003 from \$1,567 in 2002. In both comparable years, the average contractual allowance was approximately 68%. Of the decrease, approximately \$900,000 is attributable to the decrease in case volume. The remaining decrease is due to the shift in types of cases performed, where the company experienced decreases in cases with higher reimbursement, including pain management, podiatry and urology, and increases in ophthalmology cases, with lower reimbursement.

Table of Contents

Following a change in management of the Company in September 2002, the Company determined that it needed to revise the assumptions used in estimating contractual allowances resulting in a more conservative method of estimating contractual allowances based on a rolling average ratio of actual cash collections to related billed charges. The adoption of this policy resulted in insurance contractual allowances being increased by approximately \$2.17 million, or approximately 6% of gross billings. This increase in allowances did not represent a material change in the revenues and collections of the Company.

The increase in contractual allowances was a result of a change in internal controls as disclosed in Item 14 of our Annual Report on Form 10-KSB for the year ended December 31, 2002. The Company's management determined that it was in the best interest of the Company to use a conservative method of estimating such contractual allowances. The method uses a rolling average based upon the trend of actual cash collected compared to related billings.

The previous method used to calculate the allowances was based upon evaluating the historical contractual allowances by payer classification. An historical trend analysis based on the weighted average contractual allowance was then performed to test for reasonableness. Using the previous method which relied more on historical contractual allowance trends, prior management believed that increases in accounts receivable in 2001 and 2002 had been the result of poor collections procedures. When changes in collections procedures failed to sufficiently improve cash collections, prior management recorded increases in doubtful accounts in 2002, as described under the caption *General and Administrative Expenses* below.

Current management changed its procedure to estimate contractual allowances in 2002 and to base contractual allowances on actual cash collections against gross billings for services. This change shifted emphasis away from reliance on historical allowances and emphasized recent collection history. This did not represent a correction of error but an improvement on the estimation of the contractual allowances. The Company has made changes to its internal controls in this area by measuring the actual collections against the gross billings on a rolling average on a quarterly basis, which accounts for changes in payer and services mix that directly affect the contractual allowance.

Direct Cost of Revenues. Direct Cost of Revenues decreased \$849,554, or 15.8% to \$4,528,644 in 2003 from \$5,378,198 in 2002. Surgical costs decreased \$1,085,148, or 40.0% to \$1,629,661 in 2003 from \$2,714,809 in 2002. As a percentage of revenue, surgical costs decreased to 20.2% of revenue in 2003 from 23.5% in 2002. The decrease primarily corresponds to the 30.2% decrease in revenue and case volume as discussed above. Additionally, based on the age of some of the inventory items, new management determined in the third quarter of 2002 that it was appropriate to adjust the value of inventory. As a result, surgical costs for 2002 reflect an adjustment of \$300,000 to allow for potential obsolescence of inventory. Direct clinical salaries and benefits increased \$226,104 or 13.3% to \$1,928,822 in 2003 from \$1,702,718 in 2002 primarily due to the full year impact of the Tuscarawas acquisition, which occurred in June 2002. As a whole, Direct Cost of Revenues per case decreased 8.6% to \$666 in 2003 compared to \$729 in 2002, resulting from the factors discussed above.

General and Administrative Expenses. General and administrative costs decreased \$6,207,882, or 50.4% to \$6,100,192 in 2003 from \$12,308,073 in 2002. The decrease is primarily due to charges of \$5.4 million to bad debt expense taken in 2002 related to a change in the Company's policies regarding doubtful accounts. Additionally, professional fees decreased by \$1.1 million in 2003 compared to 2002, where the Company incurred substantial professional fees in 2002 related to raising equity, medical oversight and legal issues. These expense decreases were partially offset by an increase of approximately \$445,000 in expenses related to Tuscarawas (of which \$233,000 included an increase in rent), which was acquired in June 2002.

In early 2002, the Company's existing management implemented a centralization of the collection functions of its centers and an outsourcing of the collection of certain aged receivables. Because the new collection functions were largely unsuccessful in reducing aged receivables, the Company recorded significant expenses for doubtful accounts

beginning in the second quarter of 2002, which totaled \$5.75 million for doubtful accounts for the year ended December 31, 2002.

