NOVAMED INC
Form 424B2
June 21, 2007

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-142530

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Preliminary Prospectus Supplement
Subject to Completion, Dated June 20, 2007

PROSPECTUS SUPPLEMENT
(To Prospectus dated June 20, 2007)

$52,500,000

NovaMed, Inc.
% Convertible Senior Subordinated Notes due June 15, 2012

We are offering $52,500,000 aggregate principal amount of our % convertible senior subordinated notes due June 15, 2012 (the notes). The notes will be our general unsecured obligations, will rank subordinate to all of our senior debt and will rank pari passu or senior to all of our other subordinated indebtedness.

The conversion price for each $1,000 aggregate principal amount of notes is initially $ per share of our common stock (equivalent to a conversion rate of approximately shares of our common stock). Holders may surrender their notes for conversion at any time prior to the close of business on December 15, 2011, if any of the following conditions is satisfied:

during any calendar quarter commencing after the date of original issuance of the notes, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter preceding the quarter in which the conversion occurs is more than 120% of the conversion price of the notes in effect on that last trading day;

during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price for the notes for each such trading day was less than 97% of the closing sale price of our common stock on such date multiplied by the then current conversion rate; or

if we make certain significant distributions to holders of our common stock, we enter into specified corporate transactions or our common stock ceases to be approved for listing on the Nasdaq Global Select Market and is not listed for trading on a U.S. national securities exchange.

Holders may surrender their notes for conversion after December 15, 2011 at any time prior to the close of business on the business day immediately preceding the maturity date regardless of whether any of the foregoing conditions has been satisfied.

Upon conversion of the notes, holders will receive cash and shares of our common stock, if any, based on a daily conversion value (as described herein) calculated for each of the 50 trading days beginning on the third trading day immediately following the conversion date (or, in the case of notes surrendered for conversion after the 55th scheduled trading day prior to the maturity date and on or prior to the close of business on the business day immediately preceding maturity, the 51st scheduled trading day prior to the maturity date).

If a fundamental change, as defined herein, occurs prior to the maturity of the notes, holders may require us to repurchase for cash all or part of their notes at a price equal to 100.0% of the principal amount of the notes being repurchased, plus accrued and unpaid interest.

We do not intend to apply for listing of the notes on any securities exchange or for inclusion of the notes in any automated quotation system. Our common stock is quoted on The Nasdaq Global Select Market under the symbol NOVA. The closing price of our common stock on June 20, 2007 was $5.91 per share.

Investing in the notes involves risks. See Risk Factors beginning on page S-10.

	Per note	Total
Public Offering Price (1)	%	$
Underwriting Discount	%	$
Proceeds to NovaMed, Inc.	%	$

(1) The public offering price set forth above does not include accrued interest, if any.

We have granted the underwriter the right to purchase up to an additional $7,500,000 aggregate principal amount of notes to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this prospectus or the accompanying prospectus. Any representation to the contrary is a criminal offense.

We expect that delivery of the notes will be made in New York, New York on or about June , 2007.

DEUTSCHE BANK SECURITIES

The date of this prospectus supplement is June , 2007

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information or to make any additional representations. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer of any securities other than the notes pursuant to this prospectus supplement and the accompanying prospectus. This prospectus supplement is part of and must be read in conjunction with the accompanying prospectus dated June 20, 2007. You should not assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as the information incorporated by reference, is accurate as of any date other than the date on the front cover of this prospectus supplement, or the date of such incorporated information.

We are not, and the underwriters are not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes may be restricted in certain jurisdictions. You should inform yourself about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

We will deliver the notes to the underwriters at the closing of this offering when the underwriters pay us the purchase price of such notes.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained in other parts of this prospectus supplement and the accompanying prospectus, and because it is only a summary, it does not contain all of the information that may be important to you. You should read this prospectus supplement and the accompanying prospectus carefully, including the information set forth under Risk Factors , and the documents incorporated by reference into this prospectus supplement. Unless the context requires otherwise or unless otherwise noted, all references in this prospectus supplement to NovaMed and to the company, we, us, or our are to NovaMed, Inc. and its subsidiaries.

The Company

NovaMed is a health care services company and an owner and operator of ambulatory surgery centers (ASCs). Our primary focus and strategy is to acquire, develop and operate ASCs in joint ownership with physicians throughout the United States. As of June 20, 2007, we own and operate 38 ASCs located in 18 states. Historically, most of our ASCs have been single-specialty ophthalmic surgical facilities where ophthalmologists perform surgical procedures - primarily cataract surgery. Over the past three years, however, we have focused on expanding into other specialties such as orthopedics (including podiatry), urology, gastroenterology, pain management, plastic surgery and gynecology. This expansion into other specialties has been accomplished through both the acquisition of new ASCs and the addition of new specialties to our existing ASCs. As of June 20, 2007, 11 of our 38 ASCs offer surgical services in specialties other than ophthalmology. We continue to explore opportunities to acquire ASCs offering differing types of medical specialties. We also continue to explore ways to efficiently add new specialties to our existing ASCs.

Our principal executive offices are located at 980 North Michigan Avenue, Suite 1620, Chicago, Illinois 60611, and our telephone number at that address is (312) 664-4100. Our Internet website is at http://www.novamed.com. We have not incorporated by reference into this prospectus supplement the information on our website, and you should not consider it to be part of this prospectus supplement.

The Offering

The following summary contains basic information about the notes and is not intended to be a complete description of the offering. As a result, it does not contain all the information that is important to you. For a more complete understanding of the notes, please refer to the section of this prospectus supplement entitled Description of the Notes. For purposes of this summary of the offering, references to NovaMed , we, our or us refer only to NovaMed, Inc. and not any of its subsidiaries.

Issuer	NovaMed, Inc.
Notes Offered	$52,500,000 aggregate principal amount (or $60,000,000 if the underwriter exercises its overallotment option in full) of % Convertible Senior Notes due June 15, 2012.
Maturity	June 15, 2012.
Optional Redemption	None.
Interest	The interest rate on the notes is % per annum, payable semi-annually in arrears on June 15 and December 15 of each year, commencing December 15, 2007.
Right to Convert	Holders may surrender their notes for conversion at any time prior to the close of business on December 15, 2011 only if any of the following conditions is satisfied: • during any calendar quarter commencing after the date of original issuance of the notes, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter preceding the quarter in which the conversion occurs is more than 120% of the conversion price of the notes in effect on that last trading day; • during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price for the notes for each such trading day was less than 97% of the closing sale price of our common stock on such date multiplied by the then current conversion rate; or • if we make certain significant distributions to holders of our common stock, we enter into specified corporate transactions or our common stock ceases to be approved for listing on The Nasdaq Global Select Market (NASDAQ) and is not listed for trading on another U.S. national securities exchange.

Holders may surrender their notes for conversion after December 15, 2011 at any time prior to the close of business on the business day immediately prior to the stated maturity date regardless of whether any of the foregoing conditions has been satisfied.

See Description of the Notes Conversion of Notes.

Payment Upon Conversion

Each $1,000 principal amount of notes is convertible into cash and shares of our common stock (or, at our election, cash in lieu of some or all of such shares), if any, based on an amount, which we refer to as the daily conversion value, calculated for each of the 50 trading days beginning on the third trading day immediately following the conversion date (or, in the case of notes surrendered for conversion after the 55th scheduled trading day prior to the maturity date and on or prior to the close of business on the business day immediately preceding maturity, the 51st scheduled trading day prior to the maturity date), which we refer to as the conversion period. The daily conversion value for each trading day during the conversion period is equal to one-fiftieth of the product of the then applicable conversion rate multiplied by the volume weighted average price, as described in further detail under Description of the Notes Conversion of Notes Payment Upon Conversion, of our common stock, or such other form of consideration into which our common stock has been converted in connection with a fundamental change (as defined below under Description of the Notes Purchase of Notes at Your Option Upon a Fundamental Change), on that day.

For each $1,000 aggregate principal amount of notes surrendered for conversion on or prior to the 55th scheduled trading day prior to the maturity date, we will deliver to you, on the third business day following the end of the conversion period, the aggregate of the following for each trading day during the related conversion period:

(1) if the daily conversion value for such day exceeds $20.00,

(a) a cash payment of $20.00 and

(b) the remaining daily conversion value, which we refer to as the daily net share settlement value, in shares of our common stock (subject to our right to deliver cash in lieu of all or a portion of these shares); or

(2) if the daily conversion value for such day is less than or equal to $20.00, a cash payment equal to the daily conversion value.

For each $1,000 aggregate principal amount of notes surrendered for conversion after the 55th scheduled trading day prior to the maturity date and on or prior to the close of business on the business day immediately prior to maturity, (i) the holder will be deemed to have surrendered such note as of the business day immediately preceding the maturity date, (ii) the conversion period for such notes will commence on the trading day following the maturity date, (iii) in lieu of the payments and deliveries described above, the holder will receive (A) a cash payment of $1,000 on the maturity date and (B) on the third business day following the last day of the conversion period, the aggregate number of shares of our common stock deliverable in respect of the 50 trading days during the related conversion period as described under clause (1)(b) above, if any (subject to our right to deliver cash in lieu of all or a portion of those shares).

The number of shares of common stock to be delivered under clause (1)(b) above will be determined by dividing the daily net share settlement value by the volume weighted average price of our common stock for the relevant day. No fractional shares will be issued upon conversion; in lieu thereof, we will deliver a number of shares of our common stock equal to the aggregate of the fractional shares otherwise deliverable for each trading day during the conversion period, rounded down to the nearest whole number, and pay cash equal to the remainder multiplied by the volume weighted average price of our common stock on the last trading day of the conversion period.

The conversion price for each $1,000 aggregate principal amount of notes is initially $ per share of our common stock. The conversion rate of a note is equal to $1,000 divided by the then applicable conversion price at the time of determination (initially approximately shares of our common stock). The conversion price is subject to adjustment as described under Description of the Notes Conversion of Notes Conversion Price Adjustments. Accordingly, an adjustment to the conversion price will result in a corresponding (but inverse) adjustment to the conversion rate.

Conversion Rate Adjustment Upon a Qualifying Fundamental Change

If a qualifying fundamental change (as defined below under Description of the Notes Adjustment to Shares Delivered upon Conversion Upon a Qualifying Fundamental Change) occurs at any time prior to maturity, additional shares will be deliverable in respect of notes converted in connection with such qualifying fundamental change. A description of how the number of additional shares will be determined and a table showing the number of additional shares that would be deliverable under various circumstances is set forth under Description of the Notes Adjustment to Shares Delivered upon Conversion Upon a Qualifying Fundamental Change.

Purchase at Holder s Option Upon a Fundamental Change

You may require us to purchase all or part of your notes upon the occurrence of a fundamental change at a price equal to 100% of the principal amount of the notes being purchased, plus accrued and unpaid interest payable in cash. See Description of the Notes Purchase of Notes at Your Option Upon a Fundamental Change.

A fundamental change generally involves the occurrence of any of the following:

- termination of trading of our common stock (which will occur if our common stock is no longer listed on any U.S. national securities exchange);
- any person or group becomes the owner of shares of our stock representing 50% or more of the total voting power of all outstanding classes of our voting stock or has the power to elect a majority of our board of directors;
- we are a party to a consolidation, merger, transfer or lease of all or substantially all of our assets (unless 90% of the related consideration consists of exchange traded securities);
- a majority of the members of our board of directors are not continuing directors; or
- the holders of our capital stock approve any plan or proposal for the liquidation or dissolution of NovaMed.

See Description of the Notes Purchase of Notes at Your Option Upon a Fundamental Change.

Ranking	The notes will be our general unsecured obligations. They will rank subordinate to all senior indebtedness of the company, including debt outstanding under our senior credit facility, and pari passu or senior to all other subordinated indebtedness of the company. In addition, the notes will be structurally subordinated to all present and future debt and other obligations of our subsidiaries. See Risk Factors Risks Relating to the Notes and our Common Stock Your right to receive payments on the notes is junior to our existing indebtedness and all additional senior indebtedness we incur. Assuming that we had completed the offering of these notes and applied the net proceeds as described under Use of Proceeds , as of March 31, 2007, the company would have had total senior indebtedness of approximately $77.0 million; we subsequently borrowed an additional $24.6 million in conjunction with our acquisition of Surgery Center of Kalamazoo, LLC. The terms of the indenture under which the notes will be issued do not limit our ability to incur additional indebtedness, senior or otherwise.
Use of Proceeds	We estimate that the net proceeds from this offering, after deducting estimated fees and expenses and the underwriter s discount and commission, will be approximately $ million, if the overallotment option is not exercised. We intend to use: • approximately $6.3 million (without giving effect to the exercise of the underwriter s overallotment option, if any) of the net proceeds from this offering to pay the net cost to us of the convertible note hedge and warrant transactions described below; and • the remainder of the net proceeds from this offering to repay amounts outstanding under our $125 million senior credit facility and we may thereafter draw down these funds again to use for working capital or other general corporate purposes.

General corporate purposes may include acquisitions, strategic investments or joint venture arrangements. Although we currently have no arrangements or understandings with respect to acquisitions, we continue to evaluate acquisition and strategic investment opportunities.

Convertible Note Hedge and Warrant Transactions

We intend to enter into a privately-negotiated convertible note hedge transaction with Deutsche Bank AG, which is expected to reduce the potential dilution to our common stock upon any conversion of the notes. We also intend to enter into a warrant transaction with Deutsche Bank AG with respect to our common stock pursuant to which we may issue shares of our common stock. The exercise price of the sold warrants will be $ per share. In connection with these transactions, we expect to use approximately $6.3 million (without giving effect to the exercise of the underwriter s overallotment option, if any) of the net proceeds of the offering, representing the estimated cost to us of the convertible note hedge transaction, partially offset by the proceeds to us of the warrant transaction. If the underwriter exercises its over-allotment option to purchase additional notes, we expect to amend the convertible note hedge and warrant transactions to increase the shares underlying each transaction by an amount equal to the number of shares initially issuable upon conversion of the additional notes, subject to certain exceptions.

