

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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- 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):

- No fee required.
- 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:
- Fee paid previously with preliminary materials.
- 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.

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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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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 , expects and 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 companies 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	Class B Common Stock	Class C Common Stock
Beneficially Owned	Beneficially Owned	Beneficially Owned

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

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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.

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- (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

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3/27/06	6/17/05	3 & 4	Tom Smith	President & COO, MBS	Stock option grant	150,000 shares
3/27/06	6/17/05	4	Joseph Valley, Jr.	Director	Stock option grant	20,000 shares
3/31/06	6/17/05	4	Gerald McIntosh	Former Director	Stock option grant	10,000 shares
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	

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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

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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

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