SURGICARE INC/DE
Form 10KSB
April 15, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

DELAWARE	58-1597246
00(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
12727 KIMBERLY LN., SUITE 200 HOUSTON, TX	77024
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

ISSUER'S TELEPHONE NUMBER: (713) 973-6675
SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $.005 PAR VALUE	THE AMERICAN STOCK EXCHANGE
SERIES A REDEEMABLE PREFERRED STOCK, $.001 PAR VALUE	

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained, and no disclosure will be contained in this form, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. |_|

SurgiCare's revenues for fiscal year ended December 31, 2002: $11,552,439.

As of March 31, 2003, 24,752,171 shares of the registrant's common stock were outstanding. The aggregate market value of the shares of common stock (based upon the closing sale price of these shares as reported by the American Stock Exchange) of the registrant held by non-affiliates on March 31, 2003 was approximately $3,196,184, based upon a per share price of $0.36, the closing price per share for the company's common stock on the American Stock Exchange on that day.

SURGICARE, INC.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY

SurgiCare, Inc. ("SurgiCare," "Company," "we," "us," or "our") was incorporated in Delaware on February 24, 1984 as Technical Coatings Incorporated. On September 10, 1984 its name was changed to Technical Coatings, Inc. ("TCI"). Immediately prior to July 1999, TCI was an inactive company. On July 11, 1999, TCI changed its name to SurgiCare Inc., and at that time changed its business strategy to developing, acquiring and operating freestanding ambulatory surgery centers ("ASC"). On July 21, 1999, SurgiCare acquired all of the issued and outstanding shares of common stock of Bellaire SurgiCare, Inc. a Texas corporation ("Bellaire"), in exchange for the issuance of 9,860,000 shares of common stock, par value $.005 per share ("Common Stock") and 1,350,000 shares of Series A Redeemable Preferred Stock, par value $.001 per share ("Series A Preferred"), of SurgiCare to the holders of Bellaire's common stock. For accounting purposes, this reverse acquisition was effective July 1, 1999. As of December 31, 2002, the company owned a majority interest in three surgery centers and a minority interest as general partner in two additional centers. Four of SurgiCare's centers are located in Texas and one is located in Ohio.

SurgiCare is authorized to issue up to 50,000,000 shares of common stock, par value $.005 per share, and 20,000,000 shares of preferred stock, par value $.001 per share.

SurgiCare, Inc.'s principal executive offices are located at 12727 Kimberly Lane, Suite 200, Houston, TX 77024, and its telephone number is 713-973-6675.

Bellaire SurgiCare, Inc.

Bellaire owns and operates an ambulatory surgery center located in Houston, Texas. Bellaire has been in operation for 14 years, first as The Institute for Eye Surgery, and since March of 1995, as Bellaire SurgiCare, Inc. ("Bellaire"). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology, reconstructive, as well as general surgery, utilize this facility. The surgeons performing surgery at Bellaire generally charge their patients for the professional services they provide, while Bellaire only charges the patients for the facility fee.

SurgiCare Memorial Village, L.P.

SurgiCare, through its wholly owned subsidiary Town & Country SurgiCare, Inc., owns a 60% General Partnership interest in SurgiCare Memorial Village, L.P. ("Memorial Village"). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology, reconstructive, as well as general surgery, utilize this facility. The surgeons performing surgery at Memorial Village generally charge their patients for the professional services they provide, while Memorial Village only charges the patients for the facility fee.

San Jacinto Surgery Center, L.P.

SurgiCare through its wholly owned subsidiary Baytown SurgiCare, Inc. owns a 10% General Partnership interest in San Jacinto Surgery Center, L.P. ("San Jacinto"). This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in podiatry, orthopedics, pain management, gynecology, plastics, as well as general surgery, utilize this facility. The surgeons performing surgery at San Jacinto generally charge their patients for the professional services they provide, while San Jacinto only charges the patients for the facility fee.

Physicians Endoscopy Center, Ltd., RLLP

SurgiCare, through its wholly owned subsidiary Town & Country SurgiCare, Inc., owns a 10% General Partnership interest in Physicians Endoscopy Center, Ltd., RLLP. ("Physicians Endoscopy"). This center is a single specialty center equipped to do endoscopic procedures. The physicians performing procedures at Physicians Endoscopy generally charge their patients for the professional services they provide, while Physicians Endoscopy only charges the patients for the facility fee.

Tuscawaras Ambulatory Surgery Center, LLC

In May 2002, the Company acquired a 51% interest in Tuscawaras Ambulatory Surgery Center, LLC (Tuscawaras) located in Dover, Ohio. This center provides the venue for a wide range of high volume, lower-risk surgical procedures within a multi-specialty environment. Surgeons specializing in orthopedics, ENT and general surgery utilize this facility. The surgeons performing surgery at the center generally charge their patients for the professional services they provide, while Tuscawaras only charges the patients for the facility fee.

INDUSTRY OVERVIEW

Freestanding ambulatory surgery centers are licensed outpatient surgery centers, generally equipped and staffed for a wide variety of surgical procedures. These procedures are generally lower-risk and considered appropriate for the freestanding ambulatory setting. In recent years, government programs, private insurance companies, managed care organizations and self-insured employers have implemented various cost-containment measures to limit the growth of healthcare expenditures. These cost-containment measures, together with technological advances, have resulted in a significant shift in the delivery of healthcare services away from traditional inpatient hospitals to more cost-effective alternative sites, including ambulatory surgery centers.

According to SMG Marketing Group Inc.'s Freestanding Outpatient Surgery Center Directory (June 2001), an industry publication, freestanding outpatient surgery centers are one of the fastest growing segments of the healthcare industry and are positioned well to become the premier provider of outpatient surgery. The number of outpatient surgery cases increased 97% from 3.1 million in 1993 to 6.1 million in 2000. As of December 2001, there were over 3,100 freestanding ambulatory surgery centers in the U.S., of which 70% were independently owned.

SurgiCare believes that the following factors have contributed to the growth of ambulatory surgery centers:

COST-EFFECTIVE ALTERNATIVE

Ambulatory surgical centers are not usually saddled with the high cost and overhead of the ancillary services such as administration, laboratory, radiology, or dietary, that are generally found in the hospital settings. Therefore, surgery is generally less expensive than hospital inpatient surgery. In addition, SurgiCare believes that surgery performed at a freestanding ambulatory surgery center is also less expensive than hospital-based ambulatory surgery for a number of reasons, including:

Lower facility development costs; More efficient of staffing and space utilization; Specialized operating environment focused on cost containment.

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

PHYSICIAN AND PATIENT PREFERENCE

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

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

SurgiCare believes that because of the ease of admission and discharge, many physicians prefer ambulatory surgery centers. SurgiCare believes that such centers enhance physicians' productivity by providing them with greater scheduling flexibility, more consistent nurse staffing and faster turnaround time between cases. This allows the physician to perform more surgeries in a defined period. In contrast, hospitals generally serve a broader group of physicians, including those involved with emergency procedures, resulting in postponed or delayed surgeries. Additionally, many physicians choose to perform surgery in a freestanding ambulatory surgery center because their patients prefer the simplified admissions and discharge procedures and the less institutional atmosphere.

NEW TECHNOLOGY

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

BUSINESS PHILOSOPHY

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

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

Furthermore, SurgiCare believes that when operating physicians own and operate an ambulatory surgical center, they become cost conscious. Without allowing cost consciousness to become detrimental to the patients, it may still have a significant positive effect on the overall profitability of the center.

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

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

SurgiCare therefore expects that with goals and motivations substantially aligned, the profitability of each center in which it acquires an interest can be maintained. There are numerous factors that affect the profitability of ambulatory surgery centers, including regulatory and liability matters. Therefore, there can be no assurance that the profitability of any center or SurgiCare as a whole will be maintained.

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

STRATEGY.

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

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

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

- Growth through selective domestic acquisitions and development of surgical facilities. SurgiCare typically target the acquisition or development of surgery centers that provide high volume, non-emergency, lower risk procedures in several medical specialties. Our focus is on under-performing centers where acquisition prices are modest and the leverage returns for operational performance improvements is high. SurgiCare's development staff first identifies existing centers that are potential acquisition candidates. The candidates are then evaluated against SurgiCare's project criteria which may be expected to include several factors such as number of procedures currently being performed by the practice, competition from and the fees being charged by other surgical providers, relative competitive market position of the physician practice under consideration, ability to contract with payers in the market and state certificate of need ("CON") requirements for development of a new center. SurgiCare is in the process of identifying ambulatory surgical centers as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of centers. SurgiCare expects that the acquisition of other surgery centers will take the form of mergers, stock-for-stock exchanges or stock-for-assets exchanges and that in most instances, the target company will wish to structure the business combination to be within the definition of a tax-free reorganization under Section 338 of the Internal Revenue Code of 1986, as amended. SurgiCare may, however, use other acquisition structuring techniques including purchases of assets or stock for cash or cash and stock, or through formation of one or more limited partnerships or limited liability companies. SurgiCare will typically acquire less than all of the interest in a particular center.

- Enhance operating efficiencies. We use systems and protocols to enhance operating efficiencies at both existing and newly acquired or developed facilities. We believe that this focus on efficient operations increases our own profitability and encourages physicians to use our facilities by increasing their productivity. In addition, efficient operations are critical to our lower cost model and our competitive advantage in attracting and negotiating with payers.

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

- Diversification into complimentary healthcare businesses. SurgiCare expects to diversify into related healthcare markets and are targeting imaging centers, surgical hospitals, and practice management. SurgiCare is looking to develop and/or acquire imaging centers that are in conjunction with our surgery centers. This will strategically position us to service medical outpatient needs and enhance the practices of our physician partners. In addition, SurgiCare is evaluating potential expansion of existing surgery centers into surgical hospitals or acquisition or development of surgical hospitals. This is a natural progression of growing centers, but SurgiCare will be conservative in its growth in this area. Finally, SurgiCare is considering expanding into practice management, which is a core discipline that SurgiCare will need to continue to grow and be profitable. In addition, servicing surgery centers with practice management functions can be a source of potential acquisitions.

ACQUISITION AND DEVELOPMENT OF SURGERY CENTERS

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

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

In presenting the advantages to physicians of developing a new freestanding ambulatory surgery center in partnership with SurgiCare, SurgiCare anticipates that the SurgiCare's development staff will emphasize the following factors, among others:

1. SurgiCare's model of minority interest, allowing the physicians or limited partners to own a majority of the center.

2. Simplified administrative procedures.

3. The ability to schedule consecutive cases without preemption by inpatient or emergency procedures.

4. Rapid turnaround time between cases.

5. The high technical competency of the center's clinical staff that performs only a limited number of specialized procedures, and state-of-the-art surgical equipment.

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

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

SURGERY CENTER LOCATIONS

The following table sets forth information related to SurgiCare's surgical centers in operation as of December 31, 2002.

SURGERY CENTER LOCATIONS

Name	Location	Acquisition Date	SurgiCare Ownership
Bellaire SurgiCare	Houston, Texas	July 1999	100%
SurgiCare Memorial Village	Houston, Texas	Oct. 2000	60%
San Jacinto Surgery Center	Baytown, Texas	Oct. 2000	10%
Physicians Endoscopy Center	Houston, Texas	Jan. 2002(1)	10%
Tuscawaras Ambulatory Surgery Center	Dover, Ohio	June 2002	51%

(1) Opened in December 2002.

AAAHC ACCREDITATION

Three of SurgiCare's surgery centers are accredited by the Accreditation Association for Ambulatory Health Care Inc. ("AAAHC"). Although not required, SurgiCare believes that obtaining an AAAHC accreditation is useful in competing for, and contracting with certain managed care organizations. SurgiCare, where practical, will strive to obtain AAAHC accreditation.

REVENUES

SurgiCare's principal source of revenues is a surgical facility fee charged to patients for surgical procedures performed in its surgery centers. SurgiCare depends upon third-party programs, including governmental and private health insurance programs to pay these fees on behalf of their patients. Patients are responsible for the co-payments and deductibles when applicable. The fees vary depending on the procedure, but usually include all charges for operating room usage, special equipment usage, supplies, recovery room usage, nursing staff and medications. Facility fees do not include the charges of the patient's surgeon, anesthesiologist or other attending physicians, which are billed directly to third-party payers by such physicians. In addition to the facility fee revenues, SurgiCare also earns management fees from its operating facilities and development fees from centers that it develops.