In connection with these hedging transactions, Deutsche Bank AG or its affiliates may enter into various over-the-counter derivative transactions with respect to our common stock at, and possibly after, the pricing of the notes and may purchase our common stock in secondary market transactions following the pricing of the notes. These activities could have the effect of increasing the price of our common stock prior to and possibly following the pricing of the notes. Deutsche Bank AG or its affiliates are likely to modify their hedge positions from time to time prior to conversion or maturity of the notes (including during any conversion period related to a conversion of notes) by purchasing and selling shares of our common stock, other of our securities or other instruments it may wish to use in connection with such hedging.

	The magnitude of any of these transactions and activities and their effect, if any, on the market price of our common stock or the notes will depend in part on market conditions and our settlement election under the notes and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock and the value of the notes and, as a result, the conversion value you will receive upon the conversion of the notes and, under certain circumstances, your ability to convert notes.
Trading	We do not intend to list the notes on any securities exchange or automated dealer quotation system. Our common stock is listed on NASDAQ under the symbol NOVA.
Additional Notes	We may, without the consent of the holders, reopen the notes and issue additional notes under the indenture with the same terms and with the same CUSIP number as the notes offered hereby in an unlimited aggregate principal amount, provided that no such additional notes may be issued unless they are fungible with the notes offered hereby for U.S. federal income tax purposes. The notes offered hereby and any such additional notes would be treated as a single class for all purposes under the indenture and would vote together as one class on all matters with respect to the notes.
Risk Factors	See the information under the heading Risk Factors in this prospectus supplement and in the accompanying prospectus and other information included or incorporated by reference in this prospectus supplement for a discussion of factors you should carefully consider before deciding to invest in the notes.

RISK FACTORS

You should consider the following risk factors and the risk factors relating to our business under the heading Risk Factors in the accompanying prospectus in addition to the other information presented in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, in evaluating us, our business, and an investment in the notes. Any of the following risks, as well as other risks and uncertainties, could seriously harm our business and financial results and cause the value of the notes and our common stock into which the notes are convertible to decline, which in turn could cause you to lose all or part of your investment.

Risks Relating to the Notes and Our Common Stock

Your right to receive payments on the notes is junior to our existing senior indebtedness and all additional senior indebtedness we incur.

The notes rank subordinate to all of our senior indebtedness, including debt outstanding under our senior credit facility, which constitutes substantially all of our existing indebtedness (other than trade payables) and the notes will rank subordinate to all of our future senior indebtedness. In addition, the notes will be structurally subordinated to all present and future debt and other obligations of our subsidiaries. As a result, upon any distribution to our creditors or the creditors of our subsidiaries in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our subsidiaries or our or their property, the holders of our senior indebtedness and indebtedness of our subsidiaries will be entitled to be paid in full prior to any payment in respect of the notes.

Assuming that we had completed the offering of these notes and applied the net proceeds as described under Use of Proceeds , as of March 31, 2007, the company would have had total senior indebtedness of approximately $77.0 million; we subsequently borrowed an additional $24.6 million in conjunction with our acquisition of Surgery Center of Kalamazoo, LLC.

The indenture will not limit the amount of additional indebtedness, including senior indebtedness, that we can create, incur, assume or guarantee.

We will continue to have the ability to incur debt after this offering; if we incur substantial additional debt, these higher levels of debt may affect our ability to pay principal and interest on the notes.

The indenture governing the notes does not restrict our ability to incur additional indebtedness or require us to maintain financial ratios or specified levels of net worth or liquidity. If we incur substantial additional indebtedness in the future, these higher levels of indebtedness may affect our ability to pay principal and interest on the notes and our creditworthiness generally.

The adjustment to the conversion rate for notes converted in connection with a qualifying fundamental change may not adequately compensate you for any lost value of your notes as a result of such transaction.

Following a qualifying fundamental change, if a holder elects to convert its notes in connection with such corporate transaction, we will increase the conversion rate by an additional number of shares of common stock upon conversion in certain circumstances. The increase in the conversion rate will be determined based on the date on which the qualifying fundamental change occurs or becomes effective and the price paid per share of our common stock in the change in control or the average of the last reported sale prices of our common stock over the five trading–day period ending on the trading day preceding the effective date of such qualifying fundamental change, as described below under Description of the Notes Adjustment to Shares Delivered Upon Conversion Upon a Qualifying Fundamental Change. The adjustment to the conversion rate for notes converted in connection with a qualifying fundamental change may not adequately compensate you for any lost value of your notes as a result of such transaction. In addition, if the price paid per share of our common stock in the qualifying fundamental change or the average of the last reported sale prices of our common stock over the five trading-day period ending on the trading day preceding the effective date of such qualifying fundamental change, as applicable, is greater than $ per share or less than $ (in each case, subject to adjustment), no adjustment will be made to the conversion rate.

We may not have, and may not have the ability to raise, the funds necessary to repurchase the notes upon a fundamental change or to pay you cash upon conversion of your notes, as required by the indenture governing the notes.

Following a fundamental change as described under Description of the Notes Purchase of Notes at Your Option Upon a Fundamental Change, holders of notes may require us to repurchase their notes for cash. A fundamental change may also constitute an event of default or prepayment under, and result in the acceleration of the maturity of, our then-existing indebtedness. In addition, we will be required to make cash payments to holders upon conversion of the notes, which may occur upon any of the circumstances described under Description of the Notes Conversion of Notes. We cannot assure you that we will have sufficient financial resources, or will be able to arrange financing, to pay the repurchase price in cash with respect to any notes tendered by holders for repurchase upon a fundamental change or to make cash payments with respect to any notes that are converted. The subordination provisions of the notes would prevent us from making any such payment during a payment blockage period (see Description of the Notes Subordination) and our senior credit facility prohibits any such payment at a time at which a default under that facility exists or we would not be in compliance with our financial covenants under that facility after giving effect to such payment. In addition, restrictions in our then-existing credit facilities or other indebtedness may not allow us to repurchase the notes or to make cash payments due upon conversion of the notes. Our failure to repurchase the notes when required or to make cash payments upon conversion of the notes will result in an event of default with respect to the notes which could, in turn, constitute a default under the terms of our other indebtedness.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the notes.

Upon the occurrence of a fundamental change, you have the right to require us to repurchase the notes. However, the fundamental change provisions will not afford protection to holders of notes in the event of certain transactions. For example, transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us would not constitute a fundamental change requiring us to repurchase the notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of notes.

Upon conversion of the notes, we will pay only cash in settlement of the principal amount or (if lower) the conversion value thereof and we will settle any amounts in excess thereof in shares of our common stock or in cash, at our option.

The notes will be net share settled, which means that we will satisfy our conversion obligation to holders by paying only cash in settlement of the lesser of the principal amount and the conversion value of the notes and by delivering at our option cash or shares of our common stock in settlement of the portion of the conversion obligation (if any) in excess of the principal amount of the notes. Accordingly, upon conversion of a note, holders might not receive any shares of our common stock. In addition, any settlement of a conversion of notes will occur on the third business day immediately following the 50 trading day period beginning on the third trading day after our receipt of the holder s conversion notice (or, in the case of notes surrendered for conversion after the 55th scheduled trading day prior to the maturity date and on or prior to the close of business on the business day immediately preceding maturity, the 51st scheduled trading day following the maturity date) and the value will be based upon the value of our common stock during a 50-day reference period. Accordingly, you may receive less value than you expected because the value of our common stock may decline (or fail to appreciate as much as you may expect) between the day that you exercise your conversion right and the day on which we settle our conversion obligation.

The notes may not have an active market and the price may be volatile, so you may be unable to sell your notes at the price you desire or at all.

The notes are a new issue of securities for which there is currently no active trading market. We cannot ensure that a liquid market will develop for the notes, that you will be able to sell any of the notes at a particular time (if at all) or that the prices you receive if or when you sell the notes will be above their initial offering price. In addition, we do not intend to apply for listing of the notes on any securities exchange or on any automated dealer quotation system. The underwriter has advised us that it intends to make a market in the notes, but it is not obligated to do so and may discontinue any market-making in the notes at any time in its sole discretion and without notice. Future trading prices of the notes on any market that may develop will depend on many factors, including our operating performance and financial condition, prevailing interest rates, the market for similar securities, and general economic conditions.

Moreover, even if you are able to sell your notes, you may not receive a favorable price for your notes. Future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, the price of our common stock and the market for similar securities. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the notes will be subject to disruptions which may have a negative effect on the holders of the notes, regardless of our prospects or financial performance.

Any adverse rating of the notes may cause the value of the notes to fall.

We do not intend to seek a rating on the notes by Standard & Poor s Credit Market Services, Moody s Investor Services, Inc., or any other rating agency. If the notes are rated in the future, one or both of these rating agencies may lower the ratings on the notes. If the rating agencies reduce their ratings on the notes in the future or indicate that they have their ratings on the notes under surveillance or review with possible negative implications, the value of the notes could decline. In addition, a ratings downgrade could adversely affect our ability to access capital. Ratings on the notes are not a recommendation to buy the notes and such ratings may be withdrawn or changed at any time.

The conversion price of the notes may not be adjusted for all dilutive events.

The conversion price of the notes is subject to adjustment for certain events, including, but not limited to, the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends, and certain issuer tender or exchange offers as described under Description of the Notes Conversion of Notes Conversion Price Adjustments. The conversion price will not be adjusted for other events, such as a third party tender or exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the notes or the common stock. An event that adversely affects the value of the notes may occur, and that event may not result in an adjustment to the conversion rate.

The conditional conversion feature of the notes could result in your receiving less than the value of our common stock into which a note would otherwise be convertible.

Until the close of business on December 15, 2011, the notes are convertible into shares of our common stock only if specified conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your notes, and you may not be able to receive the value of the common stock into which the notes would otherwise be convertible.

Fluctuations in the price of our common stock may prevent you from being able to convert the notes, may impact the price of the notes and may make the notes more difficult to resell.

Except during the period after December 15, 2011 to, and including, the business day immediately preceding the maturity date, the ability of holders of the notes to convert the notes is conditioned on the closing price of our common stock reaching a specified threshold for a specified period, the trading price of the notes falling below a certain level for a specified period, or the occurrence of specified corporate transactions. If the closing price threshold for conversion of the notes is satisfied at the end of a calendar quarter, holders may convert the notes only during the subsequent calendar quarter. If such closing price threshold is not satisfied, the trading price of the notes does not fall below the relevant threshold and none of the specified distributions or corporate transactions that would permit a holder to convert the notes occur, holders would not be able to convert the notes prior to the close of business on December 15, 2011.

Because the notes will be convertible into an amount of cash and common stock, if any, based on the volume-weighted average price of our common stock over a 50 trading day observation period, volatility or depressed prices for our common stock could have a similar effect on the trading price of the notes and/or the value of the consideration payable upon the conversion of the notes. Holders who receive common stock upon conversion of the notes will also be subject to the risk of volatility and depressed prices of our common stock.

The notes are not protected by restrictive covenants.

The indenture governing the notes will not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture will not contain covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change except as described under Description of the Notes Purchase of Notes at Your Option Upon a Fundamental Change.

Future sales of shares of our common stock may depress our stock price and/or result in dilution to our stockholders.

If we issue common stock to raise capital, or our stockholders transfer their ownership of our common stock or sell a substantial number of shares of common stock in the public market, or investors become concerned that substantial sales might occur, the market price of our common stock could decrease. In addition, such sales may result in additional dilution to our stockholders. A decrease in our common stock price could make it difficult for us to raise capital by selling stock or to pay for acquisitions using stock. To the extent outstanding options are exercised or additional shares of capital stock are issued, existing stockholders may incur additional dilution.

One of our directors has adopted and certain of our other executive officers and directors have notified the underwriter of their intention to adopt a 10b5-1 prearranged trading plan. In accordance with such plans, these officers and directors will periodically sell a specified number of our shares of common stock either owned or acquired through the exercise of stock options.

Except as described under Underwriting, we are not restricted from issuing additional shares of our common stock, or securities convertible into our common stock, during the life of the notes and have no obligation to consider your interests for any reason. If we issue additional shares of our common stock or such convertible securities, we may materially and adversely affect the price of our common stock and, in turn, the price of the notes.

Conversion of the notes will dilute the ownership interest of our existing stockholders, including holders who had previously converted their notes.

The conversion of some or all of the notes will dilute the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

The trading prices for the notes will be directly affected by the trading prices for our common stock, which are difficult to predict.

The price of our common stock could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in us by hedging or arbitrage trading activity that may develop involving our common stock. This arbitrage could, in turn, affect the trading prices of the notes. This may result in greater volatility in the market price of the notes than would be expected for nonconvertible debt securities.

If you hold notes, you are not entitled to any rights with respect to our common stock, but you are subject to all changes made with respect to our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you upon conversion of your notes. For example, in the event that an amendment is proposed to our charter or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to your conversion of notes, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences, or special rights of our common stock or other classes of capital stock.

The convertible note hedge and call warrant transactions may affect the value of the notes and the trading price of our common stock.

