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ORION HEALTHCORP INC
Form 10QSB
November 14, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

Commission File No. 001-16587

ORION HEALTHCORP, INC.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

58-1597246
(IRS EMPLOYER IDENTIFICATION NO.)

1805 Old Alabama Road
Suite 350, Roswell GA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

30076
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER: (678) 832-1800

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Class A Common Stock, \$0.001 par value per share	The American Stock Exchange

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

As of November 13, 2007, 105,504,032 shares of the registrant's Class A Common Stock, par value \$0.001, were outstanding and 24,658,955 shares of the registrant's Class D Common Stock, par value \$0.001, were outstanding.

Transitional Small Business Disclosure Format Yes No

ORION HEALTHCORP, INC.
Quarterly Report on Form 10-QSB
For the Quarterly Period Ended September 30, 2007

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The following text is qualified in its entirety by reference to the more detailed information and unaudited consolidated condensed financial statements, including the notes thereto, appearing elsewhere in this Quarterly Report on Form 10-QSB. Unless otherwise indicated, the terms "we," "us" and "our" refer to Orion HealthCorp, Inc. ("Orion" or the "Company") and its consolidated subsidiaries.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-QSB 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, (the "Exchange Act," and collectively, with the Securities Act, the "Acts") as amended by the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Any statements other than statements of historical fact included in this Quarterly Report on Form 10-QSB, including without limitation, statements under the caption "Management's Discussion and Analysis or Plan of Operation" regarding our financial position, business strategy and plans and objectives for future performance are deemed to be forward-looking statements. Forward-looking statements include statements preceded by, followed by or including the words "may," "will," "would," "could," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends" and similar expressions. In particular, these include statements relating to our future actions, future performance or results of current, anticipated services, expenses and financial results and any statements that are not statements of historical facts. From time to time, we may also provide oral or written forward-looking statements in other materials we release to the public. The forward-looking statements in this report are based on current beliefs, estimates and assumptions concerning our operations, future results, and prospects 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. Any number of factors could affect future operations, 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, increases in labor and employee benefit costs, increases in interest rates on our indebtedness as well as general market conditions, competition and pricing, and our ability to successfully implement our business strategies and integrate acquisitions, including the expense and impact of any potential acquisitions and the ability to obtain necessary approvals and financing. You are also advised to

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consult the risk factors set forth in Item 6. Management's Discussion and Analysis or Plan of Operations of our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission ("SEC") on April 2, 2007.

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information or future events. You are advised, however, to consult any further disclosures we make on related subjects in the quarterly, periodic and annual reports we file with the SEC. Other factors in addition to those described herein could also adversely affect operating or financial performance. Forward-looking statements are subject to the safe harbors created in the Reform Act.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Our unaudited consolidated condensed financial statements and related notes thereto are included as a separate section of this report, commencing on page F-1.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. All significant intercompany balances and transactions have been eliminated in consolidation. This discussion should be read in conjunction with our unaudited consolidated condensed financial statements and related notes thereto, which are included elsewhere in this Quarterly Report on Form 10-QSB.

Overview

We are a healthcare services organization providing outsourced business services to physicians, serving the physician market through two operating segments - Revenue Cycle Management and Practice Management - via five operating subsidiaries: Medical Billing Services, Inc. ("MBS"), Rand Medical Billing, Inc. ("Rand"), On Line Alternatives, Inc. ("OLA") and On Line Payroll Services, Inc. ("OLP") (collectively with OLA, "On Line"), and Integrated Physician Solutions, Inc. ("IPS"). Our mission is to provide superior billing, collections, practice management, business and financial management services for physicians, resulting in optimal profitability for our clients and increased enterprise value for our stakeholders. We believe our core competency is our long-term experience and success in working with and creating value for physicians.

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Revenue Cycle Management Segment ("RCM")

Our RCM segment includes three business units: MBS, Rand and On Line. We offer billing, collection, accounts receivable management, coding and reimbursement services, reimbursement analysis, practice consulting, managed care contract management and accounting and bookkeeping services, primarily to hospital-based physicians such as pathologists, anesthesiologists and radiologists, allowing them to avoid the infrastructure investment in their own back-office operations. In addition, we provide these services to other specialties including plastic surgery, family practice, internal medicine, orthopedics, neurologists, emergency medicine and ambulatory surgery centers. These services help clients to be financially successful by improving cash flows and reducing administrative costs and burdens. MBS currently provides services to approximately 59 clients. Rand currently provides services to approximately

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52 clients. On Line currently provides services to approximately 13 billing clients and 43 transcription clients and provides payroll processing services to over 200 clients.

Billing and Collection Services. We offer billing and collection services to our clients. These include coding, reimbursement services, charge entry, claim submission, collection activities, and financial reporting services, including:

- o Current Procedural Terminology ("CPT") and International Classification of Diseases ("ICD-9") utilization reviews;
- o Charge ticket (superbill) evaluations;
- o Fee schedule analyses;
- o Reimbursement audits; and o Training seminars.
- o Patient refund processing

Managed Care Contract Management Services. We offer consulting services to assist clients in interacting with managed care organizations. Some of the managed care consulting services are:

- o Establishing the actual ownership of the managed care organization and determining that the entity is financially sound;
- o Negotiating the type of reimbursement offered;
- o Assuring that there are no "withholds" beyond the discount agreed upon;
- o Determining patient responsibility for non-covered services, as well as co-pays and deductibles;
- o Tracking managed care payments to verify the accuracy of the reimbursement rate;
- o Evaluating the appeals process in case of disputes concerning payment issues, utilization review, and medical necessity; and
- o Confirming the length of the contract, the renewal process, and the termination options.

Practice Consulting Services. We offer a wide range of management consulting services to medical practices. These management services help create a more efficient medical practice, providing assistance with the business aspects associated with operating a medical practice. Our management consulting services include the following:

- o Accounting and bookkeeping services;
- o Evaluation of staffing needs;
- o Provision of temporary staff services;
- o Quality assurance program development;
- o Physician credentialing assistance;
- o Fee schedule review, specific to locality;
- o Formulation of scheduling systems; and
- o Training and continuing education programs.
- o Payroll processing

See Note 5 in our Notes to Unaudited Consolidated Condensed Financial Statements included in Part I, Item 1. Financial Statements for financial information regarding our RCM segment.

Practice Management ("PM") Segment

IPS, a Delaware corporation, was founded in 1996 to provide physician practice management services to general and subspecialty pediatric practices. IPS commenced its business activities upon consummation of the combination of several medical group businesses effective January 1, 1999.

IPS serves the general and subspecialty pediatric physician market,

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providing accounting and bookkeeping, human resource management, group purchasing, accounts receivable management, quality assurance services, physician credentialing, fee schedule review, training and continuing education and billing and reimbursement analysis. As of September 30, 2007, IPS managed six practice sites, representing three medical groups in Illinois and Ohio. The physicians, who are all employed by unrelated corporations, provide all clinical and patient care related services.

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IPS was party to a management services agreement ("the Illinois MSA") with Pediatric Specialists of the Northwest, M.D.S.C. ("PSNW"). IPS and PSNW were in arbitration regarding claims relating to the Illinois MSA. In connection therewith, on February 9, 2007, IPS and PSNW entered into a settlement agreement ("the PSNW Settlement") to settle disputes that had arisen between IPS and PSNW and to avoid the risk and expense of further litigation. As part of the PSNW Settlement, PSNW and IPS agreed that PSNW would purchase the assets owned by IPS and used in connection with PSNW's practice, in exchange for a negotiated cash consideration and termination of the Illinois MSA. The transaction contemplated by the PSNW Settlement was consummated on May 31, 2007. Among other provisions, after May 31, 2007, PSNW and IPS have been released from any further obligation to each other from any previous agreement. The operations of PSNW are reflected on our consolidated condensed statements of operations as `income from operations of discontinued components' for the three months and nine months ended September 30, 2007 and 2006, respectively. (See "Results of Operations - Discontinued Operations.")

The operations of Dayton Infant Care Specialists, Corp. ("Dayton ICS") are also reflected in our consolidated condensed statements of operations as `income from operations of discontinued components' for the three months and nine months ended September 30, 2007 and 2006, respectively. (See "Results of Operations - Discontinued Operations.")

There is a standard forty-year management service agreement ("MSA") between IPS and each of the various affiliated medical groups whereby a management fee is paid to IPS. IPS owns all of the assets used in the operation of the medical groups. IPS manages the day-to-day business operations of each medical group and provides the assets for the physicians to use in their practice for a fixed fee or percentage of the net operating income of the medical group. All revenues are collected by IPS, the fixed fee or percentage payment to IPS is taken from the net operating income of the medical group and the remainder of the net operating income of the medical group is paid to the physicians and treated as an expense on IPS's financial statements as "physician group distribution."

See Note 5 in our Notes to Unaudited Consolidated Condensed Financial Statements included in Part I, Item 1. Financial Statements for financial information regarding the continuing operations of our PM segment.

Company History and Strategic Focus

Orion was incorporated in Delaware on February 24, 1984 as Technical Coatings, Incorporated. On December 15, 2004, we completed a series of transactions to acquire IPS (the "IPS Merger") and to acquire Dennis Cain Physician Solutions, Ltd. ("DCPS") and MBS (the "DCPS/MBS Merger") (collectively, the "2004 Mergers"). As a result of these transactions, IPS and MBS became our wholly owned subsidiaries. On December 15, 2004, and simultaneous with the consummation of the 2004 Mergers, we changed our name from SurgiCare, Inc. to Orion HealthCorp, Inc. and consummated restructuring transactions, which included issuances of new equity securities for cash, contribution of

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outstanding debt, and the restructuring of our debt facilities. We also created Class B Common Stock and Class C Common Stock, which were issued in connection with the equity investments and acquisitions.

In 2005, we initiated a strategic plan designed to accelerate our growth and enhance our future earnings potential. The plan focuses on our strengths, which include providing billing, collections and complementary business management services to physician practices. As part of this plan, we completed a series of transactions involving the divestiture of non-strategic assets in 2005 and early 2006. In addition, we redirected financial resources and company personnel to areas that management believed would enhance long-term growth potential. We believe that we are positioned to focus on our physician services business and the physician billing and collections market, leveraging our existing presence to expand into additional geographic regions and increase the range of services we provide to physicians. A key component of this strategy includes acquiring financially successful billing companies focused on providing services to hospital-based physicians and increasing sales and marketing efforts in existing markets.