Freestanding ambulatory surgery centers such as those in which SurgiCare owns and intends to acquire depend upon third-party reimbursement programs, including governmental and private insurance programs, to pay for services rendered to patients. SurgiCare derived approximately 15% of its gross revenues from governmental healthcare programs, including Medicare and Medicaid, in 2002. The Medicare program currently pays ambulatory surgery centers and physicians in accordance with fee schedules, which are prospectively determined.

The Department of Health and Human Services ("DHHS") bases its reimbursement system to ambulatory surgery centers on cost surveys. The current payment system is based on a 1986 cost survey. Another survey was completed in 1994, and based on this survey, in 1998, DHHS proposed a new payment methodology for surgery centers. If implemented, this new payment methodology would have adversely affected our revenues by approximately 2%. In May 2002, DHHS listed this proposal as a "discontinued action." However, DHHS may propose a new rule at any time that could adversely impact surgery center reimbursement and therefore our financial condition, results of operations and business prospects.

In January 2003, the Medicare Payment Advisory Commission, or MedPac, voted to recommend to Congress that the reimbursement by Medicare for procedures performed in surgery centers be no higher than the reimbursement rate for the same procedures performed in hospital outpatient departments. Also, in January 2003, the Office of Inspector General, or OIG, issued a report that included a similar recommendation, and a recommendation that DHHS conduct a new cost survey. It is uncertain if Congress will act on either or both recommendations. While the majority of procedures are reimbursed at a higher rate in hospital outpatient departments than in ambulatory surgery centers, several procedures are reimbursed at a higher rate in ambulatory surgery centers. Although there is no certainty that these recommendations will be implemented, we have determined that, based on our current procedure mix, the MedPac recommendation, if implemented, would have an immaterial effect on revenues.

In addition to payment from governmental programs, ambulatory surgery centers derive a significant portion of their net revenues from private healthcare reimbursement plans. These plans include both standard indemnity insurance programs as well as managed care structures such as PPOs, HMOs and other similar structures.

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

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

COMPETITION

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

MANAGED CARE CONTRACTS

SurgiCare's participation in managed care contracts, often referred to as HMOs and PPOs, in most cases simply makes it more convenient and cost effective for a potential patient to allow their doctor to choose a SurgiCare facility. Participation in most managed care contracts is helpful, but not material to SurgiCare's business. SurgiCare believes that its current centers can provide lower-cost, high quality surgery in a more comfortable environment for the patient in comparison to hospitals and to hospital-based surgery centers with which SurgiCare competes for managed care contracts. SurgiCare intends that any additional center, which it may acquire, will be similarly situated. In competing for Managed Care contracts, it is important that SurgiCare be able to show insurance companies that it provides quality healthcare at affordable, competitive prices.

GOVERNMENT REGULATION

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

Certificates of Need and State Licensing. CON regulations control the development of ambulatory surgery centers in certain states. CONs generally provide that prior to the expansion of existing centers, the construction of new centers, the acquisition of major items of equipment or the introduction of certain new services, approval must be obtained from the designated state health-planning agency. State CON statutes generally provide that, prior to the construction of new facilities or the introduction of new services, a designated state health-planning agency must determine that a need exists for those facilities or services. SurgiCare expects that its development of ambulatory surgery centers will generally focus on states that do not require CONs. However, acquisitions of existing surgery centers, even in states that require

CONs for new centers, generally do not require CON regulatory approval.

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

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

SurgiCare and its affiliated groups may in the future enter contracts with managed care organizations, such as HMOs, whereby SurgiCare and its affiliated groups would assume risk in connection with providing healthcare services under capitation arrangements. If SurgiCare or its affiliated groups are considered to be in the business of insurance as a result of entering into such risk sharing arrangements, they could become subject to a variety of regulatory and licensing requirements applicable to insurance companies or HMOs, which could have a material adverse effect upon SurgiCare's ability to enter into such contracts.

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

Reimbursement. SurgiCare depends upon third-party programs, including governmental and private health insurance programs; to reimburse it for services rendered to patients in its ambulatory surgery center. In order to receive Medicare reimbursement, each ambulatory surgery center must meet the applicable conditions of participation set forth by DHHS relating to the type of facility, its equipment, personnel and standard of medical care, as well as compliance with state and local laws and regulations, all of which are subject to change from time to time. Ambulatory surgery centers undergo periodic on-site Medicare certification surveys. SurgiCare's existing center is certified as a Medicare provider. Although SurgiCare intends for its current center and those, which it may acquire, to participate in Medicare and other government reimbursement programs, there can be no assurance that these centers will continue to qualify for participation.

Since performing surgery is a fundamental part of any surgical practice, the facilities where a surgeon chooses to operate is considered to be an extension of the surgical practice. It is acceptable for certain surgical procedures to be done in a doctor's office; other procedures require a more clinical environment such as that of an ambulatory surgical center, or a hospital. Regardless of the location, when a surgeon performs a procedure, the surgical procedure is part of the surgical practice, and therefore the location is considered to be an extension of the practice.

If an operating physician has a financial interest in a facility through a partnership interest, or as a shareholder, the operating physician has the potential to benefit from the profitability of the facility. Since the facility where a surgeon performs surgery is considered an extension of the surgical practice, profiting from an ownership interest is not considered to be in violation of the anti-kickback statutes of the Medicare-Medicaid Illegal Remuneration Provisions.

Medicare-Medicaid Illegal Remuneration Provisions. The anti-kickback statute makes unlawful knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe, or rebate) directly or indirectly to induce or in return for referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under Medicare or Medicaid. Violation is a felony punishable by a fine of up to $25,000 or imprisonment for up to five years, or both. The Medicare and Medicaid Patient Program Protection Act of 1987 (the "1987 Act") provides administrative penalties for healthcare practices which encourage over utilization or illegal remuneration when the costs of services are reimbursed under the Medicare program. Loss of Medicare certification and severe financial penalties are included among the 1987 Act's sanctions. The 1987 Act, which adds to the criminal penalties under preexisting law, also directs the Inspector General of the DHHS to investigate practices which may constitute over utilization, including investments by healthcare providers in medical diagnostic facilities and to promulgate regulations establishing exemptions or "safe harbors" for investments by medical service providers in legitimate business ventures that will be deemed not to violate the law even though those providers may also refer patients to such a venture. Regulations identifying safe harbors were published in final form in July 1991 (the "Regulations").

The Regulations set forth two specific exemptions or "safe harbors" related to "investment interests": the first concerning investment interests in large publicly traded companies ($50,000,000 in net tangible assets) and the second for investments in smaller entities. The corporate structure of SurgiCare and its centers meet all of the criteria of either existing "investment interests" safe harbor as announced in the Regulations.

While several federal court decisions have aggressively applied the restrictions of the anti-kickback statute, they provide little guidance as to the application of the anti-kickback statute to SurgiCare or its subsidiaries. SurgiCare believes that it is in compliance with the current requirements of applicable federal and state law.

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

Prohibition on Physician Ownership of Healthcare Facilities. The "Stark II" provisions of the Omnibus Budget Reconciliation Act of 1993 amend the federal Medicare statute to prohibit a referral by a physician for "designated health services" to an entity in which the physician has an investment interest or other financial relationship, subject to certain exceptions. A referral under Stark II that does not fall within an exception is strictly prohibited. This prohibition took effect on January 1, 1995. Sanctions for violating Stark II can include civil monetary penalties and exclusion from Medicare and Medicaid.

Ambulatory surgery is not identified as a "designated health service", and SurgiCare therefore, does not believe that ambulatory surgery is otherwise subject to the restrictions set forth in Stark II. Proposed regulations pursuant to Stark II that were published on January 9, 1998 specifically provide that services provided in any ambulatory surgery center and reimbursed under the composite payment rate are not designated health services.

However, unfavorable final Stark II regulations or subsequent adverse court interpretations concerning similar provisions found in recently enacted state statutes could prohibit reimbursement for treatment provided by the physicians affiliated with SurgiCare or its current or future centers to their patients.

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

Administrative Simplification and Privacy Requirements. There are currently numerous legislative and regulatory initiatives at the state and federal levels addressing patient privacy concerns. In particular, on December 28, 2000, DHHS released final health privacy regulations implementing portions of the Administrative Simplification Provisions of HIPAA, and in August 2002 published revisions to the final rules. These final health privacy regulations generally require compliance by April 14, 2003 and extensively regulate the use and disclosure of individually identifiable health-related information. In addition, HIPAA requires DHHS to adopt standards to protect the security of health-related information. DHHS released final security regulations on February 20, 2003. The security regulations will generally become mandatory on April 20, 2005. These security regulations will require healthcare providers to implement administrative, physical and technical practices to protect the security of individually identifiable health-related information that is electronically maintained or transmitted. Further, as required by HIPAA, DHHS has adopted final regulations establishing electronic data transmission standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically. Compliance with these regulations became mandatory on October 16, 2002. However, entities that filed for an extension before October 16, 2002 have until October 16, 2003 to comply with the regulations. SurgiCare filed extensions for its centers before October 16, 2002, and we anticipate that we will be in compliance with the standards by October 16, 2003. We believe that the cost of compliance with these regulations will not have a material adverse effect on our business, financial position or results of operations. If we fail to comply with these regulations, we could suffer civil penalties up to $25,000 per calendar year for each provision violated and criminal penalties with fines of up to $250,000 per violation. In addition, our facilities will continue to remain subject to any state laws that are more restrictive than the privacy regulations issued under HIPAA. These statutes vary by state and could impose additional penalties.

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

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

Penalties under these statutes include substantial civil and criminal fines, exclusion from the Medicare program, and imprisonment. One of the most prominent of these laws is the federal False Claims Act, which may be enforced by the federal government directly, or by a qui tam plaintiff on the government's behalf. Under the False Claims Act, both the government and the private plaintiff, if successful, are permitted to recover substantial monetary penalties, as well as an amount equal to three times actual damages. In recent cases, some qui tam plaintiffs have taken the position that violations of the anti-kickback statute and Stark II should also be prosecuted as violations of the federal False Claims Act. SurgiCare believes that it has procedures in place to ensure the accurate completion of claims forms and requests for payment.

However, the laws and regulations defining the proper parameters of proper Medicare or Medicaid billing are frequently unclear and have not been subjected to extensive judicial or agency interpretation. Billing errors can occur despite SurgiCare's best efforts to prevent or correct them, and no assurances can be given that the government will regard such errors as inadvertent and not in violation of the False Claims Act or related statutes.

EMPLOYEES

As of December 31, 2002, SurgiCare and its subsidiaries employed approximately 125 persons, 98 of who were full-time employees and 27 of who were part-time employees. Of the above, 12 were employed at SurgiCare's corporate office in Houston, Texas and the remaining employees were employed by SurgiCare's surgery centers. SurgiCare believes its relationship with its employees to be good. SurgiCare does not have any employment or labor contracts, except for its Chief Executive Officer and Chief Financial Officer (see Note 18 to the accompanying financial statements). Additionally, SurgiCare does not currently plan on having any such contracts with any operating physician on staff at any of its facilities. At this time, SurgiCare believes that all of its nurses and other employees have at will employment relationships with the company.

PHYSICIAN SHAREHOLDERS

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

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

ITEM 2. DESCRIPTION OF PROPERTY

SurgiCare's principal office is located at 12727 Kimberly Lane, Suite 200, Houston, Texas, 77024. This property is approximately 3,900 square feet, located on the 2nd floor of the Kimberley Medical Office Building above our Memorial Village surgery center. The property is leased from an unaffiliated third party for an initial term that expires in August 2006, but with an option to renew for an additional five years thereafter. Annual rental of $55,272.96 is payable monthly in the amount of $4,606.08. SurgiCare maintains tenant fire and casualty insurance on its property located in such building in an amount deemed adequate by SurgiCare. The other five surgery centers in operation at December 31, 2002, lease space ranging from 10,000 to 14,000 square feet with remaining lease terms ranging from 6 months to 6 years.