We intend to enter into a privately-negotiated convertible note hedge transaction with Deutsche Bank AG, which is expected to reduce the potential dilution to our common stock upon any conversion of the notes. In the event that the counterparty in the transaction fails to deliver shares to us as required under the note hedge documents or as a result of a breach of the note hedge documents by us, we will be required to issue shares in order to meet our share delivery obligations with respect to the converted notes. We also intend to enter into a warrant transaction with Deutsche Bank AG with respect to our common stock pursuant to which we may issue shares of our common stock. In connection with these transactions, we expect to pay approximately $6.3 million (assuming no exercise of the underwriter s overallotment option) of the net proceeds of the offering, representing the net cost to us of the convertible note hedge transaction, partially offset by the proceeds to us of the warrant transaction. In connection with hedging these transactions, Deutsche Bank AG or its affiliates may enter into various over-the-counter derivative transactions with respect to our common stock at, and possibly after, the pricing of the notes and may purchase our common stock in secondary market transactions following the pricing of the notes. These activities could have the effect of increasing the price of our common stock prior to and possibly following the pricing of the notes. Deutsche Bank AG or its affiliates is likely to modify its hedge positions from time to time prior to conversion or maturity of the notes (including during any conversion period related to conversion of the notes) by purchasing and selling shares of our common stock, other of our securities or other instruments it may wish to use in connection with such hedging. The magnitude of any of these transactions and activities and their effect, if any, on the market price of our common stock or the notes will depend in part on market conditions and our settlement election under the notes and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock (including during any period used to determine the amount of consideration deliverable upon conversion of the notes) and the value of the notes and, as a result, the conversion value you will receive upon the conversion of the notes and, under certain circumstances, your ability to convert notes.

If we pay a cash dividend on our common stock, you may be deemed to have received a taxable dividend without the receipt of any cash.

If we pay a cash dividend on our common stock, an adjustment to the conversion rate may result, and you may be deemed to have received a taxable dividend subject to U.S. federal income tax without the receipt of any cash. If you are a non-U.S. holder (as defined in Certain Material United States Federal Income Tax Considerations), such deemed dividend may be subject to U.S. federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable treaty. See Certain Material United States Federal Income Tax Considerations.

Conversion of notes into cash or a combination of both cash and our common stock will require U.S. holders to recognize taxable gains.

Upon the conversion of a note into a combination of both cash and our common stock, a U.S. holder generally will be required to recognize gain on the conversion for United States federal income tax purposes. Prospective investors should carefully review the information regarding tax considerations relevant to an investment in the notes set forth under Certain Material United States Federal Income Tax Considerations and are also urged to consult their own tax advisors prior to investing in the notes.

The fundamental change purchase feature of the notes may delay or prevent an otherwise beneficial attempt to take over our Company.

The terms of the notes require us to purchase the notes for cash in the event of a fundamental change. A takeover of our Company would trigger the requirement that we purchase the notes. This may have the effect of delaying or preventing a takeover of our Company that would otherwise be beneficial to investors.

Provisions of Delaware law and our certificate of incorporation, by-laws and shareholder rights plan could prevent or delay a change of control or change in management that could be beneficial to us and our public stockholders.

Certain provisions of Delaware law and our charter, by-laws and shareholder rights plan may prevent, delay or discourage:

- A merger, tender offer or proxy contest;
- The assumption of control by a holder of a large block of our securities; or
- The replacement or removal of current management by our stockholders.

For example, our charter divides the board of directors into three classes, with members of each class to be elected for staggered three-year terms. This provision may make it more difficult for stockholders to change the majority of directors and may hinder accumulations of large blocks of common stock by limiting the voting power of such blocks. This may further result in discouraging a change of control or change in current management.

If stockholders do not receive dividends, stockholders must rely on stock appreciation for any return on their investment in us.

We have never declared or paid cash dividends on any of our capital stock. We currently intend to retain our earnings for future growth and therefore do not anticipate paying cash dividends in the future.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain, and incorporate by reference, certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended) that reflect our current expectations regarding our future results of operations, performance and achievements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We have tried, wherever possible, to identify these forward-looking statements by using words such as anticipates, believes, estimates, expects, plans, intends and similar expressions. statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties and contingencies that could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These risks and uncertainties include: reduced prices and reimbursement rates for surgical procedures; our ability to acquire, develop or manage a sufficient number of profitable surgical facilities, including facilities that are not exclusively dedicated to eye-related procedures; our ability to manage our increasing borrowing costs as we incur additional indebtedness to fund the acquisition and development of surgical facilities; our ability to access capital on a cost-effective basis to continue to successfully implement our growth strategy; our ability to maintain successful relationships with the physicians who use our surgical facilities; our operating margins and profitability could suffer if we are unable to grow and manage effectively our increasing number of surgical facilities; competition from other companies in the acquisition, development and operation of surgical facilities; the potential impacts of new accounting standards; and the application of existing or proposed government regulations, or the adoption of new laws and regulations, that could limit our business operations, require us to incur significant expenditures or limit our ability to relocate our facilities if necessary. These factors and others are more fully set forth under Risk Factors above and in the accompanying prospectus. You should not place undue reliance on any forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in other documents we file from time to time with the SEC including our annual reports on Form 10-K and our quarterly reports on Form 10-Q.

We have not authorized any person to give any information or to make any representation other than those contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus in connection with this offering. You should not rely on such information or representation. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any sale made pursuant to this prospectus supplement and the accompanying prospectus shall create any implication that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus is correct as of any time subsequent to the date of this prospectus supplement. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or solicitation of an offer to buy any security other than the securities covered by this prospectus supplement and the accompanying prospectus.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting estimated fees and expenses and the underwriter s discount and commission, will be approximately $ million (assuming no exercise of the underwriter s overallotment option).

We intend to use

- approximately $6.3 million (without giving effect to the exercise of the underwriter s overallotment option, if any) of the net proceeds from this offering to pay the net cost to us of the convertible note hedge and warrant transactions; and

- the remainder of the net proceeds from this offering to repay amounts outstanding under our $125 million senior credit facility and we may thereafter draw down these funds again to use for working capital or other general corporate purposes (assuming that we remain in compliance with the terms and conditions of our senior credit facility).

General corporate purposes may include acquisitions, strategic investments or joint venture arrangements. Although we currently have no arrangements or understandings with respect to acquisitions, we continue to evaluate acquisition and strategic investment opportunities. See Capitalization.

The indebtedness under our senior credit facility matures on February 10, 2010 and for the quarter ended March 31, 2007 had a weighted average interest rate of 7.28%. The repaid indebtedness was originally incurred to fund acquisitions and working capital.

RATIO OF EARNINGS TO FIXED CHARGES

The following table presents the ratio of our earnings to fixed charges for the periods indicated. We compute the ratio of earnings to fixed charges by dividing earnings before income taxes and fixed charges by the fixed charges. This ratio includes the earnings and fixed charges of us and our consolidated subsidiaries. Fixed charges consist of interest and amortization of debt discount and expense and the estimated interest portion of rentals.

Historical Earnings to Fixed Charge Ratio	Three-months Ended March 31, 2007	Twelve-months Ended December 31, 2006	2005	2004	2003	2002
	(in thousands, except ratio)					
Earnings:						
Pretax income from continuing operations (before minority interest)	$ 5,967	$ 20,883	$ 16,213	$ 9,358	$ 6,554	$ 6,437
Equity (income) loss from non-consolidated subsidiaries	16	(13)	(106)	(23)		
Distributions from equity investees		44	124			
Fixed charges	1,925	4,899	2,239	1,467	1,230	1,552
Minority interest in consolidated subsidiaries that do not have fixed charges						
Total Earnings	$ 7,908	$ 25,813	$ 18,470	$ 10,802	$ 7,784	$ 7,989
Fixed Charges:						
Interest expense	$ 1,363	$ 3,032	$ 763	$ 226	$ 119	$ 414
Interest on rental expense	562	1,867	1,476	1,241	1,111	1,138
Total Fixed Charges	$ 1,925	$ 4,899	$ 2,239	$ 1,467	$ 1,230	$ 1,552
Ratio of earnings to fixed charges	4.11	5.27	8.25	7.36	6.33	5.15

The following table presents the ratio of earnings to fixed charges for the periods indicated as adjusted for the net decrease in interest expense resulting from the issuance of the notes and application of the resulting proceeds as described under Use of Proceeds as if those had occurred at the beginning of the respective periods presented.

Pro Forma Earnings to Fixed Charge Ratio (effects of convertible notes offering) (1)	**Three-months Ended March 31, 2007**	**Twelve-months Ended December 31, 2006**
	(in thousands, except ratio)	
Earnings:		
Pretax income from continuing operations (before minority interest)	$ 6,585	$ 22,652
Equity (income) loss from non-consolidated subsidiaries	16	(13)
Distributions from equity investees		44
Fixed charges	1,307	3,130
Minority interest in consolidated subsidiaries that do not have fixed charges		
Total Earnings	$ 7,908	$ 25,813
Fixed Charges:		
Interest expense	$ 745	$ 1,263
Interest on rental expense	562	1,867
Total Fixed Charges	$ 1,307	$ 3,130
Ratio of earnings to fixed charges	6.05	8.25

(1) In preparing this table we have assumed for illustrative purposes that the notes bear interest at a rate of 0.75%. The actual rate borne by the notes may be higher or lower. In addition, we have assumed that the portion of the net proceeds used for payment for the note hedge transaction, net of proceeds received from the warrant transaction, will be $6.3 million. The actual amount of proceeds required for that payment may differ, depending on final pricing terms.

The following table presents the ratio of earnings to fixed charges for the periods indicated as adjusted for the effects of the acquisition of Surgery Center of Kalamazoo as if that had occurred at the beginning of the period presented.

Pro Forma Earnings to Fixed Charge Ratio (effects of Kalamazoo acquisition)	**Three-months Ended March 31, 2007**	**Twelve-months Ended December 31, 2006**
	(in thousands, except ratio)	
Earnings:		
Pretax income from continuing operations (before minority interest)	$ 6,522	$ 23,029
Equity (income) loss from non-consolidated subsidiaries	16	(13)
Distributions from equity investees		44
Fixed charges	2,446	7,006
Minority interest in consolidated subsidiaries that do not have fixed charges		
Total Earnings	$ 8,984	$ 30,066
Fixed Charges:		
Interest expense	$ 1,846	$ 4,973
Interest on rental expense	600	2,033
Total Fixed Charges	$ 2,446	$ 7,006
Ratio of earnings to fixed charges	3.67	4.29

The following table presents the ratio of earnings to fixed charges for the periods indicated as adjusted for the effect of the Kalamazoo acquisition and the net decrease in interest expense resulting from the issuance of the notes and application of the resulting proceeds as if that had occurred at the beginning of the period presented.

Pro Forma Earnings to Fixed Charge Ratio (effects of convertible note offering and Kalamazoo acquisition) (1)	**Three-months Ended March 31, 2007**	**Twelve-months Ended December 31, 2006**
	(in thousands, except ratio)	
Earnings:		
Pretax income from continuing operations (before minority interest)	$ 7,146	$ 25,477
Equity (income) loss from non-consolidated subsidiaries	16	(13)
Distributions from equity investees		44
Fixed charges	1,822	4,558
Minority interest in consolidated subsidiaries that do not have fixed charges		
Total Earnings	$ 8,984	$ 30,066
Fixed Charges:		
Interest expense	$ 1,222	$ 2,525
Interest on rental expense	600	2,033
Total Fixed Charges	$ 1,822	$ 4,558
Ratio of earnings to fixed charges	4.93	6.60

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(1) In preparing this table we have assumed for illustrative purposes that the notes bear interest at a rate of 0.75%. The actual rate borne by the notes may be higher or lower. In addition, we have assumed that the portion of the net proceeds used for payment for the note hedge transaction, net of proceeds received from the warrant transaction, will be $6.3 million. The actual amount of proceeds required for that payment may differ, depending on final pricing terms.

PRICE RANGE OF OUR COMMON STOCK

Our common stock (and associated preferred stock purchase rights) trades on NASDAQ under the symbol NOVA. The following table sets forth, for the periods indicated, the reported high and low sales prices per share of our common stock as reported by NASDAQ.

	High	Low
Fiscal Year ended December 31, 2005		
First quarter	$ 7.66	$ 4.10
Second quarter	6.46	4.72
Third quarter	7.75	5.89
Fourth quarter	7.25	6.00
Fiscal Year ending December 31, 2006		
First quarter	$ 8.63	$ 6.28
Second quarter	7.50	6.60
Third quarter	8.50	6.08
Fourth quarter	8.74	6.72
Fiscal Year ending December 31, 2007		
First quarter	$ 7.91	$ 6.01
Second quarter (through June 20, 2007)	7.75	5.85

On June 20, 2007, the closing price for our common stock on NASDAQ was $5.91 per share. There were approximately 269 shareholders of record of our common stock as of April 16, 2007.

DIVIDEND POLICY

We have never paid and do not intend to pay any cash dividends on our common stock in the foreseeable future. We currently intend to retain any earnings for use in our business operations. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and other such factors as our board of directors may deem relevant.

CONSOLIDATED CAPITALIZATION

The following table sets forth our actual cash and consolidated capitalization at March 31, 2007, our capitalization on a pro forma basis to give effect to the acquisition of Surgery Center of Kalamazoo, and our pro forma capitalization as further adjusted to give effect to this offering, assuming no exercise of the overallotment option. You should read the following table in conjunction with our consolidated financial statements (including the notes thereto) and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2006 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, which are incorporated into this prospectus supplement and the accompanying prospectus by reference, and the unaudited pro forma condensed combined financial statements presented elsewhere herein.

	As of March 31, 2007			
	Actual	Pro Forma Kalamazoo (1)	Pro Forma as adjusted (2)	
	(in thousands, except share data)			
Cash and cash equivalents	$ 2,662	$ 2,662	$ 2,662	
Debt:				
Credit facility, notes and capital leases (current and long-term)	70,677	97,156	52,793	
Convertible notes offered in this offering			50,663	(3)
Total debt	70,677	97,156	103,456	
Stockholders equity:				
Series E Junior Participating Preferred Stock, $.01 par value, 1,912,000 shares authorized, none outstanding at March 31, 2007				
Common Stock, $.01 par value, 81,761,465 shares authorized, 29,174,535 shares issued at March 31, 2007	290	290	290	
Additional paid-in-capital	91,834	91,834	92,086	(4)
Accumulated deficit	(10,164)	(10,164)	(10,164)	
Accumulated other comprehensive loss	(286)	(286)	(286)	
Treasury stock, at cost, 4,805,613 shares at March 31, 2007	(10,582)	(10,582)	(10,582)	
Total stockholders equity	71,092	71,092	71,344	
Total capitalization	$ 141,769	$ 168,248	$ 174,800	

(1) As adjusted assuming the June 1, 2007 acquisition of Surgery Center of Kalamazoo occurred on March 31, 2007.