On December 1, 2006 we completed the acquisition of Rand and the On Line businesses. We acquired all of the issued and outstanding capital stock of Rand for an aggregate purchase price of \$9,365,333, subject to adjustments conditioned upon future revenue results. The purchase price was paid through a combination of cash, the issuance of an unsecured subordinated promissory note and the issuance of shares of our Class A Common Stock. We acquired all of the issued and outstanding capital stock of both OLA and OLP for an aggregate purchase price of \$3,310,924, subject to adjustments conditioned upon future revenue results. The purchase price was paid through a combination of cash and the issuance of unsecured subordinated promissory notes.

These acquisitions were financed in part through the proceeds of a private placement that was also completed on December 1, 2006 (the "Private Placement"). The Private Placement consisted of our issuance of (i) shares of a newly created class of our common stock, Class D Common Stock, par value \$0.001 per share (the "Class D Common Stock"), which is convertible into our Class A Common Stock, to each of Phoenix Life Insurance Company ("Phoenix") and Brantley Partners IV, L.P. ("Brantley IV") for an aggregate purchase price of \$4,650,000 and (ii) senior unsecured subordinated promissory notes due 2011 in the original principal amount of \$3,350,000, bearing interest at an aggregate rate of 14% per annum, together with warrants to purchase shares of our Class A Common Stock, to Phoenix for an aggregate purchase price of \$3,350,000.

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Our senior unsecured subordinated promissory notes bear interest at the combined rate of (i) 12% per annum payable in cash on a quarterly basis and (ii) 2% per annum payable in kind (meaning that the accrued interest will be capitalized as principal) on a quarterly basis, subject to our right to pay such amount in cash. The notes are unsecured and subordinated to all of our other senior debt. Upon the occurrence and during the continuance of an event of default the interest rate on the cash portion of the interest shall increase from 12% per annum to 14% per annum, for a combined rate of default interest of 16% per annum. We may prepay outstanding principal (together with accrued interest) on the notes subject to certain prepayment penalties and we are required to prepay outstanding principal (together with accrued interest) on the notes upon the occurrence of certain specified circumstances.

As a condition to the Private Placement, on December 1, 2006, we refinanced our existing loan facility with CIT Healthcare, LLC ("CIT") into a four year \$16,500,000 senior secured credit facility with Wells Fargo Foothill,

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Inc. ("Wells Fargo") consisting of a \$2,000,000 revolving loan commitment, a \$4,500,000 term loan and a \$10,000,000 acquisition facility commitment. Amounts borrowed under this facility are secured by substantially all of our assets and a pledge of the capital stock of our operating subsidiaries. Under the terms of the credit agreement (the "Credit Agreement") relating to this facility, amounts borrowed bear interest at either a fluctuating rate based on the prime rate or LIBOR rate, at our election. Currently, our interest rate on the revolving loan commitment and the term loan is the prime rate plus 1.75%. In addition to refinancing our existing loan facility, a portion of the proceeds from this facility were used to fund our acquisitions of Rand and On Line and to finance our ongoing working capital, capital expenditure and general corporate needs. Upon repayment of the CIT loan facility, two of our stockholders, Brantley IV and Brantley Capital Corporation ("Brantley Capital") were released from guarantees that they had provided on our behalf in connection with the loan facility.

Also on December 1, 2006 in connection with the consummation of the Private Placement and the execution of the Credit Agreement, the following actions were taken:

- o We amended our certificate of incorporation to create the Class D Common Stock and eliminate both the Class B Common Stock and Class C Common Stock;
- o We purchased and retired all 1,722,983 shares of our Class B Common Stock owned by Brantley Capital for an aggregate purchase price of \$482,435;
- o Brantley IV converted the entire unpaid principal balance, and accrued but unpaid interest, of two convertible subordinated promissory notes in the original aggregate amount of \$1,250,000 (the "Brantley IV Notes") into 1,383,825 shares of our Class A Common Stock;
- o All of our remaining holders of Class B Common Stock and Class C Common Stock converted their shares into 87,761,969 shares of our Class A Common Stock;
- o We extended the maturity date and increased the interest rate on certain unsecured subordinated promissory notes totaling in the aggregate \$1,714,336 (the "DCPS/MBS Notes") issued to certain of the former equity holders of the businesses we acquired in 2004 as part of the DCPS/MBS Merger, including two of our executive officers, Dennis Cain, CEO of MBS, and Tommy Smith, President and COO of MBS; and
- o We restructured certain unsecured notes issued to DVI Financial Services, Inc. ("DVI") and serviced by U.S. Bank Portfolio Services ("USBPS") to reduce the outstanding balance from \$3,750,000 to \$2,750,000.

As of September 30, 2007, Brantley IV and its affiliates, Brantley Venture Partners III, L.P. ("Brantley III") and Brantley Equity Partners, L.P. ("BEP"), owned 66,629,515 shares of our Class A Common Stock, warrants to purchase 20,455 shares of our Class A Common Stock and 8,749,952 shares of our Class D Common Stock which are currently convertible into 8,749,952 shares of our Class A Common Stock. As of September 30, 2007, this represented 55.1% of our voting power on an as-converted, fully-diluted basis. As of December 1, 2006, we qualified as a "controlled company" under the listing rules of the American Stock Exchange ("AMEX"). Two of our directors, Paul H. Cascio and Robert P. Pinkas, are affiliated with Brantley IV and its related entities. Messrs. Cascio and Pinkas serve as general partners of the general partner of Brantley III and Brantley IV and are limited partners in these funds. The advisor to Brantley III is Brantley Venture Management III, L.P. and the advisor to Brantley IV is Brantley Management IV, L.P. Messrs. Cascio and Pinkas also serve as advisors to BEP.

Phoenix is a limited partner in Brantley IV and Brantley Partners V, L.P and has also co-invested with Brantley IV and its affiliates in a number of

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transactions. Prior to the closing of the Private Placement, Phoenix did not own, of record, any shares of our capital stock. As part of the Private Placement, Phoenix received (i) 15,909,003 shares of Class D Common Stock, representing upon conversion 15,909,003 shares, or 11.7%, of our outstanding Class A Common Stock as of September 30, 2007, on an as-converted, fully-diluted basis taking into account the issuance of the shares of Class D Common Stock and (ii) warrants to purchase 1,421,629 shares of our Class A Common Stock representing 1.0% of the voting power as of September 30, 2007 on an as-converted, fully-diluted basis.

Certain Recent Developments

On August 21, 2007, we entered into a first amendment to the Credit Agreement (the "First Amendment"), among Orion, its subsidiaries and Wells Fargo Foothill, Inc. The First Amendment increased the commitment under the revolver from \$2,000,000 to \$2,500,000 and revised certain of the financial covenants contained in the Credit Agreement. On September 24, 2007, we entered into a second amendment to the Credit Agreement (the "Second Amendment"), among Orion, its subsidiaries and Wells Fargo Foothill, Inc. The Second Amendment revised certain of the financial covenants contained in the Credit Agreement. A copy of the First Amendment is incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on August 22, 2007, and a copy of the Second Amendment is attached hereto as Exhibit 10.1.

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On September 19, 2007, a special committee of our board of directors approved a 1-for-2,500 reverse stock split of our Class A Common Stock, immediately followed by a 2,500-for-1 forward stock split of our Class A Common Stock (collectively, the "Split"). Stockholders with fewer than 2,500 shares pre-split will receive \$0.23 per share for each such share. We anticipate that as a result of the Split, our number of record holders of Class A Common Stock will be less than 300 and we would then file to deregister our shares of Class A Common Stock under the Securities Exchange Act of 1934. The Split would be effected by an amendment to our Third Amended and Restated Certificate of Incorporation (the "Amendment"). The Amendment requires approval of the majority of our Class A Common and Class D Common stockholders of record, voting as a single class. Our board of directors has now set a special meeting date on Thursday, November 29, 2007, at 8:00 a.m. local time, at 1805 Old Alabama Road, Roswell, Georgia 30076, or alternatively, at such later date, time and place to be determined by our management for the purpose of seeking such stockholder approval (the "Special Meeting"). Our board of directors has set a record date of October 1, 2007 for the purpose of determining stockholders entitled to notice of, and to vote at, the Special Meeting.

On September 21, 2007, we entered into a note purchase agreement (the "Second Note Purchase Agreement") with Phoenix, Brantley IV and Terrence L. Bauer ("Bauer"), providing for the issuance of our senior subordinated unsecured promissory notes in the aggregate principal amount of \$1,000,000 to be purchased by Phoenix in the amount of \$700,000, by Brantley IV in the amount of \$250,000 and by Bauer in the amount of \$50,000, each bearing interest at an aggregate rate of 14% per annum and due December 1, 2011. The Second Note Purchase Agreement was entered into to provide us with needed working capital and the necessary funds to effect the Split referred above. The closing of the Second Note Purchase Agreement is conditioned on no material adverse effect to us since June 30, 2007 and the consummation of the Split pursuant to the Amendment referred to above.

Financial Overview

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As more fully described below, our results of operations for the three months and nine months ended September 30, 2007 as compared to the same period in 2006 reflect several important factors, many related to the impact of the transactions which occurred as part of our strategic plan referred to above.

- o Changes in revenues, resulting from the reclassification of some of IPS's operations into discontinued operations as well as the inclusion of revenues for Rand and On Line in the first three quarters of 2007 as compared to no revenue in the same period in 2006;
- o Inclusion of legal expenses in the first quarter of 2007 related to IPS's discontinued operations;
- o Inclusion of expenses for Rand and On Line for the three and nine months ended September 30, 2007 as compared to no expenses in the first three quarters of 2006; and
- o We closed the transaction contemplated by the PSNW Settlement effective May 31, 2007, and recorded a gain on disposition of discontinued components of \$999,725 in the second quarter of 2007.

Critical Accounting Policies and Estimates

The preparation of our financial statements is in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Our management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. We believe the following critical accounting policies affect the most significant areas involving management's judgments and estimates. In addition, please refer to Note 1, General, of our unaudited consolidated condensed financial statements included beginning on Page F-1 of this Quarterly Report on Form 10-QSB for further discussion of our accounting policies.

