California Equity Research LLC

JUNE 15, 2011 INSTITUTIONAL EQUITY RESEARCH

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Director of Research

HEALTHCARE RESEARCH
This report does not contain an investment rating

First Surgical Partners, Inc.

(FSPI - $2.60)

An Upstart Emerging in the Market to Acquire Ambulatory Surgery Centers (ASCs)

EPS						Revenue			
Fiscal Year: December	**2009A**	**2010A**	**10/09 Change**	**2011E**	**11/10 Change**	Fiscal Year: December	**2010A**	**2011E**	**11/10 Change**
Q1		0.06	-	0.03A	*-50%*	**Q1**	12.3	12.6A	*2.8%*
Q2		0.04	-	0.06	*50%*	**Q2**	12.7	13.2	*3.6%*
Q3	(0.02)	0.01	-	0.05	*400%*	**Q3**	9.6	13.1	*36.6%*
Q4	0.13	0.04	*-70%*	0.06	*50%*	**Q4**	11.6	14.5	*25.3%*
Year	0.26	0.15	*-42%*	0.20	*33%*	**Year**	46.2	53.4	*15.7%*
P/E	76.9x	133.3x		100.0x		**xRev**	17.3x	15.0x	

TRADING DATA		VALUATION DATA	
52-Week Range:	$20-$1.75	EBITDA (MM) FY11E:	$15.6
Market Cap. (MM):	$104.0	Enterprise Value (MM):	$782.5
Shares Outstanding (MM):	40.0	EV/EBITDA FY11E	50.2x
Estimated Float (MM):	N/A	Cash Per Share:	$0.01
Insider Ownership	43%	Book Value Per Share:	$0.22
Average Volume	-	Total Debt (MM):	$17.5

Company Description: First Surgical Partners, Inc. is an owner of two ambulatory surgery centers (ASCs) and one general acute care hospital located in Texas. The company seeks to develop or acquire additional ASCs as part of its growth strategy.

- **First Surgical is emerging as a growth story in the ambulatory surgery center (ASC) market.** The company plans to add four new centers in eastern Texas through 2013 to its portfolio of three existing facilities.

- **Highly fragmented ASC market ripe for consolidation.** Approximately 55% of all ASCs are 100% physician owned. We believe the market will support new acquirers such as First Surgical as the industry consolidates.

- **Addition of new physician partners.** We expect First Surgical to add several new physician partners over the coming months positioning the company to exit the year with 45 physician partners, up from 34 currently. We believe these new physicians will add significantly to case volume growth over the next 12 months.

- **Continued growth through ASC expansion**. Two new ASC locations have completed construction and will be consolidated into the First Surgical portfolio during 2012 along with two additional planned locations to be added in 2013. Beyond 2013 the company will look to develop or acquire additional ASCs under its expansion plans.

- **The company plans to convert from an ASC to a hospital outpatient department (HOPD) in 3Q11 providing a boost to reimbursements.** We believe the company could generate a 15% lift to overall reimbursements upon conversion to an HOPD.

- **First Surgical to gain in-network coverage through a major insurer in 3Q11.** We believe addition of the new insurer will generate incremental gains in procedure volumes.

- **Legislative and budgetary challenges remain.** Broader cuts to Medicare and the formation of accountable care organizations (ACOs) as part of healthcare reform serve as current and future headwinds impacting ASC reimbursements and profitability.

- **Overall case volumes at ASCs face pressure from persistent unemployment.** Elective procedures are correlated to employment and the sluggish economy has led to flat to slightly down case volumes across the ASC industry.

- **First Surgical plans to pay a regular quarterly dividend.** These distributions represent the company's strategy to return a majority of available cash to shareholders.

- **We believe First Surgical will see EPS gains through 2013.** New facilities, added physician partners, volume gains through HOPD conversion, and in-network coverage through a major insurer should converge to drive our FY12 EPS estimate to $0.28, growing to $0.36 in FY13.

Investment Overview

The ambulatory surgical center (ASC) industry has grown rapidly from its roots in the 1970s as an alternative for short-stay surgery patients looking to bypass hospital scheduling headaches and delays. ASCs feature a modern, state-of-the-art surgical environment for physicians and provide a lower cost and comfortable outpatient setting to patients. Dramatic growth in non-invasive surgical techniques have increased the number of surgeries that are available on an outpatient basis. Medicare and major payor acceptance have also combined to spark a surge in the number of surgeons choosing to develop ASCs. Today, ASCs total more than 5,300 facilities across the U.S.

Seeking to take advantage of growth in the ASC market, First Surgical Partners, Inc. was founded as an LLC in September 2002 and entered the public market earlier this year via a reverse merger. The company currently operates two multi-specialty ambulatory surgical centers (ASCs) and a general acute care hospital in the greater Houston metropolitan area. First Surgical is focused on growing its ASC portfolio over the next two and a half years through the formation of de novo ASCs within the eastern Texas market. We believe the company possesses a strong operating model that is attractive to physicians and an opportunity to grow through the formation and acquisition of ASCs.

First Surgical competes in a highly fragmented market of more than 5,300 ASCs across the U.S. While the company's present strategy is to acquire de novo ASCs over the next two years, we believe the company could emerge in 2014 with the critical mass to attract financing and expand more rapidly through acquisition. Leading ASC operator and acquisition specialist Amsurg reported that it has identified 1,400 ASCs throughout the U.S. within its prospect pool that are potential acquisitions targets. On average, Amsurg acquires 20 new ASCs annually. Of the 406 ASCs registered and operating in the state of Texas we believe there are approximately 15 centers within the Houston market that are potential acquisition candidates with similar demographics and specialties to First Surgical.

Key to the company's strategy is growing case volumes through the addition of new physician partners. Tremendous demand for quality surgeons driven by hospitals and ASCs over the past decade has created a highly competitive environment among centers to attract top physicians. First Surgical has created a favorable model to attract new physicians through amenity rich, state-of-the-art facilities, a comfortable office and lounge environment, and personal physician perks such as lunch, valet and on-site car wash. First Surgical plans to add several new physician partners over the coming months at each of its facilities positioning the company to exit the year with 45 physician partners and more than 80 total affiliated physicians.

First Surgical plans to expand over the next 24 months through the opening of new ASCs under the First Surgical brand. Through First Surgical Partners, LLC, the company's management services provider operated by its founders, de novo ASCs are being developed for subsequent acquisition by First Surgical. The company is planning two acquisitions in 2012 located in Palestine and Sugar Land, Texas with two additional acquisitions planned for 2013 in San Antonio and a fourth location within the state. We believe the company will look to expand to other geographies within Texas aided by strong word of mouth among physicians seeking to develop ASCs in partnership with First Surgical. We believe this will prepare the company to branch out beyond the state over the next several years.

We believe industry trends favor First Surgical including the growing number of ASC conversions to hospital outpatient departments (HOPDs). HOPDs receive favorable reimbursement rates relative to ASCs based on a higher reimbursement conversion factor as well as inflation indexing based on a Hospital Market Basket. First Surgical's ownership of an acute care hospital qualifies the company's two existing ASC facilities to convert to HOPDs as they operate within a stipulated 35-mile radius of its hospital. In addition, two of its four ASCs under development will also be eligible to achieve HOPD designation. First Surgical plans to consummate a HOPD conversion by 3Q11 which we believe will result in a 15% overall increase in case reimbursements. We believe First Surgical's net revenue per case (NRPC) will climb to $8,970 by 4Q11 based on this HOPD conversion up from $7,652 under the ASC designation in 2010.