In September 2002, the Company's new management revised its assumptions in estimating doubtful accounts. Prior estimates of doubtful accounts were based on trend analysis of the Company's historic experience

Table of Contents

by payer category and made an exception for the aged receivables based on the expectation of increased collection through revised collection procedures. The new policy heavily discounted the receivables over 60 days. Management considers this change in estimates to be a more conservative valuation of net accounts receivable.

Other Operating Expenses.

Loss on sale of assets. 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. 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. Other than IDC's ownership of certain shares of the Company's common stock, IDC has no relationship with the Company.

Loss (gain) on sale of partnership interests. 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. In 2002, the Company sold its 20% interest in Bayside Surgical Partners, LP for a loss of \$169,934.

Loss on terminated acquisition. In 2002, the Company incurred a loss of \$1,977,382 associated with its termination of the Aspen Healthcare acquisition.

Impairment on investment in land. In 2002, under the Company's previous management, the Company acquired five tracts of land. Management's purpose for acquiring the land was for the future development of additional surgery centers for the Company. Management obtained an appraisal from Associated National Appraisal Services, Inc. in January 2002, to determine the fair market value of the transaction to purchase the land. The land was acquired from Texas Real Estate Enterprises, Inc. and MidCity Houston Properties, Inc. The Company has no relationship with either of these entities, other than the purchase of this land.

The Company entered into a resale guarantee agreement with American International Industries, Inc., as a part of the agreement of December 11, 2002, described below. The guarantee provides the Company with a land resale guarantee if, by June 1, 2006, the Company is unable to sell any or all of the tracts of land for net sales proceeds of less than \$4,000,000. If the net sales proceeds are less than \$4,000,000, American International Industries, Inc. agrees to compensate the Company in an amount equal to the difference between \$4,000,000 and the net sales proceeds received by the Company from the sale of any of the land prior to June 1, 2006. The Company believes that net sales proceeds, as used in the guarantee agreement, means gross sales proceeds minus any direct sales costs. American International Industries, Inc. shall have the option to make such payment in the form of shares of the Company's common stock valued at \$0.41 per share or cash. In the event that American International Industries, Inc. does not own any of the Company's common stock on that date, it agrees to pay such difference in cash. Other than this guarantee and its ownership of certain shares of the Company's common and Series AA Preferred stock, American International Industries, Inc. has no relationship with the Company.

The land was re-appraised in November 2002, in connection with a refinancing and at the request of a lender. The Company's new management determined that the development of surgery centers on these locations was not in the best interest of the Company. The new management determined that the Company would be better served by selling the land and using the proceeds to help fund the operations of the Company.

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 September 2003, the Company recorded additional impairment on its investment in land amounting to \$579,385. Such impairment was based on the information gathered during the marketing of the land holdings. This information indicated that SurgiCare would not receive in excess of the land resale guarantee from AII, and thus the value was written down to the resale guarantee amount of \$4 million.

Table of Contents

Total Operating Expenses. Total operating expenses decreased \$9,983,255, or 46.8% to \$11,352,481 in 2003 from \$21,335,736 in 2002. As a percent of net revenue, such expenses decreased to 140.8% in 2003 from 184.7% in 2002. Such expense fluctuations, expressed both in dollars and as a percentage of revenue, are related to the factors discussed above.

Other Income (Loss). Total Other Expense increased \$237,384, or 16.3% to \$1,695,667 in 2003 from \$1,458,283 in 2002 primarily due to the following:

In 2003, the Company's equity in earnings (losses) from limited partnerships was \$194,444 compared to \$(103,874) in 2002. In 2003, the limited partnerships (in which the Company had a 10% equity interest) were profitable, in contrast to 2002 when losses were incurred, resulting primarily from the centers' adoption of the Company's policies and procedures surrounding contractual allowances, provision for doubtful accounts and inventory valuation. Additionally, the Company recorded a loss of approximately \$40,000 for its 10% interest in Physicians Endoscopy Center, which was a start up center and began operations in December 2002.