In June 2002, SurgiCare acquired five properties from American International Industries, Inc., Texas Real Estate Enterprises, Inc. and MidCity Houston Properties, Inc. in exchange for 1,200,000 shares of Series AA Redeemable Preferred Stock. The land holdings are undeveloped properties. SurgiCare is currently marketing the properties for sale. The properties include 735.66 acre tract of vacant land located on the east side of a shell paved road leading to the Anahuac National Wildlife Refuse, approximately two miles South of FM 1985, in Chambers County, Texas; a 22.36 acre tract of land located on the east side of US 59 at the Old Humble/Atascocita Road exit, and an adjacent 14.80 acre tract of land on the west side of Homestead Road in Houston, Harris County, Texas; a 22,248 square foot tract of land located on the northeast corner of Almeda Road and Riverside Drive, in Houston, Harris County, Texas; four tracts of land totaling 26.856 acres located on the southeast, northwest, and northeast corners of Airport Boulevard and Sims Bayou and east side of 4th Street south of Airport Boulevard in Houston, Harris County, Texas; and a 12.216 net acre tract of land located on the southwest corner of Airport Boulevard and Sims Bayou, Houston, Harris County, Texas.

ITEM 3. LEGAL PROCEEDINGS

In September 2002, SurgiCare was named as a defendant in a suit entitled Charles Cohen vs. SurgiCare, Inc. and David Blumfield, in the 234th Judicial District Court of Harris County, Texas. Mr. Cohen sued SurgiCare for breach of contract and both defendants for defamation. Mr. Cohen claims that SurgiCare breached his employment agreement when it terminated his employment (although he remains a Director of SurgiCare as of the date of this filing) and that Mr. Blumfield and SurgiCare made defamatory statements about him. Mr. Cohen has made claims for $562,000 for breach of the employment agreement plus additional damages for the defamation claim. SurgiCare intends to vigorously defend this suit.

In February 2003, SurgiCare was named as a defendant in a suit entitled S.E. Altman, individually, and d/b/a Altman & Associates vs. SurgiCare, Inc., in the County Court at Law No. 1, Harris County, Texas. Altman has sued SurgiCare for breach of contract based on a finders fee contract in which Altman claims SurgiCare has not performed. Altman has made claims in the amount of $217,000 plus attorney's fees. SurgiCare intends to vigorously defend this suit.

In March 2003, SurgiCare Memorial Village, L.P. and Town & Country SurgiCare, Inc. were named as defendants in a suit entitled MarCap Corporation vs. Health First Surgery Center-Memorial, Ltd.; HFMC, L.C.; SurgiCare Memorial Village, L.P.; and Town & Country SurgiCare, Inc. MarCap has sued for default under a promissory note and refusing to remit payment on a promissory note in the amount of $215,329.36. SurgiCare has paid $53,832.34 of this balance and is attempting to arrange for a payment plan to pay the remaining balance.

In April 2003, SurgiCare was named as a defendant in a suit entitled International Diversified Corporation, Limited vs. SurgiCare, Inc. International Diversified Corporation (IDC) has sued for breach of contract in which IDC invested $1,000,000 into SurgiCare. IDC has sued for the rescission of the contract and the return of $1,000,000 or the deliverance of 2,439,024 shares. SurgiCare intends to vigorously defend this suit.

In April 2003, SurgiCare was named as a defendant in a suit entitled Jackson Walker, LLP vs. SurgiCare, Inc. Jackson Walker is claiming damages of $52,247.18 in unpaid invoices for services rendered. SurgiCare is currently attempting to settle the account.

ITEM 4. SUBMISSION OR MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS

MARKET INFORMATION

In April 2000, the company began trading on the OTC Bulletin Board. In July 2001, SurgiCare qualified for listing on the American Stock Exchange and began trading on this exchange at that time. The following table sets forth the high and low sales prices relating to SurgiCare's common stock for the last two fiscal years, and, with respect to prices during the period when it was traded on the OTC Bulletin Board, reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions:

FISCAL 2002

	HIGH	LOW
Quarter ended March 31, 2002	$ 2.50	$ 1.90
Quarter ended June 30, 2002	$ 3.70	$ 1.76
Quarter ended September 30, 2002	$ 2.68	$ 0.30
Quarter ended December 31, 2002	$ 0.93	$ 0.22

FISCAL 2001

	HIGH	LOW
Quarter ended March 31, 2001	$ 5.88	$ 3.88
Quarter ended June 30, 2001	$ 5.50	$ 2.20
Quarter ended September 30, 2001	$ 4.95	$ 1.85
Quarter ended December 31, 2001	$ 2.93	$ 1.75

HOLDERS

SurgiCare believes that as of March 31, 2003, there were approximately 416 holders of record of the Company's Common Stock, 14 holders of the Company's Series A Preferred Stock and one holder of the Company's Series AA Preferred Stock.

DIVIDENDS

SurgiCare has not paid dividends on shares of its Common Stock within the last two years, and does not expect to declare or pay any cash dividends on its common shares in the foreseeable future

RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is certain information concerning issuances of securities by SurgiCare during the quarter ended December 31, 2002 and earlier transactions not previously reported during the year ended December 31, 2002, that were not registered under the Securities Act.

On December 11, 2002, SurgiCare issued 3,658,537 shares of common stock to an accredited investor upon the conversion of shares of Series AA Preferred Stock pursuant to the exemption provided by Regulation D and Section 4(2) of the

Securities Act. Also on December 11, 2002, SurgiCare issued 2,439,024 shares of common stock to an accredited investor for an aggregate consideration of $1,000,000 pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act.

On February 4, 2002, SurgiCare issued 91,000 shares of common stock to an accredited investor upon the conversion of shares of Series A Redeemable Preferred Stock pursuant to the exemption provided by Regulation D and Section 4(2) of the Securities Act.

In March 2002, the Company issued 400,000 shares of its common stock to TCI Voting Trust for $532,000 in a transaction that it believed was exempt from registration pursuant to Section 4(2) of the Securities Act. Management believes that TCI Voting Trust previously sold 400,000 shares to third parties and utilized the sales proceeds there from to purchase these shares from the Company. These two transactions could be deemed a simultaneous transaction, in which case, one could assert that a Section 5 violation occurred under the Securities Act. The existence of such a violation could give rise to a rescission right to the purchaser of the common stock, and could adversely affect other private offerings completed by the Company during the six-month period preceding and following the possible violation.

In March 2002, the Company issued 125,000 shares of common stock upon the exercise of $0.10 warrants by a sophisticated investor for services rendered in connection with a financing pursuant to the exemption provided by Section 4(2) of the Securities Act.

On April 10, 2002, the Company issued 1,500 shares of common stock to a sophisticated investor for services rendered pursuant to the exemption provided by Section 4(2) of the Securities Act.

In May 2002, the Company issued 56,000 shares of common stock to a sophisticated investor in connection with a financing pursuant to the exemption provided by Section 4(2) of the Securities Act.

In May 2002, the Company issued 200,000 shares of its common stock to TCI Voting Trust for $439,000 in a transaction that it believed was exempt from registration pursuant to Section 4(2) of the Securities Act. Management believes that TCI Voting Trust then sold 200,000 shares to a third party and utilized the sales proceeds there from to purchase these shares from the Company. These two transactions could be deemed a simultaneous transaction, in which case, one could assert that a Section 5 violation occurred under the Securities Act. The existence of such a violation could give rise to a rescission right to the purchaser of the common stock, and could adversely affect other private offerings completed by the Company during the six-month period preceding and following the possible violation.

On May 30, 2002, the Company issued 75,000 shares of common stock to a sophisticated investor as partial payment for the acquisition of Aspen Healthcare pursuant to the exemption provided by Section 4(2) of the Securities Act.

On June 14, 2002, the Company issued 88,000 shares of common stock to sophisticated investors for services rendered pursuant to the exemption provided by Section 4(2) of the Securities Act.

On September 13, 2002, the Company issued 40,000 shares of common stock to a sophisticated investor for services rendered in connection with a financing pursuant to the exemption provided by Section 4(2) of the Securities Act.

No underwriters were involved in any of the foregoing sales or issuance of securities. Such sales or issuance were made in reliance upon an exemption from the registration provisions of the Securities Act set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering, or the rules and regulations there under. Each recipient either received adequate information about SurgiCare or had access, through employment or other relationships, to such information, and SurgiCare determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in SurgiCare. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD LOOKING STATEMENTS

The information contained herein contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward looking statements involve risks and uncertainty, including, without limitation, the ability of SurgiCare to continue its expansion strategy, changes in federal or state healthcare laws and regulations or third party payer practices, SurgiCare's historical and current compliance with existing or future healthcare laws and regulations and third party payer requirements, changes in costs of supplies, labor and employee benefits, as well as general market conditions, competition and pricing. Although SurgiCare believes that the assumptions underlying the forward looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward looking statements included in this Form 10-KSB will prove to be accurate. In view of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by SurgiCare or any other person, that the objectives and plans of SurgiCare will be achieved. SurgiCare undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

OVERVIEW

SurgiCare's principal business strategies are to (a) increase physician utilization of existing facilities, (b) increase both the revenue and profits from current cases and procedures being performed in existing facilities (c) achieve growth and expand revenues by pursuing strategic acquisitions of existing, and the development of new, physician owned ambulatory surgical centers, and (d) expand into related healthcare facilities, including imaging, surgical hospitals and practice management.

Surgical supply costs are the single largest cost component of any ambulatory surgical center. Therefore, SurgiCare's goal is to minimize the cost of surgical supplies. Through participation in national buying groups, SurgiCare has been able to negotiate discounts on most of the commonly used surgical supplies. SurgiCare has also implemented a "Just in Time" approach to inventory. This allows the center to minimize the amount of supplies that it is required to keep in inventory.

SurgiCare is in the process of identifying ambulatory surgical centers, imaging centers, surgical hospitals and practice management companies as potential acquisition targets and has, in some cases, conducted preliminary discussions with representatives of these organizations. Although there are no commitments, understandings, or agreements with any other potential acquisition targets, talks are ongoing for the acquisition of additional entities. All of such discussions have been tentative in nature and there can be no assurance that SurgiCare will acquire any center with whom discussions have been conducted.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentages of revenues represented by income statement items.

	2002	2001
Revenues, net	100.00%	100.00%
Expenses:		
Direct Cost of Services	46.55%	34.82%
General & Administrative Expenses	106.86%	39.19%
Total Operating Expenses	153.42%	74.01%
Operating Income	-53.42%	25.99%
Other Income (Loss)	-37.12%	-15.75%
Earnings (Loss) Before Federal Income Tax Expense	-90.54%	10.24%
Federal Income Tax Expense (Benefit):		
Current	-1.94%	.02%
Deferred	-11.99%	4.78%
Net Earnings (Loss)	-76.60%	5.73%

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2002 (2002) vs. YEAR ENDED DECEMBER 31, 2001 (2001)

Net Revenue. On a consolidated basis, SurgiCare performed 7,374 cases in 2002 compared to 5,010 cases in 2001, an increase of 47.2%. On a same store basis (which includes unconsolidated centers and pre-acquisition cases), total cases in 2002 were 12,603 compared to 10,926 in 2001, an increase in utilization of 15.3%. New centers accounted for $1,369,696 in revenue in 2002. However, revenue declined 10.5% from $12,912,301 in 2001 to $11,552,439 in 2002 due to a reduction in the Company's estimates for reimbursement from third-party payers. The reduction in reimbursement resulted in the Company increasing its insurance contractual allowances, which offset revenue. Such adjustments were necessary based on the Company's assessment of recent reimbursement activity.

Direct Surgical Expenses. Total direct surgical costs increased to 46.6% of revenue in 2002 from 35.0% in 2001. The increase as a percentage is primarily due to the decrease in revenue dollars resulting from the Company increasing its estimates of insurance contractual allowances and, to a lesser extent, the write-down of obsolete inventory.

General and Administrative Expenses. General and administrative costs increased to 106.9% of revenue in 2002 compared to 40.2% of revenue in 2001. The increased costs are directly related to the increase in our provision for doubtful accounts and additional professional fees incurred in merger and acquisition activities and capital raising efforts. In addition, salaries, rent and other administrative costs increased due to increased infrastructure and the acquisition of Tuscarawas.

Total Operating Expenses. As a percent of revenue, total expenses increased to 153.4% of revenue in 2002 from 75.2% in 2001. The increased costs, expressed both in dollars and as a percentage of revenue, are directly related to the increase in our contractual allowances and provision for doubtful accounts, inventory write-downs and additional professional fees incurred in merger and acquisition activities and capital raising efforts.

Other Income (Loss). Total Other Loss increased to $5,107,748, or 37.1% of revenue in 2002 from $731,655, or 15.0% of revenue in 2001 primarily due to the following:

The loss on sale of assets in 2002 includes the loss of $169,934 incurred on the sale of our 20% interest in Bayside Surgical Partners, LP.

