ORION HEALTHCORP INC
Form DEF 14A
April 20, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**SCHEDULE 14A**
**(Rule 14a-101)**
**INFORMATION REQUIRED IN PROXY STATEMENT**
**SCHEDULE 14A INFORMATION**
**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

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

**ORION HEALTHCORP, 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):

þ 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:

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

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

(3) Filing Party:

(4) Date Filed:

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April 20, 2006

To Our Stockholders:

On behalf of the board of directors and management of Orion HealthCorp, Inc. (the Company ), I cordially invite you to attend the Annual Meeting of Stockholders to be held on Friday, May 12, 2006, at 8:00 a.m. local time, at 1805 Old Alabama Road, Roswell, Georgia 30076.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the Annual Meeting. Also included in this mailing is a copy of our 2006 Annual Report to Stockholders and a form of proxy for use in voting at the Annual Meeting. Once the business of the Annual Meeting is concluded, I will report on the operations of the Company. Directors and officers of the Company, as well as a representative of UHY Mann Frankfort Stein & Lipp CPAs, L.L.P., the Company s independent public auditors, will be available to respond to any questions stockholders may have.

The matters to be considered by stockholders at the Annual Meeting are described in the accompanying Notice of Annual Meeting and Proxy Statement. The board of directors of the Company has determined that the matters to be considered at the Annual Meeting are in the best interests of the Company and its stockholders. For the reasons set forth in the Proxy Statement, the board of directors unanimously recommends a vote FOR each director nominee, FOR ratification of the appointment of UHY Mann Frankfort Stein & Lipp CPAs, L.L.P. as the Company s independent public auditors and for each other matter to be considered.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ACCOMPANYING POSTAGE-PAID RETURN ENVELOPE AS PROMPTLY AS POSSIBLE. This will not prevent you from voting in person at the Annual Meeting, but will assure that your vote is counted if you are unable to attend the Annual Meeting. YOUR VOTE IS VERY IMPORTANT TO OUR COMPANY.

Sincerely,

Terrence L. Bauer
*President and Chief Executive Officer*

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**ORION HEALTHCORP, INC.**
**1805 OLD ALABAMA ROAD, SUITE 350**
**ROSWELL, GEORGIA 30076**
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**
**To Be Held On May 12, 2006**

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Stockholders (the Annual Meeting ) of Orion HealthCorp, Inc. (the Company ) will be held on Friday, May 12, 2006, at 8:00 a.m. local time, at 1805 Old Alabama Road, Roswell, Georgia 30076, or at any adjournments or postponements thereof. The Proxy Statement and a proxy card for the Annual Meeting are enclosed.

The Annual Meeting is for the purpose of considering and acting upon the following matters:

1. Election of five directors of the Company to serve until the 2007 annual meeting of stockholders or until their respective successors are elected and qualified;

2. Ratification of the appointment of UHY Mann Frankfort Stein & Lipp CPAs, L.L.P. as the Company s independent public auditors; and

3. Such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Execution of a proxy in the form enclosed also permits the proxy holders to vote, in their discretion, upon such other matters that may properly come before the Annual Meeting or any adjournment or postponement thereof. As of the date of mailing, the board of directors is not aware of any other matters that may come before the Annual Meeting. Any action may be taken on the foregoing proposals at the Annual Meeting on the date specified above or on any date or dates to which, by original or later adjournment or postponement, the Annual Meeting may be adjourned or postponed. Stockholders of record at the close of business on March 27, 2006 are the stockholders entitled to vote at the Annual Meeting and any adjournments or postponements thereof.

**WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD WITHOUT DELAY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. ANY PROXY YOU GIVE MAY BE REVOKED BEFORE THE VOTE AT THE ANNUAL MEETING BY DELIVERING TO THE CORPORATE SECRETARY OF THE COMPANY A WRITTEN REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE. IF YOU ARE PRESENT AT THE ANNUAL MEETING YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON ON EACH MATTER BROUGHT BEFORE THE ANNUAL MEETING. HOWEVER, IF YOU ARE A STOCKHOLDER WHOSE SHARES ARE NOT REGISTERED IN YOUR OWN NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER TO VOTE IN PERSON AT THE ANNUAL MEETING.**

**BY ORDER OF THE BOARD OF DIRECTORS**

Stephen H. Murdock
*Corporate Secretary*

Roswell, Georgia
April 20, 2006

**IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO INSURE A QUORUM AT THE ANNUAL MEETING. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

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## PROXY STATEMENT
## OF
## ORION HEALTHCORP, INC.
## ANNUAL MEETING OF STOCKHOLDERS
## TO BE HELD ON MAY 12, 2006
## GENERAL

Our board of directors is soliciting your proxy in connection with our 2006 Annual Meeting of Stockholders (the Annual Meeting ), which will be held on Friday, May 12, 2006, at 8:00 a.m. local time, at 1805 Old Alabama Road, Roswell, Georgia 30076, and at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. All stockholders are entitled and encouraged to attend the Annual Meeting in person. This Proxy Statement and the accompanying Notice of Annual Meeting are being first mailed to stockholders on or about April 20, 2006.

## BACKGROUND

On December 15, 2004, Orion HealthCorp, Inc. (then operating under the name SurgiCare, Inc.) (the Company ) underwent a restructuring (the Restructuring ) whereby the Company: (i) acquired three healthcare service companies, Integrated Physician Solutions, Inc. ( IPS ), Medical Billing Services, Inc. ( MBS ) and Dennis Cain Physician Solutions, Ltd. ( DCPS ); (ii) issued new equity securities for cash and contribution of outstanding debt; (iii) restructured its debt facilities; (iv) completed a one-for-ten reverse stock split (the Reverse Stock Split ); (v) created three new classes of common stock (Class A, Class B and Class C); and (vi) changed its name to Orion HealthCorp, Inc. As a result of the Restructuring, IPS and MBS became wholly owned subsidiaries of the Company and DCPS became a wholly owned subsidiary of MBS.

Prior to the Restructuring, the Company s common stock was traded on the American Stock Exchange ( AMEX ) under the symbol SRG. As part of the Restructuring, (i) the Company s common stock was reclassified as Class A Common Stock, resulting in the Class A Common Stock being traded on AMEX under the symbol ONH, (ii) the Company issued additional shares of Class A Common Stock to the former stockholders and certain creditors of IPS, (iii) the Company issued shares of its newly created Class B Common Stock to certain investors, including Brantley Partners IV, L.P. ( Brantley IV ) and Brantley Capital Corporation ( Brantley Capital ), and (iv) the Company issued shares of its newly created Class C Common Stock to the former equity owners of MBS and DCPS. Also, from the time of completion of the Restructuring, Brantley IV and its affiliates, Brantley Venture Partners III, L.P. ( Brantley III ) and Brantley Capital, owned a majority of the voting power of the equity securities of the Company, making the Company a controlled company under the listing rules of AMEX. On April 12, 2006, Brantley IV and Brantley III filed with the Securities and Exchange Commission ( SEC ) an amendment to their Schedule 13D relating to the Company indicating that Brantley Capital had terminated its investment advisory relationship with Brantley Capital Management, L.L.C. ( Brantley Capital Management ) on September 28, 2005, which resulted in Brantley Capital no longer being an affiliate of Brantley III or Brantley IV. Therefore, no individual or group now owns a majority of the voting power of the equity securities of the Company and the Company is no longer a controlled company under the listing rules of AMEX.

## ABOUT THE MEETING

### Why am I receiving this Proxy Statement and proxy card?

You are receiving a Proxy Statement and proxy card because you own shares of Class A Common Stock of the Company, shares of Class B Common Stock of the Company, and/or shares of Class C Common Stock of the Company (collectively, Common Stock ). This Proxy Statement describes proposals on which we would like you, as a stockholder, to vote. It also gives you information on the proposals so that you can make an informed decision.

When you sign the proxy card, you appoint Terrence L. Bauer and Stephen H. Murdock, and each of them, as your proxies to vote your shares of Common Stock at the Annual Meeting and at all adjournments or postponements of the Annual Meeting. All properly executed proxy cards delivered pursuant to this solicitation and not revoked will be voted in accordance with the directions given. Other than the proposals described in this Proxy Statement, we do not know of any other matters that will be considered at the Annual Meeting. Execution of a proxy card, however, confers on the designated proxy holders discretionary authority to vote the shares represented by the proxy on other business, if any, that may properly come before the Annual Meeting or any adjournment or postponement thereof.

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**What am I voting on?**

You are being asked to vote on the following proposals:

| | |
|---|---|
| *Proposal I* | To elect five directors to serve until the 2007 annual meeting of stockholders or until their successors are elected and qualified; and |
| *Proposal II* | To ratify the appointment of UHY Mann Frankfort Stein & Lipp CPAs, L.L.P. ( UMFSL ) as the Company s independent public auditors. |

**Who is entitled to vote?**

Our board of directors has fixed the close of business on March 27, 2006, as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. As of the record date, there were 24,314,084 shares of Common Stock outstanding that were held by approximately 469 stockholders of record, including 12,428,042 shares of our Class A Common Stock issued and outstanding that were held by approximately 459 stockholders of record, 10,448,470 shares of our Class B Common Stock issued and outstanding that were held by approximately 4 stockholders of record, and 1,437,572 shares of our Class C Common Stock issued and outstanding that were held by approximately 6 stockholders of record. Stockholders of record as of the close of business on the record date are entitled to one vote for each share of Common Stock (regardless of class) of the Company then held.

**How many shares must be represented to have a quorum?**

The holders of a majority of the total shares of our Common Stock outstanding on the record date, whether present at the Annual Meeting in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. The shares held by each stockholder who signs and returns the enclosed form of proxy card will be counted for the purposes of determining the presence of a quorum at the Annual Meeting, whether or not the stockholder abstains on all matters or any matter to be acted on at the meeting. Abstentions and broker non-votes both will be counted toward fulfillment of quorum requirements. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner. In the event there are not sufficient votes for a quorum or to approve any proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned or postponed in order to permit the further solicitation of proxies.

**How many votes are required to approve the proposals?**

As to the election of directors (Proposal I) the proxy being provided by the board of directors enables a stockholder to vote FOR any or all of the director nominees or WITHHOLD your vote as to any or all of the nominees. Directors are elected by a plurality of votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote in the election of directors. As a result, the five nominees receiving the highest number of votes cast at the Annual Meeting will be elected, regardless of whether that number represents a majority of the votes cast or a majority of the total votes entitled to be cast. Thus, a WITHHELD vote will have no impact on the election of directors. Stockholders may not cumulate votes in the election of directors (Proposal I).

The affirmative vote of a majority of the total number of shares of Common Stock represented in person or by proxy at the Annual Meeting and entitled to vote is needed to approve the ratification of the appointment of UMFSL as the Company s independent public auditors (Proposal II). With respect to Proposal II, you have the opportunity to vote FOR, AGAINST or ABSTAIN.

Abstentions and broker non-votes are not counted in the tally of votes FOR or AGAINST a proposal. As a result, abstentions and broker non-votes will have the following effects on the outcome of each of the proposals to be considered at the Annual Meeting:

With respect to Proposal I, abstentions and broker non-votes will have no impact on the outcome of the vote; and

With respect to Proposal II, abstentions and broker non-votes will have the same effect as a vote AGAINST the proposal.

**What if I return my proxy card but do not provide voting instructions?**

If you sign and return your proxy card, but do not include instructions, your proxy will be voted FOR the election of each nominee for director identified in Proposal I and FOR Proposal II. Additionally, your proxy will be voted in the discretion of the proxies with respect to any other business that properly comes before the meeting.

Stockholders may vote part of their shares in favor of the proposal and refrain from voting the remaining shares or, except in the election of directors (Proposal I), may vote them against the proposal. If you execute a proxy card and do not specify the number of shares that you are voting affirmatively, the proxy will be voted with respect to all shares that you are entitled to vote.

**What does it mean if I receive more than one proxy card?**

It means that you have multiple accounts at the transfer agent and/or with brokers or that you own shares of more than one class of Common Stock. Please sign and return all proxy cards to ensure that all your shares are voted. You may wish to consolidate as many of your transfer agent or brokerage accounts as possible under the same name and address for better customer service.

**What if I change my mind after I return my proxy?**

You may revoke your proxy and change your vote at any time before the polls close at the Annual Meeting. You may do this by:

- Sending written notice to our Corporate Secretary at 1805 Old Alabama Road, Suite 350, Roswell, Georgia 30076;

- Signing and returning another proxy with a later date; or

- Voting in person at the Annual Meeting.

Attendance at the Annual Meeting will not, in itself, constitute revocation of a proxy.