Interest expense increased \$563,255, or 41.4% to \$1,922,315 in 2003 from \$1,359,060 in 2002 due to additional borrowings to complete an acquisition, to attempt to acquire Aspen Healthcare, and to finance the Company's working capital needs during 2003.

Minority Interest in Earnings (Losses) of Partnerships. In 2003, no credit for minority interest in losses of partnerships was recorded because cumulative losses exceeded the limited partners' minority interest in equity capital of the partnerships. In 2002, \$782,386 was recorded due to significant losses incurred by the partnerships (whose financial results are consolidated with the Company's), resulting primarily from the partnerships' adoption of the Company's policies and procedures surrounding contractual allowances, provision for doubtful accounts and inventory valuation.

Federal Income Tax. In 2003, the Company recorded a tax benefit of \$173,407, or 3.5% of its pre-tax loss of \$4,983,624. In 2002, the Company recorded a tax benefit of \$1,609,576, or 15.4% of its pre-tax loss of \$10,459,194. In both years, the percentage is less than the normally expected rate due to valuation allowances against the Company's deferred tax assets.

Net Loss. Due to the factors discussed above, the Company's net loss in 2003 decreased to a loss of \$4,810,217 compared to a net loss of \$8,849,618 in 2002.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$1,743,143 in 2003 compared to \$462,422 in 2002. The primary reason for usage of cash is due to continued operating losses in both years.

Net cash provided by investing activities was \$492,038 in 2003 compared to net cash used in investing activities of \$1,667,443 in 2002. In 2003, the Company sold its ownership interest in Physicians 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 (\$426,859) and Aspen Healthcare (\$1.1 million).

Net cash provided by financing activities decreased to \$1,130,331 in 2003 from \$2,315,918 in 2002. In 2003, cash raised through the sale of common stock, the exercise of warrants and additional loans was predominantly used to pay down debt and for working capital purposes. In 2002, the Company used portions of the cash raised through debt and issuance of common stock to fund acquisitions and other capital expenditures.

As of December 31, 2003, the Company had cash and cash equivalents of \$141,553 and negative working capital of \$10,498,027. SurgiCare has a total of \$6,928,542 in long-term debt and an additional \$1,331,475 in

Table of Contents

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 and DVI Financial Services, Inc. (DVI). On August 25, 2003, DVI filed for protection under Chapter 11 of the U.S. Bankruptcy laws. IPS and SurgiCare completed negotiations with DVI which resulted in a decrease of their combined debt of approximately \$10.1 million to a combined payout of approximately \$6.5 million including a buy-out of the revolving lines of credit. As part of that agreement, the companies have executed a new loan agreement with U.S. Bank Portfolio Services (USBPS), as servicer for payees, for payment of the revolving line of credit and renegotiated the term loan amounts. The sum due to DVI at the closing of the aforementioned merger and equity transactions is \$2,000,000. As a part of that transaction, the companies have signed a term sheet for a new revolving line of credit, which will be used to pay off the DVI revolving line of credit.

The Company has financed its working capital needs primarily through the issuance of equity, secured and/or convertible debt. See CHANGE OF CONTROLS under Item 14 Controls & Procedures. As of December 31, 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 the future, 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 physicians, and select individuals. The investment was made via a private placement, under which 3,418,544 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.

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. Based on the relative fair value of the beneficial conversion feature of the notes, a charge of \$123,566 was recorded to interest expense. The note holders also received 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. Based on the relative fair value of the warrants, a discount of \$76,834 was recorded and is being amortized to interest expense over the one-year term of the notes. The promissory notes will mature on October 31, 2004.

The Company believes that additional sales of debt and/or equity securities will be required to continue operations. The Company has arranged the Restructuring which, if consummated, will involve an equity investment and recapitalization of the Company. *See Item 1 Description of Business Proposed Restructuring Transactions, page 3.* The Company believes that, after the equity financing, it will have sufficient cash to fund operations for approximately twelve months following the Restructuring. 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.