The loss on terminated acquisition includes $1,977,382 of costs associated with the Aspen Healthcare acquisition, which was not completed.

The Company incurred an impairment of its investment in land of $1,500,000 during the third quarter of 2002 to reflect the investment's estimated valuation. The Company is actively marketing this investment for sale within the next twelve months. It is the Company's policy to periodically evaluate impairment of its assets. If the Company is unable to sell the properties for $4,500,000, we may be required to take an additional impairment charge. The maximum charge would be $500,000 due to the guarantee by American International Industries, Inc. of a $4,000,000 resale price.

In 2002, the Company's equity in earnings (losses) from limited partnerships was $(103,874) compared to $76,580 in 2001. The losses incurred are directly attributable to the increase in our contractual allowances, inventory write-downs and increase in our provision for doubtful accounts, which are discussed above.

Interest expense increased to 11.8% of revenue compared to 6.3% of revenue in 2001. This increase is the due to additional borrowings to complete an acquisition, to attempt to acquire Aspen Healthcare, and to finance the Company's working capital.

Minority Interest in Earnings (Losses) of Partnerships. In 2002, the minority interest in (earnings) losses of partnerships was $782,386 compared to $(1,210,674) in 2001. The losses incurred by the partnerships are directly attributable to the increase in our contractual allowances, inventory write-downs and increase in our provision for doubtful accounts discussed above.

Federal Income Tax. In 2002, the Company recorded a tax benefit of $1,609,576, or 15.3% of its pre-tax loss of $10,459,194. The percentage is less than the normally expected rate due to a valuation allowance of $2,679,000 recorded against the Company's deferred tax assets. In 2001, the Company recorded income tax expense of $593,000. or 46.9% of pre-tax income.

Net Earnings (Loss). Net Earnings (Loss) in 2002 decreased to a loss of $8,849,618 compared to earnings of $670,360 in 2001. The losses incurred are primarily attributable to the increases in the Company's provision for doubtful accounts, professional fees incurred in merger and acquisition activities, the expensing of the costs incurred on the acquisition of Aspen Healthcare, the land impairment and the loss on the sale of our interest in Bayside Surgical Partners, L.P.

LIQUIDITY and CAPTIAL RESOURCES

Net cash used in operating activities was $462,422 in 2002 compared to cash provided by operating activities of $381,747 in 2001. The primary reason for the decrease in cash from operations was the loss from operations.

Net cash used in investing activities increased to $1,667,443 in 2002 from $103,978 in 2001. The increased use of cash was primarily for the investment in Tuscarawas Surgery Center and Aspen Healthcare.

Net cash provided by (used in) financing activities increased to $2,315,918 in 2002 from $(223,161) in 2001. The increase in cash was primarily due to proceeds received from bank financing and the sale of common stock.

As of December 31, 2002, the Company had cash and cash equivalents of $262,327 and negative working capital of $8,473,955. SurgiCare has a total of $6,043,254 in long-term debt and an additional $1,665,657 in revolving lines of credit currently in default. SurgiCare has defaulted on certain provisions of its Loan and Security Agreement with its senior lender, DVI Business Credit Corporation (DVI). However, DVI has agreed to forbear from taking any action to foreclose on any collateral or place the Company into receivership until June 30, 2003. SurgiCare is in the process of refinancing these agreements as well as its other debt arrangements, but can provide no assurance that it will be successful in its efforts.

In July 2002, the Company closed a $1,000,000 funding which was primarily used to fund the initial payments for the Aspen Healthcare acquisition. The Company issued convertible debentures in the principal amount of $1,000,000 maturing July 14, 2003, bearing interest at a rate of 25% per annum, with principal and interest due upon maturity. The debentures are convertible into common stock at a floor price equal to $1.50 per share.

The Company has financed its growth primarily though the issuance of equity, secured and/or convertible debt. As of December 31, 2002, the Company does not have any credit facilities available with financial institutions or other third parties to provide for working capital shortages. Although the Company believes it will generate cash flow from operations in future quarters, due to its debt load, it is not able to fund its current operations solely from its cash flow.

On March 6, 2003, the Company received a $1.2 million investment from existing physician shareholders, local Houston physicians, and select Houston individuals. The investment was made via a private placement, under which 3,419,137 shares of the company's common stock were issued. The shares are restricted under Rule 144. In addition, the investors received a warrant for every two shares of common stock purchased. The warrants are exercisable for one year and are priced at $0.35. The proceeds of the financing are being used for working capital purposes.

The Company believes that additional sales of debt and/or equity securities will be required to continue operations. The Company is continuing to pursue additional financing of debt and/or equity, but does not currently have firm commitments for the additional sales of debt or equity securities. Any such sales will be made on a best efforts basis. The Company can provide no assurance that it will be successful in any future financing effort to obtain the necessary working capital to support its operations, or fund acquisitions for its anticipated growth. In the event that any future financing efforts are not successful, the Company will be forced to liquidate assets and/or curtail operations.

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ITEM 7. FINANCIAL STATEMENTS

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Independent Auditors' Report

The Board of Directors

SurgiCare, Inc.
Houston, Texas

We have audited the accompanying Consolidated Balance Sheets of SurgiCare, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related Consolidated Statements of Operations, Shareholders' Equity, and Cash Flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SurgiCare, Inc. and Subsidiaries as of December 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that SurgiCare, Inc. and Subsidiaries will continue as a going concern. As described more fully in Note 2 , the Company has incurred operating losses, cash deficits from operations and is in default of certain loan agreements. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in regards to these matters is also described in Note 2. The consolidated financial statements do not reflect any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
March 19, 2003

SURGICARE, INC.
CONSOLIDATED BALANCE SHEETS

	December
	2002

ASSETS

Current Assets		
Cash and cash equivalents	$ 262,327	$
Accounts Receivable:		
Trade (less allowance for contractual adjustments and doubtful accounts of $6,496,000 and $4,851,000 at December 31, 2002 and 2001, respectively)	1,324,944	
Other	398,834	
Note receivable	223,178	
Inventory	397,772	
Prepaid expenses	69,380	
Other current assets	76,313	
Total Current Assets	2,752,748	
Property and Equipment		
Office furniture and equipment	378,901	
Medical and surgical equipment	3,576,721	
Leasehold improvements	941,440	
Computer equipment	377,495	
Transportation equipment	19,015	
	5,293,572	
Less: Accumulated depreciation and amortization	2,468,662	
	2,824,910	
Goodwill (net of amortization of $650,207)	8,045,735	
Real Estate	4,579,385	
Investment in Limited Partnerships	306,654	
Prepaid Limited Partner Distributions	403,748	
Loan Fees (net of amortization of $108,321 and $34,470 in 2002 and 2001, respectively)	193,716	
	$ 19,106,896	$

	December 2002
LIABILITIES	
Current Liabilities	
Current maturities of long-term debt	$ 6,295,389
Lines of credit	1,665,657
Current portion of capital leases	313,725
Accounts payable	2,362,378
Accrued expenses	472,645
Payable to related party	116,909
Federal income tax payable	
Deferred federal income tax	
Total Current Liabilities	11,226,703
Long-Term Capital Lease Obligations	
Long-Term Debt	454,328
Minority Interest in Partnerships	
	11,681,031
SHAREHOLDERS' EQUITY	
Preferred Stock, Series A, par value $.001, 1,650,000 authorized; 1,225,100 and 1,316,100 issued and outstanding at December 31, 2002 and 2001; respectively; redemption and liquidation value $6,125,500	1,225
Preferred Stock, Series AA, par value $.001, 1,200,000 authorized; 900,000 issued and outstanding at December 31, 2002	900
Common Stock, par value $.005, 50,000,000 shares authorized; 21,327,131 issued at December 31, 2002; 14,089,320 issued and outstanding at December 31, 2001	106,635
Additional Paid-In Capital	15,065,801
Retained Earnings (Deficit)	(7,708,196)

Less: Treasury Stock - at cost, 75,000 shares	(32,250)
Less: Shareholder receivables	(8,250)
	7,425,865
	$ 19,106,896

See notes to consolidated financial statements.

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SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Revenues:	
Surgical, net	$
Management fees	
Development fees	
Direct Cost of Revenues:	
Surgical costs	
Clinical salaries and benefits	
Other	
General and Administrative Expenses:	
Salaries and benefits	
Management and affiliation fees	
Rent	
Depreciation and amortization	
Professional fees	
Taxes	
Provision for doubtful accounts	
Other	

Total Operating Expenses

Operating Income (Loss)

Other Income (Expense)
Miscellaneous income
Loss on sale of assets
Loss on terminated acquisition
Impairment on investment in land
Equity in earnings (loss) of limited partnerships
Interest expense

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

Earnings (Loss) Before Minority Interest and Federal Income Tax Expense

Minority Interest in (Earnings) Loss of Partnerships

Earnings (Loss) Before Federal Income Tax Expense

Federal Income Tax Expense (Recovery)
Current
Deferred

Net Earnings (Loss)	$
Net Earnings (Loss) Per Share - Basic	$
Net Earnings (Loss) Per Share - Diluted	$
Weighted Average Common Shares Outstanding	
Basic	
Diluted	

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2002 and 2001

	$.001 Series A Preferred Stock		$.001 Series AA Preferred Stock		$.005 Par Common
	Shares	Amount	Shares	Amount	Shares
Balance - December 31, 2000	1,450,000	$ 1,450			13,954,320
Sale of preferred stock	50,000	50			
Collections on shareholder receivables					
Conversion of preferred stock	(135,000)	(135)			135,000
Redemption of preferred stock	(48,900)	(49)			
Issuance of warrants					
Net earnings					
Balance - December 31, 2001	1,316,100	1,316			14,089,320

Issuance of preferred stock for land			1,200,000	$ 1,200	
Sale of common stock					3,039,024
Conversion of preferred stock	(91,000)	(91)	(300,000)	(300)	3,749,537
Exercise of warrants					125,000
Issuances of stock for consulting services					136,250
Issuances of stock and warrants for acquisitions					188,000
Issuances of warrants					
Beneficial conversion feature of debt					
Purchase of treasury stock					
Net loss					
Balance - December 31, 2002	1,225,100	$ 1,225	900,000	$ 900	21,327,131

	Retained Earnings (Deficit)	Shareholder Receivables	Total Equity
Balance - December 31, 2000	$ 693,997	$ (8,250)	$ 5,467,875
Sale of preferred stock		(13,000)	9,500
Collections on shareholder receivables		13,000	13,000
Conversion of preferred stock			
Redemption of preferred stock	(222,935)		(244,500)
Issuance of warrants			280,000
Net earnings	670,360		670,360
Balance - December 31, 2001	1,141,422	(8,250)	6,196,235
Issuance of preferred stock for land			6,000,000
Sale of common stock			1,971,000
Conversion of preferred stock			

Exercise of warrants			12,500
Issuances of stock for consulting services			221,041
Issuances of stock and warrants for acquisitions			771,253
Issuances of warrants			923,114
Beneficial conversion feature of debt			212,590
Purchase of treasury stock			(32,250)
Net loss	(8,849,618)		(8,849,618)
Balance - December 31, 2002	$(7,708,196)	$ (8,250)	$ 7,425,865

See notes to consolidated financial statements.

SURGICARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For D 2002
Cash Flows From Operating Activities	
Net earnings (loss)	$ (8,849
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:	
Equity in earnings (loss) of limited partnerships	103
Minority interest in earnings (loss) of partnership	(782
Depreciation and amortization	745
Deferred federal income tax (benefit)	(1,385
Loss on sale of assets	172
Loss on terminated acquisition	1,977
Impairment on investment in land	1,500
Stock and warrants issued for consulting and professional fees	404
(Increase) Decrease in:	
Accounts receivable	4,586
Inventory	230
Prepaid expenses	113
Other current assets	(163
Loan fees	(139

Increase (Decrease) in:	
Accounts payable	1,150
Federal income tax payable	(224
Accrued expenses	96
Net Cash Provided by (Used in) Operating Activities	(462
Cash Flows From Investing Activities	
Purchase of Memorial Village	
Purchase of Tuscarawas	(426
Capital expenditures	(226
Distributions from partnerships	81
Investment in limited partnerships	(14
Proceeds from sale of assets	19
Investment in terminated acquisition	(1,100
Net Cash Used in Investing Activities	(1,667
Cash Flows From Financing Activities	
Proceeds from debt	3,867
Payments on debt	(2,527
Net proceeds from (payments on) lines of credit	(474
Principal payments on capital lease	(113
Collections on shareholder receivable	

See notes to consolidated financial statements.