Consolidation of Physician Practice Management Companies. In March 1998, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") issued its Consensus on Issue 97-2 ("EITF 97-2"). EITF 97-2 addresses the ability of physician practice management ("PPM") companies to consolidate the results of medical groups with which it has an existing contractual relationship. Specifically, EITF 97-2 provides guidance for consolidation where PPM companies can establish a controlling financial interest in a physician practice through contractual management arrangements. A controlling financial interest exists, if, for a requisite period of time, the PPM has "control" over the physician practice and has a "financial interest" that meets six specific requirements. The six requirements for a controlling financial interest include:

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- (a) the contractual arrangement between the PPM and physician practice (1) has a term that is either the entire remaining legal life of the physician practice or a period of 10 years or more, and (2) is not terminable by the physician practice except in the case of gross negligence, fraud, or other illegal acts by the PPM or bankruptcy of the PPM;
- (b) the PPM has exclusive authority over all decision making related to

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(1) ongoing, major, or central operations of the physician practice, except the dispensing of medical services, and (2) total practice compensation of the licensed medical professionals as well as the ability to establish and implement guidelines for the selection, hiring, and firing of them;

- (c) the PPM must have a significant financial interest in the physician practice that (1) is unilaterally saleable or transferable by the PPM and (2) provides the PPM with the right to receive income, both as ongoing fees and as proceeds from the sale of its interest in the physician practice, in an amount that fluctuates based upon the performance of the operations of the physician practice and the change in fair value thereof.

IPS is a PPM company. IPS's MSAs governing the contractual relationship with its affiliated medical groups are for forty year terms; are not terminable by the physician practice other than for bankruptcy or fraud; provide IPS with decision making authority other than related to the practice of medicine; provide for employment and non-compete agreements with the physicians governing compensation; provide IPS the right to assign, transfer or sell its interest in the physician practice and assign the rights of the MSAs; provide IPS with the right to receive a management fee based on results of operations and the right to the proceeds from a sale of the practice to an outside party or, at the end of the MSA term, to the physician group. Based on this analysis, IPS has determined that its contracts meet the criteria of EITF 97-2 for consolidating the results of operations of the affiliated medical groups and has adopted EITF 97-2 in its statement of operations. EITF 97-2 also has addressed the accounting method for future combinations with individual physician practices. IPS believes that, based on the criteria set forth in EITF 97-2, any future acquisitions of individual physician practices would be accounted for under the purchase method of accounting.

Revenue Recognition. MBS, Rand and OLA's principal source of revenues is fees charged to clients based on a percentage of net collections of the client's accounts receivable. They recognize revenue and bill their clients when the clients receive payment on those accounts receivable. Our RCM businesses typically receive payment from the client within 30 days of billing. The fees vary depending on specialty, size of practice, payer mix, and complexity of the billing. In addition to the collection fee revenue, MBS, Rand and OLA also earn fees from the various consulting services that they provide, including medical practice management services, managed care contracting, coding and reimbursement services and transcription services. OLP earns revenue based on a contracted rate per transaction and recognizes revenue when the service is provided.

IPS records revenue based on patient services provided by its affiliated medical groups. Net patient service revenue is impacted by billing rates, changes in current procedural terminology code reimbursement and collection trends. IPS reviews billing rates at each of its affiliated medical groups on at least an annual basis and adjusts those rates based on each insurer's current reimbursement practices. Amounts collected by IPS for treatment by its affiliated medical groups of patients covered by Medicare, Medicaid and other contractual reimbursement programs, which may be based on cost of services provided or predetermined rates, are generally less than the established billing rates of IPS's affiliated medical groups. IPS estimates the amount of these contractual allowances and records a reserve against accounts receivable based on historical collection percentages for each of the affiliated medical groups, which include various payer categories. When payments are received, the contractual adjustment is written off against the established reserve for contractual allowances. The historical collection percentages are adjusted quarterly based on actual payments received, with any differences charged against net revenue for the quarter. Additionally, IPS tracks cash collection percentages for each medical group on a monthly basis, setting

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quarterly and annual goals for cash collections, bad debt write-offs and aging of accounts receivable. IPS is not aware of any material claims, disputes or unsettled matters with third party payers and there have been no material settlements with third party payers for the three months and nine months ended September 30, 2007 and 2006.

Accounts Receivable and Allowance for Doubtful Accounts. MBS, Rand and On Line record uncollectible accounts receivable using the direct write-off method of accounting for bad debts. Historically, they have experienced minimal credit losses and have not written-off any material accounts during 2007 or 2006.

IPS's affiliated medical groups grant credit without collateral to its patients, most of which are insured under third-party payer arrangements. The provision for bad debts that relates to patient service revenues is based on an evaluation of potentially uncollectible accounts. The provision for bad debts includes a reserve for 100% of the accounts receivable older than 180 days. Establishing an allowance for bad debt is subjective in nature. IPS uses historical collection percentages to determine the estimated allowance for bad debts, and adjusts the percentage on a quarterly basis.

Goodwill and Other Intangible Assets. Goodwill and intangible assets represent the excess of cost over the fair value of net assets of companies acquired in business combinations accounted for using the purchase method. In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates pooling-of-interest accounting and requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires us to evaluate goodwill for impairment on an annual basis by applying a fair value test. SFAS No. 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value-based approach at least annually. We evaluate our goodwill and other intangible assets in the fourth quarter of each fiscal year, unless circumstances require testing at other times. (See "Results of Operations -- Discontinued Operations" for additional discussion regarding the impairment testing of identifiable intangible assets.)

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Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," ("SFAS 159") which is effective for fiscal years beginning after November 15, 2007. SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other U.S. generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. We do not expect the impact of SFAS 159 to be material to our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements," ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15,

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2006. The adoption of SAB 108 was not material to our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS 157") which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. We do not expect the impact of SFAS 157 to be material to our consolidated financial statements.

In June 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, based on the technical merits. This interpretation also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted the provisions of FIN 48 effective January 1, 2007 and analyzed filing positions in our federal and state jurisdictions where we are required to file income tax returns, as well as for all open tax years in these jurisdictions. Our reserve for uncertain tax positions was insignificant upon adoption of FIN 48 and we did not record a cumulative effect adjustment to opening retained earnings related to the adoption of FIN 48. We believe our income tax filing positions and deductions will be sustained under audit and we believe we do not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on our results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces Auditing Practices Board ("APB") Opinion No. 20, "Accounting Changes" ("APB 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. Previously, most changes in accounting principles were required to be recognized by way of including the cumulative effect of the changes in accounting principles in the income statement of the period of change. SFAS 154 requires that such changes in accounting principles be retrospectively applied as of the beginning of the first period presented as if that accounting principle had always been used, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. However, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 was not material to our consolidated financial statements.

In December 2004, the FASB published SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123(R) is a

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replacement of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretive guidance ("APB 25").

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The effect of SFAS 123(R) was to require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. SFAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in SFAS 123(R). We adopted the provisions of SFAS 123(R) beginning with the quarter ending March 31, 2006.

SFAS 123(R) allows two methods for determining the effects of the transition: the modified prospective transition method and the modified retrospective method of transition. We adopted the modified prospective transition method beginning in 2006.

Results of Operations

The acquisitions of Rand and On Line were accounted for using the purchase accounting method, meaning that the purchase price, comprised of the consideration paid to the stockholders of Rand and On Line at closing, the fair value of the liabilities assumed and the transaction costs associated with the acquisitions, was allocated to the fair value of the tangible and identifiable intangible assets of Rand and On Line, with any excess being considered goodwill. Our results for the three months and nine months ended September 30, 2007 include the results of MBS, Rand, On Line and IPS. Our results for the three months and nine months ended September 30, 2006 include the results of MBS and IPS. We did not acquire Rand and On Line until December 1, 2006.

Pursuant to paragraph 43 of SFAS 144, which states that, in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise for current and prior periods shall report the results of operations of the component, including any gain or loss recognized, in discontinued operations. As such, our financial results for the three months and nine months ended September 30, 2006 have been reclassified to reflect the operations, including IPS operations, discontinued in 2006 and our surgery and diagnostic center businesses, which were discontinued in 2005.

This discussion should be read in conjunction with our unaudited consolidated condensed financial statements and related notes thereto, which are included as a separate section of this Quarterly Report on Form 10-QSB beginning on page F-1.

The following table sets forth selected statements of operations data expressed as a percentage of our net operating revenues for the three months and nine months ended September 30, 2007 and 2006, respectively. Our historical results and period-to-period comparisons are not necessarily indicative of the results for any future period.

Three months ended September 30,	
2007	2006
-----	-----

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Net operating revenues	100.0%	100.0%
Total operating expenses	104.6%	109.0%
	-----	-----
Loss from continuing operations before other income (expenses)	(4.6%)	(9.0%)
Total other income (expenses), net	(4.3%)	(2.2%)
	-----	-----
Loss from continuing operations	(8.9%)	(11.2%)
Discontinued operations		
Income from operations of discontinued components	--	2.6%
	-----	-----
Net loss	(8.9%)	(8.6%)
	=====	=====

Three Months Ended September 30, 2007 and 2006 - Continuing Operations

Net Operating Revenues.

	Three months September 2007

RCM Segment	\$ 4,968,294
PM Segment	3,512,392
Other	70,436

Total consolidated net operating revenues	\$8,551,122
	=====

Our net operating revenues consist of patient service revenue, net of contractual adjustments, related to the operations of IPS's affiliated medical groups, billing services revenue related to MBS, Rand and On Line, and other revenue. Our results for the three months ended September 30, 2007 include the results of MBS, Rand, On Line and IPS. Our results for the three months ended September 30, 2006 include the results of MBS and IPS. We did not acquire Rand and On Line until December 1, 2006.

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For the three months ended September 30, 2007, consolidated net operating revenues increased \$2,835,661 or 49.6%, to \$8,551,122, as compared with \$5,715,461 for the three months ended September 30, 2006.

Net operating revenues for our RCM segment, which included MBS, Rand and On Line in the third quarter of 2007 and MBS in the third quarter of 2006, totaled \$4,968,294 for the three months ended September 30, 2007, an increase of \$2,516,830, or 102.7%, over the same period in 2006. Net operating revenues for Rand and On Line totaled \$1,717,793 and \$610,128, respectively, in the third quarter of 2007. MBS's net operating revenues increased 7.7% in the third quarter of 2007, increasing from \$2,451,464 for the three months ended September 30, 2006 to \$2,640,373 for the same period in 2007.

