SURGICARE INC/DE
Form PRER14A
April 27, 2004

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

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

x Preliminary Proxy Statement

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

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

SURGICARE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

x Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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, 2004

Dear SurgiCare Stockholders:

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

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

The highlights of the financial transactions to be considered include:

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

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

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

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

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

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

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

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

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

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

Very truly yours,

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

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SURGICARE, INC.

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

NOTICE OF SPECIAL MEETING IN LIEU OF ANNUAL MEETING OF STOCKHOLDERS

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

Matters to be Voted on:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Who May Attend and Vote at the Meeting:

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

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

Approval Required to Consummate the Transactions:

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

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

By Order of the Board of Directors

KEITH G. LEBLANC
President and Chief Executive Officer

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SUMMARY TERM SHEET

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

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

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

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

IPS Integrated Physician Solutions, Inc.

DCPS Dennis Cain Physician Solutions, Inc.

MBS Medical Billing Services, Inc.

DCPS/MBS our new DCPS and MBS subsidiary.

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

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

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

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

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

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

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

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

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

Transactions the transactions contemplated by the Transaction Documents.

Overview of the Transactions

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

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

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

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

Proposals

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

Amend our certificate of incorporation in order to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Close the DCPS/MBS Merger.

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

Assumptions

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

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

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

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

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

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

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

That there will be no dissenting IPS stockholders.

That there will be no dissenting DCPS or MBS equityholders.

The New Classes of Common Stock (See Page 64)

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

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

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

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

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

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

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

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

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

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

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

Authorized and Outstanding Shares after the Transactions

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

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

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

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

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

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

Voting

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

Dilution

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

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

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

The Companies

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

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

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

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

Reasons for the Transactions (See Page 23)

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

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

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

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

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

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

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

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

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

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

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