**Will my shares be voted if I do not sign and return my proxy card?**

If your shares are held in street name (i.e., in the name of your brokerage firm), your brokerage firm may vote your shares under certain circumstances. These circumstances include certain routine matters, such as the election of directors (Proposal I) and the ratification of the appointment of UMFSL as the Company s independent public auditors (Proposal II). Therefore, if you do not vote your proxy, your brokerage firm may either vote your shares on routine matters, or leave your shares unvoted. When a brokerage firm votes its customers shares on routine matters without having received voting instructions, these shares are counted for purposes of establishing a quorum to conduct business at the meeting.

**What happens if the Annual Meeting is postponed or adjourned?**

If the Annual Meeting is postponed or adjourned for any reason, including permitting the further solicitation of proxies, at any subsequent reconvening of the meeting all proxies will be voted in the same manner as they would have been voted at the original Annual Meeting. However, as described above, you may revoke your proxy and change your vote at any time before the polls are closed at the reconvened meeting.

**How do I vote?**

*You may vote by mail.* You do this by signing your proxy card and mailing it in the enclosed, prepaid and self-addressed envelope.

*You may vote in person at the Annual Meeting.* Written ballots will be passed out to anyone who wants to vote at the meeting. If you hold your shares in street name (through a broker or other nominee), you must request a legal proxy from your stockbroker in order to vote at the meeting.

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## FORWARD LOOKING STATEMENTS

Certain statements in this Proxy Statement constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act, and collectively, with the Securities Act, the Acts ). Forward-looking statements include statements preceded by, followed by or that include the words may , will , would , could , should , estimates , predicts , potential , continue , strategy , believes , anticipates , plans , expe similar expressions. Any statements contained herein that are not statements of historical fact are deemed to be forward-looking statements.

The forward-looking statements in this Proxy Statement are based on current beliefs, estimates and assumptions concerning the operations, future results, and prospects of the Company and its affiliated companied described herein. As actual operations and results may materially differ from those assumed in forward-looking statements, there is no assurance that forward-looking statements will prove to be accurate. Forward-looking statements are subject to the safe harbors created in the Acts. Any number of factors could affect future operations and results, including, without limitation, changes in federal or state healthcare laws and regulations and third party payer requirements, changes in costs of supplies, the loss of major customers, labor and employee benefits, forbearance on the Company s revolving lines of credit as a result of the Company s default on its financial covenants, increases in interest rates on the Company s indebtedness as well as general market conditions, competition and pricing, integration of business and operations and the success of the Company s business strategies. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information or future events.

## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The board of directors has set March 27, 2006, as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. Stockholders of record as of the close of business on the record date are entitled to one vote for each share of Common Stock (regardless of class) of the Company then held. As of the record date, the Company had 24,314,084 shares of Common Stock issued and outstanding, including 12,428,042 shares of Class A Common Stock of the Company, 10,448,470 shares of Class B Common Stock of the Company, and 1,437,572 shares of Class C Common Stock of the Company. The Amended and Restated Certificate of Incorporation of the Company (the Charter ) provides that all holders of all classes of Common Stock shall vote together as a single class with respect to Proposals I and II.

The following table sets forth certain information with respect to Common Stock beneficially owned as of April 12, 2006, by (i) each person known to us to be the beneficial owner of more than 5% of the issued and outstanding Common Stock, (ii) each of the members or nominees of the board of directors, (iii) each of the executive officers of the Company named in the summary compensation table below, and (iv) all directors and executive officers as a group. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed beneficially owned by a person if the person has the right to acquire shares (for example, upon the exercise of an option or warrant) within sixty days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person s actual voting power at any particular date. The information in the table is based on information provided to the Company by the person or group, including filings made by such person with the SEC. Other than as noted below, management knows of no person or group that owns more than 5% of the outstanding shares of Common Stock at the record date.

| | **Class A Common Stock Beneficially Owned** | **Class B Common Stock Beneficially Owned** | **Class C Common Stock Beneficially Owned** |
|---|---|---|---|

| Name of Beneficial Owner | Number of Class A Shares(1) | Percentage of Class(1) | Number of Class B Shares(2) | Percentage of Class(2) | Number of Class C Shares(3) | Percentage of Class(3) |
|---|---|---|---|---|---|---|
| Robert P. Pinkas(4) | 46,419,197(5) | 63.42% | 7,863,996(6) | 75.26% | | |
| Pinkas Family Partners, L.P.(4) | 46,419,197(7) | 63.42% | 7,863,996(8) | 75.26% | | |
| Brantley Venture Partners III, L.P.(4) | 2,321,649 | 3.17% | | | | |
| Brantley Venture Management III, L.P.(4) | 2,321,649(9) | 3.17% | | | | |
| Brantley Capital Corporation(10) | 11,003,509(11) | 15.03% | 1,722,983 | 16.49% | | |
| Brantley Partners IV, L.P.(4) | 44,097,548(12) | 60.25% | 7,863,996 | 75.26% | | |

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| Name of Beneficial Owner | Class A Common Stock Beneficially Owned Number of Class A Shares(1) | Class A Common Stock Beneficially Owned Percentage of Class(1) | Class B Common Stock Beneficially Owned Number of Class B Shares(2) | Class B Common Stock Beneficially Owned Percentage of Class(2) | Class C Common Stock Beneficially Owned Number of Class C Shares(3) | Class C Common Stock Beneficially Owned Percentage of Class(3) |
|---|---|---|---|---|---|---|
| Brantley Venture Management IV, L.P.(4) | 44,097,548(13) | 60.25% | 7,863,996(14) | 75.26% | | |
| Terrence L. Bauer(15) | 13,461 | * | | | | |
| Paul H. Cascio(4) | | | | | | |
| Michael J. Finn(4) | | | | | | |
| David Crane | 2,272(16) | * | | | | |
| Joseph M. Valley, Jr.(17) | | | | | | |
| Crossroads 1999 Direct/ Co-investment Portfolio A, L.P. | 2,539,629(18) | 3.47% | 467,033 | 4.47% | | |
| Crossroads Cornerstone Direct/ Co-investment Fund V, L.P. | 2,144,981(19) | 2.93% | 394,348 | 3.78% | | |
| D/V Cain Family, L.P. | 1,191,918(20) | 1.63% | | | 718,789 | 50.00% |
| Dennis M. Cain | 1,191,918(21) | 1.63% | | | 718,789 | 50.00% |
| Tommy M. Smith | 963,070(22) | 1.32% | | | 580,780 | 40.40% |
| Stephen H. Murdock (23) | | | | | | |
| Keith G. LeBlanc | 461,462(24) | * | | | | |
| All directors and executive officers as a group (9 persons) | 2,632,183(25) | 3.60% | | | 1,299,569 | 90.40% |

* Indicates beneficial ownership of less than 1%.

(1) For purposes of calculating the number of shares of Class A Common Stock and the percentage beneficially owned, the number of shares of Class A Common Stock for each person or group deemed outstanding includes: (i) 12,428,042 shares of Class A Common Stock outstanding as of April 12, 2006, (ii) any shares of Class A Common Stock issuable by us pursuant to options and warrants held by the respective person or group which may be exercised within 60 days following April 12, 2006 ( Presently Exercisable Options ), (iii) any shares of Class Common Stock issuable by us upon conversion of convertible debt of the Company as of April 12, 2006; and (iv) shares of Class A Common Stock issuable by us upon conversion of shares of Class B Common Stock and Class C Common Stock, which are convertible into 56,816,628 shares and 1,437,572 shares of Class A Common Stock, respectively, as of April 12, 2006. The shares of Class B Common Stock and the shares of Class C Common Stock are convertible at the option of the holder into shares of Class A Common Stock at a variable rate determined pursuant to a formula as described under the caption Item 5. Market for Common Equity and Related Stockholder Matters Recent Sales of Unregistered Securities of the Company s Form 10-KSB, which was filed on March 31, 2006. As of April 12, 2006, each share of Class B Common Stock was convertible into 5.437794048181 shares of Class A Common Stock and each share of Class C Common Stock was convertible into one share of Class A Common Stock.

(2) For purposes of calculating the number of shares of Class B Common Stock and the percentage beneficially owned, the number of shares of Class B Common Stock outstanding as of April 12, 2006 was 10,448,470.

(3) For purposes of calculating the number of shares of Class C Common Stock and the percentage beneficially owned, the number of shares of Class C Common Stock outstanding as of April 12, 2006, was 1,437,572.

(4) The business address of Robert P. Pinkas ( Mr. Pinkas ), Pinkas Family Partners, L.P. ( Pinkas Partners ), Brantley III, Brantley Venture Management III, L.P. ( Brantley Management III ), Brantley IV, Brantley Venture Management IV, L.P. ( Brantley Management IV ), Paul H. Cascio, and Michael J. Finn is 3201 Enterprise Parkway, Suite 350, Beachwood, OH 44122. Mr. Cascio and Mr. Finn each serve as general partner of Brantley Management III, which is the sole general partner of Brantley III, and Brantley Management IV, which is the sole general partner of Brantley IV. These relationships do not provide either Messr. Cascio or Finn with shared voting or dispositive power with respect to the shares held by Brantley III and Brantley IV and therefore neither Mr. Cascio nor Mr. Finn is deemed to beneficially own the shares held by Brantley III or Brantley IV. Pursuant to a Stockholders Agreement, dated as of December 15, 2004 (the Stockholders Agreement ), as amended from time to time, each of Brantley III, Brantley IV and Brantley Capital have agreed to cast all votes necessary to elect as members of the board of directors of the Company one director as shall have been nominated by each of Brantley III, Brantley IV and Brantley Capital. Brantley III and Brantley IV disclaim that they are part of a group by virtue of the Stockholders Agreement for purposes of Section 13(d)(3) of the Exchange Act, and each disclaims beneficial ownership of all securities of the Company held by any other party to the Stockholders Agreement.

(5) The shares consist of (a) 2,321,649 shares of Class A Common Stock owned by Brantley III; (b) 42,762,791 shares of Class A Common Stock issuable upon conversion of 7,863,996 shares of Class B Common Stock owned by Brantley IV; (c) 20,455 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock owned by Brantley IV; and (d) 1,314,302 shares of Class A Common Stock issuable upon

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conversion of $1,250,000 of convertible debt of the Company held by Brantley IV. Mr. Pinkas is the sole general partner of Pinkas Partners. Pinkas Partners is a general partner of, and holds a majority of the general partnership interests of, Brantley Management III, which is the sole general partner of Brantley III; and is a general partner of and holds a majority of the general partnership interests of Brantley Management IV, which is the sole general partner of Brantley IV. Due to Mr. Pinkas relationships with Brantley III and Brantley IV, he may be deemed to share voting and dispositive power with respect to the shares held by Brantley III and Brantley IV. Mr. Pinkas disclaims beneficial ownership of any shares except to the extent of a pecuniary interest therein.

(6) The shares are the 7,863,996 shares of Class B Common Stock owned by Brantley IV. See footnote (5) above for an explanation of Mr. Pinkas s relationship to Brantley IV. Mr. Pinkas disclaims beneficial ownership of any shares except to the extent of a pecuniary interest therein.

(7) The shares consist of (a) 2,321,649 shares of Class A Common Stock owned by Brantley III; (b) 42,762,791 shares of Class A Common Stock issuable upon conversion of 7,863,996 shares of Class B Common Stock owned by Brantley IV; (c) 20,455 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock owned by Brantley IV; and (d) 1,314,302 shares of Class A Common Stock issuable upon conversion of $1,250,000 of convertible debt of the Company held by Brantley IV. See footnote (5) above for an explanation of Pinkas Partners relationship to these entities. As a result of these relationships, Pinkas Partners may be deemed to share voting and dispositive power of, and therefore beneficially own, the shares held by Brantley III and Brantley IV. Pinkas Partners disclaims beneficial ownership of any shares except to the extent of its pecuniary interest therein.

(8) The shares are the 7,863,996 shares of Class B Common Stock owned by Brantley IV. See footnote (5) above for an explanation of Mr. Pinkas s relationship to Brantley IV. As a result of this relationship, Pinkas Partners may be deemed to share voting and dispositive power of, and therefore beneficially own, the shares held by Brantley IV. Pinkas Partners disclaims beneficial ownership of any shares except to the extent of its pecuniary interest therein.

(9) The shares are the 2,321,649 shares of Class A Common Stock owned by Brantley III, which Brantley Management III may be deemed to beneficially own in its capacity as sole general partner of Brantley III. Brantley Management III disclaims beneficial ownership of any shares except to the extent of its pecuniary interest therein.