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The following table illustrates, by customer category, the contribution of existing, new and lost customers to MBS's net operating revenues for the three months ended September 30, 2007 and 2006, respectively:

	Three months ended September 30,	
	2007	2006
MBS net operating revenues:		
Existing customers	\$ 2,346,171	\$ 2,335,997
New customers in 2006	261,078	98,194
New customers in 2007	31,593	--
Customers lost in 2006	1,168	5,451
Customers lost in 2007	363	11,822
Total consolidated net operating revenues	\$ 2,640,373	\$ 2,451,463

Net operating revenues for our PM segment, which consists of net patient service revenue from IPS's affiliated medical groups, increased \$327,536, or 10.3%, from \$3,184,856 for the three months ended September 30, 2006 to \$3,512,392 for the three months ended September 30, 2007. IPS's clinic-based affiliated pediatric groups experienced increases in patient volume in the third quarter of 2007, with total office visits and immunizations increasing 1,256 and 821, respectively, to 28,343 and 16,830 for the three months ended September 30, 2007. These increases can be generally explained by the release of a new vaccine for adolescent females to prevent cervical cancer, which has increased patient demand.

Other revenue totaled \$79,141 for the third quarter of 2006, decreasing \$7,183, or 9.1%, to \$71,958 for the three months ended September 30, 2007. This represents revenue from our vaccine program, which is a group purchasing alliance for vaccines and medical supplies. The vaccine program, which had 513 enrolled participants at the end of the second quarter of 2007, added a net of approximately eleven members during the quarter ended September 30, 2007.

Operating Expenses.

	Three months ended September 30,	
	2007	2006
Salaries and benefits	\$4,200,894	\$2,540,187
Physician group distribution	1,230,856	1,244,931
Facility rent and related costs	478,034	365,114
Depreciation and amortization	719,948	402,357
Professional and consulting fees	312,893	363,589
Insurance	138,315	117,044
Provision for doubtful accounts	65,405	28,492
Other expenses	1,795,636	1,168,715
Total consolidated operating expenses	\$8,941,981	\$6,230,429

Our expenses for the three months ended September 30, 2007 include the results of MBS, Rand, On Line and IPS. Our expenses for the three months ended

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September 30, 2006 include the results of MBS and IPS. We did not acquire Rand and On Line until December 1, 2006.

Consolidated operating expenses totaled \$8,941,981 for the three months ended September 30, 2007, an increase of \$2,711,552 over the same period in 2006.

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Salaries and Benefits. Consolidated salaries and benefits increased \$1,660,707 to \$4,200,894 for the three months ended September 30, 2007, as compared to \$2,540,187 in the third quarter of 2006. Salaries and benefits for Rand and On Line totaled \$1,097,736 and \$357,800, respectively, for the three months ended September 30, 2007.

MBS's salaries and benefits totaled \$1,602,591 for the three months ended September 30, 2007 as compared to \$1,440,599 for the same three months in 2006, an increase of \$161,992. Staffing levels increased quarter over quarter, with salaries, including bonuses and overtime, increasing \$186,858 while temporary help decreased \$39,315 in the third quarter of 2007 as compared to the third quarter of 2006.

Clinical salaries and benefits include wages for the nurse practitioners, nursing staff and medical assistants employed by the affiliated medical groups and may fluctuate indirectly to increases and decreases in productivity and patient volume. Clinical salaries, bonuses, overtime and health insurance collectively totaled \$342,169 for the three months ended September 30, 2007, an increase of \$30,472 over the same period in 2006. These expenses represented approximately 9.7% and 9.8% of net operating revenues for the quarters ended September 30, 2007 and 2006, respectively.

Administrative salaries and benefits, excluding MBS, Rand and On Line, represent the employee-related costs of all non-clinical practice personnel at IPS's affiliated medical groups as well as our corporate staff in Roswell, Georgia. These expenses increased from \$765,434 for the three months ended September 30, 2006 to \$774,110 for the same period in 2007. Stock option expense increased \$49,752 in the third quarter of 2007, compared to the same period in 2006, as a result of options granted to employees and directors in December 2006. Additionally, the third quarter of 2007 included a reclassification of \$34,250 in prior period worker's compensation expense from corporate to Rand.

Physician Group Distribution. Physician group distribution decreased \$14,075, or 1.1%, for the three months ended September 30, 2007 to \$1,230,856, as compared with \$1,244,931 for the three months ended September 30, 2006. Pursuant to the terms of the MSAs governing each of IPS's affiliated medical groups, the physicians of each medical group receive disbursements after the payment of all clinic facility expenses as well as a management fee to IPS. The management fee revenue and expense, which is eliminated in the consolidation of our financial statements, is either a fixed fee or is calculated based on a percentage of net operating income. For the quarter ended September 30, 2007, management fee revenue totaled \$202,283 and represented approximately 14.1% of net operating income as compared to management fee revenue totaling \$207,848 and representing approximately 14.3% of net operating income for the same period in 2006. Physician group distributions represented 35.0% of net operating revenues in the third quarter of 2007, compared to 39.1% of net operating revenues for the same period in 2006. The decrease in physician group distribution for the three months ended September 30, 2007 was directly related to the increase in vaccine expenses, which was primarily the result of increased immunization volume during the third quarter.

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Facility Rent and Related Costs. Facility rent and related costs increased \$112,920, or 30.9%, from \$365,114 for the three months ended September 30, 2006 to \$478,034 for the three months ended September 30, 2007. Rent and related expenses for Rand and On Line totaled \$69,272 and \$40,510, respectively, for the third quarter of 2007.

MBS's facility rent and related costs totaled \$138,955 for the three months ended September 30, 2007 as compared to \$135,380 for the same period in 2006.

Facility rent and related costs associated with IPS's affiliated medical groups and Orion's corporate office totaled \$229,296 and \$229,734 for the three months ended September 30, 2007 and 2006, respectively.

Depreciation and Amortization. Consolidated depreciation and amortization expense totaled \$719,948 for the three months ended September 30, 2007, an increase of \$317,591 over the three months ended September 30, 2006.

In the third quarter of 2007, depreciation expense related to our fixed assets totaled \$72,619 as compared to \$50,622 for the same period in 2006. Following is a table that illustrates, by business unit, the depreciation expense for our fixed assets for the three months ended September 30, 2007 and 2006:

	Three months ended September 30,	
	2007	2006
Depreciation expense:		
Rand	\$14,638	\$ --
On Line	9,476	--
MBS	18,011	16,996
IPS	16,231	15,448
Orion	14,263	18,188
	-----	-----
Total consolidated depreciation expense	\$72,619	\$50,622
	=====	=====

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Amortization expense related to our intangible assets totaled \$647,329 for the three months ended September 30, 2007 as compared to \$351,734 for the same period in 2006. Following is a table that illustrates, by business unit, the amortization expense related to our intangible assets in the third quarter of 2007 and 2006:

	Three months ended September 30,	
	2007	2006
Amortization expense:		
Rand	\$131,914	\$ --
On Line	92,444	--
MBS	265,523	265,523
IPS	40,700	86,211
Orion	116,748	--
	-----	-----
Total consolidated amortization expense	\$647,329	\$351,734
	=====	=====

Rand. Effective December 1, 2006, we purchased Rand for a combination of cash, notes and stock. Since the consideration for this purchase transaction

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exceeded the fair value of the net assets of Rand at the time of the purchase, a portion of the purchase price was allocated to intangible assets and goodwill. The amortization expense related to the intangible assets recorded as a result of the acquisition of Rand totaled \$131,914 for the three months ended September 30, 2007.

On Line. Effective December 1, 2006, we purchased On Line for a combination of cash and notes. Since the consideration for this purchase transaction exceeded the fair value of the net assets of On Line at the time of the purchase, a portion of the purchase price was allocated to intangible assets and goodwill. The amortization expense related to the intangible assets recorded as a result of the acquisition of On Line totaled \$92,444 for the three months ended September 30, 2007.

MBS. As part of the DCPS/MBS Merger, we purchased MBS and DCPS for a combination of cash, notes and stock. Since the consideration for this purchase transaction exceeded the fair value of the net assets of MBS and DCPS at the time of the purchase, a portion of the purchase price was allocated to intangible assets. The amortization expense related to the intangible assets recorded as a result of the DCPS/MBS Merger totaled \$265,523 for the three months ended September 30, 2007 and 2006, respectively.

IPS. Amortization expense related to the MSAs for IPS's affiliated medical groups totaled \$40,700 and \$86,211 for the three months ended September 30, 2007 and 2006, respectively. The decrease is directly related to IPS operations discontinued in 2006, which resulted in the impairment of the intangible assets related to those operations at December 31, 2006.

Orion. There were significant costs associated with the acquisitions of Rand and On Line as well as the Private Placement, the Credit Agreement and the restructured USBPS loan.

Those costs that were specifically related to a particular component of the transactions were allocated directly to that component. In cases where it was not possible to specifically allocate certain costs to each identifiable component, we allocated the costs on a pro-rata basis based on each component's transaction value relative to the value of all of the transactions in the aggregate. With respect to the costs that we determined to be allocable to the equity portion of the Private Placement, we determined that, since the proceeds from the Private Placement were used to acquire Rand and On Line, those costs were to be further allocated to Rand and On Line on a pro-rata basis based on each company's acquisition consideration relative to the total aggregate acquisition consideration.

Amortization expense related to the transaction costs described above totaled \$116,748 for the three months ended September 30, 2007.

Professional and Consulting Fees. For the three months ended September 30, 2007, professional and consulting fees totaled \$312,893, a decrease of \$50,696, or 13.9%, from the same period in 2006. Professional and consulting fees for Rand and On Line totaled \$27,695 and \$49,592, respectively, in the third quarter of 2007.

For the three months ended September 30, 2007, MBS recorded professional and consulting expenses totaling \$31,283 as compared with \$43,980 for the same period in 2006, a decrease of \$12,697. This change is primarily the result of a decrease in contract labor used in 2006 as a result of staffing shortages.

IPS's and Orion's professional and consulting fees, which include the costs of corporate accounting, financial reporting and compliance, and legal fees, decreased from \$319,609 for the three months ended September 30, 2006 to

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\$204,322 for the three months ended September 30, 2007. This decrease can be explained generally by a \$30,000 decrease in consulting fees related to a business development consultant who was utilized in the second quarter of 2006, as well as decreases in legal, accounting and purchased services totaling approximately \$83,000 in the aggregate.

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Insurance. Consolidated insurance expense, which includes the costs of professional liability insurance for affiliated physicians, property and casualty insurance and general liability insurance and directors' and officers' liability insurance, increased from \$117,044 for the three months ended September 30, 2006 to \$138,315 for the three months ended September 30, 2007. Approximately \$15,000 of the increase relates to workers' compensation and errors and omissions insurance for Rand and On Line, which was not included in the third quarter 2006 expense totals.