(2) As further adjusted assuming the (a) net proceeds received from the convertible note offering ($52.5 million of notes less $1.8 million of underwriter s discount) and (b) cash paid in connection with the note hedge transaction net of proceeds received from the warrant transaction (resulting in an estimated net decrease of $6.3 million, though the actual amount of this decrease may differ, depending on final pricing terms) occurred on March 31, 2007.

(3) Reflects the additional net debt assumed as a result of the convertible note offering ($52.5 million of notes less $1.8 million of underwriter s discount).

(4) Reflects an increase due to the estimated proceeds of the warrant transaction and a decrease due to the estimated payment for the note hedge transaction (resulting in an estimated net decrease of $6.3 million, though the actual amount of this decrease may differ, depending on final pricing terms) less the tax benefit of the note hedge transaction of $6.6 million (39% tax rate). This tax benefit will be recorded as a deferred tax asset.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data. The selected consolidated financial data as of and for the fiscal years ended December 31, 2006 and 2005 have been derived from our consolidated financial statements, which have been audited by BDO Seidman, LLP, an independent registered public accounting firm. The selected consolidated financial data as of and for the fiscal years ended December 31, 2004, 2003 and 2002 has been derived from our consolidated financial statements, which have been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm. The following selected financial information for the three months ended March 31, 2007 has been derived from our unaudited financial statements and related notes, incorporated by reference in this prospectus supplement and the accompanying prospectus. The data should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus supplement, the accompanying prospectus or incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Three Months Ended March 31,	**Twelve Months Ended December 31**				
	2007	**2006**	**2005**	**2004**	**2003**	**2002**
Consolidated Statement of Operations Data: (a)(b)						
Net revenue	$ 31,386	$ 108,434	$ 81,226	$ 63,648	$ 54,524	$ 52,853
Operating income	$ 7,185	$ 23,416	$ 16,357	$ 10,885	$ 7,092	$ 4,802
Net income from continuing operations	$ 1,492	$ 5,699	$ 5,305	$ 2,053	$ 1,722	$ 2,774
Net income from continuing operations per basic share	$ 0.06	$ 0.25	$ 0.24	$ 0.10	$ 0.08	$ 0.12
Net income from continuing operations per diluted share	$ 0.06	$ 0.23	$ 0.22	$ 0.09	$ 0.08	$ 0.12
Other Data: (a)						
ASCs operated at end of period	37	36	28	24	16	15
Number of surgical procedures performed	31,245	104,076	75,512	57,568	43,316	38,133

	As of March 31,	**As of December 31,**				
	2007	**2006**	**2005**	**2004**	**2003**	**2002**
Consolidated Balance Sheet Data: (a)						
Working capital	$ 15,333	$ 10,240	$ 6,669	$ 1,928	$ 15,003	$ 6,987
Total assets	172,780	160,547	97,162	76,787	63,888	64,128
Total debt, excluding current portion	69,614	61,227	17,404	5,314	74	11
Total stockholders equity	71,092	68,116	58,675	50,821	47,926	48,083

(a) Effective November 1, 2005, we sold our 80% interest in an ASC located in St. Joseph, MO. Operating results of this ASC are being reported as discontinued operations for all periods presented.

(b) Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment , applying the modified prospective method. As a result, 2006 includes stock option related compensation expense which is not included in prior years.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following unaudited pro forma condensed combined balance sheet and unaudited pro forma condensed combined statements of operations have been derived by applying pro forma adjustments to the combined historical financial statements of NovaMed and The Surgery Center of Kalamazoo, LLC (Kalamazoo). The unaudited pro forma condensed combined financial statements give effect to the following transactions (as more fully described in the notes hereto) as if they occurred on January 1, 2006 for the pro forma statements of operations and as if they occurred on March 31, 2007 for the pro forma balance sheet:

- the acquisition by NovaMed Acquisition Company, Inc., a wholly-owned subsidiary of NovaMed, of a 62.5% ownership interest in Kalamazoo for an aggregate cash consideration of $24,600; and

- the financing of the acquisition with proceeds received from the Company s credit facility.

The purchase price for the 62.5% ownership interest in Kalamazoo is allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Any excess of the purchase price over the estimated fair value of the identifiable net assets acquired is recorded as goodwill.

The allocation of the purchase price for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values and further depends on the actual net assets of Kalamazoo as of the June 1, 2007 acquisition date. Accordingly, the purchase price allocation reflected in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation of the acquired assets and liabilities. Such adjustments could be significant. The final valuation is expected to be completed as soon as practicable but not later than 12 months after the consummation of the acquisition.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only. They do not purport to present what NovaMed s results of operations or financial condition would have been had these transactions actually occurred on the dates indicated, nor do they purport to represent NovaMed s results of operations for any future period or NovaMed s financial condition for any future date. Interim results are not necessarily indicative of full year performance.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the Company s historical consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, the Kalamazoo audited financial statements for the year ended December 31, 2006 and the Kalamazoo unaudited financial statements for the quarter ended March 31, 2007 included in the Company s Current Report on Form 8-K/A filed with the SEC on June 18, 2007, all of which are incorporated by reference into this prospectus supplement.

NOVAMED, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of March 31, 2007
(Dollars in thousands)

	NovaMed	Kalamazoo	Pro Forma Adjustments		Combined Pro Forma
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,662	$ 459	$ (459	)(a)	$ 2,662
Accounts receivable, net of allowances	20,638	761			21,399
Notes and amounts due from related parties	504				504
Inventory	2,460	136			2,596
Prepaid expenses and deposits	1,160	26			1,186
Current tax assets	1,102				1,102
Total current assets	28,526	1,382			29,449
Property and equipment, net	15,746	1,126			16,872
Intangible assets, net	127,319		24,509	(b)	151,828
Other assets, net	1,189	5			1,194
Total assets	$ 172,780	$ 2,513	$ 24,050		$ 199,343
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 7,374	$ 146	$ (116	)(a)	$ 7,404
Accrued expenses and income taxes payable	4,756	210	(210	)(a)	4,756
Current maturities of long-term debt	1,063	323			1,386
Total current liabilities	13,193	679	(326	)	13,546
Long-term debt, net of current maturities	69,614	1,556	24,600	(c)	95,770
Other long-term liabilities	646				646
Deferred income tax liabilities	3,112				3,112
Minority interests	15,123		54	(d)	15,177
Commitments and contingencies					
Stockholders equity	71,092	278	(278	)(e)	71,092
Total liabilities and stockholders equity	$ 172,780	$ 2,513	$ 24,050		$ 199,343

The accompanying notes are an integral part of this combined financial statement.

NOVAMED, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Three-Month Period Ended March 31, 2007
(In thousands, except per share data)

	NovaMed	Kalamazoo	Pro Forma Adjustments		Combined Pro Forma
Net revenue:					
Surgical facilities	$ 25,095	$ 2,377	$		$ 27,472
Product sales and other	6,291				6,291
Total net revenue	31,386	2,377			33,763
Operating expenses:					
Salaries, wages and benefits	10,094	342			10,436
Cost of sales and medical supplies	7,173	415			7,588
Selling, general and administrative	6,004	482			6,486
Depreciation and amortization	930	100			1,030
Total operating expenses	24,201	1,339			25,540
Operating income	7,185	1,038			8,223
Interest expense, net	1,327	35	448	(f)	1,810
Minority interests in earnings of consolidated entities	3,521		376	(g)	3,897
Other (income) expense, net	(109)				(109)
Income before income taxes	2,446	1,003	(824)		2,625
Income tax provision	954		70	(h)	1,024
Net income from continuing operations	$ 1,492	$ 1,003	$ (894)		$ 1,601
Net earnings per common share from continuing operations:					
Basic	$ 0.06				$ 0.07
Diluted	$ 0.06				$ 0.06
Weighted average common shares outstanding	23,899				23,899
Dilutive effect of employee stock options and restricted stock	1,276				1,276
Diluted weighted average common shares outstanding	25,175				25,175

The accompanying notes are an integral part of this combined financial statement.

NOVAMED, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Twelve-Month Period Ended December 31, 2006
(In thousands, except per share data)

	NovaMed	Kalamazoo	Pro Forma Adjustments		Combined Pro Forma
Net revenue:					
Surgical facilities	$ 85,275	$ 8,824	$		$ 94,099
Product sales and other	23,159				23,159
Total net revenue	108,434	8,824			117,258
Operating expenses:					
Salaries, wages and benefits	35,219	1,319			36,538
Cost of sales and medical supplies	26,105	1,747			27,852
Selling, general and administrative	20,604	1,572			22,176
Depreciation and amortization	3,090	399			3,489
Total operating expenses	85,018	5,037			90,055
Operating income	23,416	3,787			27,203
Interest (income) expense, net	2,945	150	1,791	(f)	4,886
Minority interests in earnings of consolidated entities	11,540		1,477	(g)	13,017
Other (income) expense, net	(412	(300)			(712)
Income before income taxes	9,343	3,937	(3,268)		10,012
Income tax provision	3,644	87	175	(h)	3,906
Net income from continuing operations	$ 5,699	$ 3,850	$ (3,443)		$ 6,106
Net earnings per common share from continuing operations:					
Basic	$ 0.25				$ 0.26
Diluted	$ 0.23				$ 0.25
Weighted average common shares outstanding	23,252				23,252
Dilutive effect of employee stock options and restricted stock	1,605				1,605
Diluted weighted average common shares outstanding	24,857				24,857

The accompanying notes are an integral part of this combined financial statement.

NOVAMED, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONDENSED

COMBINED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

1. Description of the Acquisition and Basis of Preparation

On June 1, 2007, the Company completed its acquisition of a 62.5% ownership interest in Kalamazoo, a multi-specialty ambulatory surgery center located in Portage, Michigan for a total purchase price of $24,600. The total purchase price was funded from the Company s credit facility.

The purchase price for the 62.5% ownership interest in Kalamazoo is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Any excess of the purchase price over the estimated fair value of the identifiable net assets acquired is recorded as goodwill.

The purchase price allocation reflected in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation of the acquired assets and liabilities. Such adjustments could be significant. The final valuation is expected to be completed as soon as practicable but not later than 12 months after the consummation of the acquisition. The allocation of the purchase price reflected in the unaudited pro forma condensed combined financial statements is summarized below:

Fair value of current assets	$ 923
Fair value of long-term assets	1,131
Fair value of current liabilities	(353)
Fair value of long-term liabilities	(1,556)
Minority partner share of net assets	(54)
Goodwill	24,509
Total purchase price	$ 24,600

2. Historical Financial Statements of Kalamazoo

The audited historical financial statements of Kalamazoo as of and for the year ended December 31, 2006, and the unaudited condensed financial statements of Kalamazoo as of March 31, 2007 and for the three-month period ended March 31, 2007, are included in our Current Report on Form 8-K/A filed with the SEC on June 18, 2007 which is incorporated by reference in this prospectus supplement.

The historical Kalamazoo column in the unaudited pro forma condensed combined financial statements has been adjusted for reclassifications to conform to the Company s balance sheet and statement of operations presentation.

3. Pro Forma Adjustments

Balance sheet pro forma adjustments

(a) Reflects the elimination of certain historical assets and liabilities not acquired as part of the transaction.

(b) Reflects the addition of goodwill from the purchase price allocation. Goodwill will be tested for impairment at least annually or more frequently if an event occurs or circumstances change that might reduce the fair value of this reporting unit below its carrying value.

NOVAMED, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONDENSED

COMBINED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share data)

(c) Reflects the receipt of proceeds from the Company s credit facility to finance the acquisition.

(d) Reflects the minority partners share (37.5%) of the historical acquired net assets of Kalamazoo.

(e) Reflects the elimination of all components of the historical equity of Kalamazoo.

Statements of operations pro forma adjustments

(f) Reflects the increase in interest expense associated with the financing of the acquisition under the Company s credit facility. The interest rate applied to the $24,600 of increased borrowings for the year ended December 31, 2006 and the three months ended March 31, 2007 is 7.28%, which represents the Company s weighted average borrowing rate for the first three months of 2007.

(g) Reflects the minority partners share (37.5%) of the Kalamazoo income before income taxes for the respective periods presented.

(h) Reflects the recognition of the income tax consequences of Kalamazoo s income before income taxes and pro forma adjustments identified above. The income tax rate is equal to the Company s effective tax rate for the periods presented (39%).

PURCHASE OF CONVERTIBLE NOTE HEDGE AND SALE OF WARRANTS

Concurrently with the pricing of the notes, we intend to enter into a privately-negotiated convertible note hedge transaction with respect to our common stock (the purchased call options) with Deutsche Bank AG (the counterparty). The purchased call options will cover, subject to customary anti-dilution adjustments substantially identical to those in the notes, approximately shares of our common stock. Separately and concurrently with entering into the purchased call options transaction, we also intend to enter into a warrant transaction with the counterparty with respect to our common stock, whereby we will sell to the counterparty warrants to acquire, subject to customary anti-dilution adjustments, approximately shares of our common stock (the sold warrants). The exercise price of the sold warrants will be $ per share. The sold warrants expire after the purchased call options. If the underwriter exercises its over-allotment option to purchase additional notes, we may amend the purchased call options and the sold warrants to increase the shares underlying each such transaction by an amount equal to the number of shares initially issuable upon conversion of the additional notes, subject to certain exceptions.

The purchased call options and the sold warrants are separate transactions, each entered into by us with the counterparty, are not part of the terms of the notes and will not affect the holders rights under the notes. As a holder of the notes, you will not have any rights with respect to the purchased call options or the sold warrants.