We expect a boost to case volumes as a major insurer brings the company in-network during 3Q11. Presently, First Surgical is only 3% in-network with commercial payors and we believe the addition will increase overall case volumes as this provider is one of the largest insurance companies in the nation. Our 4Q11 case volume estimate of 1,616 anticipates same store procedure volume growth of 5% at each of its facilities following coverage by the insurer. We believe the company will seek favorable in-network relationships with other major payors which could provide further gains to procedure volumes over coming quarters. Overall, we believe First Surgical's total case volumes will rise to 6,221 in 2011 from 6,033 in 2010 due to a recent expansion at First Street Hospital (FSH) and the positive impact from in-network coverage at the new insurer.

The legislative environment remains a headwind for the ASC industry. Rising costs and growing Federal deficits have created significant pressure on the healthcare industry to lower medical costs. Passage of the Patient Protection and Affordable Care Act (ACA) has caused major uncertainty in the healthcare industry by encouraging hospitals and providers to participate as Medicare accountable care organizations (ACOs). ACOs are expected to be phased in over the next 3-5 years with the potential to materially affect pricing and reimbursements to ASCs and HOPDs. In addition, proposed cuts to Medicare remain an ongoing concern for providers as states grapple with deep budget deficits. On a positive note, ASC lobbyists have sought to link future Medicare conversion factor updates to the Hospital Market Basket putting their weight behind proposed bills such as the Ambulatory Surgical Center Quality and Access Act of 2011 (S. 1173/H.R. 2108).

ASC case volumes remain under pressure due to difficult economic conditions, in particular high unemployment, which negatively impacts elective surgeries. Amsurg, a publicly-traded operator of 204 ASCs, continues to report flat to slightly down procedure volumes on a same store basis as elective surgical procedures are delayed or postponed due to persistently high unemployment. While hospital volumes were up sharply in 1Q11 at First Surgical due to the expansion of its hospital in 4Q10, case volumes at the company's two ASCs continue to be impacted by the sluggish economy.

We believe First Surgical's FY11 revenue will climb 13% to $53.4MM. We believe several factors such as HOPD conversion, coverage from a major new insurer, and the addition of new physician partners will serve as strong catalysts to volume and pricing beginning in 4Q11. The acquisition of new facilities in FY12 and FY13 will generate a major increase in case volumes driving growth in revenue to $66.3MM and $82.9MM, respectively. We estimate FY11 EPS of $0.20, growing to $0.28 in FY12 and $0.36 in FY13. We believe the company will use the majority of its available after-tax cash flow to pay regular quarterly dividends. We believe the company will be in position entering 2014 to acquire ASCs within Texas as well as beyond state.

Business Overview

First Surgical Partners, Inc. is an owner of two multi-specialty ambulatory surgical centers (ASCs) and a general acute care hospital located in the greater Houston metropolitan area. The company's network of 34 shareholding physician partners and 36 non-shareholding physician affiliates perform outpatient surgery among nine primary specialties. Orthopedic, bariatric, and reconstructive and cosmetic surgery account for approximately 70% of total case volumes company-wide.

First Surgical's facilities are fully accredited and maintain a staff of nurses, technicians, administrators and support personnel. Each facility features state-of-the-art medical equipment and technology in support of its physicians. The company is reimbursed for procedures performed at its facilities through a payor mix that includes commercial insurers, Medicare, and self pay patients. First Surgical's strategy is to grow its ASC portfolio through the acquisition of new centers initially focused in the eastern Texas region.

History of First Surgical

First Surgical was founded in September 2002 as First Surgical Partners, LLC (the LLC) by its current President and CEO Anthony Rotondo and Chairman Dr. Jacob Varon. Following its founding as an LLC, First Surgical began operation in February 2003 with the opening of its flagship First Street Surgical Center (FSSC) in Bellaire, Texas, located 10 miles from downtown Houston. The company added First Surgical Woodlands (FSW) in October 2005 located in Woodlands, Texas approximately 35 miles from FSSC in Bellaire. The First Street Hospital (FSH) was opened in October 2006 adjoining its FSSC facility. The company acquired First Surgical Memorial Village in February 2006 from Orion HealthCorp. and sold the facility to Memorial Hermann in January 2010.

Reverse Merger Transaction and Entry into Public Market
In August 2008 the shareholders of First Surgical Texas (FST), a group of accredited investors formed to acquire the three surgical facilities owned by First Surgical Partners, LLC (the LLC) were incorporated in Nevada. On November 4, 2010, the LLC entered into a contribution agreement with First Surgical Texas whereby FST shareholders agreed to contribute 100% of their shares in exchange for 39,964,346 shares of LLC common. The closing date of the contribution agreement was December 31, 2010 whereby First Surgical Texas acquired the FSSC, FSW and FSH LPs from the LLC as part of the contribution agreement in exchange for 36,000,002 shares. FST was considered the accounting acquirer in the reverse-merger transaction.

Following a reverse merger of FST into shell company Arkson Nutraceuticals in early 2011 as part of its goal to trade in the public market, the company changed its corporate name to First Surgical Partners Inc. and on February 22, 2011 its shares were listed on the Nasdaq bulletin board exchange.

Facilities

First Surgical Partners, Inc. is an owner of two multi-specialty ambulatory surgical centers (ASCs) and a general acute care hospital located in the greater Houston metropolitan area. The company plans to add four de novo ASCs through 2013 in eastern Texas (see Table 1).

First Street Surgical Center (FSSC)
The company's first ASC location was FSSC in Bellaire, Texas approximately 10 miles southwest from downtown Houston. Surgeons began performing procedures at the facility in February 2003. The 12,000 square foot center has four operating rooms and ten pre-operating and recovery rooms. FSSC is also home to First Surgical Partners, Inc. with offices for its senior management and administrative staff. We believe the Bellaire complex which includes FSH is large enough to add a third facility should case volumes grow beyond present capacity. The company leases the FSSC building from its founder Dr. Varon.

First Surgical Woodlands (FSW)
Opened in October 2005, FSW is located in Woodlands, Texas approximately 35 miles north of its Bellaire facilities. FSW consists of approximately 12,000 square feet and includes five operating rooms and ten pre-operating and recovery rooms. First Surgical leases the building from a third party unrelated to the company with its lease scheduled to expire on August 30, 2012. The company plans to begin construction of a new facility to house FSW beginning in late 2011 and move its operations to the new location coincident with the lease expiration in 2012.

First Street Hospital (FSH)
FSH is the company's general acute care hospital and is located adjacent to FSSC in Bellaire. The hospital was originally opened in October 2006 as a 17,000 square foot facility with two operating rooms, five beds and an emergency room. The hospital underwent an expansion in 2010 that was completed in December. FSH is now a 40,000 square foot hospital consisting of four operating rooms, nineteen beds and an emergency room. FSH is staffed by physicians around the clock and is under a lease agreement with Dr. Varon. It is First Surgical's ownership of FSH that positions the company to convert FSSC and FSW into hospital outpatient departments (HOPDs) from ASCs thereby achieving higher overall procedure reimbursements.

Table 1
FSPI: Facilities Portfolio

Surgical Facility	Location	Date Opened
First Street Surgical Center	Bellaire, TX	2003
First Surgical Woodlands	The Woodlands, TX	2005
First Street Hospital	Bellaire, TX	2006
First Surgical Memorial Village	Houston, TX	Sold in 2010
First Surgical Willow Creek	Palestine, TX	Scheduled for Q1 2012
First Surgical River Point	Sugar Land, TX	Scheduled for Q2 2012
First Surigcal San Antonio	San Antonio, TX	Scheduled for Q2 2013
First Surgical (TBD)	TBD	Scheduled for Q4 2013

**Source: Company reports*

Expansion

The company's expansion strategy calls for the addition of four new ASCs through 2013 which are being developed by the LLC. During the first half of 2012, the company plans to acquire from the LLC First Surgical Willow Creek (FSWC) in Palestine, Texas, approximately 150 miles north of Houston and First Surgical River Point (FSRP) in Sugar Land, Texas located roughly 15 miles to the east of the company's headquarters in Bellaire. FSWC has been open for eight months and FSRP is scheduled to complete construction and open in August 2011. In 2013, the company plans to acquire a new ASC in San Antonio from the LLC and a second location that has yet to be determined. We believe First Surgical may look beyond Texas in 2014 as it plans to continue its ASC portfolio expansion.