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	For D 2002
Cash Flows From Financing Activities (continued)	
Distributions to limited partners	(536
Sale of preferred stock	
Issuance of warrants with debt	149
Purchase of treasury stock	(32
Exercise of warrants	12
Sale of common stock	1,971
	2,315
Net Cash Provided by (Used in) Financing Activities	
Net Increase in Cash and Cash Equivalents	186

Cash and Cash Equivalents - Beginning of Period		76
Cash and Cash Equivalents - End of Period	$	262
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	$	1,205
Income taxes		
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Redemption of preferred stock with shareholder receivable		
Purchase of land with preferred stock	$	6,000
Issuance of shares for investment	$	74
Equipment acquired with capital lease obligation	$	67

During 2002, the Company acquired the following assets of Tuscarawas Ambulatory Surgery Center, LLP.

Accounts receivable	$
Inventory	
Prepaid expenses	
Property and equipment	
Goodwill	
Accounts payable	
Accrued expenses	
Debt	
Warrants issued	
Net cash paid	$

See notes to consolidated financial statements.

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 and 2001

Note 1 - Organization and Accounting Policies

SurgiCare, Inc. and Subsidiaries (the Company) maintains their accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations and cash flows are summarized below:

Description of Business

Bellaire SurgiCare, Inc. (Bellaire) was formed in January, 1995 as a Texas corporation to operate a day surgery center in Houston, Texas. Effective July 1, 1999, Bellaire acquired SurgiCare, Inc. (formerly Technical Coatings, Inc.) in a reverse acquisition. Bellaire SurgiCare, Inc. is now a wholly-owned subsidiary of SurgiCare, Inc.

In September, 2000, Town & Country SurgiCare, Inc. was formed as a Texas corporation and a wholly-owned subsidiary of SurgiCare, Inc. Town & Country SurgiCare, Inc. is a 60% general partner in Healthfirst Memorial Village Surgery, L.P., which operates a day surgery center in Houston, Texas. During 2002, Town & Country SurgiCare, Inc. acquired a 10% general partner interest in Physicians Endoscopy Center, Ltd., L.L.P. (Physicians Endoscopy), which operates a day surgery center in Houston, Texas.

In October, 2000, Baytown SurgiCare, Inc. was formed as a Texas corporation and a wholly-owned subsidiary of SurgiCare, Inc. Baytown SurgiCare, Inc. is a 10% general partner of San Jacinto Surgery Center, Ltd., which operates a day surgery center in Baytown, Texas.

In May 2001, Southeast SurgiCare, Inc. was formed as a Texas corporation and a wholly-owned subsidiary of SurgiCare, Inc. Southeast SurgiCare, Inc. is a 20% general partner of Bayside Surgical Partners, L.P. (Bayside), which operates a day surgery center in Pasadena, Texas. During 2002, Southeast SurgiCare, Inc. sold their 20% interest in Bayside. See Note 3.

In June 2002, SurgiCare, Inc. acquired a 51% ownership in Tuscarawas Ambulatory Surgery Center, LLC (Tuscarawas), an Ohio limited liability company, which operates a day surgery center in Dover, Ohio. See Note 3.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bellaire SurgiCare, Inc., Southeast SurgiCare, Inc., Town & Country SurgiCare, Inc., Baytown SurgiCare, Inc. and Tuscarawas Ambulatory Surgery Center, LLC. (51% owned) All material intercompany balances and transactions have been eliminated in consolidation.

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Revenue is recognized on the date the procedures are performed, and accounts receivable are recorded at that time. Revenues are reported at the estimated realizable amounts from patients and third-party payers. If such third-party payers were to change their reimbursement policies, the effect on revenue could be significant. Earnings are charged with a provision for contractual adjustments and doubtful accounts based on fee schedules, contracts and collection experience. Contractual adjustments and accounts deemed uncollectible are applied against the allowance account.

Inventory

Inventory consists of medical and pharmaceutical supplies which are stated at the lower of cost or market. Cost is determined under the first-in, first-out method.

Property and Equipment

Property and equipment are presented at cost. Medical and surgical equipment, of approximately $493,000, under capital lease is recorded at the present value of future minimum lease payments. Depreciation and amortization are computed at rates considered sufficient to amortize the cost of the assets, using the straight-line method over their estimated useful lives as follows:

Office furniture and equipment	7	years
Medical and surgical equipment	5	years
Leasehold improvements	5 - 10	years
Computer equipment	5	years
Transportation equipment	5	years

Investment in Limited Partnerships

The investments in limited partnerships are accounted for by the equity method. Under the equity method, the investment is initially recorded at cost and is subsequently increased to reflect the Company's share of the income of the investee and reduced to reflect the share of the losses of the investee or distributions from the investee.

As of December 31, 2002 and 2001, the Company has a 10% general partnership interest in San Jacinto Surgery Center, Ltd., a Texas limited partnership. As of December 31, 2002, the difference in the carrying amount of the investment and the

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

underlying equity in net assets of San Jacinto was approximately $237,000. This amount is considered goodwill and is not being amortized. As of December 31, 2002, there is no impairment to this goodwill. As of December 31, 2002, San Jacinto had a $1,000,000 draw note payable to a bank with an outstanding balance of $948,961, which is guaranteed by the Company. The note bears interest at the prime rate plus 1% and is secured by the accounts receivable of San Jacinto.

As of December 31, 2001, the Company had a 20% general partnership interest in Bayside, a Delaware limited partnership. As described in Note 3, the Company sold its 20% interest during 2002.

As of December 31, 2002, the Company has a 10% general partnership interest in Physicians Endoscopy Center, Ltd., L.L.P., a Texas limited partnership. As of December 31, 2002, Physicians Endoscopy had a $1,387,000 note payable to a bank, of which $187,000 was guaranteed by the Company.

Goodwill

Goodwill arises from the acquisition of assets at an amount in excess of their fair market value. Amortization was computed in 2001 by the straight-line method over 15 years. See Note 5.

Real Estate

Real estate is presented at the lower of cost or current market value based on a current appraisal.

Loan Fees

Fees paid in connection with obtaining debt financing are being amortized over the terms of the loans.

Federal Income Taxes

The Company computes federal income tax based upon prevailing rates at year end.

The Company provides deferred income taxes for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

Reclassifications

Certain reclassifications have been made in the 2001 financial statements to conform to the reporting format in 2002. Such reclassifications had no effect on previously reported earnings.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has incurred substantial operating losses during 2002. In addition, the Company has used substantial amounts of working capital in their operations and is in default of certain loan agreements. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company has financed its growth primarily through the issuance of equity, secured and/or convertible debt. As of December 31, 2002, the Company does not have any credit facilities available with financial institutions or other third parties to provide for working capital shortages. Although the Company believes it will generate cash flow from operations in the future, due to its debt load, it is not able to fund its current operations solely from its cash flow. As such, additional sales of debt and/or equity securities will be required to continue operations.

On March 6, 2003, the Company received a $1.2 million investment from existing physician shareholders, local Houston physicians, and select Houston individuals. The investment was made via a private placement, under which 3,419,137 shares of the Company's common stock were issued. The shares are restricted under Rule 144. In addition, the investors received a warrant for every two shares of common stock purchased. The warrants are exercisable for one year and are priced at $.35. The proceeds of the financing are being used for working capital purposes.

The Company is continuing to pursue additional financing of debt and/or equity but does not currently have firm commitments for the additional sales of debt or equity securities. Any such sales will be made on a best efforts basis. The Company can provide no assurance that it will be successful in any future financing effort to obtain the necessary working capital to support its operations, or fund acquisitions for its anticipated growth. In the event that any future financing efforts are not successful, the Company will be forced to liquidate assets and/or curtail operations.

Note 3 - Acquisitions

On May 31, 2002, the Company acquired a 51% interest in Tuscarawas, located in Dover, Ohio for an aggregate of $426,859 cash and warrants to purchase 200,000 shares of the Company common stock at an exercise price of $.01 per share expiring May 31, 2007. The warrants were valued at $590,000. The Company has also entered into a Management Agreement with Tuscarawas to act as exclusive manager of Tuscarawas in exchange for 5% of the net monthly collected revenue.

The Company acquired five tracts of real estate in a transaction valued at $6,000,000 plus legal and other transaction fees, which closed on June 4, 2002, from American International Industries, Inc., Texas Real Estate Enterprises, Inc., and Midcity Houston Properties, Inc. During September 2002, the land acquired June 4, 2002 was appraised at a value less than the acquisition cost. An impairment loss of $1,500,000 has been recognized to reflect the current market value.

The Company issued 1,200,000 shares of Series AA Preferred Stock to fund the transaction. The terms of the Series AA Stock, as modified in a binding letter of intent dated November 15, 2002, are as follows: 300,000 shares convert immediately to 3,658,537 shares of common stock. On June 1, 2004, June 1, 2005 and June 1, 2006, 300,000 shares convert to a number of common shares equivalent to $1,500,000 divided by the average closing price over the previous 20 trading days. The Company has the option to redeem the Series AA Preferred shares on the above dates for $5 per share. Holders of Series AA Preferred Stock are entitled to one vote for each share of Series AA Preferred Stock held at all shareholders meetings for all purposes.

Effective January 2, 2002, the Company acquired a 10% general partnership interest in Physicians Endoscopy Center, Ltd., L.L.P. for $14,865.

Effective August, 2001, the Company acquired a 20% general partnership interest in Bayside for $49,477 in cash.

Note 4 - Dispositions and Loss on Investments

In August 2002, the Company sold its 20% interest in Bayside for a $223,178 note receivable and recognized a loss on the sale of $169,964. The Company's total investment in the project which consisted of cash, loans and development fees was $393,142.

In August 2002, the Company entered into an agreement to acquire Aspen Healthcare, Inc. (Aspen), a Colorado corporation, which required the Company to make non-refundable installment payments totalling $1,000,000 in June, July, and August 2002. In addition, the Company issued 163,000 shares of common stock valued at $472,051 and warrants to purchase 136,786 shares of common stock at a price of $2.24 which were valued at $161,407. The 163,000 shares of common stock could be put back to the Company at $2.24 per share. The put option was valued at $25,000.

The final cash payment of $5,756,000 was due September 14, 2002. The Company was unable to make the final payment and defaulted on the agreement. On October 15, 2002, the Company negotiated a settlement agreement with the shareholders of Aspen. The settlement released the Company from remaining obligations under the acquisition agreement in consideration of the following:

(a) Aspen retained all non-refundable deposits totaling $1,000,000; (b) Aspen exercised their put on 91,400 shares of common stock for cash of $204,736; (c) The existing warrants were re-priced to $.40 per share ($15,046) (d) New warrants to purchase 200,000 shares of common stock at $.40 were issued ($48,000) (e) $100,000 in cash

In September 2002, the Company expensed its investment in Aspen and recognized a loss on its investment of $1,977,382 which included cash, stock, warrants and all charges related to the settlement agreement.

Note 5 - Goodwill

Goodwill represents the excess of cost over the fair value of net assets of companies acquired in business combinations accounted for using the purchase method. Goodwill acquired in business combinations prior to June 30, 2001 had been amortized using the straight-line method over an estimated useful life of 20 years. In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill no longer be amortized but instead be reviewed periodically for possible impairment. The Company has adopted SFAS No. 142 effective January 1, 2002 and will no longer amortize goodwill.

The following is a reconciliation of goodwill:

Beginning balance, December 31, 2001	$	7,023,433
Acquisition		1,022,302
Ending balance, December 31, 2002	$	8,045,735

Comparative Proforma results of adopting SFAS 142 follow:

		2002		2001
Net Income (Loss):				
Reported net income (loss)	$	(8,849,618)	$	670,360
Goodwill amortization				498,107

Proforma net income (loss)	$ (8,849,618)	$ 1,168,467

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SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

Earnings (Loss) Per Share:		
Basic:		
Reported net income (loss)	$ (.56)	$ .05
Goodwill amortization		.03
Proforma net income (loss)	$ (.56)	$ .08
Diluted:		
Reported net income (loss)	$ (.56)	$ .04
Goodwill amortization		.03
Proforma net income (loss)	$ (.56)	$ .07

Under SFAS 142, the Company must have completed its initial assessment of goodwill for possible impairment no later than December 31, 2002. The Company has completed the first phase of this impairment test and, based on an independent valuation performed by a third party, believes that there was no impairment of goodwill as of January 1, 2002.