Provision for Doubtful Accounts. The consolidated provision for doubtful accounts, or bad debt expense, increased \$36,913, or 129.6%, for the three months ended September 30, 2007 to \$65,405. The entire provision for doubtful accounts for the three months ended September 30, 2007 related to IPS's affiliated medical groups and accounted for 0.7% of IPS's net operating revenues as compared to 0.3% of IPS's net operating revenues for the same period in 2006. The total collection rate, after contractual allowances, for IPS's affiliated medical groups was 69.8% in the third quarter of 2007, compared to 63.0% for the same period in 2006.

Other. Other expenses include general and administrative expenses such as office supplies, telephone and data communications, printing and postage, and board of directors' compensation and meeting expenses, as well as some direct clinical expenses, including vaccine costs, which are expenses that are directly related to the practice of medicine by the physicians that practice at the affiliated medical groups managed by IPS. Consolidated other expenses totaled \$1,795,636 for the three months ended September 30, 2007, an increase of \$626,921 over the same period in 2006.

Following is a table illustrating the composition of other expenses for the three months ended September 30, 2007 and 2006:

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	Three months ended September 30,	
	2007	2006
	-----	-----
Vaccine costs	\$ 785,164	\$ 508,507
Medical supplies	61,064	53,050
Other direct clinical expenses	29,528	23,744
Travel	67,545	48,883
Office supplies and printing	134,519	91,643
Telephone and data communications	103,792	58,026
Postage and courier	402,486	204,439
Board of directors' compensation and meeting expenses	14,799	20,001
Bank charges	43,054	40,354

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Taxes and licenses	31,976	20,458
Other general and administrative expenses	121,709	99,610
	-----	-----
Total consolidated other expenses	\$1,795,636	\$1,168,715
	=====	=====

Other expenses for Rand and On Line totaled \$220,560 and \$94,062 for the third quarter of 2007. Approximately 71% of Rand's and 60% of On Line's other expenses in the third quarter of 2007 related to postage, courier and office supplies.

MBS's other expenses totaled \$303,678 for the three months ended September 30, 2006 as compared to \$340,849 for the three months ended September 30, 2007. The increase can be explained generally by an aggregate increase of approximately \$28,000 in postage and courier expenses in the third quarter of 2007 as compared to the same three-month period in 2006.

For the three months ended September 30, 2007, IPS's direct clinical expenses, other than salaries and benefits, totaled \$875,756, an increase of \$290,455 over direct clinical expenses in the same period in 2006, which totaled \$585,301. Vaccine expenses increased approximately \$277,000 in the third quarter of 2007 when compared with the three months ended September 30, 2006. In addition to price increases for certain vaccines that took effect in late 2006, vaccine purchases increased in the third quarter of 2007 as a result of increased patient volume as well as the continued impact of the release of a new vaccine for adolescent females to prevent cervical cancer.

General and administrative expenses other than those incurred by our RCM segment totaled \$264,410 for the three months ended September 30, 2007, a decrease of \$15,327 over the same period in 2006.

Other Income (Expenses).

	Three months ended September 30,	
	2007	2006
	-----	-----
Interest expense	\$(361,725)	\$(120,958)
Other expense, net	(4,636)	(3,002)
	-----	-----
Total other income (expenses), net	\$(366,361)	\$(123,960)
	=====	=====

Other expenses, net, totaled \$366,361 for the three months ended September 30, 2007 as compared with other expenses, net, of \$123,960 for the three months ended September 30, 2006.

Interest Expense. Consolidated interest expense totaled \$361,725 for the three months ended September 30, 2007, an increase of \$240,767 over the same period in 2006. Interest expense activity in the third quarter of 2007, including increases over 2006, can be explained generally by the following:

- o MBS Notes. On April 19, 2006, we executed subordinated promissory notes with the former equity owners of MBS and DCPS for an aggregate of \$714,336. These notes, in addition to the \$1,000,000 in notes payable issued as a result of the DCPS/MBS Merger, represented the retroactive purchase price increase owed to the former equity owners of MBS and DCPS based on the financial results of the newly formed MBS, as required by the merger agreement governing the DCPS/MBS Merger. On December 1, 2006, we executed the DCPS/MBS Notes, which extended the maturity of the amounts outstanding to the former equity

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owners of MBS and DCPS from December 15, 2007 to a quarterly principal payment amortization schedule that begins on December 15, 2007 and extends to December 15, 2008, and increased the annual interest rate from 8% to 9%. Interest expense related to these notes totaled \$38,573 and \$34,287 for the three months ended September 30, 2007 and 2006, respectively.

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- o Loan Facilities with Wells Fargo. On December 1, 2006, we entered into the Credit Agreement with Wells Fargo, which provides for a four year \$16.5 million senior secured credit facility consisting of a \$2 million revolving loan commitment, a \$4.5 million term loan and a \$10 million acquisition facility commitment. (See Part I, Item 2. Management's Discussion and Analysis or Plan of Operation - Company History and Strategic Focus.) On August 21, 2007, we entered into First Amendment, which increased the commitment under the revolver from \$2,000,000 to \$2,500,000. As of September 30, 2007, we had amounts outstanding under the revolving loan commitment and term loan of \$2,050,564 and \$4,263,750, respectively. Interest expense related to these loan facilities totaled approximately \$169,000 in the third quarter of 2007.
- o Phoenix Subordinated Debt. On December 1, 2006 we closed the Private Placement with Phoenix and Brantley IV. (See Part I, Item 2. Management's Discussion and Analysis or Plan of Operation - Company History and Strategic Focus.) As part of the Private Placement, we issued a senior unsecured subordinated promissory note to Phoenix in the amount of \$3.35 million, bearing interest at the combined rate of (i) 12% per annum payable in cash on a quarterly basis and (ii) 2% per annum payable in kind (meaning that the accrued interest will be capitalized as principal) on a quarterly basis, subject to our right to pay such amount in cash. We accrued interest expense of approximately \$117,000 on this note in the third quarter of 2007, in addition to approximately \$14,000 in additional interest expense related to the amortization of the debt discount that was applied to the warrants issued in conjunction with the subordinated note to Phoenix.
- o Brantley Debt. In March and April 2005, we borrowed an aggregate of \$1,250,000 from Brantley IV. We converted the Brantley IV Notes to Class A Common Stock on December 1, 2006. (See Part I, Item 2. Management's Discussion and Analysis or Plan of Operation - Company History and Strategic Focus.) Interest expense related to these notes totaled approximately \$29,000 for the three months ended September 30, 2006.
- o CIT Line of Credit. In conjunction with the 2004 Mergers, we also entered into a new secured two-year revolving credit facility with CIT. On December 1, 2006, in conjunction with the new loan facilities under the Credit Agreement with Wells Fargo, we paid CIT a total of \$1,027,321, which represented full payment of all obligations under the loan and security agreement with CIT, plus expenses. We no longer have any amounts due to CIT. Interest expense related to the CIT credit facility totaled approximately \$51,000 in the third quarter of 2006.

Nine months Ended September 30, 2007 and 2006 - Continuing Operations

Net Operating Revenues.

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	Nine months ended September 30,	
	2007	2006
	-----	-----
RCM Segment	\$14,687,945	\$ 7,207,517
PM Segment	10,051,914	9,119,915
Other	257,195	259,786
	-----	-----
Total consolidated net operating revenues	\$24,997,054	\$16,587,218
	=====	=====

Our net operating revenues consist of patient service revenue, net of contractual adjustments, related to the operations of IPS's affiliated medical groups, billing services revenue related to MBS, Rand and On Line, and other revenue. Our results for the nine months ended September 30, 2007 include the results of MBS, Rand, On Line and IPS. Our results for the nine months ended September 30, 2006 include the results of MBS and IPS. We did not acquire Rand and On Line until December 1, 2006.

For the nine months ended September 30, 2007, consolidated net operating revenues increased \$8,409,836 or 50.7%, to \$24,997,054, as compared with \$16,587,218 for the nine months ended September 30, 2006.

Net operating revenues for our RCM segment, which included MBS, Rand and On Line in the first half of 2007 and MBS in the first half of 2006, totaled \$14,687,945 for the nine months ended September 30, 2007, an increase of \$7,480,428, or 103.8%, over the same period in 2006. Net operating revenues for Rand and On Line totaled \$4,981,700 and \$1,843,038, respectively, for the first nine months of 2007. MBS's net operating revenues increased 9.1% in the first nine months of 2007, increasing from \$7,207,517 for the nine months ended September 30, 2006 to \$7,863,207 for the same period in 2007.

The following table illustrates, by customer category, the contribution of existing, new and lost customers to MBS's net operating revenues for the nine months ended September 30, 2007 and 2006, respectively:

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	Nine months ended September 30,		
	2007	2006	Variance
	-----	-----	-----
MBS net operating revenues:			
Existing customers	\$6,931,993	\$6,817,070	\$ 114,923
New customers in 2006	865,076	114,519	750,557
New customers in 2007	57,405	--	57,405
Customers lost in 2006	3,985	125,648	(121,663)
Customers lost in 2007	4,748	150,280	(145,532)
	-----	-----	-----
Total consolidated net operating revenues	\$7,863,207	\$7,207,517	\$ 655,690
	=====	=====	=====

Net operating revenues for our PM segment, which consists of net patient service revenue from IPS's affiliated medical groups, increased

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\$931,999, or 10.2%, from \$9,119,915 for the nine months ended September 30, 2006 to \$10,051,914 for the nine months ended September 30, 2007. IPS's clinic-based affiliated pediatric groups experienced increases in patient volume in the first nine months of 2007, with total office visits and immunizations increasing 4,250 and 8,666, respectively, to 94,608 and 49,109 for the nine months ended September 30, 2007. These increases can be generally explained by the release of a new vaccine for adolescent females to prevent cervical cancer, which has increased patient demand.

Other revenue totaled \$259,778 for the first nine months of 2006, decreasing \$1,046, or 0.4%, to \$258,732 for the nine months ended September 30, 2007. This represents revenue from our vaccine program, which is a group purchasing alliance for vaccines and medical supplies. The vaccine program, which had 493 enrolled participants at the end of 2006, added a net of approximately thirty-one members during the nine months ended September 30, 2007.

Operating Expenses.