First Surgical Partners, LLC

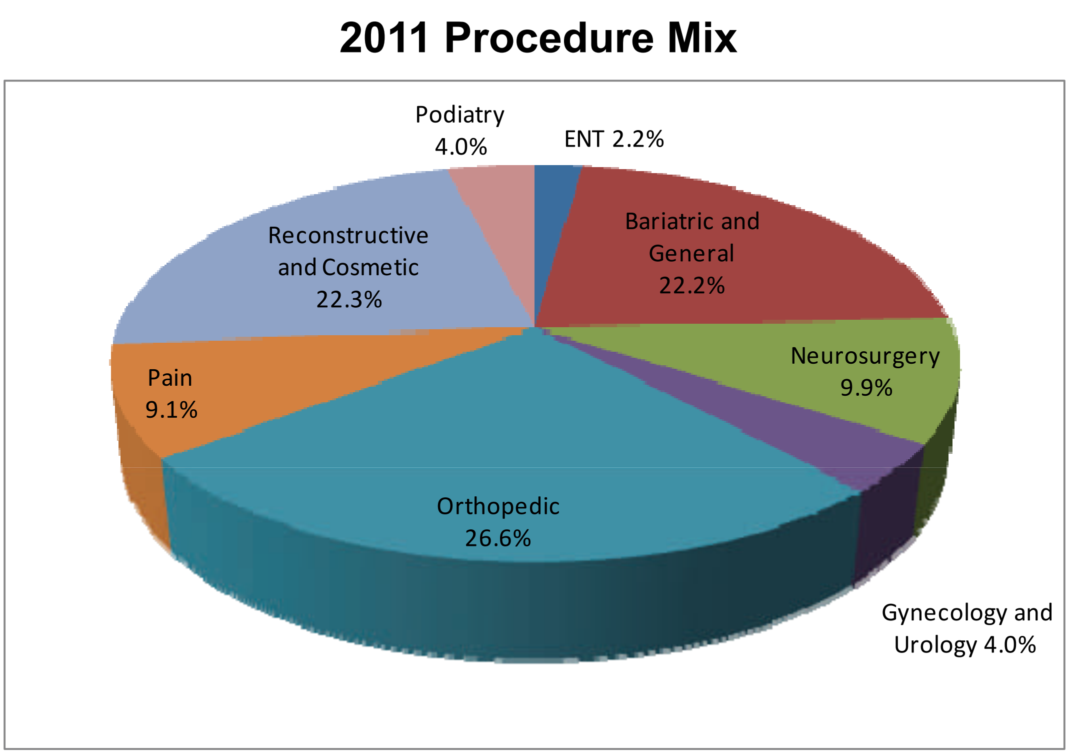
The company acquires new ASC facilities from First Surgical Partners, LLC, its facilities management company operated by Mr. Rotondo and Dr. Varon. In frequent instances physician groups request the LLC to sponsor the formation of an ASC which the LLC then evaluates for population demographics, competition and potential site locations. After identifying a location for a new ASC, the LLC acquires financing to build the facility and selectively adds new physician partners and affiliates to grow the center. This financing typically includes a construction loan, equipment loan and operating line of credit. The LLC will operate the ASC until certain procedure volumes and operating performance metrics are achieved. This "build and incubate" development strategy conducted by the LLC forms the basis of the company's ASC expansion plan through 2013.

We estimate that a de novo ASC location with a 12,000 square foot building, four operating rooms and ten pre-operating and recovery rooms costs between $3-$5MM to construct and fully equip. We estimate the construction of a new hospital with five operating rooms, ten pre-operating and recovery rooms, and ten overnight hospital beds to cost between $10-$12MM. Valuations for acquiring existing ASCs have varied since the economic downturn in 2007 but have recently firmed based on comps discussed below at 6-8x trailing adjusted EBITDA.

Specialty Procedures and Case Volumes

First Surgical physicians specialize in nine primary procedure areas. Bariatric and general surgery, orthopedic, and reconstructive and cosmetic procedures accounted for 71.1% of total company-wide case volumes in 1Q11 (see Chart 1). Each of these specialties requires the latest technology which is purchased and housed at the company's facilities. In the future, we believe First Surgical may seek to include additional procedure specialties within its multi-specialty competency such as MRI and sports medicine, as well as potential to add a pharmacy. First Surgical's nine primary procedural specialties are shown in Table 1 on the following page.

Chart 1
FSPI: Procedure Mix as 1Q11



**Source: Company reports*

First Surgical facilities typically experience case volumes ranging from 150 to 200 cases per month with FSSC historically its busiest center. Procedure times vary from 10 minute pain management cases to multi-hour complex spinal cases. Therefore, overall case capacity per facility varies based on procedure. On a more typical one-hour procedure the FSSC facility has an approximate case capacity of 220-230 procedures per month with FSW and FSH ranging in capacity from 250-270 procedures per month, per location.

Overall case volumes throughout the ASC industry have been flat to slightly down since the recession took hold in 2008 and have yet to recover as economic conditions remain sluggish and unemployment high. Employment is a key driver of elective procedures and therefore it is a primary indicator for the ASC industry. Total case volume at First Surgical fell 0.8% in 2010 to 6,033 but rebounded 3.6% in 1Q11 following the expansion of FSH which was completed in 4Q10.

Table 1
FSPI: Facility Surgical Procedure Specialties

Surgery Specialty	Procedure Examples
Bariatric	Gastric Bypass
	Gastric Lap Band
Ear, Nose and Throat (ENT)	Endoscopic Sinus Surgery
	Reconstruction of Internal Nose
General Surgery	Breast Biopsies
	Hernia Repairs
Neurosurgery	Anterior Disk Fusion
	Carpal Tunnel Release
	Cervical Laminectomy and Fusion
	Diskectomy
	Lumbar Laminectomy
Gynecology and Urology	Laparoscopy
	Laparotomy
	Microscopic Tubal Reconstruction
Orthopedic	Endoscopic Hand Surgery
	Hand Repair and Reconstruction
	Knee and Should Arthroscopy
	Ligament Reconstruction
	Total Knee Replacement
Pain Management	Trial Stimulators
	Feraminal Root Blocks
Reconstructive and Cosmetic	Abdominal and Breast Reconstruction
	Abdominoplasty
	Breast Reduction
Podiatry	Bunionectomy
	Open Reduction of Ankle Fractures

**Source: Company reports*

Complementing its expansion at FSH, we believe 2011 case volumes at First Surgical will be driven by the addition of new physician partners and in-network coverage from a major insurer. For 2011, we estimate company case volumes will rise 3.1% to 6,221. We believe case volumes could jump 35% in 2012 to 8,396 as a result of the opening of new ASCs at Willow Creek and River Point. We estimate the opening of two additional ASCs in 2013 to increase case volumes to 10,788.

Net Revenue Per Case (NRPC)
Based on varying reimbursement rates per procedure, the company's net revenue per case is dependent on procedure mix. First Surgical's 2010 NRPC grew to $7,652 from $7,327 in 2009. During 1Q11 NRPC jumped to $8,541 on a higher mix of bariatric and orthopedic cases. Selection of appropriate physician partners is essential to increasing case volumes and long-term NRPC. We believe annualized NRPC is currently running at approximately $7,800 but positioned to receive a boost of 15% in 4Q11 as the company changes its designation from an ASC to an HOPD.