Due to the significant losses incurred during 2002, and the decline in the quoted market price of the common shares, the Company believed that a second impairment test as of December 31, 2002 was necessary. Using the same methodology (mainly the market method) as employed in the transitional valuation, the Company concluded that no impairment had occurred as of December 31, 2002.

Note 6 - Earnings Per Share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding. The 2001 diluted earnings per share, in addition to the weighted average determined for basic earnings per share, include common stock equivalents which would arise from the exercise of stock options and warrants using the treasury stock method, and assumes the conversion of the Company's preferred stock for the period outstanding, since their issuance.

	For the Year December 2002
Basic Earnings Per Share:	

Net Earnings (Loss)	$ (8,849,618)	$
Weighted average shares outstanding	15,831,748	
Dilutive stock options and warrants	(A)	
Conversion of preferred shares	(B)	
Conversion of debt	(C)	
Weighted average common shares outstanding for diluted net earnings per share	15,831,748	
Net earnings (loss) per share - Basic	$ (.56)	$
Net earnings (loss) per share - Diluted	$ (.56)	$

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

The following potentially dilutive securities are not included in the 2002 calculation of common shares outstanding for diluted net earnings per share, because their effect would be anti-dilutive due to the net loss for the year:

(A) 8,896,171 options and warrants outstanding at December 31, 2002.
(B) 900,000 shares of Series AA Preferred stock are convertible into $4,500,000 of common shares. 1,225,100 shares of Series A Preferred stock are convertible into 1,225,100 common shares.
(C) $1,000,000 of debentures are convertible into common stock at a price equal to $1.50 per share.

Note 7 - Lines-of-Credit

Lines-of-credit for the years ended December 31, 2002 and 2001, are as follows:

	2002
$2,500,000 revolving lines-of-credit with a financial institution, secured by accounts receivable, bearing interest at prime (4.25% at December 31, 2002) plus 2%, interest payable monthly, due October, 2002	$ 1,665,6

Note 8 - Long-Term Debt

Long-term debt as of December 31, 2002 and 2001, is as follows:

	2002

Note payable to a financial institution, secured by all assets of the Company, due in monthly installments of $81,068 including interest at 11.5%, due April, 2006	$	2,845,4
Note payable to a financial institution, secured by all assets of the Company and 400,000 shares of SurgiCare, Inc. common stock pledged by certain shareholders, $375,000 due February, 2002, remaining principal refinanced, due in monthly installments of $11,060 including interest at 12%, due January 2006		355,7
Note payable to a financial institution, secured by inventory and equipment, due in monthly installments of $44,482 including interest at 11.5%, due November, 2002		175,1

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

	2002
Note payable to a financial institution, secured by inventory and equipment, due in monthly installments of $3,280 including interest at 9.5%, due November, 2002	
Note payable to a financial institution, secured by inventory and equipment, due in monthly installments of $1,739 including interest at 11.1%, due November, 2002	
Note payable to a bank, secured by an automobile, due on demand or in monthly installments of $691 including interest at 9.5%	
Note payable to a financial institution, secured by an automobile, due in monthly installments of $550 including interest at 7.99%, due November, 2004	
Note payable to a bank, secured by land, due in monthly installments of $29,740 including interest at the prime rate (4.25% at December 31, 2002) plus 1.5%, due December, 2007	1,5

Note payable to a shareholder, unsecured, interest at the prime rate (4.25% at December 31, 2002) plus 2% due upon maturity	
Note payable to a limited partnership, unsecured, due in monthly payments of $4,303 including interest of 6%, due October, 2003	
Note payable to a financial institution, secured by accounts receivable, inventory and equipment, due in monthly installments of $3,297 including interest of 15.9%, due December, 2003	
$1,000,000 convertible debentures, bearing interest at 25%, maturing June, 2003 (see below)	9
Note payable to a financial institution, secured by equipment, furniture and fixtures, due in monthly installments of $25,955 including interest of 10%, due July, 2005	7
Note payable to a bank, due on demand or in monthly installments of $6,944 plus interest at the prime rate (4.25% at December 31, 2002) plus 1%, until December, 2003	
	6,7
Less: Current maturities	6,2
	$ 4

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

Long-term debt is payable in the future as follows:

For the Year Ending December 31,	
2003	$ 6,295,389
2004	278,552
2005	175,776
	$ 6,749,717

Loan agreements relating to the majority of the notes payable above contain requirements for maintenance of defined minimum financial ratios. The Company is not in compliance with all such provisions as of December 31, 2002. Further, the Company is delinquent in payments on the majority of the notes. All notes in default have been shown as current in these financial statements. The Company has obtained a letter of forbearance through June 30, 2003, in connection with these loans in default.

In July 2002, the Company closed a $1,000,000 funding which was primarily used to fund the initial payments for the Aspen acquisition. The debentures are convertible into common stock at a price equal to $1.50 per share. In connection with the debentures, the Company issued warrants to purchase 235,000 shares of common stock for $2.12. Based on the relative fair value of the warrants, beneficial conversion feature and the debenture, discounts of $149,841 and $212,590 were recorded to reflect the value of the warrants and the beneficial conversion, respectively. The discounts will be amortized to interest expense over one year and four months, respectively. As of December 31, 2002, this note was in default.

Note 9 - Long-Term Capital Leases

The Company leases certain equipment from third parties. The leases expire through 2006. The stockholders have guaranteed the leases. As of December 31, 2002, the leases were in default and have been classified as current in these financial statements.

The following is a schedule of future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of December 31, 2002:

For the Year Ending December 31,	
2003	$ 377,792
Less: Amount representing interest	(64,067)
Present value of minimum lease payments	313,725
Less: Current obligations	313,725
Long-term obligations under capital lease	$ 0

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

Note 10 - Operating Leases

The Company leases its treatment facilities and corporate office space under operating leases which expire in various years through 2008. The leases provide for annual operating expense increases. The Company also leases medical equipment under an operating lease which expires in 2006. Base rental payments under these lease agreements are as follows:

For the Year Ending December 31,		
2003	$	784,269
2004		678,363
2005		678,363
2006		483,442
2007		405,145
Thereafter		214,263
	$	3,243,845

Note 11 - Management Fees

The Company has contracted with affiliated outpatient surgical centers to manage the operation of the treatment facilities. Under the contracts, the Company receives fees ranging from 2% to 5% of revenues collected by the facilities under contract. The Company recorded the following fees during 2002 and 2001:

		2002	
SurgiCare Memorial Village, L.P.	$	102,630	$
San Jacinto Surgery Center, Ltd.		219,918	
Bayside Surgical Partners, L.P.		37,500	
Tuscarawas Ambulatory Surgery Center		28,348	
	$	388,396	$

The contract with Bayside was terminated in 2002 with the sale of the investment in Bayside.

Note 12 - Related Party Transactions

As of December 31, 2002 and 2001, the Company had a non-interest-bearing receivable from a shareholder of $8,250 for the purchase of stock.

As of December 31, 2001, the Company had a receivable from Bayside Surgical Partners of $67,857.

As of December 31, 2002, the Company had a payable to San Jacinto of $126,086. As of December 31, 2001, the Company had a receivable from San Jacinto of $24,229.

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

As of December 31, 2002, the Company had a receivable from Physicians' Endoscopy of $9,177.

Bellaire leases space for its offices in a medical office building owned by a partnership in which Dr. Mineo, a director and shareholder, has a 25% interest. The lease expires in 2003. During fiscal 2002, Bellaire paid approximately $195,000 as rent to the partnership. During fiscal 2001, Bellaire paid approximately $194,000 as rent to the partnership.

Note 13 - Federal Income Taxes

A reconciliation of the statutory federal income tax rate to the effective tax rate at December 31, 2002 and 2001, is as follows:

	2002	
Federal income tax expense at statutory rate	$ (3,474,002)	$
Increase in valuation allowance	2,679,000	
Correction of prior year accrual	(814,574)	
Other		
	$ (1,609,576)	$

The components of the deferred tax liability as of December 31, 2002 and 2001, were as follows:

	2002	
Deferred tax liability:		
Accrual to cash conversion	$ (595,000)	$
Net deferred tax liability	(595,000)	
Deferred tax asset:		
Net operating loss	3,274,000	
Net deferred tax asset (liability)	2,679,000	
Valuation allowance	(2,679,000)	
Net deferred taxes	$ 0	$

The Company has a net operating loss carryforward of approximately $9.6 million, which will expire in 2022.

Note 14 - Preferred Stock

The Series A preferred stock is convertible at a rate of one share of preferred stock into one share of $.005 par value common stock. The Company can redeem the stock at $5 per share. The stock also has a liquidation preference of $5 per share. Holders of Series A preferred stock are entitled to one vote for each share of Series A preferred stock held.

As noted in Note 3, during 2002, the Company issued 1,200,000 shares of Series AA Preferred Stock to fund the acquisition of land. The terms of the Series AA Stock, as modified in an agreement dated December 11, 2002, are as follows: 300,000 shares convert immediately to 3,658,537 shares of common stock. On June 1, 2004, June 1, 2005 and June 1, 2006, 300,000 shares convert to a number of common shares equivalent to $1,500,000 divided by the average closing price over the previous 20 trading days. The Company has the option to redeem the Series AA Preferred shares on the above dates for $5 per share. Holders of Series AA Preferred Stock are entitled to one vote for each share of Series AA Preferred Stock held at all shareholders meetings for all purposes.

Note 15 - Warrants and Options

Transactions with Other Than Employees

The Company accounts for equity instruments issued to non-employees based on the fair value of the equity instruments issued.

During 2002 the Company issued warrants as follows:

Number of Shares	Exercise Price	Expiration	Value
235,000	$ 2.12	July 15, 2005	$ 149,841
200,000	2.95	June 1, 2007	590,000
50,000	1.00	March 1, 2005	47,500
336,786	.32	September 15, 2007	224,453
526,531	.35	November 12, 2007	135,773

1,348,317

During 2001, warrants to purchase 125,000 shares of common stock at $.10 per share were issued to a consultant and were valued at $280,000 or $2.24 per share. These warrants were exercised during 2002.

	2002		2
	Warrants	Price Per Share	Warrants
Outstanding on January 1,	325,000	$ .10 - 3.00	200,000
Issued	1,348,317	.32 - 2.95	125,000
Exercised	(125,000)	.10	
Outstanding on December 31	1,548,317	$ .32 - 3.00	325,000
Weighted average exercise price	$ .93		$ 1.
Weighted average fair value of warrants granted during the year	$ .85		$ 2.
Weighted average remaining life of warrants at December 31	4.26 years		3.37 yea

The fair value of the warrants at date of issuance was estimated using the Black-Scholes Model with the following weighted average assumptions:

	2002
Risk-free interest rate	3.01%
Expected life	2.7 years
Expected dividends	None
Expected volatility	74%

SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

Transactions with Employees

The Company accounts for its employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for which no compensation expense is recognized for employee stock options if there is no intrinsic value at the date of grant.

In October 2001, the Company established a stock option plan which authorized 1,400,000 shares of common stock to be made available through an incentive program for employees. The options are granted at an exercise price equal to the fair market value of the common stock at the date of grant. The options have a ten year term. There were 81,955 options granted under this plan in 2002. There were none granted under this plan in 2001.

During 2002, the Company granted options to an employee to purchase 175,000 shares of common stock with an exercise price of $2.00 and a term of 5 years. The options are fully vested.

During 2002, the Company also granted options to executives to purchase 6,489,232 shares of common stock with an exercise price of $.32 and a term of 10 years. One fourth of these options vest immediately, with the remainder vesting over 3 years.

On October 5, 2001, the Company granted options to purchase 860,000 shares of common stock to employees. The options vest over various periods, have an exercise price of $1.90 and a term of 10 years.