Table of Contents

ITEM 7. FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page Number
Independent Auditors Reports	26
Consolidated Balance Sheets	28
Consolidated Statements of Operations	30
Consolidated Statements of Shareholders Equity	32
Consolidated Statements of Cash Flows	33
Notes to Consolidated Financial Statements	35

Table of Contents

Independent Auditors Report

The Board of Directors
SurgiCare, Inc.
Houston, Texas

We have audited the accompanying Consolidated Balance Sheet of SurgiCare, Inc. and Subsidiaries as of December 31, 2003 and the related Consolidated Statements of Operations, Shareholders Equity, and Cash Flows for the year 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 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 consolidated financial position of SurgiCare, Inc. and Subsidiaries as of December 31, 2003 and the consolidated results of their operations and their cash flows for the year 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.

Mann, Frankfort, Stein & Lipp CPAs, LLP
Houston, Texas
March 18, 2004

Table of Contents

Independent Auditors Report

The Board of Directors
SurgiCare, Inc.
Houston, Texas

We have audited the accompanying Consolidated Balance Sheet of SurgiCare, Inc. and Subsidiaries as of December 31, 2002 and the related Consolidated Statements of Operations, Shareholders Equity, and Cash Flows for the year 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 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 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 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 consolidated financial position of SurgiCare, Inc. and Subsidiaries as of December 31, 2002 and the consolidated results of their operations and their cash flows for the year 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

Table of Contents

SURGICARE, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 141,553	\$ 262,327
Accounts Receivable:		
Trade (less allowance for contractual adjustments and doubtful accounts of \$3,768,846 and \$6,496,000 at December 31, 2003 and 2002, respectively)	1,309,682	1,324,944
Other	59,909	398,834
Note receivable		223,178
Income tax receivable	159,846	
Inventory	338,470	397,772
Prepaid expenses	133,293	69,380
Other current assets	23,027	76,313
	2,165,780	2,752,748
Total Current Assets		
Property and Equipment		
Office furniture and equipment	399,912	378,901
Medical and surgical equipment	3,748,559	3,576,721
Leasehold improvements	946,890	941,440
Computer equipment and software	382,263	377,495
Transportation equipment	19,015	19,015
	5,496,639	5,293,572
Less: Accumulated depreciation and amortization	3,237,657	2,468,662
	2,258,982	2,824,910
Goodwill	8,105,735	8,045,735
Real Estate	4,000,000	4,579,385
Investment in Limited Partnerships	381,434	306,654
Advances to Limited Partners	440,423	403,748
Loan Fees (net of amortization of \$198,249 and \$108,321 in 2003 and 2002, respectively)	103,788	193,716

_____	_____
\$17,456,142	\$19,106,896
_____	_____

Table of Contents

SURGICARE, INC.
CONSOLIDATED BALANCE SHEETS (continued)

	December 31,	
	2003	2002
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 2,864,199	2,362,378
Accrued expenses	1,274,340	472,645
Lines of credit	1,331,475	1,665,657
Current maturities of long-term debt	6,928,542	6,295,389
Current portion of capital leases	265,251	313,725
Payable to a related party	116,909	116,909
	12,663,807	11,226,703
Long-Term Capital Lease Obligations	103,341	
Long-Term Debt		454,328
Minority Interest in Partnerships		
	12,767,148	11,681,031
SHAREHOLDERS EQUITY		
Preferred Stock, Series A, par value \$.001, 1,650,000 authorized; 1,137,700 and 1,225,100 issued and outstanding at December 31, 2003 and 2002; respectively; redemption and liquidation value \$5,688,500 and \$6,125,500, respectively	1,138	1,225
Preferred Stock, Series AA, par value \$.001, 1,200,000 authorized; 900,000 issued and outstanding at December 31, 2003 and 2002	900	900
Common Stock, par value \$.005, 50,000,000 shares authorized; 27,082,843 issued and 26,991,443 outstanding at December 31, 2003; 21,327,131 issued and 21,252,131 outstanding at December 31, 2002	135,414	106,635
Additional Paid-In Capital	17,116,523	15,065,801
Retained Earnings (Deficit)	(12,518,413)	(7,708,196)
Less: Treasury Stock at cost, 91,400 and 75,000 shares at December 31, 2003 and 2002, respectively	(38,318)	(32,250)

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Less: Shareholder receivables	<u>(8,250)</u>	<u>(8,250)</u>
	<u>4,688,994</u>	<u>7,425,865</u>
	<u>\$ 17,456,142</u>	<u>\$19,106,896</u>

See notes to consolidated financial statements.