Payor Mix

First Surgical is reimbursed by payors under the facility fee schedule with the vast majority of its revenue coming from commercial payors (see Table 2). Among commercial payors the company is currently 3% in-network (United Healthcare and PHCS) and 97% out of network. When the company is brought in-network by a large new insurer in 3Q11 we believe its overall percentage of in-network coverage will increase to 19%. We believe this insurer will have a materially positive impact on company case volumes as discussed above. The company also receives reimbursement from Medicare, workman's comp related payors and from self pay patients.

Table 2
FSPI: Payor Mix Comparison

Payor	2009	2010	+new insurer
Medicare	4.1%	6.7%	
Worker's Compensation	3.8%	3.4%	
Commercial Carriers	83.9%	79.2%	
In-Network Providers	*3.3%*	*3.1%*	*19.2%*
Out-of-Network Providers	*96.7%*	*96.9%*	*80.8%*
Other (self pays, hardships, etc.)	8.2%	10.7%	

**Source: Company reports*

Physician Partners

The lifeblood of First Surgical is its physician partners and affiliates who conducted 6,033 procedures in 2010. The company currently has 34 shareholding physician partners and 36 non-shareholding physician affiliates with plans to increase its physician partner network to 45 and physician affiliates to 80 by year end 2011.

First Surgical's corporate culture as it relates to physicians is "By physicians, for physicians." Management seeks to promote a strong culture among its physician network with the goal of generating quality care and long-term physician loyalty. Its ASCs and hospital provide amenity rich, well equipped facilities, comfortable physician offices and lounges, and personal physician perks such as lunch, valet and on-site car wash. The company has reported attrition of only five physicians since its founding in 2002 validating strong loyalty among its partners.

The company seeks to partner with leading physicians within its procedure specialties and who generate strong case volumes. Partners are given the opportunity to become shareholders at subsidized discounts and are provided with a high level of transparency concerning corporate and operational matters of the company. First Surgical also pays quarterly dividends comprising a majority of its free cash flow in support of its physician shareholders.

The ASC Industry

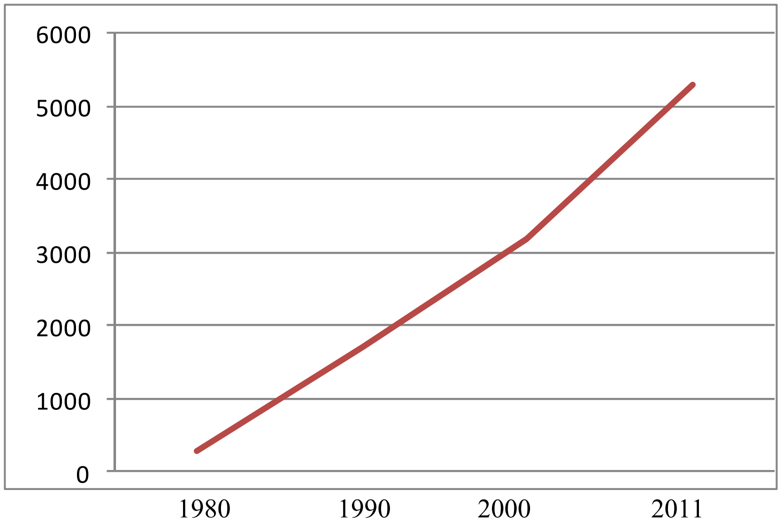
Ambulatory Surgery Centers (ASCs)

ASCs were originated to provide outpatient surgeries requiring short recovery periods. These centers are fully accredited, typically physician-owned and staffed by full-time nurses, technicians, and administrative and support personnel. ASCs are classified both as single specialty, focused in areas such as gastroenterology, endoscopy or orthopedics, or multi-specialty. High quality ASCs are furnished with the latest equipment and medical technology available on the market. ASCs differ materially from hospitals in that every case is scheduled and performed as an outpatient procedure and without the uncertainties associated with walk-in and emergency patients. ASC facilities usually operate with significantly greater efficiency and lower cost.

ASCs trace their roots back to the 1970s as an alternative approach to the persistently long scheduling times found at many hospitals for surgical procedures. Physicians developed this concept as a means of providing patient care for certain surgical services outside of the hospital setting thereby taking control of important decisions such as patient scheduling, preferences of implants and medical equipment, and the overall care setting. Over the past three decades ASCs have experienced rapid growth spurred by lower costs, payor coverage, quality patient outcomes, and legislation that restricted the opening and expansion of existing physician-owned hospitals. Under current law, physician-owned hospitals are restricted from opening additional operating rooms. In 2011 there were an estimated 5,300 certified ASCs operating in the U.S., up from 2,900 in 2000. (see chart 2).

Following the formation of the first ASCs, the industry received a major boost in 1982 with the establishment of Medicare coverage for specified surgical procedures. Today there are more than 3,400 surgical procedures approved for Medicare reimbursement within the ASC setting with Medicare expected to pay out more than $4 billion in annual reimbursements for these procedures. According to the Medicare Advisory Payment Commission, the most common procedures conducted at ASCs are cataract removal and lens replacement,

Chart 2
Growth in Number of Certified ASCs



**Source: Industry reports, California Equity Research*

upper gastrointestinal endoscopy, and colonoscopy. ASCs such as First Surgical have branched out beyond these procedures as multi-specialty centers by adding physicians that specialize in orthopedic, bariatric, and reconstructive and cosmetic surgical procedures among a number of other specialties.

ASC Reimbursement

Effective January 1, 2008, CMS revised the payment system for services provided in the ASC setting. ASCs are paid on a percentage of the payments to HOPDs based on the hospital outpatient prospective payment system conversion factors. These conversion factors are updated annually using different indexed measures. A scheduled phase-in of the revised CMS rates over four years began January 1, 2008 resulting in a widening disparity in reimbursements between ASCs and HOPDs. The revised payment system has impacted certain procedures differently with GI and pain among those seeing declines while orthopedics have actually risen. In 2011, the conversion factor which determines reimbursement schedules for procedures performed at ASCs was expected to fall below 57% of the figure in which HOPDs are reimbursed.

The primary source of the widening disparity in reimbursement over the years is the index in which ASC conversion factors are updated. ASC conversion factors are updated at a rate equal to the Consumer Price Index for All Urban Consumers (CPI-U). As the term implies, the CPI-U is a measure of the price level of consumer goods and services in urban areas. ASC industry advocates have long lobbied for ASCs to receive conversion factor updates based on the Hospital Market Basket used by HOPDs. The Hospital Market Basket is an index designed to reflect cost changes in furnishing hospital services to Medicare beneficiaries. Given the rising cost of healthcare the Hospital Market Basket has risen at a much higher annual rate than the CPI-U.

In addition, due to a budgetary freeze imposed by Congress, ASCs have not received an annual update for six years. Another wrinkle to conversation factor updates have come as a result of the Patient Protection and Affordable Care Act through the creation of a productivity adjustment. In November 2010, CMS announced final reimbursement rates for 2011 reflecting a 1.5% CPI increase which was offset by a 1.3% productivity adjustment decrease. The final conversion factor for ASCs of $41.939 thus includes a 0.2% update from 2010 and the continuation of payment updates based on changes to the CPI-U. In contrast, HOPDs received a 2.35% increase for 2011. CMS is projecting total Medicare payments of approximately $4 billion to ASCs and $39 billion to HOPDs in 2011.

Based on First Surgical's payor mix, Medicare accounted for only 6.7% of reimbursements in 1Q11 diminishing the impact of the above discussion. However, commercial payors, which represent the vast majority of the company's payor mix typically follow Medicare's lead when establishing reimbursement. Therefore our estimates assume relatively flat ASC pricing for the company's procedure volume in 2011, in-line with the 0.2% increase to the ASC conversion factor. However, the move to convert First Surgical's designation from ASC to HOPD in 3Q11 is expected to result in a materially improved pricing environment for the company by the fourth quarter of 2011. Based on HOPD conversion we believe the company's net revenue per case will jump to $8,970 by 4Q11 from approximately $7,800 currently.