Information with respect to employee stock options for December 31, 2002, is as follows:

	2002		20
		Price Per	
	Options	Share	Options
Outstanding on January 1	860,000	$ 1.90	
Granted	6,746,187	.32 - 2.05	860,000
Forfeited	(258,333)	1.90	
Outstanding on December 31	7,347,854	$ .32 - 2.05	860,000

Exercisable on December 31	2,657,853	$	.32 - 2.05	361,668
Weighted average fair value of options granted during the year	$ .18			$.
Weighted average exercise price				
Outstanding	$ .51			$ 1.
Exercisable	$ .84			$ 1.
Weighted average remaining life of options at December 31	9.64 years			9.75 years
Outstanding				
Exercisable	9.23 years			9.75 years

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SURGICARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2002 and 2001

The fair value of the options at date of grant was estimated using the Black-Scholes Model with the following weighted average assumptions:

	2002	2001
Risk-free interest rate	3.00%	3.91%
Expected life	3.14 years	5 years
Expected dividends	None	None
Expected volatility	57%	77%

Had the Company elected to apply Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation," using the fair value based method, the Company's net income would have been reduced to the following pro forma amounts:

	2002
Net income (loss) - as reported	$ (8,849,618)
Net income (loss) - pro forma	$ (9,591,652)
Basic earnings (loss) per share - as reported	$ (.56)
Basic earnings (loss) per share - pro forma	$ (.61)
Diluted earnings (loss) per share - as reported	$ (.56)
Diluted earnings (loss) per share - pro forma	$ (.61)

Note 16 - 401(k) Plan

The Company has an employee benefit plan under Section 401(k) of the Internal Revenue Code for all eligible employees. Participants are permitted to defer compensation up to a maximum of 15% of their income. The Company matches 25% of the employees' deferrals up to 4% of their income. The Company contributions vest 20% after two years of service and 20% each year thereafter, being fully vested after six years of service. During 2002 and 2001, the Company contributed approximately $7,000 and $4,000, respectively, to the Plan.

Note 17 - Litigation

In September 2002, the Company was named as a defendant in a suit entitled Charles Cohen vs. SurgiCare, Inc. and David Blumfield, in the 234th Judicial District Court of Harris County, Texas. Mr. Cohen sued the Company for breach of contract and both defendants for defamation. Mr. Cohen claims that the Company breached his employment agreement when it terminated his employment and that Mr. Blumfield and the Company made defamatory statements about him. Mr. Cohen has made claims for $562,000 for breach of the employment agreement plus additional damages for the defamation claim. The Company intends to vigorously defend this suit.

In February 2003, the Company was named as a defendant in a suit entitled S.E. Altman, individually, and d/b/a Altman & Associates vs. SurgiCare, Inc., in the County Court at Law No. 1, Harris County, Texas. Altman has sued the Company for breach of contract based on a finders fee contract in which Altman claims the

Company has not performed. Altman has made claims in the amount of $217,000 plus attorney's fees. The Company intends to vigorously defend this suit.

In March 2003, SurgiCare Memorial Village, L.P. and Town & Country SurgiCare, Inc. were named as a defendants in a suit entitled MarCap Corporation vs. Health First Surgery Center-Memorial, Ltd.; HFMC, L.C.; SurgiCare Memorial Village, L.P.; and Town & Country SurgiCare, Inc. MarCap has sued for default under a promissory note and refusing to remit payment on a promissory note in the amount of $215,329. The Company has paid $53,832 of this balance and is attempting to arrange for a payment plan to pay the remaining balance.

Note 18 - Commitments

Effective November 10, 2002, the Company has entered into employment agreements with its executives. The term of the agreements is three years. These agreements provide for annual salaries and incentive bonuses of up to 30% of the employee's base compensation. The criteria for earning the bonus will be established by the Board of Directors at the beginning of each 12-month period. In addition, the agreements provide for payments of two times annual base salary if the executives are terminated without cause. All options would also vest at that time. The Company's aggregate base salary commitment under the employment agreements through their respective terms is $1,588,000.

Note 19 - Subsequent Events

Under the terms of the agreement completed December 11, 2002 to restructure the land purchase between SurgiCare, Inc., American International Industries, Inc., Texas Real Estate Enterprises, Inc., MidCity Houston Properties, Inc., a Texas corporation, and International Diversified Corporation (IDC), IDC was to reimburse the Company $400,000 by January 15, 2003. IDC failed to make any payment on the $400,000 and thus has forfeited 1,709,024 shares held as collateral by SurgiCare. On February 3, 2003, counsel for IDC claimed that the Company has breached the agreement and has asked for repayment of the $1,000,000 investment by IDC. IDC has sued for the rescission of the contract and the return of $1,000,000 or the deliverance of 2,439,024 shares. The Company intends to vigorously defend this suit.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

Not Applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

SurgiCare's Directors and Executive Officers are as follows:

NAME	POSITION	AGE
Keith LeBlanc	President and Chief Executive Officer	44
Phil Scott	Chief Financial Officer and Secretary	40
Jeffery Penso	Director and Vice President	48
Sherman Nagler	Director	46

Charles S. Cohen	Director	40
Bruce Miller	Director	53
Michael Mineo	Director	58

Keith G. LeBlanc was appointed Chief Executive Officer on September 10th, 2002. Mr. LeBlanc previously served as CEO for Gulf Coast Surgery and Endoscopy in Biloxi, Mississippi. Mr. LeBlanc has extensive healthcare management experience, serving as a hospital CEO for 10 years and as the CEO and founder of The Quest Group, a physician equity MSO joint venture. The Quest Group managed physician practices statewide in Louisiana. Mr. LeBlanc is a registered respiratory therapist and holds a MHS from LSU Medical School.

Phil Scott was appointed Chief Financial Officer on September 18th, 2002. Mr. Scott previously served as the Vice President of Development for HealthCare Partners, a $300 million physician management services organization. Mr. Scott was also a co-founder, Vice President and CFO for The Camden Group, a national healthcare consulting firm. Mr. Scott is a Chartered Financial Analyst and was awarded an MBA from the University of San Diego.

Dr. Jeffery Penso D.P.M. was elected as Director of SurgiCare, Inc. on July 10, 1999. Dr. Penso has served as Vice-President of SurgiCare, Inc. since July 1999 and Vice-President of Bellaire SurgiCare, Inc. since July 1998. He has been in private practice for 16 years. He received his undergraduate degree in 1983 at University of Akron, and then attended the Ohio College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1988.

Dr. Sherman Nagler D.P.M. was elected as Director of SurgiCare, Inc. on July 10, 1999. He has been in private practice for 16 years. He received his undergraduate degree in 1977 at State University of New York at Plattsburgh, and then attended the New York College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1985.

Charles S. Cohen was elected as a Director of SurgiCare, Inc. on July 10, 1999. Mr. Cohen previously served as the Co-CEO of SurgiCare, Inc. and before that, the acting Chief Operating Officer since 1998, but was terminated on September 9, 2002. From 1994 to 1998, Mr. Cohen was the President of Medical Distributors International, Inc. (MDI). He has served as a Director of TMDI Medical, from 1995-1997. Both MDI and TMDI were involved with the international purchasing, importing, and exporting of medical and surgical equipment. Mr. Cohen was educated at the University of Missouri at Columbia in business.

Dr. Bruce Miller, D.P.M. has been in private practice for 25 years. He received his undergraduate degree in 1969 at Temple University and then attended the Pennsylvania College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1986.

Dr. Michael Mineo D.P.M. was elected as Director of SurgiCare, Inc. on July 10, 1999. Dr. Mineo has served as Vice-President of Bellaire SurgiCare, Inc. since March of 1995. He has been in private practice for 29 years. He received his undergraduate degree in 1964 from Geneva College, Beaver Falls, PA, and then attended the Ohio College of Podiatric Medicine. He has been a Diplomat of the American Board of Podiatric Surgery since 1979, and a Fellow of the American College of Foot Surgeons since 1980.

The terms of office of SurgiCare's current directors will expire at the next annual meeting of the stockholders. Thereafter, directors will hold office until the succeeding annual meeting or their successors are elected and qualified. SurgiCare's officers hold office at the pleasure of the board of directors and until the meeting of the board of directors next following the annual meeting of stockholders, at which board meeting officers are to be elected.

(B) Compliance with Section 16(a) of the Securities Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires SurgiCare's officers and directors, and persons who own more than 10 percent of a registered class of SurgiCare's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Officers, directors, and greater than 10 percent stockholders are required by SEC regulation to furnish SurgiCare with copies of all Section 16(a) forms they file.

Based solely on the reports received by us and on the representations of the reporting persons, we believe that these persons have complied with all applicable filing requirements during the fiscal year ended December 31, 2002, except: (a) Mr. Cohen was late in reporting one transaction on Form 4, which was reported on a Form 5 filed in August 2002; (b) Dr. Blumfield was late in reporting one transaction on a Form 4, which was reported on a Form 5 filed in August 2002; (c) Dr. Penso was late in reporting two transactions on Form 4, which were reported on a Form 5 filed in September 2002; (d) Messrs. LeBlanc and Scott did not timely file a Form 3, which form was filed in April 2003, and (e) we have not received any Form 5s for the year ended December 31, 2002, nor have we received any representations from reporting persons that such form was not applicable to them.

ITEM 10. EXECUTIVE COMPENSATION

The following table provides certain summary information concerning the compensation paid during each of SurgiCare's last three fiscal years to each of the highest paid persons who are officers or directors of SurgiCare, Inc. receiving compensation of at least $100,000 and the Chief Executive Officer (the "Covered Executives"). The following table includes compensation data for Mr. LeBlanc, Dr. Blumfield and Mr. Cohen, each of which served as our Chief Executive Officer during the fiscal year ended December 31, 2002. Except as listed below, no executive officers or employees received a salary and bonus during the fiscal year ended December 31, 2002 that met or exceeded $100,000. For compensation for 2000, each of the persons indicated received their compensation as a director or officer of Bellaire.

SUMMARY COMPENSATION TABLE

Name and Principal Positions	Year	Annual Compensation		Long-T
		Salary ($)	Bonus ($)	Stock U
Keith LeBlanc, President & CEO (1)	2002	56,654	--	

David Blumfield,			
Co-CEO (2)	2002	44,098	--
	2001	52,500	--
	2000	24,000	--
Charles S. Cohen			
Co-CEO and COO (3)	2002	99,868	
	2001	125,000	--
	2000	75,000	--

Except as set forth in the table, no compensation has been rewarded to, earned by or paid to any of the Covered Executives and required to be reported in the table for any of the last three fiscal years.

(1) Commenced employment in November 10, 2002. Salary amount is for the period from November 10, 2002 until December 31, 2002 and includes amount paid as a consultant from September 10, 2002 until November 9, 2002.

(2) Resigned on September 10, 2002. Salary amount is for the period from January 2002 through December 31, 2002.

(3) Terminated on September 9, 2002. Salary amount is for the period from January 2002 until resignation. Options issued are subject to resolution of lawsuit filed by Charles Cohen against SurgiCare for wrongful termination. This total assumes all unvested options are awarded to Charles Cohen.

Options, Warrants, and Stock Appreciation Rights

The following table sets forth information concerning individual grants of stock options made during the fiscal year ended December 31, 2002, to our named executive officers. No stock appreciation rights were issued during the fiscal year.

OPTION GRANTS IN LAST FISCAL YEAR
(INDIVIDUAL GRANTS)

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)
Keith LeBlanc	3,233,241	48.5%	$0.32
David Blumfield	--	--	--
Charles S. Cohen	--	--	--

The following table sets forth information concerning option exercises during the fiscal year ended December 31, 2002 and option holdings as of December 31, 2002 with respect to our named executive officers. No stock appreciation rights were outstanding at the end of the fiscal year.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value I Option
			Exercisable	Unexercisable	Exercisab
Keith LeBlanc	--	--	875,669	2,357,572	$157,620
David Blumfield	--	--	175,000	--	$0
Charles S. Cohen (1)	--	--	350,000	--	$0

(1) Terminated on September 9, 2002. Options issued are subject to resolution of lawsuit filed by Charles Cohen against SurgiCare for wrongful termination. This total assumes all unvested options are awarded to Charles Cohen.

The values of the unexercised options above are based on the difference between the exercise price of the options and the fair market value of our common stock at the end of the fiscal year ended December 31, 2002, which was $.50 per share.

Employment Agreements. Effective November 10, 2002, the Company has entered into employment agreements with its executives. The term of the agreements is three years. The agreements provide for payments of two times annual base salary if the executives are terminated without cause. All options would also vest at that time. The Company's aggregate base salary commitment under the employment agreements through their respective terms is $1,588,000.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of March 31, 2003, 24,752,171 shares of our common stock were outstanding, 1,225,100 shares of our Series A Preferred Stock were outstanding, and 900,000 shares of our Series AA Preferred Stock were outstanding. The following table sets forth, as of such date, information with respect to shares beneficially owned by: (a) each person who is known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (b) each of our directors and the executive officers named in the Summary Compensation Table below, and (c) all current directors and executive officers as a group.