(10) The business address of Brantley Capital is c/o MVC Capital, 287 Bowman Avenue, Purchase, New York 10577. Pursuant to the Stockholders Agreement, each of Brantley III, Brantley IV and Brantley Capital have agreed to cast all votes necessary to elect as members of the board of directors of the Company, one director as shall have been nominated by each of Brantley III, Brantley IV and Brantley Capital. Brantley Capital disclaims that it is part of a group by virtue of the Stockholders Agreement for purposes of Section 13(d)(3) of the Exchange Act, and it disclaims beneficial ownership of all securities of the Company held by any other party to the Stockholders Agreement.

(11) The shares consist of (a) 1,629,737 shares of Class A Common Stock; (b) 9,369,227 shares of Class A Common Stock issuable upon conversion of 1,722,983 shares of Class B Common Stock; and (c) 4,545 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock. All shares are owned directly by Brantley Capital. Brantley Capital has sole voting and dispositive power with respect to such shares.

(12) The shares consist of (a) 42,762,791 shares of Class A Common Stock issuable upon conversion of 7,863,996 shares of Class B Common Stock; (b) 20,455 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock; and (c) 1,314,302 shares of Class A Common Stock issuable upon conversion of $1,250,000 of convertible debt of the Company held by Brantley IV. The shares are directly

owned by Brantley IV and Brantley IV has sole voting and dispositive power with respect to such shares. As part of the Restructuring, the Company granted Brantley IV the right 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 Restructuring (the Purchase Right ). Brantley IV may exercise the Purchase Right at any time after December 15, 2004. Each additional investment will be: (i) subject to the approval of a majority of the members of the board of directors of the Company that are not affiliated with Brantley IV, (ii) consummated on a date mutually agreed by the Company and Brantley IV, and (iii) accomplished with documentation reasonably satisfactory to the Company and Brantley IV. Pursuant to the terms of the Purchase Right, the purchase price per share of the Class A Common Stock will be equal to the lesser of (a) $1.25, and (b) 70% multiplied by the average of the daily average of the high and low price per share of the Class A Common Stock on AMEX or a similar system on which the Class A Common Stock shall be listed at the time, for the twenty trading days immediately preceding the date of the closing of the exercise of the Purchase Right. The shares do not include shares that Brantley IV may have the right to purchase pursuant to the Purchase Right because the purchase and sale of the shares is subject to approval of the unaffiliated members of the board of directors.

(13) The shares consist of (a) 42,762,791 shares of Class A Common Stock issuable upon conversion of 7,863,996 shares of Class B Common Stock owned by Brantley IV; (b) 20,455 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock owned by Brantley IV; and (c) 1,314,302 shares of Class A Common Stock issuable upon conversion of $1,250,000 of convertible debt of the Company held by Brantley IV. Brantley Management IV is the sole general partner of Brantley IV and, in such capacity, may be deemed to share voting and dispositive power with respect to, and to beneficially own, the shares held by Brantley IV. Brantley Management IV disclaims beneficial ownership of any such shares except to the extent of its pecuniary interest therein.

(14) The shares are the 7,863,996 shares of Class B Common Stock owned by Brantley IV. Brantley Management IV is the sole general partner of Brantley IV and, in such capacity, may be deemed to share voting and dispositive power with respect to, and to beneficially own, the shares held by Brantley IV. Brantley Management IV disclaims beneficial ownership of any such shares except to the extent of its pecuniary interest therein.

(15) Mr. Bauer is the President and Chief Executive Officer and a director of the Company. The address of Mr. Bauer is 1805 Old Alabama Road, Suite 350, Roswell, GA 30076.

(16) The shares include 1,136 shares of Class A Common Stock owned by Mr. Crane s spouse through an individual retirement account. Because of the family relationship, Mr. Crane may be deemed to beneficially own all such shares. Mr. Crane is a member of the board of directors of the Company. The address for Mr. Crane is 8329 Providence Road, Charlotte, North Carolina 28277.

(17) Mr. Valley is a member of the board of directors of the Company and beneficially owned no shares as of April 12, 2006. The address for Mr. Valley is 10817 Southern Loop Boulevard, Pineville, North Carolina 28134.

(18) The address of Crossroads 1999 Series Direct/ Co-investment Portfolio A, L.P. is 1717 Main Street, Suite 2500, Dallas, Texas 75201. The shares are the 2,539,629 shares of Class A Common Stock issuable upon conversion of 467, 033 shares of Class B Common Stock.

(19) The address of Crossroads Cornerstone Direct/ Co-investment Fund V, L.P. is 1717 Main Street, Suite 2500, Dallas, Texas 75201. The shares are the 2,144,981 shares of Class A Common Stock issuable upon conversion of 394,458 shares of Class B Common Stock.

(20) Consists of (a) 330,266 shares of Class A Common Stock owned by D/V Cain Family, L.P.; (b) 718,789 shares of Class A Common Stock issuable upon conversion of 718,789 shares of Class C Common Stock owned by D/V Cain Family, L.P.; and (c) 142,863 shares of Class A Common Stock issuable to D/V Cain Family, L.P. as a result of the purchase price adjustment described under the caption CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS. D/V Cain Family, L.P. holds the shares formerly held in the names of Dennis M. Cain and his spouse, Valerie Cain. Mr. Cain may be deemed to beneficially own the shares owned by D/V Cain Family, L.P. as he is the manager of the general partner of the partnership. The address of D/V Cain Family, L.P. is 10700 Richmond Avenue, Suite 300, Houston, Texas 77024.

(21) Consists of (a) 330,266 shares of Class A Common Stock owned by D/V Cain Family, L.P.; (b) 718,789 shares of Class A Common Stock issuable upon conversion of 718,789 shares of Class C Common Stock owned by D/V Cain Family, L.P.; and (c) 142,863 shares of Class A Common Stock issuable to D/V Cain Family, L.P. as a result of the purchase price adjustment described under the caption CERTAIN RELATIONSHIP AND

RELATED TRANSACTIONS. D/V Cain Family, L.P. holds the shares formerly held in the names of Dennis M. Cain and his spouse, Valerie Cain. Mr. Cain may be deemed to beneficially own the shares owned by D/V Cain Family, L.P. as he is the manager of the general partner of the partnership. The address of Mr. Cain is 10700 Richmond Avenue, Suite 300, Houston, Texas 77024.

(22) Consists of (a) 266,857 shares of Class A Common Stock owned by Mr. Smith; (b) 580,780 shares of Class A Common Stock issuable upon conversion of 580,780 shares of Class C Common Stock owned by Mr. Smith; and (c) 115,433 shares of Class A Common Stock issuable to Mr. Smith as a result of the purchase price adjustment described under the caption CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS. Mr. Smith s address is 10700 Richmond Avenue, Suite 300, Houston, Texas 77024.

(23) Mr. Murdock is the Chief Financial Officer and Corporate Secretary of the Company and beneficially owned no shares as of April 12, 2006. The address for Mr. Murdock is 1805 Old Alabama Road, Suite 350, Roswell, Georgia 30076.

(24) Consists of (a) 8,000 shares of Class A Common Stock owned by Mr. LeBlanc; (b) 328,462 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock owned by Mr. LeBlanc; and (c) 125,000 shares of Class A Common Stock issuable pursuant to restricted stock units owned by Mr. LeBlanc. Mr. LeBlanc is a former director and President of the Company. The address for Mr. LeBlanc is 1516 River Oaks Road West, Harahan, Louisiana 70123.

(25) The shares include (a) an aggregate of 620,856 shares of Class A Common Stock; (b) an aggregate of 1,299,569 shares of Class A Common Stock issuable upon conversion of 1,299,569 shares of Class C Common Stock; (c) an aggregate of 258,296 shares of Class A Common Stock issuable as a result of the purchase price adjustment described under the caption CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS ; (d) an aggregate of 328,462 shares of Class A Common Stock issuable upon exercise of warrants to purchase Class A Common Stock; and (e) 125,000 shares of Class A Common Stock issuable pursuant to restricted stock units.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company s officers and directors, and persons who own more than 10% of the Common Stock, to file reports of ownership and changes in ownership of the Common Stock, on Forms 3, 4, and 5, with the SEC and to provide copies of these Forms 3, 4, and 5 to the Company. Other than as set forth in the stock ownership table above, the Company is not aware of any beneficial owner, as defined under Section 16(a), of more than 10% of the Common Stock.

Based solely upon a review of the copies of the forms furnished to the Company, or written representations from certain reporting persons, the Company believes that all Section 16(a) filing requirements of the Exchange Act applicable to its officers, directors and greater than 10% beneficial owners were complied with during the fiscal year ended December 31, 2005, except that late filings to report the initial statement of beneficial ownership on Form 3 and statement of changes in beneficial ownership on Form 4 were made as follows:

| Filing Date | Transaction Date | Form | Name | Title | Transaction |
|---|---|---|---|---|---|
| 7/21/05 | 6/17/05 | 4 | David Crane | Director | Stock option grant 10,000 shares |
| 3/27/06 | 6/17/05 | 4 | Terrence L. Bauer | President and Chief Executive Officer | Stock option grant 300,000 shares |
| 3/27/06 | 8/31/05 | 4 | Terrence L. Bauer | President and Chief Executive Officer | Restricted stock unit grant 300,000 units |
| 3/27/06 | 6/17/05 | 3 & 4 | Dennis Cain | CEO, MBS | Stock option grant 150,000 shares |
| 3/27/06 | 6/17/05 | 4 | Michael Finn | Director | Stock option grant 17,000 shares |
| 3/27/06 | 8/31/05 | 4 | Keith G. LeBlanc | Former President and Director | Restricted stock unit grant 250,000 units |
| 3/27/06 | 6/17/05 | 4 | Stephen H. Murdock | Chief Financial Officer and Corporate Secretary | Stock option grant 200,000 shares |
| 3/27/06 | 8/31/05 | 4 | Stephen H. Murdock | Chief Financial Officer and Corporate Secretary | Restricted stock unit grant 100,000 units |
| 3/27/06 | 6/17/05 | 4 | Robert Pinkas | 10% Beneficial Owner | Stock option grant 17,000 shares |

| | | | | | | |
|---|---|---|---|---|---|---|
| 3/27/06 | 6/17/05 | 3 & 4 | Tom Smith | President & COO, MBS | Stock option grant shares | 150,000 |
| 3/27/06 | 6/17/05 | 4 | Joseph Valley, Jr. | Director | Stock option grant shares | 20,000 |
| 3/31/06 | 6/17/05 | 4 | Gerald McIntosh | Former Director | Stock option grant shares | 10,000 |
| 4/12/06 | 9/28/05 | 4 | Paul H. Cascio | Non-Executive Chairman | Change in beneficial ownership | |
| 4/12/06 | 6/17/05 | 4/A | Michael J. Finn | Director | Change in beneficial ownership | |
| 4/12/06 | 9/28/05 | 4 | Michael J. Finn | Director | Change in beneficial ownership | |
| 4/12/06 | 6/17/05 | 4/A | Robert Pinkas | 10% Beneficial Owner | Change in beneficial ownership | |
| 4/12/06 | 9/28/05 | 4 | Robert Pinkas | 10% Beneficial Owner | Change in beneficial ownership | |

## PROPOSAL I
## Election of Directors

Our Bylaws provide that our board of directors will consist of not less than three members, the exact number to be determined by resolution adopted by our board of directors. The number of directors is currently set at five. Directors are elected for a one-year term and hold office until the next annual meeting of stockholders and until their successors are elected and qualified. The directors are elected by plurality vote, which means that the five director nominees receiving the highest number of affirmative votes at the Annual Meeting shall be elected to the board of directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law.

Terrence L. Bauer, Keith G. LeBlanc, Paul H. Cascio, Michael J. Finn, David Crane, Gerald M. McIntosh, and Joseph M. Valley, Jr., were elected at the May 31, 2005 annual meeting of the stockholders to serve until their terms expire at the Annual Meeting. Messrs. McIntosh and LeBlanc resigned their position as directors effective November 3, 2005 and November 8, 2005, respectively. The board of directors determined not to fill the vacancies created by the resignations of Messrs. LeBlanc and McIntosh and to set the number of members of the board of directors at five.

Pursuant to the Stockholders Agreement, each of Brantley III, Brantley IV and Brantley Capital (i) is entitled to nominate one person to become a member of the board of directors and (ii) has agreed to cast all votes necessary to elect as members of the board of directors of the Company the three people who have been nominated by Brantley III, Brantley IV and Brantley Capital. In accordance with the Stockholders Agreement, Brantley III, Brantley IV and Brantley Capital have nominated Paul Cascio, Michael Finn and David Crane as directors to be elected at the Annual Meeting. In accordance with the requirements of AMEX, the remaining two board nominees, Terrence L. Bauer and Joseph M. Valley, Jr., have been selected by the board of directors, as recommended by all of the independent directors. Each of the nominees have been nominated to serve until the 2007 annual meeting of stockholders or until his successor has been duly elected and qualified. All of these nominees of the board of directors are presently directors of the Company and have consented to be named as nominees and to serve as directors if elected. Should a nominee be unable or unwilling to serve as a director, the enclosed proxy will be voted for such other person or persons as the board of directors may recommend. Management does not anticipate that such an event will occur.