Competition

Consolidation of the ASC Industry

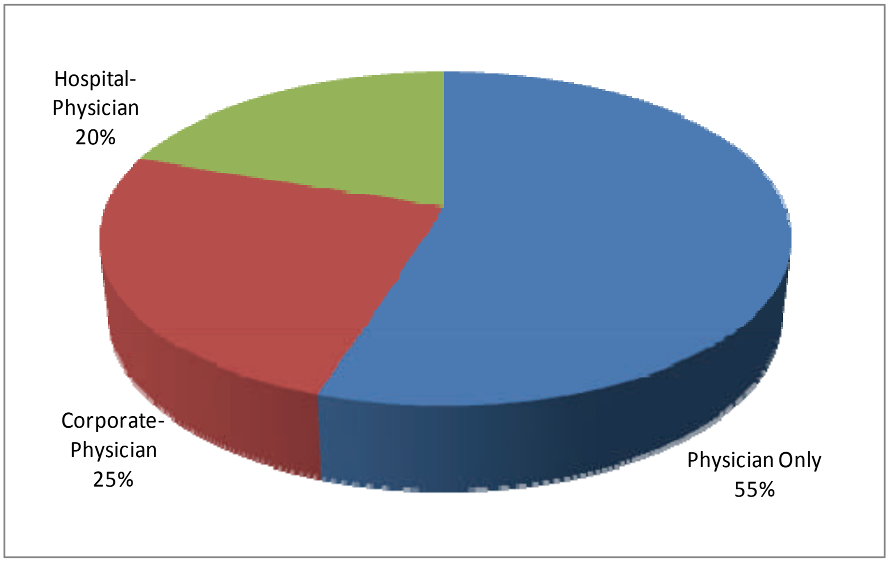
With the rapid growth of ASCs over the past 30 years and growing competition for qualified physicians, hospitals have fought to counter the outflow of physicians and declining procedure volumes by aggressively purchasing physician practices. In addition, corporate roll-up acquirers such as Amsurg have sought to consolidate the ASC industry while maintaining strong physician ownership of acquired facilities.

Despite the competition to acquire ASCs from hospitals and consolidators, less than 25% of the 5,300 ASCs in the U.S. are in corporate hands leaving a largely fragmented industry (see Chart 2 on following page). Following the premium multiples paid by private equity firms to acquire large ASCs United Surgical Partners International and Symbion in early 2007 the pace of consolidation has regained momentum culminating with the recent acquisitions of NovaMed and National Surgical Care. This momentum has come in large part from improvement in acquisition financing for larger ASCs and continuing problems for stand-alone ASC operators such as declining case volumes as a result of high unemployment, cuts and ongoing uncertainties over reimbursement, and healthcare reform legislation.

ASC Valuation

ASC valuations have been on the rise since 2009 but still remain below the highs established in 2007 for USPI and Symbion. Valuations in the ASC industry are based primarily on multiples of adjusted EBITDA, net of debt and cash. Valuation based on EBITDA multiples have historically ranged between 5-9x trailing EBITDA. Premium prices are generally associated with those ASCs experiencing consistent EBITDA growth, possessing strong physician networks, based in urban and suburban markets, and that are heavily in-network with insurers. The number of acquisitions is expected to increase in 2011 as hospitals continue to be active in the market along with the return of private equity and corporate buyers. Pent-up demand on the part of acquirers is also a major catalyst for M&A transactions. We believe ASCs that own hospitals such as First Surgical possess a strategic advantage in HOPD reimbursement and can thus achieve higher EBITDA multiples in an acquisition.

Chart 2
ASC Ownership Structure



**Source: Industry reports, California Equity Research*

ASC acquisition in 2011 continues at a strong pace with a number of major transactions recently announced or completed. Overall acquisitions continue to be led by hospital acquirers. Hospitals have been acquiring ASCs to bring physicians and case volumes back to the hospital to stem a strong exodus that began earlier in the decade. Operating structures and procedure specialties that support higher valuation multiples include multi-specialty centers, majority in-network providers and emphasis on specialties such as orthopedics. Acquisition values of these ASCs have ranged from 7-8x EBITDA over the past year. Lower-end valuations of 6x EBITDA and below have been associated with ASCs that have no co-management agreements, are based in smaller markets, and that have higher of out-of-network provider status.

Recent M&A Transactions

January 20, 2011: $105.0MM acquisition of NovaMed by Surgery Associates
NovaMed is a Chicago-based ASC operator with outright ownership of two ASCs and majority ownership interests in 35 other centers across 19 states. Surgical procedures performed at NovaMed ASCs consisted of 55% ophthalmic procedures, 19% pain management, 10% orthopedics, 5% GI, 4% ENT and 2% urology. The acquiring company, Tampa-based Surgery Partners, is an affiliate of private equity investment firm HIG Capital and owns and operates twelve ASCs primarily in the Southeast. Based on Surgery Associates' all cash acquisition price of $105.0MM, or $13.25 per share, the acquisition values NovaMed at 2.5x EBITDA and 0.7x revenue. On an enterprise value basis, adjusting for net debt of $92.0MM and cash of $4.5MM, the acquisition totals $192.5MM and values NovaMed at 4.6x EBITDA and 1.3x revenue.

April 07, 2011: $173.5MM acquisition of National Surgical Care by Amsurg
National Surgical Care is a Dallas, Texas-based operator of 16 multi-specialty ASCs and two GI ASCs located throughout the U.S. The company reported in 2010 that it has 300 physician partners who performed more than 100,000 cases. NSC reported 2010 revenue

of $124.5 million and adjusted EBITDA of $21.5 million. Based on Amsurg's all cash acquisition price of $173.5MM, the acquisition values NSC at 8.1x EBITDA and 1.4x revenue.

April 08, 2011: Foundation HealthCare Affiliates to be acquired by SunLink Health Systems
Foundation HealthCare Affiliates is a Oklahoma City, Oklahoma-based ASC operator that owns minority equity interests in and manages 14 centers in seven states: Louisiana, Maryland, New Jersey, Ohio, Oklahoma, Pennsylvania and Texas, as well as a majority interest in a facility located in Texas. Sunlink is an operator of six community hospitals and related nursing home and home care businesses in the Southeast and Midwest in addition to a specialty pharmacy business. Specific valuation metrics for the deal were not disclosed and the acquisition calls for the issuance of 1.56MM shares of SunLink stock and other securities.

Key Competitors

Following the acquisition of NovaMed by Surgery Partners, the remaining pure play publicly-traded ASC owner/operator is Nashville-based Amsurg (AMSG), an owner of 204 ASCs in the U.S. that is partnered with 1,200 physicians. Mentioned above as the acquiror of Foundation HealthCare is SunLink Health (SSY), an Atlanta-based operator of 14 ASCs as well as six community hospitals and related nursing homes, post acquisition. First Surgical Partners (FSPI) represents a third publicly-traded ASC.

Other large private operators include Addison, Texas-based United Surgical Partners International which owns and/or manages 165 ASCs and surgical hospitals in the US and 4 in the UK. USPI was acquired by private equity firm Welsh Carson for $1.8 billion in 2007. Surgical Care Affiliates, based in Birmingham, Alabama, operates 127 ASCs and three surgical hospitals across the U.S. with more than 2,000 physician partners. Nashville-based Symbion owns and manages 65 outpatient surgery centers in more than 12 states and was acquired in 2007 by private equity firm Crestview Partners for $637 million. Major hospital owner/operator HCA is also the operator of more than 100 ASCs. In ASC management, Ambulatory Surgical Centers of America (ASCOA), based in Hanover, MA, provides management services to 33 ASCs.