The purchased call options are expected to reduce the potential dilution to our common stock upon any conversion of the notes in the event that the market value per share of our common stock, as measured under the purchased call options, at the time of exercise is greater than the strike price of the purchased call options, which corresponds to the initial conversion price of the notes and is similarly subject to certain customary adjustments. If, however, the volume-weighted average price per share of our common stock exceeds the strike price of the sold warrants when the sold warrants are exercised, we will be required to issue shares of our common stock to the counterparty, and those issuances will have a dilutive effect on our earnings per share.

For a discussion of hedging arrangements that may be entered into in connection with these purchased call options and sold warrants, see Risk Factors Risks Related to the Notes and Our Common Stock The convertible note hedge and warrant transactions may affect the value of the notes and the trading price of our common stock.

DESCRIPTION OF THE NOTES

We will issue the notes under an indenture, to be dated as of the date we consummate the offer, among us and LaSalle Bank National Association, as trustee, as supplemented by a first supplemental indenture, also dated as of the date we consummate the offer, among the same parties (together, the indenture).

The following summarizes some, but not all, of the provisions of the notes and the indenture. We urge you to read the indenture and the form of certificate evidencing the notes in their entirety, because they, and not this description, define your rights as a holder of the notes. You may request a copy of these documents at our address shown under Where You Can Find More Information.

In this section entitled Description of the Notes, when we refer to NovaMed, we, our or us, we are referring to NovaMed, Inc. and not any of subsidiaries.

General

We will issue $52,500,000 (or $60,000,000 if the underwriter exercises its over-allotment option in full) aggregate principal amount of notes. The notes will be convertible into cash and common stock, if any, as described under Conversion of Notes. They will be issued only in denominations of $1,000 and in multiples of $1,000. They will mature on June 15, 2012, unless earlier converted by you or purchased by us at your option upon the occurrence of a fundamental change (as defined below). The notes are not subject to redemption at our option prior to maturity.

The notes will be our general unsecured obligations. They will rank subordinate to all senior indebtedness of the company, including debt outstanding under our senior credit facility, and pari passu or senior to all other subordinated indebtedness of the company. In addition, the notes will be structurally subordinated to all present and future debt and other obligations of our subsidiaries. See Risk Factors Risks Relating to the Notes and our Common Stock Your right to receive payments on the notes is junior to our existing senior indebtedness and all additional senior indebtedness we incur. Assuming that we had completed the offering of these notes and applied the net proceeds as described under Use of Proceeds, we would have had total senior indebtedness of approximately $77.0 million as of March 31 2007; we subsequently borrowed an additional $24.6 million in conjunction with our acquisition of Surgery Center of Kalamazoo, LLC. The indenture will not limit the amount of additional indebtedness, including senior indebtedness, that we can create, incur, assume or guarantee.

Neither we nor our subsidiaries are restricted from paying dividends, incurring debt or issuing or repurchasing our securities under the indenture. In addition, there are no financial covenants in the indenture. You are not protected by the indenture in the event of a highly leveraged transaction, a change in control of NovaMed or a termination in the trading of our common stock, except to the extent described under Purchase of Notes at Your Option Upon a Fundamental Change and Conversion of Notes Conversion Upon Specified Corporate Transactions.

We will pay interest on the notes at a rate of % per annum, payable semi-annually in arrears on June 15 and December 15 of each year, or if any such day is not a business day, the immediately following business day (each, an interest payment date), commencing December 15, 2007 to holders of record at the close of business on the record dates described below. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. In the event of the maturity, conversion, or purchase by us at the option of the holder, interest ceases to accrue on the notes under the terms of and subject to the conditions of the indenture.

For so long as the notes are held in book-entry only form, interest is payable on each payment date to the person in whose name a given note is registered at the close of business on the business day before the interest payment date. In the event that the notes do not remain in book-entry only form or are not in the form of a global certificate, the record dates will be June 1 and December 1 preceding the applicable June 15 and December 15 interest payment date, respectively. A business day is any day other than (x) a Saturday, (y) a Sunday or (z) a day on which state or federally chartered banking institutions in New York, New York or the state in which the corporate trust office is located are not required to be open.

We may, without the consent of the holders, reopen the notes and issue additional notes under the indenture with the same terms and with the same CUSIP numbers as the notes offered by this prospectus supplement in an unlimited aggregate principal amount, provided that no such additional notes may be issued unless they are fungible with the notes offered by this prospectus supplement for U.S. federal income tax purposes. The notes offered by this prospectus supplement and any such additional notes would be treated as a single class for all purposes under the indenture and would vote together as one class on all matters with respect to the notes. We may also from time to time repurchase the notes in open market purchases or negotiated transactions without prior notice to holders.

We will maintain an office in the City of New York where the notes may be presented for registration of transfer, exchange or conversion. This office will initially be an office or agency of the trustee. Except under limited circumstances described below, the notes will be issued only in fully-registered book-entry form, without coupons, and will be represented by one or more global notes. There will be no service charge for any registration of transfer or exchange of notes. We may, however, require holders to pay a sum sufficient to cover any tax or other governmental charge payable in connection with certain transfers or exchanges.

Subordination

The notes will be subordinated in right of payment to all of our existing and future senior indebtedness on the terms set forth below. The indenture does not restrict the amount of indebtedness, including senior indebtedness, that we or any of our subsidiaries may incur. The notes will rank *pari passu* with all other existing and future senior subordinated indebtedness of the company and will be senior in right of payment to all of our future obligations that may be designated as subordinated to the notes.

No payment on account of principal of, redemption of, interest (including contingent interest and additional amounts, if any) on or any other amounts due with respect to the notes, including, without limitation, any payments of cash upon conversion, and no redemption, repurchase or other acquisition of the notes may be made if:

- default in the payment of any designated senior indebtedness occurs and is continuing beyond any applicable period of grace (a payment default); or

- a default other than a payment default occurs and is continuing that permits the holders of designated senior indebtedness (or any agent acting on their behalf) to accelerate its maturity, and the trustee receives a notice of such default (a payment blockage notice) from any representative of such holders of the designated senior indebtedness (a non-payment default).

As used herein, designated senior indebtedness means our senior credit facility and any other senior indebtedness of the company which, at the date of determination, has an aggregate principal amount outstanding of, or under which, at the date of determination, the holders thereof are committed to lend up to, at least $20.0 million and is specifically designated by the company in the instrument evidencing or governing such senior indebtedness as designated senior indebtedness.

We may resume payments and distributions on the notes:

- in case of a payment default, upon the date on which such default is cured or waived or ceases to exist; and

- in the case of a non-payment default, upon the earliest of (x) the date on which such non-payment default is cured or waived or ceases to exist, in each case as and to the extent permitted under the documentation for the designated senior indebtedness, or (y) 179 days from the date the payment blockage notice is received, unless the maturity of the designated senior indebtedness has been accelerated, in which case the immediately preceding bullet point shall become applicable.

Notwithstanding the foregoing, not more than one payment blockage notice may be given in any consecutive 365-day period, irrespective of the number of defaults with respect to designated senior indebtedness during such period. No default which existed or was continuing on the date of the delivery of any payment blockage notice with respect to the designated senior indebtedness whose holders delivered the payment blockage notice may be made the basis of a subsequent payment blockage notice by the holders of such designated senior indebtedness, whether or not within a period of 365 consecutive days, unless the default has been cured or waived for a period of not less than 90 consecutive days.

Upon any distribution of our assets in connection with any dissolution, winding-up, liquidation or reorganization of us, all senior indebtedness must be paid in full in cash or otherwise satisfactory to the holders of senior indebtedness before the holders of the notes are entitled to any payments whatsoever (except that the holders of notes may receive capital stock and debt obligations that are subordinated to the senior indebtedness to substantially the same extent or to a greater extent as the notes are so subordinated).

As a result of these subordination provisions, in the event of our insolvency, holders of the notes may recover ratably less than the holders of our senior indebtedness. Assuming that we had completed the offering of these notes and applied the net proceeds as described under Use of Proceeds , as of March 31 2007, the company would have had total senior indebtedness of approximately $77.0 million; we subsequently borrowed an additional $24.6 million in conjunction with our acquisition of Surgery Center of Kalamazoo, LLC . The indenture will not limit the amount of additional indebtedness, including senior indebtedness, that we can create, incur, assume or guarantee.

If the payment of the notes is accelerated because of an event of default as described under Events of Default; Notice and Waiver below, we shall promptly notify the holders of senior indebtedness or the trustee or other representatives for the holders of the senior indebtedness of the acceleration. We may not pay the notes until five business days after the holders or trustee(s) or other representatives for the holders of senior indebtedness receive notice of the acceleration and after which we may pay the notes only if the subordination provisions of the indenture otherwise permit payment at that time.

If the trustee or any holder of notes receives any payment or distribution of our assets of any kind in contravention of any of the subordination terms of the indenture, whether in cash, property or securities, including, without limitation by way of set-off or otherwise, in respect of the notes before all senior indebtedness is paid in full in cash or as otherwise acceptable to holders of the senior indebtedness, then the payment or distribution will be held by the recipient in trust for the benefit of holders of senior indebtedness, and will be immediately paid over or delivered to the holders of senior indebtedness or their representative or representatives to the extent necessary to make payment in full of all senior indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution, or provision therefor, to or for the holders of senior indebtedness.

No Layering of Indebtedness

We will not incur, create, issue, assume, guarantee or otherwise become liable for any indebtedness that is subordinate or junior in right of payment to any senior indebtedness of the company and senior in right of payment to the notes. For purposes of the foregoing, for the avoidance of doubt, no indebtedness shall be deemed to be subordinated in right of payment to any other indebtedness solely by virtue of being unsecured or secured by a junior priority lien or by virtue of the fact that the holders of such indebtedness have entered into intercreditor agreements or other arrangements giving one or more of such holders priority over the other holders in the collateral held by them or by virtue of structural subordination.

Other than as set forth in the preceding paragraph, the indenture does not limit the amount of additional indebtedness, including senior indebtedness, which we can create, incur, assume or guarantee.

Conversion of Notes

General

Holders may surrender notes for conversion at any time prior to the close of business on December 15, 2011 (six months prior to the maturity date), and receive the consideration described below under Payment Upon Conversion, only if any of the following conditions is satisfied:

- during any calendar quarter commencing after the date of original issuance of the notes, if the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter preceding the quarter in which the conversion occurs is more than 120% of the conversion price of the notes in effect on that last trading day;

- during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price for the notes for each such trading day was less than 97% of the closing sale price of our common stock on such date multiplied by the then current conversion rate; or

- if we make certain significant distributions to holders of our common stock, we enter into specified corporate transactions or our common stock is not approved for listing on NASDAQ and is not listed for trading on another U.S. national securities exchange.

We describe each of these conditions in greater detail below.

Notes that are validly surrendered for conversion will be deemed to have been converted immediately prior to the close of business on the conversion date and the converting holder will be treated as a shareholder of record of NovaMed as of that time.

However, after December 15, 2011, holders may surrender their notes for conversion at any time prior to the close of business on the business day immediately preceding the maturity date regardless of whether any of the foregoing conditions is satisfied.

Upon conversion of a note, a holder will not receive any cash payment of interest (unless such conversion occurs between a regular record date and the interest payment date to which it relates) and we will not adjust the conversion rate to account for accrued and unpaid interest, except that we will pay, on the maturity date, accrued and unpaid interest on any notes surrendered on or prior to the 55th scheduled trading day prior to the stated maturity date to the converting holder notwithstanding such conversion. Our delivery to the holder of cash and shares, if any, of our common stock into which the note is convertible will be deemed to satisfy our obligation with respect to such note. Accordingly, any accrued but unpaid interest will be deemed to be paid in full upon conversion, rather than cancelled, extinguished or forfeited.

Holders of notes at the close of business on a regular record date will receive payment of interest payable on the corresponding interest payment date notwithstanding the conversion of such notes at any time after the close of business on the applicable regular record date. Notes surrendered for conversion by a holder after the close of business on any regular record date but prior to the next interest payment date must be accompanied by payment of an amount equal to the interest that the holder is to receive on the notes; provided, however, that no such payment need be made (1) if we have specified a purchase date

following a fundamental change that is after a record date and on or prior to the next interest payment date, (2) with respect to any notes surrendered for conversion following the record date for the payment of interest immediately preceding the stated maturity date or (3) only to the extent of overdue interest, if any overdue interest exists at the time of conversion with respect to such note.

Conversion Upon Satisfaction of Market Price Condition

Holders may surrender notes for conversion during any calendar quarter commencing after the date of original issuance of the notes if the closing sale price (as defined below) of our common stock, for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter preceding the quarter in which the conversion occurs, is more than 120% of the conversion price of the notes in effect on that last trading day.

The closing sale price of our common stock on any date means the closing per share sale price (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) at 4:00 p.m. (New York City time) on such date as reported in composite transactions for the principal U.S. securities exchange on which our common stock is traded or, if our common stock is not listed on a U.S. national securities exchange, as reported by the National Quotation Bureau Incorporated.

A trading day means a day on which (i) there is no market disruption event (as defined below) and (ii) NASDAQ or, if our common stock is not listed on NASDAQ, the principal other U.S. national securities exchange on which our common stock is then listed is open for trading or, if our common stock is not so listed, any business day. A trading day only includes those days that have a scheduled closing time of 4:00 p.m. (New York City time) or the then standard closing time for regular trading on the relevant exchange or trading system.

A market disruption event means the occurrence or existence for more than one half hour period in the aggregate on any scheduled trading day for our common stock of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by NASDAQ or otherwise) in our common stock or in any options, contracts or future contracts relating to our common stock, and such suspension or limitation occurs or exists at any time before 1:00 p.m. (New York City time) on such day.