**The board of directors recommends a vote FOR each named nominee.**

### Information About the Director Nominees

The table below sets forth the name of each of the five nominees for re-election as directors, as well as their age as of January 1, 2006, and the positions and offices held by such persons.

| Name of Director | Age | Position |
|---|---|---|
| Terrence L. Bauer | 49 | Director, President, Chief Executive Officer |
| Paul H. Cascio | 44 | Director, Non-Executive Chairman of the Board, General Partner of Brantley III and Brantley IV |
| David Crane (1)(2) | 49 | Director |
| Michael J. Finn | 56 | Director, General Partner of Brantley III and Brantley IV |
| Joseph M. Valley, Jr. (1)(2) | 58 | Director |

(1) Member of Compensation Committee
(2) Member of Audit Committee

### Biographical Information

Set forth below is certain information with respect to the directors and the Named Executive Officers (as defined herein) of the Company.

Directors

**Terrence L. Bauer**

*Director, President and Chief Executive Officer*

Terrence L. Bauer has served as Chief Executive Officer and director of the Company since December 2004 and as President of the Company since November 2005. Prior to joining the Company, Mr. Bauer served as President, Chief

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Executive Officer and director of IPS since co-founding IPS in 1996, and served as Chairman of the board of directors of IPS since 1999. Prior to co-founding IPS, Mr. Bauer was President and Chief Operating Officer of Allegiant Physician Services, a multi-specialty physician practice management company, from 1995 through mid-1996. Mr. Bauer s tenure with Allegiant involved restructuring Allegiant. From 1991 until 1995, Mr. Bauer served as President and Chief Executive Officer of ATC Healthcare Services, Inc., a national healthcare staffing firm. Mr. Bauer arranged the successful sale of ATC in 1994 and supervised the transition of ATC into a new organizational structure in 1995. From 1987 through 1991, Mr. Bauer held various senior management positions at Critical Care America, a high technology, home infusion therapy company.

**Paul H. Cascio**

*Director and Non-Executive Chairman of the Board*

Paul H. Cascio has served as a director and the non-executive Chairman of the board of directors since December 2004. Mr. 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. Principals of Brantley 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 Partners IV, L.P. These Brantley entities are part of a private equity organization founded in 1987 with approximately $300 million of committed capital under management, which has been a lead investor in over 40 privately-held companies throughout the United States. Mr. Cascio has served in various capacities with these Brantley entities and their portfolio companies from 1996 to the present. Prior to joining Brantley 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.

**David Crane**

*Director*

David Crane has served as a director of the Company since December 2004. Since November, 2005 Mr. Crane has served as the President and Chief Executive Officer of NewHope Bariatrics, LLC, a start-up healthcare services company. In October 2003, Mr. Crane was appointed to the board of directors of Pediatric Services of America, Inc. (NASDAQ: PSAI), which provides a combination of pediatric home health care services through its network of branch offices. In 1989, Mr. Crane joined the original management team of MedCath Incorporated, a healthcare provider with approximately $550 million in annual revenues and served as its Chief Operating Officer until 1999 and as its President and Chief Executive Officer from 2000 until September 2003. Mr. Crane also served as a director of MedCath.

**Michael J. Finn**

*Director*

Michael J. Finn has served as a director of the Company since December 2004. Mr. Finn currently 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. Principals of Brantley Management Company, including Mr. Finn, serve as investment advisers for Brantley Venture Partners, L.P., Brantley Venture Partners II, L.P., Brantley Venture Partners III, L.P. and Brantley Partners IV, L.P. Mr. Finn has served in various capacities with these Brantley entities and their portfolio companies from 1995 to the present, including as a member of the board of directors of Pediatric Services of America, Inc. (NASDAQ: PSAI), which provides a combination of pediatric home health care services through its network of branch offices. 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.

**Joseph M. Valley, Jr.**

*Director*

Joseph M. Valley, Jr. has served as director of the Company since December 2004. From December 1999 until December 2004, Mr. Valley was a director of IPS. Mr. Valley currently serves as Chairman and Chief Executive Officer of NCT, Inc., a networking connectivity services provider, and as a director for Agnes.com in Bridgewater, New Jersey. Mr. Valley formerly served as Chief Executive Officer of Seranin Software Corporation, a privately held company based in Dallas, Texas from 2002 to December 2004. Prior to Seranin Software, Mr. Valley served as President and Chief Operations Officer from 2001 to 2002 for QueryObject Systems Corporation, a global business intelligence software company providing analytical infrastructure solutions traded on the AMEX. From 1998 until 2001, Mr. Valley served as Chief Executive Officer and President of MIS USA. While at MIS USA, Mr. Valley was responsible for gaining global recognition and introducing the first solution for collaborative analytical processing.

Executive Officers Who Do Not Serve as Directors

**Stephen H. Murdock**

*Chief Financial Officer and Corporate Secretary*

Stephen H. Murdock, C.P.A. has served as Chief Financial Officer and Corporate Secretary of the Company since December 2004. Prior to joining the Company, Mr. Murdock served as Chief Financial Officer and Treasurer of IPS since July 2002. Mr. Murdock has over 20 years of healthcare finance and accounting experience. Prior to joining IPS, Mr. Murdock served as Chief Financial Officer and Senior Vice President of Administration for SmartMail, LLC, a venture capital backed shipping and transportation company. Prior to SmartMail, he was Chief Financial Officer for Nations Healthcare, Inc. Previously, Mr. Murdock was Chief Financial Officer and Vice President of Administration for Visiting Nurse Health System, Inc. and Senior Audit Manager, Audit Manager and Staff Auditor for KPMG. Mr. Murdock is a certified public accountant.

**Dennis M. Cain**

*Chief Executive Officer of MBS*

Dennis M. Cain has served as Chief Executive Officer of MBS since its acquisition in December 2004. Mr. Cain was founder and President of Dennis Cain Physician Solutions, LTD from 1983 through the time of its merger with MBS in December 2004. Mr. Cain has over 30 years of direct billing and account receivable management service for hospital-based physicians, specifically in the practice areas of anesthesia, pathology and radiology, primarily in the Houston and South Texas region.

**Tommy M. Smith**

*President and Chief Operating Officer of MBS*

&nr=#121212 size=1>Scd. Notes 12.13 9/1/18 1,955,000 [a] 1,984,325 Royal Bank of Scotland Group, Sub. Notes 4.70 7/3/18 1,486,000 [b] 1,206,846 SLM, Sr. Unscd. Notes 8.00 3/25/20 2,020,000 [b] 1,999,188 Springleaf Finance, Sr. Unscd. Notes 6.90 12/15/17 3,000,000 [b] 2,175,000 USI Holdings, Sr. Sub. Notes 9.75 5/15/15 1,555,000 [a,b] 1,407,275 **40,196,079 Electric Utilities—6.4%** AES, Sr. Notes 7.38 7/1/21 1,045,000 [a,b] 992,750 AES, Sr. Unscd. Notes 9.75 4/15/16 1,845,000 [b] 1,992,600 Calpine, Sr. Scd. Notes 7.25 10/15/17 950,000 [a,b] 921,500 Calpine, Sr. Scd. Notes 7.50 2/15/21 1,025,000 [a,b] 984,000 Calpine, Sr. Scd. Notes 7.88 1/15/23 1,945,000 [a,b] 1,886,650 GenOn Energy, Sr. Unscd. Notes 9.50 10/15/18 2,490,000 [b] 2,353,050 North American Energy Alliance, Scd. Notes 10.88 6/1/16 1,310,000 [a,b] 1,365,675 NRG Energy, Gtd. Notes 7.38 1/15/17 2,695,000 [b] 2,792,694 NRG Energy, Gtd. Notes 7.63 5/15/19 3,200,000 [a] 2,928,000 **16,216,919**

The Fund **9**

STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| Bonds and Notes (continued) | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Environmental Control—1.9%** | | | | | |
| Casella Waste Systems, | | | | | |
| Gtd. Notes | 7.75 | 2/15/19 | 3,235,000 | a,b | 3,073,250 |
| WCA Waste, | | | | | |
| Gtd. Notes | 7.50 | 6/15/19 | 1,725,000 | a | 1,647,375 |
| | | | | | **4,720,625** |

| | | | | | |
|---|---|---|---|---|---|
| **Food & Beverages—1.3%** | | | | | |
| Del Monte Foods, | | | | | |
| Gtd. Notes | 7.63 | 2/15/19 | 1,290,000 | a,b | 1,096,500 |
| Michael Foods, | | | | | |
| Gtd. Notes | 9.75 | 7/15/18 | 2,075,000 | b | 2,152,812 |
| | | | | | **3,249,312** |
| **Health Care—9.5%** | | | | | |
| Accellent, | | | | | |
| Gtd. Notes | 10.00 | 11/1/17 | 1,665,000 | b | 1,427,737 |
| Alere, | | | | | |
| Gtd. Notes | 9.00 | 5/15/16 | 740,000 | b | 710,400 |
| American Renal Associates | | | | | |
| Holdings, Sr. Unscd. Notes | 9.75 | 3/1/16 | 1,014,818 | b | 991,985 |
| American Renal Holdings, | | | | | |
| Sr. Scd. Notes | 8.38 | 5/15/18 | 985,000 | b | 994,850 |
| Biomet, | | | | | |
| Gtd. Notes | 11.63 | 10/15/17 | 7,424,000 | b | 7,739,520 |
| Community Health Systems, | | | | | |
| Gtd. Notes | 8.88 | 7/15/15 | 455,000 | b | 448,175 |
| DJO Finance, | | | | | |
| Gtd. Notes | 9.75 | 10/15/17 | 4,100,000 | a,b | 3,444,000 |
| HCA Holdings, | | | | | |
| Sr. Unscd. Notes | 7.75 | 5/15/21 | 5,250,000 | a,b | 4,948,125 |
| HCA, | | | | | |
| Sr. Scd. Notes | 7.25 | 9/15/20 | 610,000 | | 619,150 |
| Iasis Healthcare, | | | | | |
| Sr. Notes | 8.38 | 5/15/19 | 1,055,000 | a | 859,825 |
| Radiation Therapy Services, | | | | | |
| Gtd. Notes | 9.88 | 4/15/17 | 980,000 | b | 840,350 |
| STHI Holding, | | | | | |
| Scd. Notes | 8.00 | 3/15/18 | 840,000 | a,b | 814,800 |
| Tenet Healthcare, | | | | | |
| Sr. Scd. Notes | 8.88 | 7/1/19 | 195,000 | | 207,187 |
| | | | | | **24,046,104** |



| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Industrial—3.1%** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Manitowoc, | | | | | |
| Gtd. Notes | 8.50 | 11/1/20 | 3,100,000 | b | 2,821,000 |
| Ply Gem Industries, | | | | | |
| Sr. Scd. Notes | 8.25 | 2/15/18 | 795,000 | b | 651,900 |
| Shea Homes Funding, | | | | | |
| Sr. Scd. Notes | 8.63 | 5/15/19 | 3,200,000 | a | 2,632,000 |
| Standard Pacific, | | | | | |
| Scd. Notes | 8.38 | 5/15/18 | 2,025,000 | b | 1,731,375 |
| | | | | | **7,836,275** |
| **Lodging &** | | | | | |
| **Entertainment—9.6%** | | | | | |
| AMC Entertaiment, | | | | | |
| Gtd. Notes | 9.75 | 12/1/20 | 4,000,000 | b | 3,640,000 |
| Ameristar Casinos, | | | | | |
| Gtd. Notes | 7.50 | 4/15/21 | 1,680,000 | a | 1,633,800 |
| Caesars Entertainment Operating, | | | | | |
| Scd. Notes | 10.00 | 12/15/18 | 3,220,000 | b | 1,932,000 |
| Caesars Entertainment Operating, | | | | | |
| Sr. Scd. Notes | 11.25 | 6/1/17 | 1,850,000 | b | 1,875,437 |
| Cinemark USA, | | | | | |
| Gtd. Notes | 7.38 | 6/15/21 | 1,540,000 | b | 1,463,000 |
| Cirsa Funding Luxembourg, | | | | | |
| Gtd. Notes | 8.75 | 5/15/18 | 665,000 | | 680,449 |
| Codere Finance Luxembourg, | | | | | |
| Gtd. Notes | 8.25 | 6/15/15 | 590,000 | | 699,548 |
| MGM Resorts International, | | | | | |
| Gtd. Notes | 10.00 | 11/1/16 | 2,845,000 | a,b | 2,702,750 |
| MGM Resorts International, | | | | | |
| Sr. Unscd. Notes | 11.38 | 3/1/18 | 2,755,000 | | 2,768,775 |
| Palace | | | | | |
| Entertainment Holdings, | | | | | |
| Sr. Scd. Notes | 8.88 | 4/15/17 | 1,410,000 | a,b | 1,297,200 |
| Penn National Gaming, | | | | | |
| Sr. Sub. Notes | 8.75 | 8/15/19 | 2,580,000 | b | 2,747,700 |
| Pinnacle Entertainment, | | | | | |
| Gtd. Notes | 8.75 | 5/15/20 | 1,415,000 | | 1,326,562 |
| Regal Entertainment Group, | | | | | |
| Gtd. Notes | 9.13 | 8/15/18 | 1,350,000 | | 1,343,250 |
| | | | | | **24,110,471** |