Amsurg (AMSG)
Amsurg remains the largest publicly-traded ASC and the most active acquirer in the market. With its 204 centers, not including 18 as part of the NSC acquisition scheduled to close in 2Q11, and 1,200 physicians the company provides important transparency into the trends impacting ASCs as well as the potential for acquisition growth as a roll-up model. Amsurg's ASC ownership structure is majority ownership, typically 51% in the LPs and LLCs that own the ASCs with the remaining 49% owned by its physician partners. The company has a significant focus on gastroenterology (GI) with 141 centers as well as ophthalmology with 36 centers. The purchase of NSC provides a significant boost to its multi-specialty practice ASC ownership which will total 43 centers post acquisition.

Amsurg continues to report relatively flat same store procedure volume growth as a result of the sluggish economy and, in particular, high unemployment. The company reported flat same store volumes for 1Q11 on overall procedure volume of 320,060 cases in the quarter and expects flat to down 1% same store volumes for the remainder of FY11. In addition, under the revised Medicare ASC payment system which took effect in 2008 and extends through 2011, Amsurg continues to face a drag to its pricing on several CPT codes including GI. However, the company reported that following its acquisition of NSC it expects to see a mix benefit to pricing from multi-specialty centers which have actually seen a lift in certain CPTs such as orthopedic spine procedures.

Acquisition growth remains a key strategy of Amsurg in seeking to acquire 18-20 new ASCs annually. Industry headwinds related to unemployment, legislation, availability of physicians, and pricing tends to be felt more acutely at single-facility ASCs which is expected to drive further consolidation. Of the 5,300 ASCs throughout the U.S., Amsurg reported that it has approximately 1,400 in its prospect pool. In addition, due to the privatization of its main competitors and resulting leverage of their balance sheets Amsurg is seeing diminished competition in its bid to acquire ASCs despite the robust pipeline.

Texas State/Houston competitive market
The Texas Department of State Health Services lists 406 ASCs registered with the department and operating within the state of Texas in 2011. Of these, there are 94 operating within the contiguous counties to Houston's Harris County. Houston is home to the largest medical center in the world, Texas Medical Center, a sprawling 1,000 acre campus of 13 hospitals and 49 medical institutions that receive over six million patients visits annually. Houston features 64 ASCs that operate within Harris county including First Surgical's FSSC and FSH facilities, the vast majority of which have five or fewer operating rooms.

While the Houston market in which First Surgical operates is highly competitive, we believe there is significant opportunity to grow within the region through acquisition or selected openings. We believe the company will continue to take advantage of its hospital ownership to add HOPDs within the stipulated 35-mile radius through the opening of new locations in the Houston market. In addition, we believe there are approximately 15 locations within the Houston market with similar demographics and surgical specialties to the company.

Legislation

Changes to Medicare reimbursement conversion factors and reductions for specific procedure CPT codes remain a continual headwind for healthcare providers and ASCs. Legislatively, however, there have been substantive laws enacted and pending enactment that could provide wide ranging changes to the ASC industry.

Patient Protection and Affordable Care Act (ACA): ACA, otherwise known as healthcare reform or ObamaCare, was signed into law on March 23, 2010 calling for historic changes to the healthcare industry. Of primary importance to the ASC industry is the bid of ACA to encourage hospitals and providers to participate as Medicare accountable care organizations (ACOs). ACOs are designed to control the flow of dollars through a given procedure potentially combining physician and facility (hospital/ASC/or HOPD) reimbursements. There continues to be a large degree of speculation as to the ultimate form ACOs will take as they are phased-in over the next 3-5 years. We believe ACOs have the potential to change the way reimbursements are calculated for ASCs and therefore could materially affect facility revenue.

Ambulatory Surgical Center Quality and Access Act of 2011 (S. 1173/H.R. 2108): Originally introduced by the House, in June 2011 the Senate provided their own version of the bill aimed at "preserving patient access to ambulatory surgery centers (ASCs)." The primary theme of the bill is to tie Medicare payment updates for ASCs to the Hospital Market Basket rather than the CPI-U as discussed in detail on Page 11 of this report. Additionally, the legislation would require implementation of a value-based purchasing (VBP) program to encourage collaboration between ASCs and the government to produce additional savings for Medicare.

Management*

Anthony Rotondo, President, Chief Executive Officer, Director
Mr. Rotondo has served as CEO and co-founder of First Surgical Partners, L.L.C. from 2002 to present and President and CEO of First Surgical Partners, Inc since 2011. Mr. Rotondo has worked exclusively in the healthcare industry and has more than a decade of experience within the Ambulatory Surgery Center ("ASC") segment. Mr. Rotondo served as an area manager with HealthSouth from September 1997 to December 1998, as Regional Operations Officer of Physicians Surgical Care, as Vice President of Operations of Foundation Surgical Affiliates from March 2000 to August 2000, Vice President of Operations for Surgicare from August 2000 to September 2002. Mr. Rotondo holds a Bachelor of Business Administration from Texas Tech University and a Masters of Business Administration from the University of St. Thomas. As a founder, President and Chief Executive Officer of First Surgical Partners, L.L.C., the former general partner of our subsidiaries, Mr. Rotondo has unparalleled knowledge of the Company's history, strategies, technologies and culture. Mr. Rotondo has been a key component in developing our subsidiaries prior to our acquisition.

Dr. Jacob Varon, Chairman of the Board
Dr. Varon is a co-founded of First Surgical Partners, Inc. and presently chairman of the board of directors. Dr. Varon is a plastic and reconstructive surgeon and has been practicing in the Houston area for more than 20 years. Dr. Varon has served as the President of the Texas Chapter of the International College of Surgeons ("ICS"), the National Chairman of Plastic Surgery for ICS since 1994 and the President and Chief Executive Officer of Jeval Laboratories Ltd. since 1993. Dr. Varon has served as the Chairman of First Surgical Partners, LLLC since 2002. Dr. Varon received his medical degree from Universidad Nacional de Mexico – Escuela de Medicina in 1973. Dr. Varon has been a practicing surgeon for more than 20 years and has developed and operated multiple business enterprises including the development and structuring of surgery centers with First Surgical Partners, LLC.

Don Knight, Vice President of Finance
Mr. Knight is Vice President of Finance of First Surgical Partners, Inc. Mr. Knight served as an outsourced controller from 2002 through July 2007 for First Surgical Partners LLC ("FSP"), the former general partner of our subsidiaries. During this period he assisted with each facility opening, maintaining their financial needs, and reporting the financial results. Mr. Knight, as a CPA, has over twelve years of public accounting experience with various industries, but more specifically real estate enterprises, healthcare facilities and physician private practices. He specializes in accounting system setup and implementation, financial statement reporting and tax compliance. He holds a Bachelor of Business Administration from Texas A&M University.

*Management profiles from company 10-K.

Financial Assumptions and Analysis

1Q11 Results
First Surgical reported 1Q11 results on May 23. Revenues rose 2.8% to $12.62MM versus $12.28MM in 1Q10. Company revenue is calculated based on billings and any changes to actual collections are adjusted in subsequent quarters. Case volumes rose to 1,478, up 51 cases y-o-y. Net revenue per case (NRPC) in 1Q11 fell slightly to $8,541 y-o-y although it remained well ahead of FY10 NRPC of $7,652 on a higher mix of orthopedic as well as bariatric and general surgery cases.