Conversion Upon Trading Price of Notes Falling Below Conversion Value of the Notes

If the trading price (as defined below) for the notes on each trading day during any five consecutive trading-day period was less than 97% of the closing sale price of our common stock on such date multiplied by the then current conversion rate, as determined following a request in accordance with the procedures described below, a holder may surrender notes for conversion at any time during the following 10 trading days.

Upon request, the conversion agent (which shall initially be the trustee) will, on our behalf, determine if the notes are convertible and will notify us and the trustee accordingly. The conversion agent shall have no obligation to determine the trading price of the notes unless we have requested such determination in writing, and we shall have no obligation to make such request unless the trustee, acting at the request of one or more holders holding in the aggregate at least $2,000,000 in principal amount of the notes, provides us with reasonable evidence that the trading price of the notes on any trading day would be less than 97% of the product of the then current conversion rate times the closing sale price of our common stock on that date. At such time, we shall instruct the conversion agent to determine the trading price of the notes beginning on such trading day and on each successive four trading days.

trading price means, on any date of determination, the average of the secondary bid quotations per note obtained by the conversion agent for $1,000,000 principal amount of the notes at approximately

3:30 p.m. (New York City time) on such determination date from three independent nationally recognized securities dealers we select; provided that, if at least three such bids cannot reasonably be obtained, but two such bids can reasonably be obtained, then the average of these two bids shall be used; provided, further, that, if at least two such bids cannot reasonably be obtained, but one such bid can reasonably be obtained, this one bid shall be used. If on any date of determination the conversion agent cannot reasonably obtain at least one bid for $1,000,000 principal amount of the notes from an independent nationally recognized securities dealer, then the trading price of the notes on such date of determination will be deemed to be less than 97% of the conversion value.

Conversion Upon Specified Corporate Transactions

If we elect to distribute to all or substantially all holders of our common stock:

- specified rights or warrants entitling them to subscribe for or purchase our common stock at less than the current market price (as defined in the indenture) on the record date for such issuance or

- cash, debt securities (or other evidence of indebtedness) or other assets (excluding dividends or distributions described in clauses (1) or (3) of the description below under Conversion Price Adjustments), which distribution, together with all other such distributions within the preceding twelve months, has a per share value exceeding 10% of the current market price of our common stock as of the trading day immediately preceding the declaration date for such distribution,

we must notify the holders of the notes at least 20 days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their notes for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place.

In addition, in the event of a fundamental change (as defined under Purchase of Notes at Your Option Upon a Fundamental Change), a holder may surrender notes for conversion at any time from or after the date which is 40 days prior to the anticipated effective time of the fundamental change until the close of business on the second trading day immediately preceding the fundamental change purchase date (as defined under Purchase of Notes at Your Option Upon a Fundamental Change). The holder may also require us to purchase all or a portion of its notes upon the occurrence of a fundamental change as described under Purchase of Notes at Your Option Upon a Fundamental Change. To the extent practicable, we will give notice to holders of the anticipated effective date for a fundamental change not more than 70 days nor less than 40 days prior to the anticipated effective date.

Holders will also have the right to surrender notes for conversion if we are a party to a combination, merger, binding share exchange or sale or conveyance of all or substantially all of our property and assets that does not also constitute a fundamental change (a transforming transaction), in each case pursuant to which our common stock would be converted into cash, securities or other property. In such event, holders will have the right to surrender notes for conversion at any time from or after the date which is 15 days prior to the date that is the actual effective date of such transaction and ending on the 15th day following the effective date of such transaction. We will notify holders at least 20 days prior to the anticipated effective date of such transaction. If the transaction also constitutes a fundamental change, in lieu of the conversion right described in this paragraph, holders will have the conversion right described in the preceding paragraph and will have the right to require us to purchase their notes as set forth below under Purchase of Notes at Your Option Upon a Fundamental Change.

Conversion after December 15, 2011

After December 15, 2011 (six months prior to the maturity date) and on or prior to the close of business on the business day immediately prior to the stated maturity date, holders may surrender their notes for conversion regardless of whether any of the conditions described in Conversion Upon Satisfaction of Market Price Condition, Conversion Upon Trading Price of Notes Falling Below Conversion Value of the Notes, or Conversion Upon Specified Corporate Transactions has been satisfied.

Payment Upon Conversion

Each $1,000 principal amount of notes surrendered on or prior to the fifty-fifth scheduled trading day prior to the stated maturity date will be converted into cash and shares of our common stock, if any, based on an amount, which we refer to as the daily conversion value, calculated for each of the 50 trading days beginning on the third trading day immediately following the conversion date, which we refer to as the conversion period. The daily conversion value for each trading day during the conversion period for each $1,000 aggregate principal amount of notes is equal to one-fiftieth of the product of the then applicable conversion rate multiplied by the volume weighted average price (as defined below) of our common stock on that day.

For each $1,000 aggregate principal amount of notes surrendered for conversion prior to the close of business on the fifty-fifth scheduled trading day prior to the stated maturity date, we will deliver for each trading day during the conversion period:

(1) if the daily conversion value for such trading day for each $1,000 aggregate principal amount of notes exceeds $20.00, (a) a cash payment of $20.00 and (b) the remaining daily conversion value, which we refer to as the daily net share settlement value, in shares of our common stock (subject to our right to deliver cash in lieu of all or a portion of those shares as described below); or

(2) if the daily conversion value for such trading day for each $1,000 aggregate principal amount of notes is less than or equal to $20.00, a cash payment equal to the daily conversion value.

We refer to the total of the daily net share settlement values for the 50 trading days within the conversion period as the residual amount.

The number of shares of common stock to be delivered under clause 1(b) above will be determined by dividing the daily net share settlement value by the volume weighted average price of our common stock for that trading day.

We may elect to deliver cash (rather than shares of common stock) in respect of some or all of the residual amount for any notes that are converted by notice to the holders of the notes. This election, however, will only apply to conversions with a conversion period beginning after we have announced that we have elected cash settlement and specified the percentage (the cash percentage) of the residual amount that we will settle in cash. We must settle 100% of the residual amount for any other notes converted with shares of our common stock. We will make any announcement of an election to deliver cash by providing notice to the holders of the notes and the trustee, issuing a press release containing the relevant information and making this information available on our website.

If we do not elect cash settlement of some or all of the residual amount, we will determine the number of shares of common stock to be delivered in respect of the daily net share settlement value for each trading day within the conversion period for any notes that are converted by dividing the daily net share settlement value by the volume weighted average price of our common stock for that trading day.

Alternatively, if we do elect cash settlement of some or all of the residual amount, we will deliver in respect of each trading day in the applicable conversion period:

- cash in an amount equal to the product of: (1) the cash percentage and (2) the daily net share settlement value; and

- a number of shares of our common stock equal to the product of (1) 100% minus the cash percentage times (2) the daily net share settlement value for the trading day divided by the daily volume weighted average price (as defined below) of our common stock on such trading day.

If a holder surrenders for conversion a note at any time after the fifty-fifth scheduled trading day prior to the maturity date and on or prior to the close of business on the business day immediately prior to the maturity date:

- the holder will be deemed to have surrendered such note as of the business day immediately prior to the maturity date;

- the conversion period for such note will commence on the 51st scheduled trading day immediately prior to the maturity date;

- in lieu of receiving cash as provided for above, the holder shall receive, for each $1,000 principal amount note surrendered, $1,000 on the maturity date; and

- we will deliver shares (or cash, if we have so elected) representing the residual amount calculated as described above on the third business day following the last day of the conversion period.

The conversion rate with respect to a note is initially approximately shares of our common stock. The conversion rate of a note is equal to $1,000 divided by the then applicable conversion price at the time of determination. The conversion price is subject to adjustment as described under Conversion Price Adjustments. Accordingly, an adjustment to the conversion price will result in a corresponding (but inverse) adjustment to the conversion rate. The initial conversion price for each $1,000 aggregate principal amount of notes is $ per share of our common stock.

No fractional shares will be issued upon conversion; in lieu thereof, a holder that would otherwise be entitled to fractional shares of our common stock will receive a number of shares of our common stock equal to the aggregate of the fractional shares otherwise deliverable for each trading day during the conversion period (rounding down to the nearest whole number) and cash equal to the remainder multiplied by the volume weighted average price of our common stock on the last trading day of the conversion period.

For purposes of this section, Payment Upon Conversion, volume weighted average price per share of our common stock (or any security into which our common stock has been converted in connection with a fundamental change or transforming transaction) on any trading day means the volume weighted average price on the principal exchange or over-the-counter market on which our common stock (or other security) is then listed or traded, from 9:30 a.m. to 4:00 p.m. (New York City time) on that trading day as displayed under the heading Bloomberg VWAP on Bloomberg Page NOVA Q Equity AQR (or the Bloomberg Page for any security into which our common stock has been converted in connection with a fundamental change), or if such volume weighted average price is not available, our board of directors reasonable, good faith estimate of the volume weighted average price of the shares of our common stock, or other security, on such trading day.

We will deliver the cash and any shares of our common stock (including cash in lieu of fractional shares) deliverable upon conversion of the notes three business days after the last trading day in the applicable conversion period, through the conversion agent. If a holder surrenders a note for conversion in connection with a qualifying fundamental change (as described under Adjustment to Shares Delivered Upon Conversion Upon a Qualifying Fundamental Change), however, we will deliver the portion of the conversion consideration that is payable on account of the increase in the conversion rate on the third business day after the later of:

- the date the holder surrenders the note for conversion;
- the last trading day in the applicable conversion period; and
- the effective date of the qualifying fundamental change.

As a result, holders converting in connection with a qualifying fundamental change may receive conversion consideration in two payments rather than one.

Generally, the conversion date will be the date on which the notes and all of the items required for conversion shall have been delivered as described under Conversion Procedures below and the requirements for conversion have been met, if all requirements for conversion shall have been satisfied by 11:00 a.m. New York City time on such day, and in all other cases, the conversion date shall be the next succeeding business day. However, as described above, if a holder surrenders for conversion a note at any time after the fifty-fifth scheduled trading day prior to its stated maturity, the conversion date will be deemed to be the business day immediately preceding the note s stated maturity date.

Payment Upon Conversion Upon a Fundamental Change. If a holder converts any of its notes at any time beginning 40 days before the scheduled effective date of a fundamental change and ending at the closing of business on the second trading day immediately preceding the related fundamental change purchase date, the holder will receive:

- if the notes are surrendered for conversion at any time on or after the date of payment of consideration in connection with a change in control, cash and, with respect to the daily net share settlement value (if any), the kind of securities and other assets or property received by holders of our common stock in the change in control; or
- in all other events, cash or a combination of cash and common stock, as described above under Payment Upon Conversion ;

in each case, taking into account any additional shares by which the conversion rate is increased as a result of any qualifying change in control.

Conversion Price Adjustments

The conversion price will be adjusted:

(1) upon the issuance of shares of our common stock as a dividend or distribution on shares of our common stock;

(2) upon the subdivision or combination of our outstanding common stock;

(3) upon the issuance to all or substantially all holders of our common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase shares of our common stock, or securities convertible into our common stock, at a price per share or a conversion price per share less than the current market price per share on the trading day immediately preceding the ex date (as defined below) for the issuance, provided that the conversion price will be readjusted to the extent that the rights or warrants are not exercised prior to this expiration or are not distributed;

(4) upon the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness or other non-cash assets, or rights or warrants, excluding:

- dividends, distributions and rights or warrants referred to in clause (1) or (3) above;

- dividends or distributions exclusively in cash referred to in clause (5) below; and
- distribution of rights to all or substantially all holders of common stock pursuant to an adoption of a shareholder rights plan;

(5) upon the occurrence of any cash dividends or other cash distributions to all or substantially all holders of our common stock (other than (x) payments described in clause (6) below or (y) any dividend or distribution in connection with our liquidation, dissolution or winding up), in which event the conversion price shall be reduced so that it equals the price determined by multiplying the conversion price in effect on the trading day immediately preceding the ex date with respect to the cash distribution or dividend by a fraction,

(a) the numerator of which will be the closing sale price of a share of our common stock as of the trading day immediately preceding the ex date with respect to the dividend or distribution less the amount of the dividend or distribution, and

(b) the denominator of which will be the closing sale price of a share of our common stock as of the trading day immediately preceding the ex date with respect to the dividend or distribution;

(6) upon the purchase of our common stock pursuant to a tender offer made by us or any of our subsidiaries at a price per share in excess of the current market price for one share of our common stock on the last date tenders may be made pursuant to the tender offer, which we refer to as the expiration date, in which case, immediately prior to the opening of business on the day after the expiration date, the conversion price shall be reduced so that it equals the price determined by multiplying the conversion price in effect immediately prior to the close of business on the expiration date by a fraction,

(a) the numerator of which will be the product of the number of shares of our common stock outstanding (including tendered shares but excluding any shares held by us in treasury) immediately before the last time tenders may be made pursuant to the tender offer, which we refer to as the expiration time, multiplied by the current market price per share of our common stock on the trading day next succeeding the expiration date; and

(b) the denominator of which will be the sum of (x) the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender offer) of all shares validly tendered and not withdrawn as of the expiration date, which we refer to as the purchased shares, and (y) the product of the number of shares of our common stock outstanding (less any purchased shares and excluding any shares held by us in treasury) immediately after the expiration time and the current market price per share of our common stock on the trading day next succeeding the expiration date; and

(7) upon a payment in respect of a purchase of our common stock by us (or one of our subsidiaries), the consideration for which exceeds the then-prevailing market price of our common stock (such amount, the purchase premium), which purchase, together with any other purchases of our common stock by us (or one of our subsidiaries) involving a purchase premium concluded within the preceding 12 months not triggering a conversion price adjustment, results in the payment by us of an aggregate consideration exceeding an amount equal to 10% of the market capitalization of our common stock, the conversion price shall be reduced so that it equals the price determined by multiplying the conversion price in effect immediately prior to the close of business on the trading day of the purchase triggering the adjustment by a fraction,

(a) the numerator of which will be (x) the subsequent market price of our common stock, minus (y) the quotient of (i) the aggregate amount of all of the purchase premiums paid in connection with such purchases and (ii) the number of shares of common stock outstanding on the day following the date of the purchase triggering the adjustment, as determined by our board of directors; and

(b) the denominator of which will be the subsequent market price of our common stock;

provided that the purchases of our common stock effected by us or our agent in conformity with Rule 10b-18 under the Exchange Act (or any successor provision) will not be included in any adjustment to the conversion rate made under this clause (7).