The Fund **11**

STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Manufacturing—1.6%** | | | | | |
| Griffon, | | | | | |
| Gtd. Notes | 7.13 | 4/1/18 | 2,080,000 | b | 1,846,000 |
| RBS Global & Rexnord, | | | | | |
| Gtd. Notes | 8.50 | 5/1/18 | 2,395,000 | b | 2,305,187 |
| | | | | | **4,151,187** |
| **Media—12.3%** | | | | | |
| Allbritton Communications, | | | | | |
| Sr. Unscd. Notes | 8.00 | 5/15/18 | 2,845,000 | b | 2,688,525 |
| AMC Networks, | | | | | |
| Gtd. Notes | 7.75 | 7/15/21 | 550,000 | a,b | 566,500 |
| CCH II Capital, | | | | | |
| Gtd. Notes | 13.50 | 11/30/16 | 1,750,286 | b | 2,004,077 |
| Cequel Communications Holdings I, | | | | | |
| Sr. Unscd. Notes | 8.63 | 11/15/17 | 1,945,000 | a,b | 1,935,275 |
| Clear Channel Communications, | | | | | |
| Sr. Unscd. Notes | 5.50 | 9/15/14 | 939,000 | | 535,230 |
| Clear Channel Communications, | | | | | |
| Sr. Scd. Notes | 9.00 | 3/1/21 | 1,900,000 | | 1,420,250 |
| Clear Channel Communications, | | | | | |
| Gtd. Notes | 10.75 | 8/1/16 | 930,000 | | 485,925 |
| Cumulus Media, | | | | | |
| Gtd. Notes | 7.75 | 5/1/19 | 2,095,000 | a,b | 1,775,512 |
| Entravision Communications, | | | | | |
| Sr. Scd. Notes | 8.75 | 8/1/17 | 650,000 | b | 612,625 |
| Gray Television, | | | | | |
| Scd. Notes | 10.50 | 6/29/15 | 4,065,000 | b | 3,699,150 |
| Insight Communications, | | | | | |
| Sr. Notes | 9.38 | 7/15/18 | 1,920,000 | a,b | 2,160,000 |
| Kabel BW Erste Beteiligungs, | | | | | |
| Sr. Scd. Notes | 7.50 | 3/15/19 | 2,620,000 | a,b | 2,561,050 |
| LBI Media, | | | | | |
| Gtd. Notes | 8.50 | 8/1/17 | 2,249,000 | a,b | 1,428,115 |
| LBI Media, | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Sr. Scd. Notes | 9.25 | 4/15/19 | 1,220,000 | a,b | 1,012,600 |
| Ono Finance II, | | | | | |
| Gtd. Notes | 10.88 | 7/15/19 | 2,010,000 | a,b | 1,417,050 |
| Quebecor Media, | | | | | |
| Sr. Unscd. Notes | 7.75 | 3/15/16 | 2,025,000 | b | 2,030,063 |

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| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Media (continued)** | | | | | |
| Salem Communications, | | | | | |
| Scd. Notes | 9.63 | 12/15/16 | 1,923,000 | b | 1,932,615 |
| Sinclair Television Group, | | | | | |
| Scd. Notes | 9.25 | 11/1/17 | 1,775,000 | a,b | 1,872,625 |
| Unitymedia, | | | | | |
| Sr. Notes | 9.63 | 12/1/19 | 695,000 | | 903,190 |
| | | | | | **31,040,377** |
| **Metals & Mining—5.0%** | | | | | |
| Dynacast International, | | | | | |
| Scd. Notes | 9.25 | 7/15/19 | 2,375,000 | a,b | 2,161,250 |
| Murray Energy, | | | | | |
| Scd. Notes | 10.25 | 10/15/15 | 3,470,000 | a,b | 3,331,200 |
| Severstal Columbus, | | | | | |
| Sr. Scd. Notes | 10.25 | 2/15/18 | 6,500,000 | b | 6,662,500 |
| Suncoke Energy, | | | | | |
| Gtd. Notes | 7.63 | 8/1/19 | 470,000 | a | 461,775 |
| | | | | | **12,616,725** |
| **Oil & Gas—10.3%** | | | | | |
| American Petroleum | | | | | |
| Tankers Parent, | | | | | |
| Sr. Scd. Notes | 10.25 | 5/1/15 | 2,159,000 | b | 2,142,807 |
| Antero Resources Finance, | | | | | |
| Sr. Notes | 7.25 | 8/1/19 | 2,280,000 | a,b | 2,177,400 |
| Antero Resources Finance, | | | | | |
| Gtd. Notes | 9.38 | 12/1/17 | 1,305,000 | | 1,363,725 |
| Brigham Exploration, | | | | | |
| Gtd. Notes | 6.88 | 6/1/19 | 2,140,000 | b | 2,097,200 |
| Chesapeake Energy, | | | | | |
| Gtd. Notes | 6.63 | 8/15/20 | 2,590,000 | b | 2,680,650 |

| | | | | | |
|---|---|---|---|---|---|
| Chesapeake Energy, | | | | | |
| Gtd. Notes | 9.50 | 2/15/15 | 2,675,000 | b | 3,029,438 |
| Dresser-Rand Group, | | | | | |
| Gtd. Notes | 6.50 | 5/1/21 | 2,015,000 | a,b | 1,904,175 |
| Headwaters, | | | | | |
| Scd. Notes | 7.63 | 4/1/19 | 685,000 | b | 527,450 |
| MEG Energy, | | | | | |
| Gtd. Notes | 6.50 | 3/15/21 | 2,445,000 | a,b | 2,353,313 |



STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Oil & Gas (continued)** | | | | | |
| Oasis Petroleum, | | | | | |
| Sr. Unscd. Notes | 7.25 | 2/1/19 | 2,165,000 | a,b | 2,110,875 |
| Precision Drilling, | | | | | |
| Gtd. Notes | 6.50 | 12/15/21 | 1,430,000 | a | 1,415,700 |
| Trinidad Drilling, | | | | | |
| Sr. Unscd. Notes | 7.88 | 1/15/19 | 2,060,000 | a,b | 2,060,000 |
| Unit, | | | | | |
| Gtd. Notes | 6.63 | 5/15/21 | 2,080,000 | | 2,080,000 |
| | | | | | **25,942,733** |
| **Packaging & Containers—5.8%** | | | | | |
| AEP Industries, | | | | | |
| Sr. Unscd. Notes | 8.25 | 4/15/19 | 2,125,000 | b | 2,013,438 |
| ARD Finance, | | | | | |
| Sr. Scd. Notes | 11.13 | 6/1/18 | 1,625,000 | a,b | 1,324,375 |
| BWAY Holding, | | | | | |
| Gtd. Notes | 10.00 | 6/15/18 | 1,080,000 | b | 1,139,400 |
| BWAY Parent, | | | | | |
| Sr. Unscd. Notes | 10.13 | 11/1/15 | 2,520,302 | b | 2,444,693 |
| Packaging Dynamics, | | | | | |
| Sr. Scd. Notes | 8.75 | 2/1/16 | 740,000 | a,b | 728,900 |
| Reynolds Group Issuer, | | | | | |
| Sr. Scd. Notes | 7.88 | 8/15/19 | 1,400,000 | a | 1,358,000 |
| Reynolds Group Issuer, | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Gtd. Notes | 9.00 | 5/15/18 | 4,155,000 | a,b,c | 3,531,750 |
| Reynolds Group Issuer, | | | | | |
| Sr. Unscd. Notes | 9.88 | 8/15/19 | 245,000 | a | 216,825 |
| Sealed Air, | | | | | |
| Sr. Unscd. Notes | 8.13 | 9/15/19 | 1,270,000 | a | 1,285,875 |
| Sealed Air, | | | | | |
| Sr. Unscd. Notes | 8.38 | 9/15/21 | 465,000 | a | 470,812 |
| | | | | | **14,514,068** |
| **Paper & Forest Products—.7%** | | | | | |
| Verso Paper Holdings, | | | | | |
| Gtd. Notes, Ser. B | 11.38 | 8/1/16 | 825,000 | b | 602,250 |



| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Paper & Forest Products (continued)** | | | | | |
| Xerium Technologies, | | | | | |
| Gtd. Notes | 8.88 | 6/15/18 | 1,415,000 | a | 1,209,825 |
| | | | | | **1,812,075** |
| **Retail—7.3%** | | | | | |
| Ferrellgas Partners, | | | | | |
| Sr. Unscd. Notes | 8.63 | 6/15/20 | 1,023,000 | b | 997,425 |
| Ferrellgas, | | | | | |
| Sr. Unscd. Notes | 6.50 | 5/1/21 | 2,365,000 | b | 2,022,075 |
| Ferrellgas, | | | | | |
| Sr. Unscd. Notes | 9.13 | 10/1/17 | 1,135,000 | b | 1,152,025 |
| Hillman Group, | | | | | |
| Gtd. Notes | 10.88 | 6/1/18 | 405,000 | a,b | 402,975 |
| Hillman Group, | | | | | |
| Gtd. Notes | 10.88 | 6/1/18 | 1,950,000 | b | 1,940,250 |
| J. Crew Group, | | | | | |
| Gtd. Notes | 8.13 | 3/1/19 | 2,200,000 | b | 1,853,500 |
| McJunkin Red Man, | | | | | |
| Sr. Scd. Notes | 9.50 | 12/15/16 | 2,840,000 | b | 2,612,800 |
| Neiman Marcus Group, | | | | | |
| Gtd. Notes | 10.38 | 10/15/15 | 980,000 | b | 994,700 |
| QVC, | | | | | |
| Sr. Scd. Notes | 7.38 | 10/15/20 | 525,000 | a,b | 561,750 |
| QVC, | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Sr. Scd. Notes | 7.50 | 10/1/19 | 1,440,000 | a,b | 1,540,800 |
| Rite Aid, | | | | | |
| Gtd. Notes | 8.63 | 3/1/15 | 480,000 | | 428,400 |
| Rite Aid, | | | | | |
| Gtd. Notes | 9.50 | 6/15/17 | 2,325,000 | b | 1,848,375 |
| Rite Aid, | | | | | |
| Scd. Notes | 10.38 | 7/15/16 | 1,935,000 | b | 1,988,213 |
| | | | | | **18,343,288** |
| **Steel—2.7%** | | | | | |
| JMC Steel Group, | | | | | |
| Sr. Notes | 8.25 | 3/15/18 | 2,660,000 | a,b | 2,513,700 |



STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Steel (continued)** | | | | | |
| Mueller Water Products, | | | | | |
| Gtd. Notes | 7.38 | 6/1/17 | 1,290,000 | b | 1,012,650 |
| Tube City IMS, | | | | | |
| Gtd. Notes | 9.75 | 2/1/15 | 3,350,000 | b | 3,216,000 |
| | | | | | **6,742,350** |
| **Technology—4.5%** | | | | | |
| Alion Science and Technology, | | | | | |
| Sr. Scd. Notes | 12.00 | 11/1/14 | 6,226 | b | 5,510 |
| CDW Escrow, | | | | | |
| Gtd. Notes | 8.50 | 4/1/19 | 2,085,000 | a,b | 1,845,225 |
| Eagle Parent, | | | | | |
| Sr. Notes | 8.63 | 5/1/19 | 2,565,000 | a,b | 2,334,150 |
| First Data, | | | | | |
| Scd. Notes | 8.25 | 1/15/21 | 1,636,000 | a,b | 1,300,620 |
| First Data, | | | | | |
| Gtd. Notes | 9.88 | 9/24/15 | 360,000 | b | 302,726 |
| Sungard Data Systems, | | | | | |
| Gtd. Notes | 7.38 | 11/15/18 | 1,885,000 | | 1,762,475 |
| Wireco WorldGroup, | | | | | |
| Gtd. Notes | 9.75 | 5/15/17 | 3,675,000 | a,b,c | 3,730,125 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | **11,280,831** |
| **Telecommunications—13.9%** | | | | | |
| Cincinnati Bell, | | | | | |
| Gtd. Notes | 8.38 | 10/15/20 | 2,175,000 | b | 2,028,188 |
| CommScope, | | | | | |
| Gtd. Notes | 8.25 | 1/15/19 | 2,980,000 | a,b | 2,920,400 |
| CPI International, | | | | | |
| Gtd. Notes | 8.00 | 2/15/18 | 1,355,000 | b | 1,226,275 |
| Digicel Group, | | | | | |
| Sr. Unscd. Notes | 8.88 | 1/15/15 | 4,860,000 | a | 4,641,300 |
| Digicel Group, | | | | | |
| Sr. Unscd. Notes | 9.13 | 1/15/15 | 3,014,000 | a | 2,863,300 |
| Digicel Group, | | | | | |
| Sr. Unscd. Notes | 10.50 | 4/15/18 | 631,000 | a | 627,845 |
| Digicel, | | | | | |
| Sr. Unscd. Notes | 8.25 | 9/1/17 | 1,215,000 | a | 1,154,250 |
| Digicel, | | | | | |
| Sr. Unscd. Notes | 12.00 | 4/1/14 | 780,000 | a | 861,900 |



| **Bonds and Notes (continued)** | Coupon Rate (%) | Maturity Date | Principal Amount ($) | | Value ($) |
|---|---|---|---|---|---|
| **Telecommunications (continued)** | | | | | |
| EH Holding, | | | | | |
| Gtd. Notes | 7.63 | 6/15/21 | 2,010,000 | a,b | 1,944,675 |
| Goodman Networks, | | | | | |
| Sr. Scd. Notes | 12.13 | 7/1/18 | 1,060,000 | a,b | 993,750 |
| Intelsat Luxembourg, | | | | | |
| Gtd. Notes | 11.25 | 2/4/17 | 3,054,000 | | 2,656,980 |
| Sprint Capital, | | | | | |
| Gtd. Notes | 6.88 | 11/15/28 | 1,730,000 | b | 1,301,825 |
| Sprint Capital, | | | | | |
| Gtd. Notes | 6.90 | 5/1/19 | 2,045,000 | b | 1,768,925 |
| West, | | | | | |
| Gtd. Notes | 7.88 | 1/15/19 | 1,400,000 | b | 1,323,000 |
| West, | | | | | |
| Gtd. Notes | 8.63 | 10/1/18 | 2,700,000 | b | 2,639,250 |
| Wind Acquisition Finance, | | | | | |
| Scd. Notes | 11.75 | 7/15/17 | 3,780,000 | a,b | 3,231,900 |

| | | | | | |
|---|---|---|---|---|---|
| Wind Acquisition | | | | | |
| Holdings Finance, | | | | | |
| Sr. Scd. Notes | 12.25 | 7/15/17 | 3,683,810 | a,b | 2,891,791 |
| | | | | | **35,075,554** |
| **Transportation—3.9%** | | | | | |
| Hapag-Lloyd, | | | | | |
| Gtd. Notes | 9.75 | 10/15/17 | 345,000 | a,b | 239,775 |
| Marquette Transportation Finance, | | | | | |
| Scd. Notes | 10.88 | 1/15/17 | 2,940,000 | b | 2,848,125 |
| Navios Maritime Acquisition, | | | | | |
| Sr. Scd. Notes | 8.63 | 11/1/17 | 1,900,000 | | 1,591,250 |
| Navios Maritime Holdings, | | | | | |
| Gtd. Notes | 8.13 | 2/15/19 | 1,500,000 | a | 1,260,000 |
| Navios Maritime Holdings, | | | | | |
| Sr. Scd. Notes | 8.88 | 11/1/17 | 910,000 | | 891,800 |
| Navios South American Logistics, | | | | | |
| Gtd. Notes | 9.25 | 4/15/19 | 1,540,000 | a | 1,351,350 |
| Ultrapetrol Bahamas, | | | | | |
| First Mortgage Notes | 9.00 | 11/24/14 | 1,606,000 | | 1,557,820 |
| | | | | | **9,740,120** |
| **Total Bonds and Notes** | | | | | |
| (cost $387,786,209) | | | | | **359,849,069** |



STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| **Preferred Stocks—.7%** | Shares | Value ($) |
|---|---|---|
| **Diversified Financial Services** | | |
| GMAC Capital Trust I, | | |
| Ser. 2, Cum. $.89 | | |
| (cost $2,492,932) | 98,738 [c] | **1,801,969** |
| **Other Investment—.3%** | | |
| **Registered Investment Company;** | | |
| Dreyfus Institutional Preferred | | |
| Plus Money Market Fund | | |
| (cost $721,000) | 721,000 [d] | **721,000** |

| | | |
|---|---|---|
| **Total Investments** (cost $391,000,141) | **143.9%** | **362,372,038** |
| **Liabilities, Less Cash and Receivables** | **(43.9%)** | **(110,506,458)** |
| **Net Assets** | **100.0%** | **251,865,580** |

*a Securities exempt from registration under Rule 144A of the Securities Act of 1933.These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.At September 30, 2011, these securities were valued at $151,406,440 or 60.1% of net assets.*

*b Collateral for Revolving Credit and Security Agreement.*

*c Variable rate security—interest rate subject to periodic change.*

*d Investment in affiliated money market mutual fund.*

| Portfolio Summary (Unaudited)† | | | |
|---|---|---|---|
| | Value (%) | | Value (%) |
| Corporate Bonds | 142.9 | Money Market Investment | .3 |
| Preferred Stocks | .7 | | **143.9** |

*† Based on net assets.*

*See notes to financial statements.*



## STATEMENT OF ASSETS AND LIABILITIES

September 30, 2011 (Unaudited)

| | Cost | Value |
|---|---|---|
| **Assets ($):** | | |
| Investments in securities—See Statement of Investments: | | |
| Unaffiliated issuers | 390,279,141 | 361,651,038 |
| Affiliated issuers | 721,000 | 721,000 |
| Cash denominated in foreign currencies | 60 | 57 |
| Dividends and interest receivable | | 10,020,884 |
| Receivable for investment securities sold | | 2,039,335 |
| Unrealized appreciation on forward foreign | | |
| currency exchange contracts—Note 4 | | 92,394 |
| Prepaid expenses | | 112,146 |
| | | **374,636,854** |
| **Liabilities ($):** | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(a) | | 259,585 |
| Cash overdraft due to Custodian | | 92,250 |

| | |
|---|---|
| Loan payable—Note 2 | 120,000,000 |
| Payable for investment securities purchased | 2,032,832 |
| Interest and loan fees payable—Note 2 | 135,829 |
| Unrealized depreciation on forward foreign | |
| currency exchange contracts—Note 4 | 14,795 |
| Accrued expenses | 235,983 |
| | **122,771,274** |
| **Net Assets ($)** | **251,865,580** |
| **Composition of Net Assets ($):** | |
| Paid-in capital | 416,528,716 |
| Accumulated undistributed investment income—net | 5,874,136 |
| Accumulated net realized gain (loss) on investments | (141,982,590) |
| Accumulated net unrealized appreciation (depreciation) | |
| on investments and foreign currency transactions | (28,554,682) |
| **Net Assets ($)** | **251,865,580** |
| **Shares Outstanding** | |
| (unlimited number of $.001 par value shares of Beneficial Interest authorized) | 72,204,433 |
| **Net Asset Value,** offering and redemption price per share ($) | **3.49** |

*See notes to financial statements.*



## STATEMENT OF OPERATIONS

Six Months Ended September 30, 2011 (Unaudited)

| | |
|---|---|
| **Investment Income ($):** | |
| **Income:** | |
| Interest | 17,776,464 |
| Cash dividends: | |
| Unaffiliated issuers | 88,024 |
| Affiliated issuers | 3,052 |
| **Total Income** | **17,867,540** |
| **Expenses:** | |
| Management fee—Note 3(a) | 1,857,786 |
| Interest expense—Note 2 | 874,863 |
| Professional fees | 100,592 |
| Trustees' fees and expenses—Note 3(b) | 65,588 |

| | |
|---|---|
| Prospectus and shareholders' reports | 41,425 |
| Registration fees | 32,005 |
| Custodian fees—Note 3(a) | 22,950 |
| Shareholder servicing costs—Note 3(a) | 22,372 |
| Miscellaneous | 27,711 |
| **Total Expenses** | **3,045,292** |
| Less—reduction in management fee due to undertaking—Note 3(a) | (309,631) |
| **Net Expenses** | **2,735,661** |
| **Investment Income—Net** | **15,131,879** |
| **Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):** | |
| Net realized gain (loss) on investments and foreign currency transactions | 2,860,628 |
| Net realized gain (loss) on swap transactions | 22,796 |
| Net realized gain (loss) on forward foreign currency exchange contracts | (36,598) |
| **Net Realized Gain (Loss)** | **2,846,826** |
| Net unrealized appreciation (depreciation) on | |
| investments and foreign currency transactions | (54,882,238) |
| Net unrealized appreciation (depreciation) on swap transactions | 73,934 |
| Net unrealized appreciation (depreciation) on | |
| forward foreign currency exchange contracts | 78,178 |
| **Net Unrealized Appreciation (Depreciation)** | **(54,730,126)** |
| **Net Realized and Unrealized Gain (Loss) on Investments** | **(51,883,300)** |
| **Net (Decrease) in Net Assets Resulting from Operations** | **(36,751,421)** |

*See notes to financial statements.*



## STATEMENT OF CASH FLOWS

Six Months Ended September 30, 2011 (Unaudited)

| | | |
|---|---|---|
| **Cash Flows from Operating Activities ($):** | | |
| Purchases of portfolio securities | (124,265,420) | |
| Proceeds from sales of portfolio securities | 128,631,192 | |
| Net sale of short-term portfolio securities | 1,831,366 | |
| Interest received | 17,560,953 | |
| Dividends received | 91,369 | |
| Interest and loan fees paid | (889,420) | |
| Net proceeds from swap transactions | (825,767) | |
| Operating expenses paid | (356,106) | |

| | | |
|---|---|---|
| Paid to The Dreyfus Corporation | (1,585,894) | |
| Realized loss from foreign exchange contracts transactions | (36,598) | |
| | | **20,155,675** |
| **Cash Flows from Financing Activities ($):** | | |
| Dividends paid | (20,652,345) | |
| | | **(20,652,345)** |
| Net Decrease in cash | | **(496,670)** |
| Cash at beginning of period | | 404,477 |
| **Cash and cash denominated in foreign currencies at end of period** | | **(92,193)** |
| **Reconciliation of Net Decrease in Net Assets Resulting from** | | |
| **Operations to Net Cash Provided by Operating Activities ($):** | | |
| Net Decrease in Net Assets Resulting from Operations | | (36,751,421) |
| **Adjustments to reconcile net decrease in net assets resulting** | | |
| **from operations to net cash used by operating activities ($):** | | |
| Purchases of portfolio securities | | (124,265,420) |
| Proceeds from sales of portfolio securities | | 128,631,192 |
| Net sale of short-term securities | | 1,831,366 |
| Increase in interest receivable | | (80,573) |
| Decrease in interest and loan fees payable | | (14,557) |
| Proceeds from swap transactions | | (825,767) |
| Increase in accrued operating expenses | | 8,535 |
| Decrease in Due to The Dreyfus Corporation and affiliates | | (37,740) |
| Increase in prepaid expenses | | (51,997) |
| Net realized gain on investments and foreign currency transactions | | (2,846,826) |
| Net unrealized depreciation on investments | | |
| and foreign currency transactions | | 54,730,126 |
| Decrease in dividends receivable | | 293 |
| Net amortization of premiums on investments | | (134,938) |
| Realized loss from foreign exchange contracts transactions | | (36,598) |
| **Net Cash Provided by Operating Activities** | | **20,155,675** |

*See notes to financial statements.*



## STATEMENT OF CHANGES IN NET ASSETS

| | Six Months Ended September 30, 2011 | Year Ended |
|---|---|---|

| | (Unaudited) | March 31, 2011 |
|---|---|---|
| **Operations ($):** | | |
| Investment income—net | 15,131,879 | 33,883,031 |
| Net realized gain (loss) on investments | 2,846,826 | 6,729,943 |
| Net unrealized appreciation | | |
| (depreciation) on investments | (54,730,126) | 8,643,137 |
| **Net Increase (Decrease) in Net Assets** | | |
| **Resulting from Operations** | **(36,751,421)** | **49,256,111** |
| **Dividends to Shareholders from ($):** | | |
| **Investment income—net** | **(18,598,215)** | **(37,027,308)** |
| **Beneficial Interest Transactions ($):** | | |
| **Dividends reinvested—Note 1(e)** | **1,040,564** | **1,984,779** |
| **Total Increase (Decrease) in Net Assets** | **(54,309,072)** | **14,213,582** |
| **Net Assets ($):** | | |
| Beginning of Period | 306,174,652 | 291,961,070 |
| **End of Period** | **251,865,580** | **306,174,652** |
| Undistributed investment income—net | 5,874,136 | 9,340,472 |
| **Capital Share Transactions (Shares):** | | |
| **Shares issued for dividends reinvested** | **234,786** | **472,563** |