	Nine months ended September 30,	
	2007	2006
	-----	-----
Salaries and benefits	\$12,623,138	\$ 7,592,765
Physician group distribution	3,602,351	3,609,846
Facility rent and related costs	1,408,824	1,031,734
Depreciation and amortization	2,137,197	1,210,725
Professional and consulting fees	980,145	1,013,129
Insurance	410,856	350,174
Provision for doubtful accounts	183,572	137,908
Other expenses	5,064,209	3,129,333
	-----	-----
Total consolidated operating expenses	\$26,410,292	\$18,075,614
	=====	=====

Our expenses for the nine months ended September 30, 2007 include the results of MBS, Rand, On Line and IPS. Our expenses for the nine months ended September 30, 2006 include the results of MBS and IPS. We did not acquire Rand and On Line until December 1, 2006.

Consolidated operating expenses totaled \$26,410,292 for the nine months ended September 30, 2007, an increase of \$8,334,678 over the same period in 2006.

Salaries and Benefits. Consolidated salaries and benefits increased \$5,030,373 to \$12,623,138 for the nine months ended September 30, 2007, as compared to \$7,592,765 in the first nine months of 2006. Salaries and benefits for Rand and On Line totaled \$3,257,753 and \$1,080,258, respectively, for the nine months ended September 30, 2007.

MBS's salaries and benefits totaled \$4,846,524 for the nine months ended September 30, 2007 as compared to \$4,392,967 for the same nine months in 2006, an increase of \$453,557. Staffing levels increased year-over-year, with salaries, including bonuses and overtime, increasing \$433,494 in the first nine months of 2007 as compared to the same period in 2006.

Clinical salaries and benefits include wages for the nurse practitioners, nursing staff and medical assistants employed by the affiliated medical groups and may fluctuate indirectly to increases and/or decreases in productivity and patient volume. Clinical salaries, bonuses, overtime and health insurance collectively totaled \$989,704 for the nine months ended September 30,

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2007, an increase of \$66,302 over the same period in 2006. These expenses represented approximately 9.8% and 10.1% of net operating revenues for the nine-month periods ended September 30, 2007 and 2006, respectively.

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Administrative salaries and benefits, excluding MBS, Rand and On Line, represent the employee-related costs of all non-clinical practice personnel at IPS's affiliated medical groups as well as our corporate staff in Roswell, Georgia. These expenses increased \$135,082, or 6.1%, from \$2,231,435 for the nine months ended September 30, 2006 to \$2,366,517 for the same period in 2007. The additional expense can be explained generally by the \$144,388 increase in stock option compensation expense in the first nine months of 2007, compared to the same period in 2006, as a result of options granted to employees and directors in December 2006.

Physician Group Distribution. Physician group distribution decreased \$7,495, or 0.2%, for the nine months ended September 30, 2007 to \$3,602,351, as compared with \$3,609,846 for the nine months ended September 30, 2006. Pursuant to the terms of the MSAs governing each of IPS's affiliated medical groups, the physicians of each medical group receive disbursements after the payment of all clinic facility expenses as well as a management fee to IPS. The management fee revenue and expense, which is eliminated in the consolidation of our financial statements, is either a fixed fee or is calculated based on a percentage of net operating income. For the nine months ended September 30, 2007, management fee revenue totaled \$607,267 and represented approximately 14.4% of net operating income as compared to management fee revenue totaling \$602,902 and representing approximately 14.3% of net operating income for the same period in 2006. Physician group distributions represented 35.8% of net operating revenues in the first nine months of 2007, compared to 39.6% of net operating revenues for the same period in 2006. Physician group distribution for the nine months ended September 30, 2007 remained relatively flat despite increased revenues largely due to increases in vaccine expenses as a result of increased immunization volume during the first nine months of 2007.

Facility Rent and Related Costs. Facility rent and related costs increased \$377,090, or 36.5%, from \$1,031,734 for the nine months ended September 30, 2006 to \$1,408,824 for the nine months ended September 30, 2007. Rent and related expenses for Rand and On Line totaled \$210,533 and \$104,236, respectively, for the first nine months of 2007.

MBS's facility rent and related costs totaled \$425,578 for the nine months ended September 30, 2007 as compared to \$392,274 for the same period in 2006. This increase can be explained generally by increases in base rent at all of MBS's operating locations.

Facility rent and related costs associated with IPS's affiliated medical groups and Orion's corporate office totaled \$668,477 for the nine months ended September 30, 2007 compared to \$639,460 for the same period in 2006.

Depreciation and Amortization. Consolidated depreciation and amortization expense totaled \$2,137,197 for the nine months ended September 30, 2007, an increase of \$926,472 over the nine months ended September 30, 2006.

In the first nine months of 2007, depreciation expense related to our fixed assets totaled \$219,495 as compared to \$155,523 for the same period in 2006. Following is a table that illustrates, by business unit, the depreciation expense for our fixed assets for the nine months ended September 30, 2007 and 2006:

Nine months ended

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	September 30,	
	2007	2006
	-----	-----
Depreciation expense:		
Rand	\$ 39,923	\$ --
On Line	30,160	--
MBS	52,227	51,823
IPS	48,062	49,055
Orion	49,123	54,645
	-----	-----
Total consolidated depreciation expense	\$219,495	\$155,523
	=====	=====

Amortization expense related to our intangible assets totaled \$1,917,702 for the nine months ended September 30, 2007 as compared to \$1,055,203 for the same period in 2006. Following is a table that illustrates, by business unit, the amortization expense related to our intangible assets for the first nine months of 2007 and 2006:

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	Nine months ended	
	September 30,	
	2007	2006
	-----	-----
Amortization expense:		
Rand	\$ 395,743	\$ --
On Line	277,331	--
MBS	796,570	796,570
IPS	122,100	258,633
Orion	325,959	--
	-----	-----
Total consolidated amortization expense	\$1,917,702	\$1,055,203
	=====	=====

Rand. Effective December 1, 2006, we purchased Rand for a combination of cash, notes and stock. Since the consideration for this purchase transaction exceeded the fair value of the net assets of Rand at the time of the purchase, a portion of the purchase price was allocated to intangible assets and goodwill. The amortization expense related to the intangible assets recorded as a result of the acquisition of Rand totaled \$395,743 for the nine months ended September 30, 2007.

On Line. Effective December 1, 2006, we purchased On Line for a combination of cash and notes. Since the consideration for this purchase transaction exceeded the fair value of the net assets of On Line at the time of the purchase, a portion of the purchase price was allocated to intangible assets and goodwill. The amortization expense related to the intangible assets recorded as a result of the acquisition of On Line totaled \$277,331 for the nine months ended September 30, 2007.

MBS. As part of the DCPS/MBS Merger, we purchased MBS and DCPS for a combination of cash, notes and stock. Since the consideration for this purchase transaction exceeded the fair value of the net assets of MBS and DCPS at the time of the purchase, a portion of the purchase price was allocated to intangible assets. The amortization expense related to the intangible assets recorded as a result of the DCPS/MBS Merger totaled \$796,570 for the nine months ended September 30, 2007 and 2006, respectively.

IPS. Amortization expense related to the MSAs for IPS's affiliated

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medical groups totaled \$122,100 and \$258,633 for the nine months ended September 30, 2007 and 2006, respectively. The decrease is directly related to IPS operations discontinued in 2006, which resulted in the impairment of the intangible assets related to those operations at December 31, 2006.

Orion. There were significant costs associated with the acquisitions of Rand and On Line as well as the Private Placement, the Credit Agreement and the restructured USBPS loan.

Those costs that were specifically related to a particular component of the transactions were allocated directly to that component. In cases where it was not possible to specifically allocate certain costs to each identifiable component, we allocated the costs on a pro-rata basis based on each component's transaction value relative to the value of all of the transactions in the aggregate. With respect to the costs that we determined to be allocable to the equity portion of the Private Placement, we determined that, since the proceeds from the Private Placement were used to acquire Rand and On Line, those costs were to be further allocated to Rand and On Line on a pro-rata basis based on each company's acquisition consideration relative to the total aggregate acquisition consideration.

Amortization expense related to the transaction costs described above totaled \$325,959 for the nine months ended September 30, 2007.

Professional and Consulting Fees. For the nine months ended September 30, 2007, professional and consulting fees totaled \$980,145, a decrease of \$32,984, or 3.3%, from the same period in 2006. Professional and consulting fees for Rand and On Line totaled \$57,007 and \$139,793 in the first nine months of 2007.

For the nine months ended September 30, 2007, MBS recorded professional and consulting expenses totaling \$95,276 as compared with \$132,455 for the same period in 2006, a decrease of \$37,179. This change is primarily the result of a decrease in contract labor used in early 2006 as a result of staffing shortages.

IPS's and Orion's professional and consulting fees, which include the costs of corporate accounting, financial reporting and compliance, and legal fees, decreased from \$880,674 for the nine months ended September 30, 2006 to \$688,068 for the nine months ended September 30, 2007. This decrease can be explained generally by a \$91,000 decrease in consulting fees related to a business development consultant who was utilized in the first nine months of 2006, as well as decreases in legal, accounting and purchased services totaling approximately \$103,000 in the aggregate.

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Insurance. Consolidated insurance expense, which includes the costs of professional liability insurance for affiliated physicians, property and casualty insurance and general liability insurance and directors' and officers' liability insurance, increased from \$350,174 for the nine months ended September 30, 2006 to \$410,856 for the nine months ended September 30, 2007. Approximately \$44,000 of the increase relates to workers' compensation and errors and omissions insurance for Rand and On Line, which was not included in 2006. Professional liability insurance and workers' compensation insurance also increased slightly on a year over year basis.

Provision for Doubtful Accounts. The consolidated provision for doubtful accounts, or bad debt expense, increased \$45,664, or 33.1%, for the nine months ended September 30, 2007 to \$183,572. The entire provision for doubtful accounts for the nine months ended September 30, 2007 related to IPS's

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affiliated medical groups and accounted for 1.8% of IPS's net operating revenues in the first nine months of 2007 as compared to 1.5% of net operating revenues for the same period in 2006. The total collection rate, after contractual allowances, for IPS's affiliated medical groups was 68.9% in the first nine months of 2007, compared to 64.5% for the same period in 2006.

Other. Other expenses include general and administrative expenses such as office supplies, telephone and data communications, printing and postage, and board of directors' compensation and meeting expenses, as well as some direct clinical expenses, including vaccine costs, which are expenses that are directly related to the practice of medicine by the physicians that practice at the affiliated medical groups managed by IPS. Consolidated other expenses totaled \$3,268,572 for the nine months ended September 30, 2007, an increase of \$1,307,956 over the same period in 2006.