For purposes of this clause (7):

- the market capitalization will be calculated by multiplying the subsequent market price of our common stock by the number of shares of common stock then outstanding on the date of the purchase triggering the adjustment immediately prior to such purchase;

- the subsequent market price will be the opening sale price on the trading day following the date of the purchase triggering the adjustment; and

- in determining the purchase premium, the then-prevailing market price of our common stock will be the average of the closing sale prices of our common stock for the five consecutive trading days ending on the relevant purchase date.

If a payment would cause an adjustment to the conversion rate under both clause (6) and clause (7), the provisions of clause (7) shall control.

current market price means, with respect to any date of determination, the closing sale price of our common stock on the date of determination. For purposes hereof, the term ex date, when used with respect to any dividend or distribution, means the first date on which the common stock trades, regular way, on the relevant exchange or in the relevant market from which the sale price was obtained without the right to receive such dividend or distribution.

dividend adjustment amount means the full amount of the dividend or distribution to the extent payable in cash applicable to one share of our common stock.

To the extent that we have a rights plan in effect upon conversion of the notes into common stock, you will receive, in addition to the common stock, the rights under the rights plan, whether or not the rights have separated from the common stock at the time of conversion, subject to certain limited exceptions.

The applicable conversion rate will not be adjusted:

- upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of our common stock under any plan;

- upon the issuance of any share of our common stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;

- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in the preceding bullet and outstanding as of the date the notes were first issued;

- for a change in the par value of the common stock; or

- for accrued and unpaid interest and additional interest, if any, on notes that are converted.

In the event of:

- any reclassification of our common stock;

- a consolidation, merger or combination involving NovaMed; or
- a sale or conveyance to another person of the property and assets of NovaMed as an entirety or substantially as an entirety,

in which holders of our outstanding common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, holders of notes will generally be entitled to convert their notes, subject to the conditions described above, into cash and, with respect to the residual amount, the same type of consideration received by common stock holders immediately following one of these types of events (the reference property). Throughout this section (Conversion of Notes), if the common stock has been replaced by reference property in connection with a fundamental change or transforming transaction, references to the common stock are intended to refer to such reference property.

In the event that holders of our common stock have the opportunity to elect the form of consideration to be received in any transaction described in the preceding paragraph, we will make adequate provision so that the holders of the notes, treated as a single class, have the timely opportunity to determine the composition of the consideration that will replace any common stock that would otherwise be deliverable upon conversion of the notes. This replacement consideration will be based on the blended, weighted average of elections made by holders of the notes and will be subject to any limitations applicable to all holders of our common stock (such as pro rata reductions made to any portion of the consideration payable). The determination of the replacement consideration will apply to all of the notes and we will notify the trustee of the composition of the replacement consideration promptly after it is determined.

We are permitted (subject to the rules of any stock exchange on which the common stock is then listed) to reduce the conversion price of the notes by any amount for a period of at least 20 business days if our Board of Directors determines that such reduction would be in our best interest. We are required to give at least 15 days prior notice of any reduction in the conversion price. We may also reduce the conversion price to avoid or diminish income tax to holders of our common stock in connection with a dividend or distribution of stock or similar event.

You may, in some circumstances, be deemed to have received a distribution or dividend subject to U.S. federal income tax as a result of an adjustment or the nonoccurrence of an adjustment to the conversion price. See Material U.S. Federal Income Tax Considerations below for a relevant discussion.

Notwithstanding anything in this section Conversion Price Adjustments to the contrary, we will not be required to adjust the conversion price unless the adjustment would result in a change of at least 1% of the conversion price. However, we will carry forward any adjustments that are less than 1% of the conversion price and make such carried forward adjustments, regardless of whether the aggregate adjustment is less than 1%, within one year of the first such adjustment carried forward, upon required purchases of the notes in connection with a fundamental change and five business days prior to the stated maturity of the notes. Except as stated above, the conversion price will not be adjusted for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase our common stock or any such security.

Conversion Procedures

Holders may convert their notes only in denominations of $1,000 principal amount and integral multiples thereof. Delivery of our common stock and cash upon conversion in accordance with the terms of the notes will be deemed to satisfy our obligation to pay the principal amount of the notes.

The right of conversion attaching to any note may be exercised (a) if such note is represented by a global security, by book-entry transfer to the conversion agent through the facilities of DTC or (b) if such note is represented by a certificated security, by delivery of such note at the specified office of the conversion agent, accompanied, in either case, by a duly signed and completed notice of conversion and appropriate endorsements and transfer documents if required by the conversion agent. A holder delivering a note for conversion will be required to pay any taxes or duties payable in respect of the issue or delivery of our common stock upon conversion in a name other than that of the holder.

We will not issue fractional shares of common stock upon conversion of notes.

If the notes are subject to purchase by us at your option following a fundamental change, your right to convert the notes so subject to purchase will terminate at the close of business on the second trading day prior to the fundamental change purchase date or such earlier date as the notes are presented for purchase, unless we default in the payment of the purchase price, in which case your conversion right will terminate at the close of business on the date the default is cured and the notes are purchased. If you have submitted your notes for purchase upon a fundamental change, you may only convert your notes if you withdraw your purchase notice prior to the fundamental change purchase date, as described below under Purchase of Notes at Your Option Upon a Fundamental Change. If your notes are submitted for purchase following a fundamental change, your right to withdraw your purchase notice and convert the notes that are subject to purchase will terminate at 5:00 p.m. (New York City time) on the business day before such purchase date.

Adjustment to Shares Delivered Upon Conversion Upon a Qualifying Fundamental Change

If a qualifying fundamental change occurs prior to maturity, upon the conversion of the notes as described above under Conversion of Notes Conversion Upon Specified Corporate Transactions, the conversion rate will be increased by an additional number of shares of common stock (these shares being referred to as the additional shares) as described below. We will notify holders of the anticipated effective date of such qualifying fundamental change and issue a press release as soon as practicable after we first determine the anticipated effective date of such qualifying fundamental change.

A qualifying fundamental change is (i) any change in control included in the first or second bullet of the definition of that term below under Purchase of Notes at Your Option Upon a Fundamental Change and (ii) any termination of trading as defined below under Purchase of Notes at Your Option Upon a Fundamental Change. A merger, consolidation, conveyance, sale, transfer or lease otherwise constituting a change in control will not constitute a qualifying fundamental change if at least 90% of the consideration paid for our common stock in that transaction, excluding cash payments for fractional shares and cash payments made pursuant to dissenters appraisal rights, consists of shares of common stock traded on NASDAQ or another U.S. national securities exchange, or will be so traded immediately following the merger or consolidation, and, as a result of the merger or consolidation, the notes become convertible into such shares of such common stock.

The number of additional shares by which the conversion rate will be increased for conversions in connection with a qualifying fundamental change will be determined by reference to the table below, based on the date on which the qualifying fundamental change occurs or becomes effective, which we refer to as the effective date, and (1) the price paid per share of our common stock in the change in control, in the case of a qualifying fundamental change described in the second bullet of the definition of change in control, or (2) the average of the last reported sale prices of our common stock over the five trading-day period ending on the trading day preceding the effective date of such other qualifying fundamental change, which we refer to as the stock price, in the case of any other qualifying fundamental change. If holders of our common stock receive only cash in the case of a qualifying fundamental change described in the second bullet under the definition of change in control, the stock price shall be the cash amount paid per share.

The stock prices set forth in the first row of the table below (i.e., column headers) will be adjusted as of any date on which the conversion price of the notes is adjusted as described under Conversion of Notes Conversion Price Adjustments. The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the conversion price as so adjusted and the denominator of which is the conversion price immediately prior to the adjustment giving rise to the stock price adjustment. The number of additional shares will be adjusted by the inverse of the adjustment factor applied to the conversion price as set forth under Conversion of Notes Conversion Price Adjustments above.

The following table sets forth the increase in the conversion rate, expressed as a number of additional shares to be received per $1,000 principal amount of notes.

	Stock Price														
Effective Date	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**	**$__**
, 2007															
June 15, 2008															
June 15, 2009															
June 15, 2010															
June 15, 2011															
June 15, 2012															

The stock prices and additional share amounts set forth above are based upon a common share closing sale price of $ on June , 2007, and an initial conversion price of $.

Notwithstanding anything in the indenture to the contrary, we may not increase the conversion rate by more than shares per $1,000 principal amount of notes pursuant to the events described in this section, though we will adjust such number of shares for the same events for which we must adjust the conversion price as described under Conversion of Notes Conversion Price Adjustments above, by the inverse of the adjustment factor applied to the conversion price under that section.

The exact stock prices and effective dates may not be set forth in the table above, in which case if the stock price is:

- between two stock price amounts in the table or the effective date is between two effective dates in the table, the number of additional shares will be determined by a straight-line interpolation between the number of additional shares set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 365-day year;

- in excess of $ per share (subject to adjustment), no increase in the conversion rate will be made; and

- less than $ per share (subject to adjustment), no increase in the conversion rate will be made.

Because we cannot calculate and deliver the additional conversion consideration due solely as a result of an increase in the conversion rate resulting from a given qualifying fundamental change until after the effective date of that qualifying fundamental change has occurred, we will not deliver such additional conversion consideration until after the effective date of the qualifying fundamental change it relates to even if the settlement date in respect of other conversion consideration occurs earlier. As a result, you may receive conversion consideration in two payments rather than one.

If you surrender a note for conversion in connection with a qualifying fundamental change we have announced, but the qualifying fundamental change is not consummated, then you will not be entitled to the increased conversion rate referred to above in connection with the conversion.

Purchase of Notes at Your Option Upon a Fundamental Change

If a fundamental change occurs, you will have the option to require us to purchase for cash all or any part of your notes on the day that is 30 business days after the occurrence of such fundamental change, referred to as the fundamental change purchase date, at a purchase price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, payable in cash. Notes submitted for purchase must be in integral multiples of $1,000 principal amount.

We will mail to the trustee and to each holder a written notice of the fundamental change within 10 business days after the occurrence of such fundamental change. This notice shall state certain specified information, including:

- information about, and the terms and conditions of, the fundamental change, including the amount of additional shares that are deliverable, if any;
- information about the holders right to convert the notes;
- information about the holders right to require us to purchase the notes;
- the fundamental change purchase date;
- the procedures required for exercise of the purchase option upon the fundamental change; and
- the name and address of the paying and conversion agents.

You must deliver written notice of your exercise of this purchase right to the paying agent during the period between the fundamental change notice and the close of business on the second trading day prior to the fundamental change purchase date. The written notice must specify the notes for which the purchase right is being exercised. If you wish to withdraw this election, you must provide a written notice of withdrawal to the paying agent prior to the close of business on the second trading day prior to the fundamental change purchase date.

fundamental change means the occurrence of a change in control or a termination of trading.

A change in control will be deemed to have occurred if any of the following occurs:

- any person or group is or becomes the beneficial owner, directly or indirectly, of shares of our voting stock representing 50% or more of the total voting power of all outstanding classes of our voting stock or has the power, directly or indirectly, to elect a majority of the members of our board of directors;
- we consolidate with, or merge with or into, another person or we sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of our assets, or any person consolidates with, or merges with or into, us, in any such event other than pursuant to a transaction in which the persons that beneficially owned, directly or indirectly, the shares of our voting stock immediately prior to such transaction beneficially own, directly or indirectly, shares of our voting stock representing at least a majority of the total voting power of all outstanding classes of voting stock of the surviving or transferee person;
- a majority of the members of our board of directors are not continuing directors; or
- the holders of our capital stock approve any plan or proposal for the liquidation or dissolution of NovaMed (whether or not otherwise in compliance with the indenture).

However, notwithstanding the foregoing, holders of the notes will not have the right to require us to purchase any notes as a result of any transaction described in the second clause above, and we will not be required to deliver the fundamental change notice incidental thereto, if at least 90% of the consideration

paid for our common stock, excluding cash payments for fractional shares and cash payments made pursuant to dissenters appraisal rights, in a merger, consolidation, conveyance, sale, transfer or lease otherwise constituting a change in control consists of shares of common stock traded on NASDAQ or another U.S. national securities exchange, or will be so traded immediately following the merger or consolidation, and, as a result of the merger or consolidation, the notes become convertible into such shares of such common stock.

For purposes of this change in control definition:

- person or group have the meanings given to them for purposes of Sections 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term group includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, or any successor provision;

- a beneficial owner will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of the indenture, except that the number of shares of our voting stock will be deemed to include, in addition to all outstanding shares of our voting stock and unissued shares deemed to be held by the person or group or other person with respect to which the change in control determination is being made, all unissued shares deemed to be held by all other persons;

- continuing directors means, as of any date of determination, any member of our board of directors who

- was a member of such board of directors on the date of the original issuance of the notes, or

- was nominated for election or elected to such board of directors with the approval of a majority of the continuing directors who were members of such board at the time of such nomination or election;

- beneficially own and beneficially owned have meanings correlative to that of beneficial owner;

- unissued shares means shares of voting stock not outstanding that are subject to options, warrants, rights to purchase or conversion privileges exercisable within 60 days of the date of determination of a change in control; and

- voting stock means any class or classes of capital stock or other interests then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees.

The term all or substantially all as used in the definition of change in control will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. There may be a degree of uncertainty in interpreting this phrase. As a result, we cannot assure you how a court would interpret this phrase under applicable law if you elect to exercise your rights following the occurrence of a transaction which you believe constitutes a transfer of all or substantially all of our assets.