*See notes to financial statements.*



## FINANCIAL HIGHLIGHTS

The following table describes the performance for the fiscal periods indicated. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions.These figures have been derived from the fund's financial statements and market price data for the fund's shares.

| | Six Months Ended September 30, 2011 (Unaudited) | Year Ended March 31, 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Per Share Data ($):** | | | | | | |
| Net asset value, | | | | | | |
| beginning of period | 4.25 | 4.08 | 2.90 | 4.09 | 4.72 | 4.60 |
| Investment Operations: | | | | | | |
| Investment income—net[a] | .21 | .47 | .44 | .38 | .34 | .33 |
| Net realized and unrealized | | | | | | |
| gain (loss) on investments | (.71) | .22 | 1.13 | (1.22) | (.63) | .17 |
| Total from Investment Operations | (.50) | .69 | 1.57 | (.84) | (.29) | .50 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Distributions: | | | | | | |
| Dividends from | | | | | | |
| investment income—net | (.26) | (.52) | (.39) | (.35) | (.34) | (.38) |
| Net asset value, end of period | 3.49 | 4.25 | 4.08 | 2.90 | 4.09 | 4.72 |
| Market value, end of period | 4.26 | 4.67 | 4.34 | 2.45 | 3.47 | 4.29 |
| **Total Return (%)**[b] | (3.33)[c] | 21.45 | 97.45 | (20.03) | (11.75) | 15.99 |
| **Ratios/Supplemental Data (%):** | | | | | | |
| Ratio of total expenses, exclusive of | | | | | | |
| interest, to average net assets | 1.48[d] | 1.57 | 1.71 | 1.51 | 1.60 | 1.64 |
| Ratio of net expenses, exclusive of | | | | | | |
| interest, to average net assets | 1.27[d] | 1.33 | 1.36 | 1.10 | 1.18 | 1.20 |
| Ratio of interest expense | | | | | | |
| to average net assets | .60[d] | .67 | 1.08 | 1.61 | 2.34 | 2.61 |
| Ratio of net investment income | | | | | | |
| to average net assets | 10.33[d] | 11.60 | 11.93 | 10.96 | 7.64 | 7.14 |
| Portfolio Turnover Rate | 30.41[c] | 65.63 | 82.02 | 48.80 | 49.38 | 41.02 |
| Net Assets, end of period | | | | | | |
| ($ x 1,000) | 251,866 | 306,175 | 291,961 | 207,446 | 292,500 | 337,575 |
| Average borrowings | | | | | | |
| outstanding ($ x 1,000) | 120,000 | 118,677 | 111,334 | 94,866 | 129,549 | 149,351 |
| Weighted average number of | | | | | | |
| fund shares outstanding | | | | | | |
| ($ x 1,000) | 72,098 | 71,772 | 71,488 | 71,487 | 71,487 | 71,487 |
| Average amount of | | | | | | |
| debt per share ($) | 1.66 | 1.65 | 1.56 | 1.33 | 1.81 | 2.09 |

*a* *Based on average shares outstanding at each month end.*

*b* *Calculated based on market value.*

*c* *Not annualized.*

*d* *Annualized.*

*See notes to financial statements.*



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## NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1—Significant Accounting Policies:

Dreyfus High Yield Strategies Fund (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a non-diversified, closed-end management investment company. The fund’s primary investment objective is to seek high current income. Under normal market conditions, the fund invests at least 65% of its total assets in income securities of U.S. issuers rated below investment grade quality or unrated income securities that The Dreyfus Corporation (the “Manager” or “Dreyfus”), a wholly-owned subsidiary of The Bank of New York Mellon Corporation (“BNY Mellon”), serving as the fund’s investment manager and administrator, determines to be of comparable quality.

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) is the exclusive reference of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund’s financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions.Actual results could differ from those estimates.

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value.This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether



such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund’s investments relating to fair value measurements.These inputs are summarized in the three broad levels listed below:

**Level 1**—unadjusted quoted prices in active markets for identical investments.

**Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—significant unobservable inputs (including the fund’s own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund’s investments are as follows:

Registered investment companies that are not traded on an exchange are valued at their net asset value and are categorized within Level 1 of the fair value hierarchy.

Investments in securities excluding short-term investments (other than U.S.Treasury Bills), swaps and forward foreign currency exchange contracts (“forward contracts”) are valued each business day by an independent pricing service (the “Service”) approved by the Board of Trustees. Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are valued as determined by the Service, based on methods which include consideration of: yields or prices of securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions.These securities are generally categorized within Level 2 of the fair value hierarchy.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board of Trustees. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized as Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

Investments in swap transactions are valued each business day by a pricing service approved by the Board of Trustees. Swaps are valued by the service by using a swap pricing model which incorporates among other factors, default probabilities, recovery rates, credit curves of the underlying issuer and swap spreads on interest rates. These securities are generally categorized within Level 2 of the fair value hierarchy. Investments denominated in foreign currencies are translated to U.S. dollars at the prevailing rates of exchange. Forward contracts are valued at the forward rate. These securities are generally categorized within Level 2 of the fair value hierarchy.



The following is a summary of the inputs used as of September 30, 2011 in valuing the fund's investments:

| | Level 1— Unadjusted Quoted Prices | Level 2—Other Significant Observable Inputs | Level 3— Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| **Assets ($)** | | | | |
| Investments in Securities: | | | | |
| Corporate Bonds† | — | 359,849,069 | — | **359,849,069** |
| Equity Securities— Domestic† | — | 1,801,969 | — | **1,801,969** |
| Mutual Funds | 721,000 | — | — | **721,000** |
| Other Financial Instruments: | | | | |
| Forward Foreign Currency Exchange Contracts†† | — | 92,394 | — | **92,394** |
| **Liabilities ($)** | | | | |
| Other Financial Instruments: | | | | |
| Forward Foreign Currency Exchange Contracts†† | — | (14,795) | — | **(14,795)** |

† *See Statement of Investments for additional detailed categorizations.*

†† *Amount shown represents unrealized appreciation (depreciation) at period end.*

In May 2011, FASB issued Accounting Standards Update ("ASU") No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards ("IFRS")" ("ASU 2011-04"). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value mea-





surement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04 and its impact on the financial statements.

**(b) Foreign currency transactions:** The fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized on securities transactions between trade and settlement date, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments resulting from changes in exchange rates. Foreign currency gains and losses on investments are included with net realized and unrealized gain or loss on investments.

**(c) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

**(d) Affiliated issuers:** Investments in other investment companies advised by Dreyfus are defined as "affiliated" in the Act.



The fund may invest in shares of certain affiliated investment companies also advised or managed by Dreyfus. Investments in affiliated investment companies for the period ended September 30, 2011 were as follows:

| Affiliated Investment Company | Value 3/31/2011 ($) | Purchases ($) | Sales ($) | Value 9/30/2011 ($) | Net Assets (%) |
|---|---|---|---|---|---|
| Dreyfus Institutional Preferred Plus Money | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Market Fund | 1,592,000 | 80,392,000 | 81,263,000 | 721,000 | .3 |

**(e) Dividends to shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net are declared and paid monthly. Dividends from net realized capital gains, if any, are normally declared and paid annually, but the fund distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code").To the extent that net realized capital gains could be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

For shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) based on the record date's respective prices. If the net asset value per share on the record date is lower than the market price per share, shares will be issued by the fund at the record date's net asset value on the payable date of the distribution. If the net asset value per share is less than 95% of the market value, shares will be issued by the fund at 95% of the market value. If the market price is lower than the net asset value per share on the record date, BNY Mellon Shareowner Services, an affiliate of the Manager, will purchase fund shares in the open market commencing on the payable



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date and reinvest those shares accordingly. As a result of purchasing fund shares in the open market, fund shares outstanding will not be affected by this form of reinvestment.

On September 29, 2011, the Board of Trustees declared a cash dividend of $0.043 per share from investment income-net, payable on October 28, 2011 to shareholders of record as of the close of business on October 14, 2011.The ex-dividend date is October 12, 2011.

**(f) Concentration of risk:** The fund invests primarily in debt securities. Failure of an issuer of the debt securities to make timely interest or principal payments, or a decline or the perception of a decline in the credit quality of a debt security, can cause the debt security's price to fall, potentially lowering the fund's share price. High yield ("junk") bonds involve greater credit risk, including the risk of default, than investment grade bonds, and are considered predominantly speculative with respect to the issuer's continuing ability to make principal and interest payments. In addition, the value of a security may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment. They may also decline because of factors that affect a particular industry.

The fund is permitted to invest up to 5% of its assets directly in the common stock of junk bond issuers.This percentage will be in addition to any other common stock holdings acquired as part of warrants or "units", so that the fund's total common stock holdings could exceed 5% at a particular time. However, the fund currently intends to invest directly in common stocks (including those offered in an initial public offering) to gain sector exposure and when suitable junk bonds are not available for sale.The fund expects to sell the common stock promptly when suitable junk bonds are subsequently acquired.

**(g) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, if such qualification is in the best interests of its shareholders, by complying with the applicable pro-



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visions of the Code, and to make distributions of taxable income sufficient to relieve it from substantially all federal income and excise taxes.

As of and during the period ended September 30, 2011, the fund did not have any liabilities for any uncertain tax positions.The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the three-year period ended March 31, 2011 remains subject to examination by the Internal Revenue Service and state taxing authorities.

The fund has an unused capital loss carryover of $143,467,060 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to March 31, 2011. If not applied, $56,969,403 of the carryover expires in fiscal 2012, $19,946,264 expires in fiscal 2014, $8,379,964 expires in fiscal 2016, $24,707,290 expires in fiscal 2017 and $33,464,139 expires in fiscal 2018. It is uncertain that the fund will be able to utilize most of its capital loss carryovers prior to its expiration date.

Under the recently enacted Regulated Investment Company Modernization Act of 2010 (the “2010 Act”), the fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 (“post-enactment losses”) for an unlimited period. However, the 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act. As a result of this ordering rule, capital loss carryovers related to taxable years beginning prior to the effective date of the 2010 Act may be more likely to expire unused.

The tax character of distributions paid to shareholders during the fiscal year ended March 31, 2011 was as follows: ordinary income $37,027,308. The tax character of current year distributions will be determined at the end of the current fiscal year.





## NOTE 2—Borrowings:

The fund has a $125,000,000 Revolving Credit and Security Agreement (the “Agreement”), which was renewed until November 12, 2012, subject to certain amendments. Under the terms of the Agreement, the fund may borrow “Advances” (including Eurodollar Advances), on a collateralized basis with certain fund assets used as collateral which amounted to $280,253,911 as of September 30, 2011.The yield to be paid by the fund on such Advances is determined with reference to the principal amount of each Advance (and/or Eurodollar Advance) outstanding from time to time. During the period ended September 30, 2011, $305,000 and $413,021, respectively, were applicable to the Program fee and Liquidity fee and the remaining balance of $156,842 was due to interest payable on the loan.

The average amount of borrowings outstanding under the Agreement during the period ended September 30, 2011 was $120,000,000, with a related weighted average annualized interest rate of .26%.

## NOTE 3—Management Fee and Other Transactions with Affiliates:

**(a)** Pursuant to a management and administration agreement with the Manager, the management and administration fee is computed at the annual rate of .90% of the value of the fund’s average weekly total assets minus the sum of accrued liabilities (other than the aggregate indebtedness constituting financial leverage) (the “Managed Assets”) and is payable monthly.

The Manager has agreed to waive receipt of a portion of the fund’s management and administration fee in the amount of .15% of the Managed Assets until March 31, 2012.The reduction in management fee, pursuant to the undertaking, amounted to $309,631 during the period ended September 30, 2011.

The fund compensates BNY Mellon Shareowner Services, an affiliate of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund.



During the period ended September 30, 2011, the fund was charged $6,119 pursuant to the transfer agency agreement, which is included in Shareholder servicing costs in the Statement of Operations.

The fund has an arrangement with the custodian bank whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

The fund compensates The Bank of NewYork Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, under a custody agreement for providing custodial services for the fund. During the period ended September 30, 2011, the fund was charged $22,950 pursuant to the custody agreement.

During the period ended September 30, 2011, the fund was charged $2,981 for services performed by the Chief Compliance Officer.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees $285,294, custodian fees $17,075, chief compliance officer fees $3,750 and certain transfer agency fees $1,015, which are offset against an expense reimbursement currently in effect in the amount of $47,549.