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed beneficially owned by a person if the person has the right to acquire shares (for example, upon conversion of our Series A Preferred Stock or the exercise of an option or warrant) within sixty days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person's actual voting power at any particular date.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Title of Class	Name & Address of Owner	Amount of Ownership	Percent of Class
Common (1)	Blumfield, David	800,000	3.21%
Preferred A	7400 Fannin #1100	91,000	7.43%
	Houston, TX 77056		
Common	Nagler, Sherman	677,956	2.74%
Preferred A	1200 Binz	91,000	7.43%
	Houston, TX 77004		
Common (2)	Bradbury, William	852,666	3.44%
Preferred A	7400 Fannin #1100	91,000	7.43%
	Houston, TX 77056		
Common (3)	Jeffery Penso	842,636	3.40%
Preferred A	11006 Westheimer	91,000	7.43%
	Houston, Texas 77042		
Common (4)	Michael Mineo	838,130	3.38%
Preferred A	6699 Chimney Rock	91,000	7.43%
	Houston, Texas 77081		
Common (5)	Charles S. Cohen	379,900	1.51%
	8902 Loch Lomond Ct.		
	Houston, Texas 77096		
Common	Son Nguyen	766,956	3.10%
Preferred A	1120-A Dennis	91,000	7.43%
	Houston, Texas 77004		

Common (6)	Bruce Miller 13737 S.W. Freeway Sugarland, Texas 77478	901,257	3.64%
Common Preferred A	Larry Likover 902 Frostwood, #902 Houston, Texas 77024	825,350 91,000	3.33% 7.43%
Common Preferred A	Long Nguyen 4007 Bellaire, #FF Houston, Texas 77025	766,956 91,000	3.10% 7.43%
Common Preferred A	Gregory Mangum 4754 Beechnut Houston, Texas 77096	767,831 91,000	3.10% 7.43%
Common Preferred A	Robert Parker 1441 Memorial, #16 Houston, Texas 77079	719,340 91,000	2.91% 7.43%
Common Preferred A	Jeffrey Ross 6624 Fannin, #2450 Houston, Texas 77030	767,831 91,000	3.10% 7.43%
Common Preferred A	Brian Zale 11320 S. Post Oak, #1 Houston, Texas 77035	766,956 91,000	3.10% 7.43%
Common Preferred AA	American Int'l Industries, Inc. 601 Cien Street Kemah, TX 77565	3,658,537 900,000	14.78% 100.00%
Common (7)	Elkana Faiwuszewicz 601 Hanson Road Kemah, TX 77565	1,709,024	6.90%
Common (8)	Keith LeBlanc 12727 Kimberley Lane, Suite 200 Houston, TX 77024	6,700,025	25.76%
Common Preferred A	Shirley Browne P.O. Box 247 Richmond, TX 77406	378,981 91,000	1.53% 7.43%
Common (9) Preferred A	Directors and Officers as a Group (8)	12,448,989 364,000	44.67% 29.71%

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(1) Includes 175,000 shares underlying a warrant that is currently exercisable at an exercise price of $1.90 per share.

(2) Includes 17,142 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(3) Includes 17,142 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(4) Includes 50,000 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(5) Includes 350,000 shares underlying a warrant that is currently exercisable at an exercise price of $1.90 per share. 116,333 warrants are subject to the dispute in Charles Cohen's lawsuit against SurgiCare for wrongful termination. See Item 3 - Legal Proceedings.

(6) Includes 17,142 shares underlying a warrant that is currently exercisable at an exercise price of $0.35 per share.

(7) These shares held by International Diversified Corporation, Ltd. (Mr. Faiwuszewicz is the majority owner) have been forfeited, but are subject to the breach of contract suit filed by International Diversified Corporation, Ltd. See Item 3 - Legal Proceedings.

(8) Includes 1,252,464 shares underlying warrants that are currently exercisable at an exercise price from $0.32 to $0.45 per share. Mr. LeBlanc has voting rights over 5,367,561 shares held by American International Industries, Inc. and International Diversified Corporation, Ltd until 12/10/2003.

(9) Includes 3,114,212 shares underlying warrants that are currently exercisable at an exercise price from $0.32 to $1.90 per share. Mr. LeBlanc has voting right over 5,367,561 shares held by American International Industries, Inc. and International Diversified Corporation, Ltd until 12/10/2003.

Equity Compensation Plan Information

The following table gives information about the Company's common stock that may be issued upon the exercise of options under its SurgiCare, Inc. 2001 Stock Option Plan as of December 31, 2002, which has been approved by the Company's stockholders. There are no shares of Company common stock authorized for issuance under compensation arrangements that were not approved by the Company's stockholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted average exercise price of outstanding options, warrants and rights (B)	Number o remaining future i equity com (excludi reflected
Equity Compensation Plans Approved by Security Holders	81,955	$2.05	
Equity Compensation Plans Not Approved by Security Holders(1)	7,243,149	$0.492	

Total	7,325,104

Other information required by this item is incorporated herein by reference from the information provided under the heading "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement.

(1) Warrants are exercisable at an exercise price ranging from $0.32 to of $2.00 per share. The term of exercise ranges from April 5, 2007 to November 9, 2012. 116,333 warrants are subject to the dispute in Charles Cohen's lawsuit against SurgiCare for wrongful termination. The warrants are subject to vesting requirements and employment with SurgiCare.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of December 31, 2002, the Company had revised the contractual relationship with its founding physicians, all of whom are beneficial owners of 5% or more of the Company's preferred stock, whereby the physicians would be retained as an advisory committee to oversee the activities of the physician staffed medical executive committees of each of SurgiCare's surgery centers. In addition to the services previously covered under the agreement, the advisory committee would also assist management in revising existing and new operating agreements, management agreements, establishing medical bylaws, and reviewing policies and procedures. The Company has reduced the compensation to be paid to the physician group for its services to $30,000 per month and limited the contract from five years to six months.

Bellaire leases space for its offices in a medical office building owned by a partnership in which Dr. Mineo, a director and shareholder, has a 25% interest. The lease expires in 2003. During fiscal 2002, Bellaire paid approximately $195,000 as rent to the partnership. During fiscal 2001, Bellaire paid approximately $194,000 as rent to the partnership.

In January 2003, Messrs. LeBlanc and Scott purchased 160,000 shares of our common stock for an aggregate purchase price of $72,000.

In February 2003, Dr. Mineo purchased 100,000 shares of our common stock for a purchase price of $35,000.

In March 2003, Dr. Penso and Dr. Miller each purchased 34,284 shares of our common stock for a purchase price of $11,999.40 each.

On July 21, 1999, the Board of Directors of both SurgiCare and Bellaire unanimously approved SurgiCare's acquisition, effective July 1, 1999 of 100% (1,350 shares) of the issued and outstanding common stock of Bellaire in exchange for 10,955,556 shares of SurgiCare's common stock and 1,350,000 shares of SurgiCare's Series A Preferred. This acquisition was accounted for as a reverse merger. Following the closing of the transaction, Bellaire became a wholly owned subsidiary of SurgiCare. At the time of the approval by both boards of directors, the shareholders of Bellaire jointly held the majority of the issued and outstanding shares of SurgiCare. In addition four of the five members of the Board of Directors of SurgiCare each individually held 7.4% of the outstanding and issued shares of Bellaire.

In determining the amount and character of the consideration to be paid by SurgiCare for the Bellaire stock, the boards of directors of both SurgiCare and Bellaire considered numerous factors, including the then inactive status of SurgiCare and prior offers that Bellaire had received for the acquisition of Bellaire by others.

ITEM13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
Exhibit 3.1	Amended and Restated Certificate of Incorporation of SurgiCare, Inc. (Inco 3.1 of the Company's Registration Statement on Form 10-SB/A filed on January
Exhibit 3.2	Articles of Incorporation of Bellaire SurgiCare, Inc. (Incorporated by Company's Registration Statement on Form 10-SB/A filed on January 28, 2000)
Exhibit 3.3	By-Laws of Technical Coatings Incorporated (now SurgiCare, Inc.) (Incorpor of the Company's Registration Statement on Form 10-SB/A filed on January 28,
Exhibit 4.1	Certificate of Designation, Powers, Preferences and Rights of Series reference to Exhibit 4.1 of the Company's Registration Statement on Form 10-
Exhibit 4.2	Amended Certificate of Designation, Powers, Preferences and Rights of Seri $.001 per share (Incorporated by reference to Exhibit 10.3 of the Company' 2003)
Exhibit 4.3	Form of SurgiCare, Inc. Common Stock Certificate
Exhibit 10.1	Agreement between SurgiCare, Inc. and American International Industri Enterprises, Inc., and MidCity Houston Properties, Inc. dated December 11, to Exhibit 10.2 of the Company's Form 8-K filed on January 29, 2003)
Exhibit 10.2	Employment Agreement with Keith G. LeBlanc dated November 10, 2002.
Exhibit 10.3	Employment Agreement with Phillip C. Scott dated November 10, 2002.
Exhibit 21	List of Subsidiaries of SurgiCare, Inc.
Exhibit 99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to S Act of 2002.
Exhibit 99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to S Act of 2002.

(b) Reports on Form 8-K

For the quarter ended December 31, 2002, there were no Form 8-K filings.

ITEM 14. CONTROLS AND PROCEDURES

Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-KSB, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROLS

Recently, the Company revised internal controls related to equity issuances and accounting for contractual allowances to improve previous deficiencies in reporting of stock issuances and recording appropriate contractual allowances.

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.

SurgiCare, Inc.

By: /s/ Keith G. LeBlanc
Keith G. LeBlanc,
President & Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Keith G. LeBlanc Keith G. LeBlanc (principal executive officer)	Director, President & Chief Executive Officer	April 14, 2003
/s/ Phillip C. Scott Phillip C. Scott (principal financial and accounting officer)	Director & Chief Financial Officer	April 14, 2003
/s/ Jeffrey Penso Jeffrey Penso	Director	April 14, 2003

/s/ Sherman Nagler Sherman Nagler	Director	April 14, 2003
/s/ Michael Mineo Michael Mineo	Director	April 14, 2003
Bruce Miller	Director	April 14, 2003
Charles Cohen	Director	April 14, 2003

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CERTIFICATIONS

I, Keith G. LeBlanc, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of SurgiCare, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent

functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Keith G. LeBlanc

Keith G. LeBlanc,
Chief Executive Officer(1)

(1) A signed original of this written statement required by Section 906 has been provided to SurgiCare, Inc. and will be retained by SurgiCare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

I, Phillip C. Scott, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of SurgiCare, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Phillip C. Scott

Phillip C. Scott,
Chief Financial Officer(1)

(1) A signed original of this written statement required by Section 906 has been provided to SurgiCare, Inc. and will be retained by SurgiCare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit Index

Exhibit No.	Description
Exhibit 3.1	Amended and Restated Certificate of Incorporation of SurgiCare, Inc. (Inco 3.1 of the Company's Registration Statement on Form 10-SB/A filed on Janua
Exhibit 3.2	Articles of Incorporation of Bellaire SurgiCare, Inc. (Incorporated by ref Company's Registration Statement on Form 10-SB/A filed on January 28, 2000
Exhibit 3.3	By-Laws of Technical Coatings Incorporated (now SurgiCare, Inc.) (Incorpor of the Company's Registration Statement on Form 10-SB/A filed on January 2
Exhibit 4.1	Certificate of Designation, Powers, Preferences and Rights of Series A Red reference to Exhibit 4.1 of the Company's Registration Statement on Form 1
Exhibit 4.2	Amended Certificate of Designation, Powers, Preferences and Rights of Seri

	$.001 per share (Incorporated by reference to Exhibit 10.3 of the Company' 2003)
Exhibit 4.3*	Form of SurgiCare, Inc. Common Stock Certificate
Exhibit 10.1	Agreement between SurgiCare, Inc. and American International Industries, I Enterprises, Inc., and MidCity Houston Properties, Inc. dated December 3, to Exhibit 10.2 of the Company's Form 8-K filed on January 29, 2003)
Exhibit 10.2*	Employment Agreement with Keith G. LeBlanc dated November 10, 2002.
Exhibit 10.3*	Employment Agreement with Phillip C. Scott dated November 10, 2002.
Exhibit 21*	List of Subsidiaries of SurgiCare, Inc.
Exhibit 99.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to S Act of 2002.
Exhibit 99.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to S Act of 2002.

(*) Filed herewith.