A termination of trading means that our common stock or other securities into which the notes are convertible are not approved for listing on NASDAQ and are not listed for trading on another U.S. national securities exchange.

In connection with any purchase of notes in the event of a fundamental change, we will in accordance with the indenture:

- comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act;

- file a Schedule TO or any successor or similar schedule, if required, under the Exchange Act; and
- otherwise comply with all federal and state securities laws in connection with any offer by us to purchase the notes upon a fundamental change.

No notes may be purchased by us at the option of holders upon a fundamental change if the principal amount of the notes has been accelerated, and such acceleration has not been rescinded, on or prior to the purchase date for such fundamental change.

This fundamental change purchase feature may make more difficult or discourage a takeover of us and the removal of incumbent management. We are not, however, aware of any specific effort to accumulate shares of our common stock or to obtain control of us by means of a merger, tender offer, solicitation or otherwise. In addition, the fundamental change purchase feature is not part of a plan by management to adopt a series of anti-takeover provisions. Instead, the fundamental change purchase feature is a standard term contained in other similar convertible debt offerings.

We could, in the future, enter into certain transactions, including recapitalizations, that would not constitute a fundamental change but would increase the amount of debt, including senior or secured indebtedness, outstanding, or otherwise adversely affect a holder. Neither we nor our subsidiaries are prohibited from incurring debt, including senior or secured indebtedness, under the indenture. The incurrence of significant amounts of additional debt could adversely affect our ability to service our debt, including the notes.

If a fundamental change were to occur, we may not have sufficient funds to pay the fundamental change purchase price for the notes tendered by holders. We may in the future incur debt that may contain provisions prohibiting purchase of the notes under some circumstances or expressly prohibit our purchase of the notes upon a fundamental change or may provide that a fundamental change constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from purchasing notes, we could seek the consent of our lenders to purchase the notes or attempt to refinance this debt. If we do not obtain any required consent, we would not be permitted to purchase the notes. Our failure to purchase tendered notes would constitute an event of default under the indenture, which could constitute an event of default under our senior indebtedness then outstanding, if any, and might constitute a default under the terms of our other indebtedness then outstanding, if any.

Events of Default

Each of the following will constitute an event of default under the indenture:

(1) we fail to pay principal on any note when due;

(2) we fail to pay the cash and shares of common stock (if any) owing upon conversion of any note (including any additional shares) within the time period required by the indenture;

(3) we fail to pay any interest amounts on any note when due, whether or not prohibited by the provisions of the indenture described under Subordination above, if such failure continues for 30 days;

(4) we fail to perform any other covenant required of us in the indenture if such failure continues for 60 days after notice is given in accordance with the indenture;

(5) we fail to pay the purchase price of any note when due;

(6) we fail to provide timely notice of a fundamental change;

(7) any indebtedness for money borrowed by us or one of our significant subsidiaries in an outstanding principal amount in excess of $5 million is not paid when due or is accelerated and such

indebtedness is not discharged, or such default in payment or acceleration is not cured or rescinded, after the applicable grace period, if any, specified in the agreement or instrument relating to such indebtedness;

(8) we fail or any of our significant subsidiaries fails to pay one or more final and non-appealable judgments entered by a court or courts of competent jurisdiction, the aggregate uninsured or unbonded portion of which is in excess of $5 million, if the judgments are not paid, discharged or stayed within 60 days; and

(9) certain events of bankruptcy, insolvency or reorganization of us or any of our significant subsidiaries.

If an event of default, other than an event of default described in clause (9) above with respect to us, occurs and is continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding notes may declare the principal amount of the notes to be due and payable immediately. If an event of default described in clause (9) above occurs with respect to us, the principal amount of the notes will automatically become immediately due and payable.

After any such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the notes may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived.

Notwithstanding the foregoing, the sole remedy under the indenture for an event of default relating to the failure to comply with our reporting obligations to the trustee and the SEC, as set forth in the indenture, and for any failure to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act, will, for 180 days after the occurrence of such an event of default, consist exclusively of the right to receive additional interest on the notes, commencing on the 60th day following the occurrence of such an event of default, at an annual rate equal to 0.50% of the aggregate principal amount of the notes to, and including, the 180th day thereafter (or, if applicable, the earlier date on which the event of default relating to the reporting obligations is cured or waived). Any such additional interest will be payable in the same manner and on the same dates as the stated interest payable on the notes. If the event of default is continuing on the 180th day after an event of default relating to a failure to comply with the reporting obligations described above first occurs, the notes will be subject to acceleration as provided above. The provisions of the indenture described in this paragraph will not affect the rights of holders of notes in the event of the occurrence of any other events of default. References to interest on the notes in this prospectus supplement are, except as otherwise required by the context, intended to refer to any additional interest as well as to regular interest.

Subject to the trustee s duties in the case of an event of default, the trustee will not be obligated to exercise any of its rights or powers at the request of the holders unless the holders have offered to the trustee reasonable indemnity. Subject to the indenture, applicable law and the trustee s indemnification, the holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the notes.

No holder will have any right to institute any proceeding under the indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the indenture unless:

- the holder has previously given the trustee written notice of a continuing event of default;
- the holders of at least 25% in aggregate principal amount of the notes then outstanding have made a written request and have offered reasonable indemnity to the trustee to institute such proceeding as trustee; and

- the trustee has failed to institute such proceeding within 60 days after such notice, request and offer and has not received from the holders of a majority in aggregate principal amount of the notes then outstanding a direction inconsistent with such request within 60 days after such notice, request and offer.

However, the above limitations do not apply to a suit instituted by a holder for the enforcement of payment of the principal of or interest amounts on any note on or after the applicable due date or the right to convert the note in accordance with the indenture.

Generally, the holders of not less than a majority of the aggregate principal amount of outstanding notes may waive any default or event of default unless:

- we fail to pay principal or any interest amounts on any note when due;

- we fail to pay the cash and shares of common stock (if any) owing upon conversion of any note (including any additional shares) within the time period required by the indenture; or

- we fail to comply with any of the provisions of the indenture that would require the consent of the holder of each outstanding note affected.

We are required to furnish to the trustee, on an annual basis, a statement by our officers as to whether or not NovaMed, to the officers knowledge, is in default in the performance or observance of any of the terms, provisions and conditions of the indenture, specifying any known defaults.

Modification and Waiver

We and the trustee may amend or supplement the indenture with respect to the notes with the consent of the holders of a majority in aggregate principal amount of the outstanding notes. In addition, the holders of a majority in aggregate principal amount of the outstanding notes may waive our compliance in any instance with any provision of the indenture without notice to the other holders of notes. However, no amendment, supplement or waiver may be made without the consent of each holder of outstanding notes affected thereby if such amendment, supplement or waiver would:

- change the stated maturity of the principal of, or any interest amounts on, the notes;

- reduce the principal amount of or interest amounts on the notes;

- reduce the amount of principal payable upon acceleration of the maturity of the notes;

- change the currency of payment of principal of or interest amounts on, the notes;

- impair the right to institute suit for the enforcement of any payment on, or with respect to, the notes;

- modify the provisions with respect to the purchase rights of the holders as described above under Purchase of Notes at Your Option Upon a Fundamental Change in a manner adverse to holders of notes;

- adversely affect the right of holders to convert notes;

- reduce the percentage in principal amount of outstanding notes required for modification or amendment of the indenture;

- modify any of the subordination provisions of the indenture in a manner adverse to the holders of notes;

- reduce the percentage in principal amount of outstanding notes necessary for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults; or

- modify provisions with respect to modification and waiver (including waiver of events of default), except to increase the percentage required for modification or waiver or to provide for consent of each affected holder of notes.

We and the trustee may amend or supplement the indenture or the notes without notice to, or the consent of, the note holders to, among other things, cure any ambiguity, defect or inconsistency or make any other change that does not adversely affect the rights of any note holder; provided that any amendment or supplement to cure any ambiguity or correct any defective or inconsistent provision contained in the indenture or notes that is made solely to conform the provisions of the indenture and notes to the description of the indenture and the notes contained in this prospectus will be deemed not to adversely affect the rights of any note holder.

Consolidation, Merger and Sale of Assets

We may not consolidate with or merge into any person in a transaction in which we are not the surviving person or convey, transfer or lease our properties and assets substantially as an entirety to any successor person, unless:

- the successor person, if any, is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and assumes our obligations on the notes and under the indenture;

- immediately after giving effect to the transaction, no default or event of default shall have occurred and be continuing; and

- other conditions specified in the indenture are met.

Satisfaction and Discharge

We may discharge certain of our obligations under the indenture while notes remain outstanding if all outstanding notes have or will become due and payable at their scheduled maturity within one year and we have deposited with the trustee an amount sufficient to pay and discharge all such outstanding notes on the date of their scheduled maturity; provided, however, that the foregoing will not discharge our obligation to effect conversion, registration of transfer or exchange of notes in accordance with the terms of the indenture.

Transfer and Exchange

We have initially appointed the trustee as the security registrar, paying agent and conversion agent, acting through its corporate trust office. We reserve the right to:

- vary or terminate the appointment of the security registrar, paying agent or conversion agent;

- appoint additional paying agents or conversion agents; or

- approve any change in the office through which any security registrar or any paying agent or conversion agent acts.

Purchase and Cancellation

All notes surrendered for payment, redemption, registration of transfer or exchange or conversion shall, if surrendered to any person other than the trustee, be delivered to the trustee. All notes delivered to the trustee shall be cancelled promptly by the trustee. No notes shall be authenticated in exchange for any notes cancelled as provided in the indenture.

We may, to the extent permitted by law, purchase notes in the open market or by tender offer at any price or by private agreement. Any notes purchased by us may, to the extent permitted by law, be reissued or resold or may, at our option, be surrendered to the trustee for cancellation. Any notes surrendered for cancellation may not be reissued or resold and will be promptly cancelled. Any notes held by us or one of our subsidiaries shall be disregarded for voting purposes in connection with any notice, waiver, consent or direction requiring the vote or concurrence of note holders.

Replacement of Notes

We will replace mutilated, destroyed, stolen or lost notes at your expense upon delivery to the trustee of the mutilated notes, or evidence of the loss, theft or destruction of the notes satisfactory to us and the trustee. In the case of a lost, stolen or destroyed note, indemnity satisfactory to the trustee and us may be required at the expense of the holder of such note before a replacement note will be issued.

Calculations in Respect of the Notes

We will be responsible for making many of the calculations called for under the notes. These calculations include, but are not limited to, determination of the closing sale price of our common stock in the absence of reported or quoted prices and adjustments to the conversion rate. We will make all these calculations in good faith and, absent manifest error, our calculations will be final and binding on the holders of notes. We will provide a schedule of our calculations to the trustee, and the trustee is entitled to rely conclusively on the accuracy of our calculations without independent verification.

Governing Law

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

Concerning the Trustee

LaSalle Bank National Association has agreed to serve as the trustee under the indenture.

The holders of a majority in principal amount of all outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy or power available to the trustee. However, any such direction may not conflict with any law or the indenture, may not be unduly prejudicial to the rights of another holder or the trustee and may not involve the trustee in personal liability.

Book-Entry, Delivery and Form

We will initially issue the notes in the form of one or more global securities. The global security will be deposited with the trustee as custodian for The Depository Trust Company and registered in the name of a nominee of DTC. Except as set forth below, the global security may be transferred, in whole and not in part, only to DTC or another nominee of DTC. You may hold your beneficial interests in the global security directly through DTC if you have an account with DTC or indirectly through organizations that have accounts with DTC. Notes in definitive, fully registered, certificated form, referred to as certificated securities, will be issued only in certain limited circumstances described below.

DTC has advised us that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a member of the Federal Reserve System;
- a clearing corporation within the meaning of the New York Uniform Commercial Code; and

- a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities of institutions that have accounts with DTC, referred to as participants, and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC s participants include securities brokers and dealers, which may include the underwriter, banks, trust companies, clearing corporations and certain other organizations. Access to DTC s book-entry system is also available to others such as banks, brokers, dealers and trust companies, referred to as the indirect participants, that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

We expect that, pursuant to procedures established by DTC upon the deposit of the global security with DTC, DTC will credit, on its book-entry registration and transfer system, the principal amount of notes represented by such global security to the accounts of participants. The accounts to be credited shall be designated by the underwriter. Ownership of beneficial interests in the global security will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global security will be shown on, and the transfer of those beneficial interests will be effected only through, records maintained by DTC (with respect to participants interests), the participants and the indirect participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer or pledge beneficial interests in the global security.

Owners of beneficial interests in global securities who desire to convert their interests into common stock should contact their brokers or other participants or indirect participants through whom they hold such beneficial interests to obtain information on procedures, including proper forms and cut-off times, for submitting requests for conversion.

So long as DTC, or its nominee, is the registered owner or holder of a global security, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the global security for all purposes under the indenture and the notes. In addition, no owner of a beneficial interest in a global security will be able to transfer that interest except in accordance with the applicable procedures of DTC. Except as set forth below, as an owner of a beneficial interest in the global security, you will not be entitled to have the notes represented by the global security registered in your name, will not receive or be entitled to receive physical delivery of certificated securities and will not be considered to be the owner or holder of any notes under the global security. We understand that under existing industry practice, if an owner of a beneficial interest in the global security desires to take any action that DTC, as the holder of the global security, is entitled to take, DTC would authorize the participants to take such action, and the participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

We will make payments of principal of and any interest amounts on, the notes represented by the global security registered in the name of and held by DTC or its nominee to DTC or its nominee, as the case may be, as the registered owner and holder of the global security. Neither we, the trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the global security or for maintaining, supervising or reviewing any records relating to such beneficial interests.

We expect that DTC or its nominee, upon receipt of any payment of principal of, or any interest amounts on, the global security, will credit participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global sec