Total operating expenses in the quarter of $10.78MM were sharply higher than the $8.16MM reported in 1Q10 based on costs associated with the expansion of FSH in 4Q10 and one-time stock-based compensation. Salaries and benefits rose $1.00MM y-o-y to $3.53MM primarily due to a $600,000 increase in staffing and $469,000 in stock based compensation for the company's VP of Finance. Medical supply expense rose to $2.76MM versus $1.77MM last year due primarily to an initial stocking order of supplies related to the expansion at FSH. Bariatric program sponsorship remained flat at $1.20MM through its agreement with Vital Weight Control, a gastroplasty program manager that refers patients to the company's facilities. Management fees fell slightly to $466,000 which are based on 5% of cash collections in the quarter, not reported revenue. Rental expense rose $104,000 to $562,000 due to the FSH expansion and new office space. Depreciation and amortization increased to $529,000 from $238,000 due to the addition of new equipment. Other operating expenses including insurance, legal, contract services, repairs and maintenance, advertising, and supplies rose to $1.73MM from $1.47MM on higher staffing costs.

Interest expense was $70,000 higher at $296,000 due to an increase in borrowing related to the FSH expansion. The company reported tax expense of $542,000, or 35% of pre-tax income, resulting in net income of $1.01MM, or $0.03 per fully diluted share in 1Q11. This compares to untaxed net income of $3.89MM, or $0.10 per share in 1Q10. Fully diluted share count of 40.02 million was up slightly from 39.96 million reported in 1Q10.

Balance Sheet Items
Among balance sheet items reported in 1Q11, accounts receivable rose to $25.5MM from $22.9MM last quarter based on increased billings associated with the expansion at FSH. Cash of $194,000 was down slightly from $267,000 in 4Q10 following payment of $500,000 in dividends during the quarter. The company paid a quarterly dividend of $0.025 on April 26, 2011 and plans to use the majority of its available cash in support of future dividends.

Long-Term Debt
Total debt, including current and long-term maturities as well as the company's line of credit, increased to $17.5MM in 1Q11, up $1MM from $16.5MM in 4Q10 as a result of the expansion. In 2013, the company faces $13.89MM in maturities in the form of balloon payments with $7.6MM scheduled to hit on January 8, 2013. The company believes it can successfully refinance these coming maturities given the strong cash flow generating capability of its facilities and long standing relationship with its lenders.

2Q11 Estimates
We believe 2Q11 revenue will rise approximately 4% sequentially to $13.2MM from what is typically a seasonally weaker first quarter. This assumption is based on case volumes of 1,688 and essentially flat y-o-y NRPC of $7,800.

We believe operating expenses will moderate from the higher than normal 1Q11 levels on the lack of any stock-based compensation and more normalized medical supply expenses following initial stocking orders related to the addition of new beds at FSH. Salaries and benefits expense should fall sequentially to $3.00MM removing stock-based compensation. We anticipate medical supply expense will decrease to $2.00MM from $2.76MM q-o-q following sunset of the stocking order in 1Q11. This number shows a slight increase to the $1.92MM reported in 4Q10 which is a more normalized run-rate.

Bariatric program expenses will remain $1.2MM per quarter per its agreement with Vital Weight Control whose contract extends through April 30, 2012. We believe management fees will continue to track at approximately 3.8% of revenue which are based on 5% of overall collections. We believe rent expense will increase by approximately $90,000 sequentially in 2Q11 as the addition to FSH is fully factored in and due to the addition of new office space last quarter. Depreciation and amortization will also increase slightly due to the expansion. Other operating expenses are expected to moderate to $1.50MM in the second quarter as the company implements selective cost cutting measures.

Interest expense will remain approximately $300,000 per quarter due to higher borrowings associated with the FSH expansion and new equipment. We are fully taxing our numbers at 35%. Based on our estimates we believe First Surgical will report net income of $2.26MM, or $0.06 per diluted share, on 40.3 million shares.

Second half of 2011

We believe there are several catalysts that will drive First Surgical revenue over the next two years beginning in 3Q11 with the addition of new physician partners, a HOPD designation, in-network coverage with a major insurer, and the addition of new facilities. We believe these catalysts will favorably impact overall case volumes as well as NRPC. Our case volume estimate is 1,566 for 3Q11. We believe NRPCs will increase from $7,800 to $8,385 sequentially as First Surgical facilities move to a HOPD reimbursement billing model midway through the quarter. We estimate 4Q11 case volumes will rise to 1,616 based on additional new physicians, major new insurer and seasonality which favors the fourth quarter as patients meet deductibles. We expect NRPC to rise to $8,970 from $8,385 as the move to an HOPD billing model is fully baked-in.

Our 3Q11 revenue estimate is $13.1MM, flat sequentially with the less seasonal 2Q11. 4Q11 revenue is expected to climb to $14.5MM based on higher case volumes and NRPC.

We anticipate moderate increases to salaries & benefits and medical supplies to accommodate the additional new physicians. We estimate total operating expenses will grow approximately $400,000 per quarter through the end of FY11. Based on approximately 40.3MM shares outstanding we estimate 3Q11 EPS of $0.05 and 4Q11 EPS of 0.06.

2012 & 2013

In addition to new physician partners being added to the First Surgical network we believe the company will add two new facilities each year in FY12 and FY13. These new facilities will provide a significant lift to case volumes although we believe the Willow Creek (Palestine, TX) and San Antonio locations will hurt overall NRPC as they fall outside the 35 mile radius of the company's hospital facility in Bellaire thus disqualifying them from HOPD designation. We anticipate the Willow Creek and River Point (Sugar Land, TX) locations will become part of the First Surgical portfolio in 1H12 with San Antonio and a fourth facility to be added in the second half of 2013. We believe FY12 case volumes will grow to 7,793 followed by a rise to 9,938 in FY13. The company's FY12 NRPC should moderate to approximately $8,513 from $8,970 in 4Q11 but increase y-o-y. We believe FY13 NRPC will moderate further to $8,344 following the addition of San Antonio and a fourth location of negligible impact due to its opening during the fourth quarter.

We believe FY12 operating expenses will continue to rise modestly in-line with revenue growth and as a lower percent of revenue. Incremental to these numbers will be operating expenses associated with the addition of Willow Creek and River Point that will increase salaries and benefits by approximately $1.5MM in 2012 and medical supplies by $1.0MM. We anticipate a similar growth in expenses in FY13 due to costs associated with the addition of two new facilities falling later into the year as compared to FY12. For FY12 we estimate fully diluted EPS of $0.28, and growth to $0.36 in FY13. Overall share count should rise to 45.8 million in 2012 as new facilities are acquired and should rise further to 52.0 million by 2013.

Risks and Considerations

Related Party Transactions-The company has several related party transactions including the leases of FSSC and FSH by company chairman, Dr. Jacob Varon. In addition, Dr. Varon has extended to the company a line of credit totaling $700,000 bearing interest at 6.0% annually and in which the company had an outstanding balance of $321,365 on December 31, 2010. The company also has a management relationship with First Surgical Partners, LLC as described below.

First Surgical Partners, LLC-The LLC is an entity owned and operated by the company's CEO, Tony Rotondo and Chairman, Dr. Jacob Varon. The entity is separate from First Surgical Partners, Inc. and provides to the company management services for its three facilities at a rate of 5% of total collections. In addition, the LLC organizes, develops and operates ASCs that are later purchased by the company. We believe the LLC presents potential conflicts of interest to the company as a management firm and also during the negotiation and purchase of new ASC locations.

Lack of Board Independence-First Surgical currently has four board members including its CEO and Chairman mentioned above and two other non-independent board members including a surgeon partner and a financial advisor and large shareholder in the company. At the time of this publication, the company had no independent board members which restricts its shares from trading on the Nasdaq Capital Market or other major exchanges.