Following is a table illustrating the composition of other expenses for the nine months ended September 30, 2007 and 2006:

	Nine months ended September 30,	
	2007	2006
Vaccine costs	\$2,056,675	\$1,226,814
Medical supplies	193,947	180,655
Other direct clinical expenses	88,227	72,310
Travel	182,184	119,015
Office supplies and printing	401,549	286,394
Telephone and data communications	289,968	178,451
Postage and courier	1,134,675	571,963
Board of directors' compensation and meeting expenses	44,397	60,003
Bank charges	141,831	132,756
Taxes and licenses	101,987	54,529
Other general and administrative expenses	428,769	246,443

Total consolidated other expenses	\$5,064,209	\$3,129,333
	=====	

Other expenses for Rand and On Line totaled \$614,002 and \$271,016, respectively, for the first nine months of 2007. Approximately 74% of Rand's and 56% of On Line's other expenses in the first nine months of 2007 related to postage, courier and office supplies.

MBS's other expenses totaled \$970,043 for the nine months ended September 30, 2006 as compared to \$860,298 for the nine months ended September 30, 2007. The increase can be explained generally by an aggregate increase of approximately \$92,000 in postage and courier expenses in the first nine months of 2007 as compared to the same nine-month period in 2006.

For the nine months ended September 30, 2007, IPS's direct clinical expenses, other than salaries and benefits, totaled \$2,338,849, an increase of \$859,173 over direct clinical expenses in the same period in 2006, which totaled \$1,479,676. Vaccine expenses increased approximately \$832,000 in the first nine months of 2007 when compared with the nine months ended September 30, 2006. In addition to price increases for certain vaccines that took effect in late 2006, vaccine purchases increased in the first nine months of 2007 as a result of increased patient volume as well as the continued impact of the release of a new

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vaccine for adolescent females to prevent cervical cancer.

General and administrative expenses other than those incurred by our RCM segment totaled \$870,300 for the nine months ended September 30, 2007, an increase of \$81,046 over the same period in 2006. This increase can be explained generally by the following: (i) franchise taxes for Illinois increased approximately \$47,000 in the first nine months of 2007 as a result of changes in our corporate structure; (ii) business promotion expenses totaled approximately \$20,000 in the first nine months of 2007 and related to printed marketing materials to be used at trade shows and in conjunction with other corporate presentations; and (iii) meeting expenses related to a strategic planning meeting totaled approximately \$37,000 for the nine months ended September 30, 2007.

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Other Income (Expenses).

	Nine months ended September 30,	
	2007	2006
	-----	-----
Interest expense	\$ (1,046,789)	\$ (352,412)
Gain on forgiveness of debt	--	665,463
Other expense, net	(16,635)	(14,406)
	-----	-----
Total other income (expenses), net	\$ (1,063,424)	\$ 298,646
	=====	=====

Other expenses, net, totaled \$1,063,424 for the nine months ended September 30, 2007 as compared with other income, net, of \$298,646 for the nine months ended September 30, 2006.

Interest Expense. Consolidated interest expense totaled \$1,046,789 for the nine months ended September 30, 2007, an increase of \$694,377 over the same period in 2006. Interest expense activity in the first nine months of 2007, including increases over 2006, can be explained generally by the following:

- o MBS Notes. On April 19, 2006, we executed subordinated promissory notes with the former equity owners of MBS and DCPS for an aggregate of \$714,336. These notes, in addition to the \$1,000,000 in notes payable issued as a result of the DCPS/MBS Merger, represented the retroactive purchase price increase owed to the former equity owners of MBS and DCPS based on the financial results of the newly formed MBS, as required by the merger agreement governing the DCPS/MBS Merger. On December 1, 2006, we executed the DCPS/MBS Notes, which extended the maturity of the amounts outstanding to the former equity owners of MBS and DCPS from December 15, 2007 to a quarterly principal payment amortization schedule that begins on December 15, 2007 and extends to December 15, 2008, and increased the annual interest rate from 8% to 9%. Interest expense related to these notes totaled \$115,718 and \$85,828 for the nine months ended September 30, 2007 and 2006, respectively.
- o Loan Facilities with Wells Fargo. On December 1, 2006, we entered into the Credit Agreement with Wells Fargo, which provides for a four year \$16.5 million senior secured credit facility consisting of a \$2 million revolving loan commitment, a \$4.5 million term loan and a \$10 million acquisition facility commitment. (See Part I, Item 2. Management's Discussion and Analysis or Plan of Operation - Company History and Strategic Focus.) On August 21, 2007, we entered into

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First Amendment, which increased the commitment under the revolver from \$2,000,000 to \$2,500,000. As of September 30, 2007, we had amounts outstanding under the revolving loan commitment and term loan of \$2,050,564 and \$4,263,750, respectively. Interest expense related to these loan facilities totaled approximately \$478,000 in the first nine months of 2007.

- o Phoenix Subordinated Debt. On December 1, 2006 we closed the Private Placement with Phoenix and Brantley IV. (See Part I, Item 2. Management's Discussion and Analysis or Plan of Operation - Company History and Strategic Focus.) As part of the Private Placement, we issued a senior unsecured subordinated promissory note to Phoenix in the amount of \$3.35 million, bearing interest at the combined rate of (i) 12% per annum payable in cash on a quarterly basis and (ii) 2% per annum payable in kind (meaning that the accrued interest will be capitalized as principal) on a quarterly basis, subject to our right to pay such amount in cash. We accrued interest expense of approximately \$352,000 on this note in the first nine months of 2007, in addition to approximately \$42,000 in additional interest expense related to the amortization of the debt discount that was applied to the warrants issued in conjunction with the subordinated note to Phoenix.
- o Brantley Debt. In March and April 2005, we borrowed an aggregate of \$1,250,000 from Brantley IV. We converted the Brantley IV Notes to Class A Common Stock on December 1, 2006. (See Part I, Item 2. Management's Discussion and Analysis or Plan of Operation - Company History and Strategic Focus.) Interest expense related to these notes totaled approximately \$85,000 for the nine months ended September 30, 2006.
- o CIT Line of Credit. In conjunction with the 2004 Mergers, we also entered into a new secured two-year revolving credit facility with CIT. On December 1, 2006, in conjunction with the new loan facilities under the Credit Agreement with Wells Fargo, we paid CIT a total of \$1,027,321, which represented full payment of all obligations under the loan and security agreement with CIT, plus expenses. We no longer have any amounts due to CIT. Interest expense related to the CIT credit facility totaled approximately \$168,000 in the first nine months of 2006.

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Gain on Forgiveness of Debt. On August 25, 2003, our lender, DVI, announced that it was seeking protection under Chapter 11 of the United States Bankruptcy laws. IPS and SurgiCare also had loans outstanding to DVI in the form of term loans and revolving lines of credit. As part of the IPS Merger, we negotiated a discount on the term loans revolving lines of credit and, as part of that agreement we executed a new loan agreement with USBPS, as Servicer for payees, for payment of the revolving lines of credit and renegotiation of the term loans. In the first quarter of 2006, we negotiated an 85% discount on the revolving line of credit, which had a balance of \$778,000 at December 31, 2005. As of March 13, 2006, we had made aggregate payments in the amount of \$112,500 in satisfaction of the \$778,000 debt, and recognized a gain on forgiveness of debt totaling \$665,463 in the first quarter of 2006. Immediately prior to December 1, 2006, there was \$3,750,000 outstanding under term loan obligation. On December 1, 2006, we entered into a Restructured Loan Agreement with USBPS, as Servicer, which provides for the outstanding amount to be reduced to \$2,750,000 and for monthly principal payments, totaling, in the aggregate, \$570,000, until October 1, 2013, when the remaining amount becomes due. We

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recognized a gain on forgiveness of debt totaling \$340,701 in the fourth quarter of 2006 with respect to the Restructured Loan Agreement.

Three Months and Nine months Ended September 30, 2007 and 2006 - Discontinued Operations

Memorial Village. As a result of the uncertainty of future cash flows related to our surgery center business, we determined that the joint venture interest associated with Memorial Village was impaired and recorded a charge for impairment of intangible assets related to Memorial Village of \$3,229,462 for the three months ended June 30, 2005. In November 2005, we decided that, as a result of ongoing losses at Memorial Village, we would need to either find a buyer for our equity interests in Memorial Village or close the facility. In preparation for this pending transaction, we tested the identifiable intangible assets and goodwill related to the surgery center business using the present value of cash flows method. As a result of the decision to sell or close Memorial Village, as well as the uncertainty of cash flows related to our surgery center business, we recorded an additional charge for impairment of intangible assets of \$1,348,085 for the three months ended September 30, 2005. On February 8, 2006, Memorial Village executed an Asset Purchase Agreement (the "Memorial Agreement") for the sale of substantially all of its assets to First Surgical. Memorial Village was approximately 49% owned by Town & Country SurgiCare, Inc., a wholly owned subsidiary of Orion. The Memorial Agreement was deemed to be effective as of January 31, 2006. As a result of this transaction, we recorded a gain on the disposal of this discontinued component (in addition to the charge for impairment of intangible assets) of \$574,321 for the quarter ended March 31, 2006. We allocated the goodwill recorded as part of the IPS Merger to each of the surgery center reporting units and recorded a loss on the write-down of goodwill related to Memorial Village totaling \$2,005,383 for the quarter ended December 31, 2005. There were no operations for this component in our financial statements after March 31, 2006.

San Jacinto. On March 1, 2006, San Jacinto executed an Asset Purchase Agreement for the sale of substantially all of its assets to Methodist. San Jacinto was approximately 10% owned by Baytown SurgiCare, Inc., a wholly owned subsidiary of Orion, and was not consolidated in our financial statements. As a result of this transaction, we recorded a gain on disposal of this discontinued operation of \$94,066 for the quarter ended March 31, 2006. As a result of the uncertainty of future cash flows related to the surgery center business, we determined that the joint venture interest associated with San Jacinto was impaired and recorded a charge for impairment of intangible assets related to San Jacinto of \$734,522 for the three months ended June 30, 2005. We also recorded an additional \$2,113,262 charge for impairment of intangible assets for the three months ended September 30, 2005 related to the management contracts with San Jacinto. We allocated the goodwill recorded as part of the IPS Merger to each of the surgery center reporting units and recorded a loss on the write-down of goodwill related to San Jacinto totaling \$694,499 for the quarter ended December 31, 2005. There were no operations for this component in our financial statements after March 31, 2006.