**(b)** Each Trustee who is not an "interested person" (as defined in the Act) receives $15,000 per annum plus $1,000 per joint Board meeting attended, $2,500 for separate in-person committee meetings attended which are not held in conjunction with a regularly scheduled Board meeting and $1,000 for Board meetings and separate committee meetings attended that are conducted by telephone.The fund also reimburses each Trustee who is not an "interested person" of the Trust (as defined in the Act) for travel and out-of-pocket expenses. In the event that there is an in-person joint committee meeting or a joint telephone meeting ofThe Dreyfus/Laurel Funds, Inc.,The Dreyfus/Laurel FundsTrust,The Dreyfus/Laurel Tax-Free Municipal Funds, Dreyfus Investment Funds,





Dreyfus Funds, Inc. (the "Board Group Open-End Funds") and the fund, a $2,500 fee is allocated between the Board Group Open-End Funds and the fund.

Effective January 1, 2012, the fund and the Board Group Open-End Funds (collectively, the "Board Group Funds") will pay each Trustee their respective allocated portions of an annual retainer of $85,000 and a fee of $10,000 for each regularly scheduled Board meeting attended ($75,000 and $8,000, respectively, in the aggregate, prior to January 1, 2012).With respect to the annual retainer and Board meetings of the Board Group Funds, the Chair of the Board will receive an additional 25% of such compensation (with the exception of reimbursable amounts). Each Trustee will receive $2,500 for any separate in-person committee meetings attended, which are not held in conjunction with a regularly scheduled Board meeting, such amount to be allocated among the Board Group Funds, as applicable. In the event that there is a joint telephone meeting of the Board Group Funds, a fee of $2,000 will be allocated among the applicable Board Group Funds, accordingly (prior to January 1, 2012, the fee to be allocated was $2,500 if the meeting included the fund).The Chair of each of the board's committees, unless the Chair also serves as Chair of the Board, will receive $1,500 per applicable committee meeting. Each Emeritus Trustee is entitled to receive an annual retainer of one-half the amount paid as a retainer at the time the Trustee became Emeritus and a per meeting attended fee of one-half the amount paid to Trustees.The Board Group Funds also reimburse each Independent Trustee and Emeritus Trustees for travel and out-of-pocket expenses.

## NOTE 4—Securities Transactions:

The aggregate amount of purchases and sales (including paydowns) of investment securities, excluding short-term securities, forward contracts and swap transactions, during the period ended September 30, 2011, amounted to $121,341,213 and $123,399,120, respectively.

The following tables show the fund's exposure to different types of market risk as it relates to the Statement of Assets and Liabilities and the Statement of Operations, respectively.



Fair value of derivative instruments as of September 30, 2011 is shown below:

| | Derivative Assets ($) | | Derivative Liabilities ($) |
|---|---|---|---|
| Foreign exchange risk[1] | 92,394 | Foreign exchange risk[2] | (14,795) |
| **Gross fair value of derivatives contracts** | **92,394** | | **(14,795)** |

Statement of Assets and Liabilities location:

1 *Unrealized appreciation on forward foreign currency exchange contracts.*

2 *Unrealized depreciation on forward foreign currency exchange contracts.*

The effect of derivative instruments in the Statement of Operations during the period ended September 30, 2011 is shown below:

| | Amount of realized gain or (loss) on derivatives recognized in income ($) | | |
|---|---|---|---|
| Underlying risk | Forward Contracts[3] | Swaps[4] | Total |
| Foreign exchange | (36,598) | — | **(36,598)** |
| Credit | — | 22,796 | **22,796** |
| **Total** | **(36,598)** | **22,796** | **(13,802)** |

| | Change in unrealized appreciation or (depreciation) on derivatives recognized in income ($) | | |
|---|---|---|---|
| Underlying risk | Forward Contracts[5] | Swaps[6] | Total |
| Foreign exchange | 78,178 | — | **78,178** |
| Credit | — | 73,934 | **73,934** |
| **Total** | **78,178** | **73,934** | **152,112** |

Statement of Operations location:

3 *Net realized gain (loss) on forward foreign currency exchange contracts.*

4 *Net realized gain (loss) on swap transactions.*

5 *Net unrealized appreciation (depreciation) on forward foreign currency exchange contracts.*

6 *Net unrealized appreciation (depreciation) on swap transactions.*

**Forward Foreign Currency Exchange Contracts:** The fund enters into forward contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings, to settle foreign currency transactions or as a part of its investment strategy. When executing forward contracts, the fund is obligated to buy or sell a foreign currency at a specified rate on a certain date in the future. With respect to sales of forward contracts, the fund incurs a loss if the





value of the contract increases between the date the forward contract is opened and the date the forward contract is closed.The fund realizes a gain if the value of the contract decreases between those dates. With respect to purchases of forward contracts, the fund incurs a loss if the value of the contract decreases between the date the forward contract is opened and the date the forward contract is closed.The fund realizes a gain if the value of the contract increases between those dates. Any realized gain or loss which occurred during the period is reflected in the Statement of Operations.The fund is exposed to foreign currency risk as a result of changes in value of underlying financial instruments. The fund is also exposed to credit risk associated with counterparty nonperformance on these forward contracts, which is typically limited to the unrealized gain on each open contract.The following summarizes open forward contracts at September 30, 2011:

| Forward Foreign Currency Exchange Contracts | Foreign Currency Amounts | Proceeds ($) | Value ($) | Unrealized Appreciation (Depreciation) ($) |
|---|---|---|---|---|
| **Sales:** | | | | |
| British Pound, Expiring 10/27/2011 | 640,000 | 982,944 | 997,739 | (14,795) |
| Euro, Expiring 10/27/2011 | 140,000 | 191,408 | 187,526 | 3,882 |
| Euro, Expiring 10/27/2011 | 1,280,000 | 1,763,622 | 1,714,520 | 49,102 |
| Euro, Expiring 10/27/2011 | 840,000 | 1,157,108 | 1,125,154 | 31,954 |
| Euro, Expiring 10/27/2011 | 1,050,000 | 1,413,898 | 1,406,442 | 7,456 |
| **Gross Unrealized Appreciation** | | | | **92,394** |
| **Gross Unrealized Depreciation** | | | | **(14,795)** |

**Swaps:** The fund enters into swap agreements to exchange the interest rate on, or return generated by, one nominal instrument for the return generated by another nominal instrument.The fund enters into these agreements to hedge certain market or interest rate risks, to manage the interest rate sensitivity (sometimes called duration) of fixed income securities, to provide a substitute for purchasing or selling particular securities or to increase potential returns.

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The fund accrues for the interim payments on swap contracts on a daily basis, with the net amount recorded within unrealized appreciation (depreciation) on swap contracts in the Statement of Assets and Liabilities. Once the interim payments are settled in cash, the net amount is recorded as realized gain (loss) on swaps, in addition to realized gain (loss) recorded upon the termination of swap contracts in the Statement of Operations. Upfront payments made and/or received by the fund, are recorded as an asset and/or liability in the Statement of Assets and Liabilities and are recorded as a realized gain or loss ratably over the contract's term/event with the exception of forward starting interest rate swaps which are recorded as realized gains or losses on the termination date. Fluctuations in the value of swap contracts are recorded for financial statement purposes as unrealized appreciation or depreciation on swap transactions.

**Credit Default Swaps:** Credit default swaps involve commitments to pay a fixed interest rate in exchange for payment if a credit event affecting a third party (the referenced company, obligation or index) occurs. Credit events may include a failure to pay interest or principal, bankruptcy, or restructuring.The fund enters into these agreements to manage its exposure to the market or certain sectors of the market, to reduce its risk exposure to defaults of corporate and sovereign issuers, or to create exposure to corporate or sovereign issuers to which it is not otherwise exposed. For those credit default swaps in which the fund is paying a fixed rate, the fund is buying credit protection on the instrument. In the event of a credit event, the fund would receive the full notional amount for the reference obligation. For those credit default swaps in which the fund is receiving a fixed rate, the fund is selling credit protection on the underlying instrument. The maximum payouts for these contracts are limited to the notional amount of each swap. Credit default swaps may involve greater risks than if the fund had invested in the reference obligation directly and are subject to general market risk, liquidity risk, counterparty risk and credit risk.At September 30, 2011, there were no credit default swap agreements outstanding.

NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

The following summarizes the average market value of derivatives outstanding during the period ended September 30, 2011:

| | Average Market Value ($) |
|---|---|
| Forward contracts | 891,583 |

The following summarizes the average notional value of swap contracts outstanding during the period ended September 30, 2011:

| | Average Notional Value ($) |
|---|---|
| Credit default swap contracts | 13,728,571 |

At September 30, 2011, accumulated net unrealized depreciation on investments was $28,628,103, consisting of $4,608,718 gross unrealized appreciation and $33,236,821 gross unrealized depreciation.

At September 30, 2011, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

### Subsequent Event—Note 5

Effective October 27, 2011, the Nominating Committee of the Board ofTrustees nominated, and the Board ofTrustees approved the election of, Francine J. Bovich as a Class I Trustee of the Trust.



## PROXY RESULTS (Unaudited)

Holders of Beneficial interest voted on the following proposal presented at the annual shareholders' meeting held on August 4, 2011 as follows:

| | Shares | |
|---|---|---|
| | For | Authority Withheld |
| To elect two Class III Trustees:† | | |
| Joseph S. Dimartino | 62,971,635 | 1,599,021 |
| Kenneth A. Himmel | 62,453,144 | 2,117,512 |

† *The terms of these Class III Trustees expire in 2014.*

## SUPPLEMENTAL INFORMATION (Unaudited)

**Certifications**

On August 10, 2011, the fund's Chief Executive Officer submitted his annual certification to the NewYork Stock Exchange ("NYSE") pursuant to Section 303A.12(a) of the NYSE Listed Company Manual. The fund's principal executive and principal financial officer certification pursuant to Rule 30a-2 under the 1940 Act are filed with the fund's Form N-CSR and Form N-Q filings and are available on the SEC website at http://www.sec.gov.

**Portfolio Holdings**

The fund will disclose its complete schedule of portfolio holdings, as reported on a month-end basis, at www.dreyfus.com, under Mutual Fund Center – Dreyfus Mutual Funds – Mutual Fund Total Holdings. The information will be posted with a one-month lag and will remain accessible until the fund files a report on Form N-Q or Form N-CSR for the period that includes the date as of which the information was current. In addition, fifteen days following the end of each calendar quarter, the fund will publicly disclose at www.dreyfus.com its complete schedule of portfolio holdings as of the end of such quarter.



## OFFICERS AND TRUSTEES

Dreyfus High Yield Strategies Fund

200 Park Avenue

New York, NY 10166

† *Effective October 27, 2011, Ms. Bovich was elected as a Class I Trustee of the fund by the Board members of the fund who are not "interested persons" (as defined in the Act) of the fund.*

†† *Effective April 12, 2008, Mr. Fort became an Emeritus Board member.*

*The Net Asset Value appears in the following publications: Barron's, Closed-End Bond Funds section under the heading "Bond Funds" every Monday;Wall Street Journal, Mutual Funds section under the heading "Closed-End Bond Funds" every Monday.*

*Notice is hereby given in accordance with Section 23(c) of the Investment CompanyAct of 1940, as amended, that the fund may purchase shares of its common stock in the open market when it can do so at prices below the then current net asset value per share.*



# For More Information

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the most recent 12-month period ended June 30 is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-DREYFUS.

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**Item 2. Code of Ethics.**

Not applicable.

**Item 3. Audit Committee Financial Expert.**

Not applicable.

**Item 4. Principal Accountant Fees and Services.**

Not applicable.

**Item 5. Audit Committee of Listed Registrants.**

Not applicable.

**Item 6. Investments.**

(a) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Not applicable.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

Not applicable.

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.**

Not applicable.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no material changes to the procedures applicable to Item 10.

**Item 11. Controls and Procedures.**

(a) The Registrant's principal executive and principal financial officers have concluded, based on their evaluation of the Registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the Registrant's disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the required time periods and that information required to be disclosed by the Registrant in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Registrant's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes to the Registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**

(a)(1) Not applicable.

(a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940.

(a)(3) Not applicable.

(b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dreyfus High Yield Strategies Fund

By: /s/ Bradley J. Skapyak
Bradley J. Skapyak,

President

Date: November 22, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Bradley J. Skapyak
Bradley J. Skapyak,

President

Date: November 22, 2011

By: /s/ James Windels
James Windels,

Treasurer

Date: November 22, 2011

**EXHIBIT INDEX**

(a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940. (EX-99.CERT)

(b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940. (EX-99.906CERT)