

## **First Physicians Capital Group Announces Progress on Key Fiscal 2010 Strategic Growth Initiatives and Non-Binding Letter of Intent**

*Key strategic initiatives and transactions initiated as part of Fiscal 2010 growth plan. Non-binding LOI executed to acquire leading healthcare services provider in the Midwestern U.S. market.*

Friday, May 21, 2010

BEVERLY HILLS, Calif. – May 21, 2010 – First Physicians Capital Group, Inc. (“FPCG” or the “Company”) (OTC BB: FPCG), an operator of healthcare services firms primarily in rural and suburban markets in the U.S., announced the initiation of several key strategic initiatives and transactions as part of its Fiscal 2010 growth plans. These initiatives include:

- Proceeding with plans to split FPCG into separate real estate and healthcare services business lines;
- Entering into a non-binding Letter of Intent to acquire a leading physician-owned group and operator of hospitals, surgery centers, physical therapy clinics and imaging centers in the U.S. Midwest. The target company generates over \$100 million in net revenue on an annual basis. The closing of the transaction is subject to due diligence, completion of definitive agreements, financing, and regulatory approvals;
- Selling or leasing out non-core and non-strategic facilities within our portfolio of healthcare assets;
- Retaining the services of investment banking advisors to assist with structuring and financing our go forward plan with support from existing investors; and,
- Successfully extending existing convertible bridge loan maturities by 18-36 months and reducing interest rates from 16% to 10% per annum. FPCG has now reduced short-term debt from \$4.4 million as of December 31, 2009 to zero and repositioned all of FPCG bank and investor debt as long-term debt, creating opportunities to more efficiently provide working capital for growth.

### **First Physicians Realty Group (FPRG)**

FPRG is a wholly-owned subsidiary of FPCG formed to hold and manage the Company’s portfolio of existing and future real estate assets. Upon completion of the initiatives outlined above, the Company’s healthcare services operations will essentially be debt-free and will have entered into long-term, market-rate leases with FPRG and its capital partners.

Recent highlights and future plans for FPRG include:

- In January 2010, FPRG completed its first sale-leaseback transaction with FPCG’s Southern Plains Medical Center (SPMC) clinic. The financing for the sale-leaseback transaction was arranged by FPRG in partnership with local Oklahoma City-based capital providers. This transaction resulted in a \$4.7 million recapitalization of SPMC and provides the foundation and a template for similar transactions going forward.
- FPRG is in the process of completing a sale-leaseback transaction involving FPCG’s three critical access hospitals in Oklahoma. As currently contemplated, FPRG shall acquire the three properties from FPCG’s Southern Plains Medical Group (SPMG) subsidiary, assume existing mortgage debt related to

the properties, and lease the facilities back to SPMG. FPRG is working with local partners to sell a partial equity interest in these properties.

- Once the above transaction is completed, FPRG's real estate portfolio is expected to generate approximately \$2 million in annual rents. FPRG will carry approximately \$13 million in related mortgage debt under the USDA loan guaranty program.
- FPRG will seek similar properties to add to its growing portfolio of healthcare-related real estate assets.

### **Strategic Acquisition**

The Company has entered into a non-binding Letter of Intent to acquire a leading healthcare services provider in the Midwestern U.S. market. Key aspects of the transaction include:

- No change of control expected for FPCG;
- Offer consideration to the target includes a combination of cash and securities;
- FPCG expects expanding its Board of Directors to include members of the target company;
- The transaction shall require bank debt, investor debt, or equity financing, or a combination thereof; and,
- The transaction is subject to the satisfactory completion of mutual due diligence, definitive agreements, financing, and regulatory and third-party approvals, including approvals from selling shareholders.

There is no assurance or guarantee that the transaction will close. While we face a challenging environment given recent changes to healthcare laws, anticipated changes in the U.S. tax code, and volatility in the capital markets, both sides are working diligently toward a targeted closing of the transaction in the third calendar quarter of 2010.

The transaction is estimated to be valued at over \$100 million in enterprise value on the target company. If completed, the financial impact of the transaction would be significant for FPCG. Based on audited financial results for the year ending December 31, 2009, the combined company would have generated over \$145 million in net revenue and positive EBITDA. The transaction would add significantly to the Company's real estate holdings as well as add over 50 new physician partners to the Company.

### **Investment Banking Relationships**

Given the complexity and size of the transaction outlined above, FPCG has decided to retain the services of investment banking advisors with particular expertise in healthcare services and financings to assist us with structuring and financing our go forward plan. They will also assist management with transaction due diligence and processing.

### **About First Physicians Capital Group, Inc.**

First Physicians Capital Group, Inc. provides financial and managerial services to physicians, physician groups, and healthcare delivery centers in rural and suburban markets in the U.S. The Company is building a portfolio of interests in healthcare services operations outside the traditional urban hospital setting. FPCG promotes quality medical care by offering improved access and breadth of services. It unlocks the value of its



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investments by developing strong, long-term and mutually beneficial relationships with their physicians and the communities they serve. For more information, please visit <http://www.firstphysicianscapitalgroup.com>.

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