Dayton ICS. IPS is party to a management services agreement ("the Dayton MSA") with Dayton ICS. The sole remaining shareholder of Dayton ICS has notified both IPS and the hospitals at which Dayton ICS has contracts that he intends to dissolve Dayton ICS, cease practicing at the hospitals and cease utilizing the services of IPS. IPS believes that the unilateral decision to dissolve Dayton ICS and terminate the business of Dayton ICS breaches the Dayton MSA and violates duties owed by Dayton ICS to IPS as a creditor of Dayton ICS. As a result of the pending litigation and the uncertainty of the outcome, the operations of Dayton ICS are now reflected in our consolidated statements of operations as 'income from operations of discontinued components' for the three months and nine months ended September 30, 2007 and 2006, respectively. Additionally, we recorded a charge for impairment of intangible assets of

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\$1,845,669 for Dayton ICS for the quarter ended December 31, 2006.

PSNW. IPS was party to the Illinois MSA with PSNW. IPS and PSNW were in arbitration regarding claims relating to the Illinois MSA. In connection therewith, on February 9, 2007, IPS and PSNW entered into the PSNW Settlement to settle disputes that had arisen between IPS and PSNW and to avoid the risk and expense of further litigation. As part of the PSNW Settlement, PSNW and IPS agreed that PSNW would purchase the assets owned by IPS and used in connection with PSNW's practice, in exchange for a negotiated cash consideration and termination of the Illinois MSA. The transaction contemplated by the PSNW Settlement was consummated on May 31, 2007. We recorded a gain on disposal of discontinued components totaling \$999,725 for the quarter ended June 30, 2007. PSNW and IPS have been released from any further obligation to each other from any previous agreement. As a result of the PSNW Settlement, the operations of PSNW are now reflected in our consolidated statements of operations as 'income from operations of discontinued components' for the three months and nine months ended September 30, 2007 and 2006, respectively. Additionally, we recorded a charge for impairment of intangible assets of \$1,249,080 for PSNW for the quarter ended December 31, 2006.

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Orion. Prior to the divestiture of our ambulatory surgery center businesses, we recorded management fee revenue, which was eliminated in the consolidation of our financial statements, from our surgery centers. The management fee revenue for San Jacinto was not eliminated in consolidation. The management fee revenue associated with the discontinued operations in the surgery center business totaled \$968 and \$61,038, respectively, for the three months and nine months ended September 30, 2006.

The following table contains selected financial information regarding our discontinued operations for the three months and nine months ended September 30, 2007 and 2006:

	Three months ended September 30,		Nine month September
	2007	2006	2007
Net operating revenues from discontinued operations	\$ --	\$ 1,758,732	\$ 1,578,152
Total expenses from discontinued operations	--	(1,607,509)	(1,528,152)
	--	151,223	50,000
Income from discontinued operations	--	--	999,725
Gain on disposal of discontinued operations	--	151,223	\$ 1,049,725
Net income from discontinued operations	\$ --	\$ 151,223	\$ 1,049,725
	=====	=====	=====

Liquidity and Capital Resources

Net cash used in operating activities totaled \$558,290 for the nine months ended September 30, 2007 as compared with cash used in operating activities of \$359,402 for the nine months ended September 30, 2006. Net cash used in operations increased in the first nine months of 2007 largely as a result of (i) increased interest expense in 2007 as a result of the Wells Fargo

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loan facilities and the subordinated debt with Phoenix; and (ii) increased legal expenses in the first quarter of 2007 related to operations we discontinued at the end of 2006. The net impact of discontinued operations on net cash used by operating activities in the first nine months of 2007 was \$830,772.

For the nine months ended September 30, 2007, net cash used in investing activities totaled \$200,135 compared to \$380,448 in net cash provided by investing activities for the same period in 2006. The net impact of discontinued operations on net cash provided by investing activities in the first nine months of 2006 related to the transactions involving the sale of Memorial Village and San Jacinto.

Net cash provided by financing activities totaled \$436,504 for the nine months ended September 30, 2007 as compared to \$219,058 in cash used in financing activities for the same period in 2006. The change in cash sources and uses related to financing activities from the first nine months of 2006 to the first nine months of 2007 can be explained generally by the following:

- o We borrowed an aggregate of approximately \$868,000 from Wells Fargo in the first nine months of 2007 under the revolving loan commitment pursuant to the Credit Agreement;
- o We made aggregate principal payments of \$210,000 to Wells Fargo in the first nine months of 2007 pursuant to the amortization of our term loan commitment;
- o We repaid an aggregate of \$75,000 to the former shareholder of On Line as repayment for one of the notes issued on December 1, 2006 as consideration in connection with our acquisition of On Line;
- o We repaid approximately \$200,000 in satisfaction of a working capital note from the sellers of MBS in the first quarter of 2006; and
- o We made aggregate payments in the amount of \$112,500 in the first quarter of 2006 in satisfaction of a \$778,000 debt, and recognized a gain on forgiveness of debt totaling \$665,463.

We have financed our growth and operations primarily through the issuance of equity securities, secured and/or convertible debt, most recently by completing a series of transactions, including the Private Placement, which occurred in December 2006 and is described under the caption "Company History and Strategic Focus." As a condition to the Private Placement, on December 1, 2006, we refinanced our existing loan facility with CIT into a four year \$16,500,000 senior secured credit facility with Wells Fargo consisting of a \$2,000,000 revolving loan commitment, a \$4,500,000 term loan and a \$10,000,000 acquisition facility commitment. Amounts borrowed under this facility are secured by substantially all of our assets and a pledge of the capital stock of our operating subsidiaries. Under the terms of the Credit Agreement relating to this facility, amounts borrowed bear interest at either a fluctuating rate based on the prime rate or LIBOR rate, at our election. Currently, our interest rate on the revolving loan commitment and the term loan is the prime rate plus 1.75%. In addition to refinancing our existing loan facility, a portion of the proceeds from this facility were used to fund our acquisitions of Rand and On Line and to finance our ongoing working capital, capital expenditure and general corporate needs. Upon repayment of the CIT loan facility, two of our stockholders, Brantley IV and Brantley Capital were released from guarantees that they had provided on our behalf in connection with the loan facility.

The Credit Agreement contains certain financial covenants that require us to maintain minimum levels of trailing twelve month earnings before income taxes, depreciation and amortization ("EBITDA"), a minimum fixed charge coverage ratio, a maximum senior debt leverage ratio and a limitation on annual

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capital expenditures and other customary terms and conditions. As of and for the three months and twelve months ended September 30, 2007, we were out of compliance with the minimum level of trailing twelve month EBITDA and maximum senior debt leverage ratio covenants under the Credit Agreement and notified the lender as such. Under the terms of the Credit Agreement, failure to meet the required financial covenants constitutes an event of default. On November 14, 2007, we obtained a waiver of the events of default from Wells Fargo. We believe that once we deliver our October financial statements to Wells Fargo we will be in compliance with all of our financial covenants as of October 31, 2007.

As of September 30, 2007, our revolving loan commitment with Wells Fargo had no availability to provide for working capital shortages. Although we believe we will generate cash flows from operations in the future, there is no guarantee that we will be able to fund our operations solely from our cash flows. In 2005, we initiated a strategic plan designed to accelerate our growth and enhance our future earnings potential. The plan focuses on our strengths, which include providing billing, collections and complementary business management services to physician practices. As part of this plan, we completed a series of transactions involving the divestiture of non-strategic assets in 2005 and early 2006. In addition, we redirected financial resources and company personnel to areas that management believed would enhance long-term growth potential. A key component of our long-term strategic plan is the identification of potential acquisition targets that will increase our presence in the markets we serve and enhance stockholder value. On December 1, 2006 we completed the acquisition of Rand and On Line. (See "Company History and Strategic Focus.") In addition to Rand and On Line, we have identified other potential acquisition opportunities to expand our business that are consistent with our strategic plan. We have a \$10 million acquisition facility commitment under the Credit Agreement that will enable us to finance some or all of the cash consideration for future acquisitions based on a formula tied to our pro forma trailing twelve month EBITDA, including the EBITDA of the potential acquisition target.

We intend to continue to manage our use of cash. However, our business is still faced with many challenges. If cash flows from operations and borrowings are not sufficient to fund our cash requirements, we may be required to further reduce our operations and/or seek additional public or private equity financing or financing from other sources or consider other strategic alternatives, including possible additional divestitures of specific assets or lines of business. There can be no assurances that additional financing or strategic alternatives will be available, or that, if available, the financing or strategic alternatives will be obtainable on terms acceptable to us or that any additional financing would not be substantially dilutive to our existing stockholders.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We maintain a set of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in our reports filed under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our principal executive and principal financial officer, the design and effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(c) of the Exchange Act. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information related to us (including our consolidated subsidiaries) required to be included in periodic filings.

Changes in Internal Controls. During the most recent fiscal quarter,

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there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Credit Agreement contains certain financial covenants that require us to maintain minimum levels of trailing twelve month EBITDA, a minimum fixed charge coverage ratio, a maximum senior debt leverage ratio and a limitation on annual capital expenditures and other customary terms and conditions. As of and for the three months and twelve months ended September 30, 2007, we were out of compliance with the minimum level of trailing twelve month EBITDA and maximum senior debt leverage ratio covenants under the Credit Agreement and notified the lender as such. Under the terms of the Credit Agreement, failure to meet the required financial covenants constitutes an event of default. On November 14, 2007, we obtained a waiver of the events of default from Wells Fargo. We believe that once we deliver our October financial statements to Wells Fargo we will be in compliance with all of our financial covenants as of October 31, 2007.

ITEM 6. EXHIBITS

The following documents are filed as exhibits to this Quarterly Report on Form 10-QSB pursuant to Item 601 of Regulation S-B. Since our incorporation, we have operated under various names including: Technical Coatings, Inc., SurgiCare, Inc. and Orion HealthCorp, Inc. Exhibits listed below refer to these names collectively as "the Company."

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Exhibit No.	Description
10.1	Second Amendment to Credit Agreement, dated as of September 24, 2007, by and among Orion HealthCorp, Inc., each of the subsidiaries identified therein and Wells Fargo Foothill, Inc.
24.1	Power of Attorney (See Signatures on page [])
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 Certification
32.2	Section 1350 Certification

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORION HEALTHCORP, INC.

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Dated: November 14, 2007

By: /s/ Terrence L. Bauer

Terrence L. Bauer
President, Chief Executive Officer
and Director (Duly Authorized
Representative)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears on the signature page to this report constitutes and appoints Terrence L. Bauer and Stephen H. Murdock, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits hereto, and other documents in connection herewith