Table of Contents

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2003	2002
Revenues:		
Surgical, net	\$ 7,772,955	\$ 11,164,043
Management fees	291,568	388,396
	8,064,523	11,552,439
 Direct Cost of Revenues:		
Surgical costs	1,629,661	2,714,809
Clinical salaries and benefits	1,928,822	1,702,718
Other	970,161	960,671
	4,528,644	5,378,198
 General and Administrative Expenses:		
Salaries and benefits	1,576,831	1,604,562
Management and affiliation fees	110,829	130,979
Rent	931,425	741,124
Depreciation	768,996	671,880
Amortization	89,928	73,851
Professional fees	1,097,264	2,223,374
Provision for doubtful accounts	289,823	5,753,734
Other	1,235,096	1,108,569
	6,100,192	12,308,073
 Other Operating Expenses:		
Loss on sale of assets	463,346	2,149
Loss (gain) on sale of partnership interests	(319,086)	169,934
Loss on terminated acquisition		1,977,382
Impairment on investment in land	579,385	1,500,000
	723,645	3,649,465

Total Operating Expenses	<u>11,352,481</u>	<u>21,335,736</u>
Operating Loss	<u>(3,287,958)</u>	<u>(9,783,297)</u>
Other Income (Expense)		
Miscellaneous income	32,205	4,651
Equity in earnings (loss) of limited partnerships	194,444	(103,874)
Interest expense	<u>(1,922,315)</u>	<u>(1,359,060)</u>
	<u>(1,695,667)</u>	<u>(1,458,283)</u>

See notes to consolidated financial statements.

Table of Contents

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	For the Year Ended December 31,	
	2003	2002
Loss Before Minority Interest and Federal Income Tax Benefit	(4,983,624)	(11,241,580)
Minority Interest in Loss of Partnerships	—	782,386
Loss Before Federal Income Tax Benefit	(4,983,624)	(10,459,194)
Federal Income Tax Benefit		
Current	(173,407)	(224,576)
Deferred	—	(1,385,000)
	(173,407)	(1,609,576)
Net Loss	\$ (4,810,217)	\$ (8,849,618)
Net Loss Per Share Basic	\$ (.19)	\$ (.56)
Net Loss Per Share Diluted	\$ (.19)	\$ (.56)
Weighted Average Common Shares Outstanding		
Basic	24,754,050	15,831,748
Diluted	24,754,050	15,831,748

Table of Contents

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
For the Years Ended December 31, 2003 and 2002

\$.001 Series A Preferred Stock		\$.001 Series AA Preferred Stock		\$.005 Par Value Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings (Deficit)	Shareholder Receivables	Total Equity
Shares	Amount	Shares	Amount	Shares	Amount					
1,316,100	\$1,316			14,089,320	\$ 70,446	\$ 4,991,301		\$ 1,141,422	\$(8,250)	\$ 6,111,219
		1,200,000	\$1,200			5,998,800				6,000,000
				3,039,024	15,195	1,955,805				1,989,824
(91,000)	(91)	(300,000)	(300)	3,749,537	18,748	(18,357)				
				125,000	625	11,875				
				136,250	681	220,360				221,041
				188,000	940	770,313				771,253
						923,114				923,114
						212,590				212,590
							\$(32,250)			\$(32,250)
								(8,849,618)		(8,849,618)
1,225,100	\$1,225	900,000	\$ 900	21,327,131	\$106,635	\$15,065,801	\$(32,250)	\$(7,708,196)	\$(8,250)	\$ 7,442,775
				3,418,544						3,418,544