

The NIR Group

We have recently received a lot of emails and calls from shareholders and others inquiring about the relationship between The NIR Group and Encompass Holdings. In an effort to answer these inquiries and to provide both current and potential shareholders with general information regarding this relationship, we have prepared the summary below.

The History

The funding relationship between NIR and Encompass began in 2005 – well before the current management took control of the company and two years before Scott Webber was appointed as the C.E.O. in July of 2007. The current management “inherited” the relationship with NIR because of a significant pre-existing debt that Encompass owed to NIR as a result of numerous loans NIR made to Encompass over that two year period under the prior management.

How NIR Works

NIR loans money to small and micro-cap public companies in the form of “Convertible Notes” that carry a low interest rate. At the borrower’s option, the payments on the notes can either be made in cash or by converting the amount of the payment due into shares of stock. When payments are converted to shares, the shares are issued at a substantial discount. The discount rates are typically between 30% and 70% off of a trailing volume weighted average price. Some of the original loans to Encompass carry a discount rate as high as 60% where the more recent loans have a discount rate of 30%.

It is important to note that NIR specializes in providing companies that have a higher risk profile with quick access to capital using a method that is often a useful alternative to conventional bank loans or venture capital. NIR has over 150 such companies in its portfolio of investments.

In this way, a company can raise money by using its shares and NIR makes a nice profit when it sells those shares. From a shareholder standpoint, the objectionable part of such an arrangement is two fold. One, of course, is the dilution that occurs from the increase in the issued and outstanding shares that results from the conversion of note payments. The second is the

downward pressure on the share price that can occur when NIR sells the converted shares. NIR should not be compared to traditional investors that buy shares and hold them with the expectation of making a profit when the share price goes up. Because NIR acquires shares at a discount off the market price, it realizes a built in profit as soon as it sells those shares regardless of the current market price per share.

The company must carefully weigh these effects against its capitalization requirements when considering financing methods of this nature. Success in maintaining shareholder value while employing alternative capitalization techniques is achieved with strict fiscal discipline, tight controls, detailed financial planning and the effective management of every aspect of the relationship.

NIR Short Selling

We are often asked whether NIR short sells our stock. Below is the clause contained in our notes that prohibits NIR from short selling Encompass stock.

Restriction on Short Sales. The Buyers agree that, so long as any of the Notes remain outstanding, but in no event less than two (2) years from the date hereof, the Buyers will not enter into or effect any “short sales” (as such term is defined in Rule 3b-3 of the 1934 Act) of the Common Stock or hedging transaction which establishes a net short position with respect to the Common Stock.

We are also often asked about third parties short selling on NIR’s behalf. Third party shorting would be very hard to prove. However, we can report that in our many discussions with NIR’s management regarding this subject, we have been continually reassured that it has never happened before and it will never happen in the future. We tend to believe this but will maintain our diligence and would act quickly if we were to discover differently.

The reason we don’t believe that NIR is short selling is because NIR doesn’t have to play that game to make a profit. In fact, NIR has every incentive to see our share price rise. If it does, NIR will make an even greater profit. As we have pointed out above, the share price at which NIR converts note payments is determined by a trailing average. This average is calculated with a formula that considers the volume weighted share price over a period of up to 20 trading days prior to the closing price at the time of conversion. Pursuant to the terms of the note, NIR is entitled to a discount off that

average price. It may take NIR several days to actually receive the shares and if by the time they receive those shares the share price has risen, they do even better. Therefore, in spite of the built in profit margin that results from acquiring shares at a discount, NIR is happy when our share price does well.

Noteworthy Aspects of the Relationship

As much as we may dislike the NIR conversion discount and the resulting share dilution and downward pressure on share price, we need to be fair and honest about our relationship with them.

We would not have Quadrant Data Systems Inc. as a subsidiary if it were not for NIR. NIR has a very astute legal department. Our C.E.O. and others on our management team talk personally with the attorney that runs that department often and we as a group have a great deal of respect for this individual. He personally backed Encompass at every turn in the Nacio Systems, Inc. bankruptcy and Quadrant Data Systems' acquisition of the Nacio assets. Most importantly, NIR wired funds to us as we needed them throughout the course of a very complex and unpredictable situation and sometimes with less than 24 hours notice.

Without a doubt, NIR stepped up to the plate when it would have been extremely difficult, if not impossible, to obtain funds elsewhere. Some will say that NIR was just protecting their own interests and we won't argue with that view. The fact is that we were looking out for Encompass' best interests and NIR came through when we needed them the most.

Encompass' Future with NIR

The management of Encompass has been in talks with NIR about paying off the various notes which total nearly \$4,500,000. NIR has no objections to our current efforts to restructure debt and further capitalize the company nor to our seeking other capital partners with which to liquidate existing NIR notes.

The relocation of our Data Center will be completed by the end of March and we have numerous lenders and potential investors who are enthusiastic about engaging with us in further discussions. This will be a process that may take awhile but in the meantime Encompass intends to begin making

note payments in cash when due and in this way begin to reduce NIR's conversions.

Conclusion

Hedge funds such as NIR are generally not the most ideal sources of funding due to their particular business models. However, they do provide a valuable alternative to developmental stage companies and companies with higher risk profiles.

However, between Encompass and NIR, we formed Quadrant Data Systems, Inc., a valuable asset that is on track to becoming much more valuable in the near future.

The Encompass directors will continue to do all we can in order to see the Encompass group of companies prosper and to build long term value for our shareholders.

We wish to thank all of our shareholders who support us and who seek the facts with regard to Encompass and NIR. We hope that this summary proves to be a useful contribution to the due diligence efforts of those interested in Encompass.

Encompass Holdings, Inc.