Healthcare Reform-Passage of the Patient Protection and Affordable Care Act has created reimbursement uncertainty by encouraging hospitals and providers to participate as Medicare accountable care organizations (ACOs). ACOs are expected to be phased in over the next 3-5 years with the potential to materially impact pricing and reimbursements to ASCs and HOPDs. Based on budgetary shortfalls and record U.S. debt, the ASC industry also faces uncertainty related to potential new legislation that may be proposed to reduce healthcare costs and cut deficits.

Upcoming Debt Maturities-In 2013, the company faces $13.8MM in long-term debt maturities in the form of balloon payments. A total of $7.6MM in long-term debt is scheduled to mature on January 8, 2013. The company will have to refinance this debt, sell shares or seek outside financing in order to settle or extend its maturity dates. Any failure to refinance this debt or extend maturities could result in a default and possible bankruptcy.

Share Illiquidity and Valuation-First Surgical shares are presently illiquid and trade at a current valuation that is at a significant premium to comps. We believe shareholders face the potential of significant swings in share price based on this illiquidity.

Disclosures

Required Disclosures

California Equity Research, LLC does not expect to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

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I, Bud Leedom, attest that (i) all the views expressed in this research report accurately reflect my personal views about the common stock of the subject company, and (ii) no part of may compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed in this report.

Bud Leedom does not own shares in the subject company at the time of the dissemination of this research report.

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First Surgical Partners (FSPI)

Income Statement

($ in thousands, except per share data)

Year end: December	3Q09A	4Q09A	FY09A	1Q10A	2Q10A	3Q10A	4Q10A	FY10A	1Q11A	2Q11E	3Q11E	4Q11E	FY11E	FY12E	FY13E
Total Revenue	7,371	14,308	44,556	12,280	12,709	9,610	11,566	46,165	12,624	13,166	13,131	14,496	53,417	66,338	82,920
Operating Expenses															
Salaries and Benefits	2,657	2,653	10,336	2,526	2,803	2,829	2,999	11,157	3,533	3,000	3,150	3,300	12,983	15,063	17,950
Medical Supplies	1,872	2,208	7,962	1,767	2,525	1,807	1,924	8,023	2,761	2,000	2,125	2,250	9,136	9,525	11,425
Bariatric Program Sponsorship	1,200	1,200	4,800	1,200	1,200	1,200	1,200	4,800	1,200	1,200	1,200	1,200	4,800	4,000	4,000
Management Fees	443	427	1,748	507	453	442	401	1,803	466	500	499	551	2,016	2,786	3,483
Rent	394	434	1,812	458	441	497	476	1,872	562	658	657	652	2,529	2,875	3,465
Depreciation and Amortization	213	511	1,434	238	456	323	534	1,551	529	530	591	652	2,302	3,184	3,731
Other Operating Expenses	1,080	1,672	5,356	1,467	2,141	1,272	1,031	5,911	1,729	1,500	1,550	1,600	6,379	7,225	8,375
Total Expenses	7,859	9,105	33,448	8,163	10,019	8,370	8,565	35,117	10,780	9,389	9,771	10,205	40,145	44,658	52,429
Income from Operations	(488)	5,203	11,108	4,117	2,690	1,240	3,001	11,048	1,844	3,778	3,359	4,290	13,271	21,680	30,491
Interest Income	1		1	0	1	0	0	1	0	0	0	0	-	2	2
Interest Expense	244	266	1,026	226	214	211	216	865	296	300	300	300	1,196	1,900	2,000
Income before income taxes	(731)	4,937	10,083	3,891	2,477	1,029	2,785	10,184	1,548	3,478	3,059	3,990	12,075	19,782	28,493
Income Taxes	0		-	1,673	1,065	442	1,198	4,378	542	1,217	1,071	1,397	4,226	6,924	9,973
Net income	(731)	4,937	10,083	2,218	1,412	587	1,587	5,806	1,006	2,261	1,989	2,594	7,849	12,858	18,521
Basic EPS	(0.02)	0.13	0.26	0.06	0.04	0.01	0.04	0.15	0.03	0.06	0.05	0.06	0.20	0.28	0.36
Diluted EPS	(0.02)	0.13	0.26	0.06	0.04	0.01	0.04	0.15	0.03	0.06	0.05	0.06	0.20	0.28	0.36
Basic Shares	39,364	39,364	39,364	39,964	39,980	40,000	40,000	39,986	40,022	40,250	40,275	40,300	40,212	45,750	52,000
Diluted Shares	39,364	39,364	39,364	39,964	39,980	40,000	40,000	39,986	40,022	40,250	40,275	40,300	40,212	45,750	52,000
Operating Metrics															
Total Case Volume	1,390	1,626	6,081	1,427	1,616	1,484	1,506	6,033	1,478	1,688	1,566	1,616	6,348	7,793	9,938
Net Revenue Per Case (NRPC)	5,303	8,800	7,327	8,605	7,864	6,476	7,680	7,652	8,541	7,800	8,385	8,970	8,424	8,513	8,344
Profitability Metrics															
EBIT	(488)	5,203	11,108	4,117	2,690	1,240	3,001	11,048	1,844	3,778	3,359	4,290	13,271	21,680	30,491
Depreciation and Amortization	213	511	1,434	238	456	323	534	1,551	529	530	591	652	2,302	3,184	3,731
Share-Based Compensation	-	-	-	-	-	-	-	-	469	-	-	-	-	-	-
EBITDA	**(275)**	**5,714**	**12,542**	**4,355**	**3,146**	**1,563**	**3,535**	**12,599**	**2,842**	**4,308**	**3,950**	**4,942**	**16,043**	**24,864**	**34,223**
CapEx	100	316	597	209	250	3,213	5,000	8,463	504	250	250	250	1,254	1,250	1,500
Percent of Revenues															
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses															
Salaries and Benefits	36.0%	18.5%	23.2%	20.6%	22.1%	29.4%	25.9%	24.2%	28.0%	22.8%	24.0%	22.8%	24.3%	22.7%	21.6%
Medical Supplies	25.4%	15.4%	17.9%	14.4%	19.9%	18.8%	16.6%	17.4%	21.9%	15.2%	16.2%	15.5%	17.1%	14.4%	13.8%
Bariatric Program Sponsorship	16.3%	8.4%	10.8%	9.8%	9.4%	12.5%	10.4%	10.4%	9.5%	9.1%	9.1%	8.3%	9.0%	6.0%	4.8%
Management Fees	6.0%	3.0%	3.9%	4.1%	3.6%	4.6%	3.5%	3.9%	3.7%	3.8%	3.8%	3.8%	3.8%	4.2%	4.2%
Rent	5.3%	3.0%	4.1%	3.7%	3.5%	5.2%	4.1%	4.1%	4.5%	5.0%	5.0%	4.5%	4.7%	4.3%	4.2%
Depreciation and Amortization	2.9%	3.6%	3.2%	1.9%	3.6%	3.4%	4.6%	3.4%	4.2%	4.0%	4.5%	4.5%	4.3%	4.8%	4.5%
Other Operating Expenses	14.7%	11.7%	12.0%	11.9%	16.8%	13.2%	8.9%	12.8%	13.7%	11.4%	11.8%	11.0%	11.9%	10.9%	10.1%
Total Expenses	106.6%	63.6%	75.1%	66.5%	78.8%	87.1%	74.1%	76.1%	85.4%	71.3%	74.4%	70.4%	75.2%	67.3%	63.2%
Income from Operations	-6.6%	36.4%	24.9%	33.5%	21.2%	12.9%	25.9%	23.9%	14.6%	28.7%	25.6%	29.6%	24.8%	32.7%	36.8%
Net income	-9.9%	34.5%	22.6%	18.1%	11.1%	6.1%	13.7%	12.6%	8.0%	17.2%	15.1%	17.9%	14.7%	19.4%	22.3%
Year-Over-Year Growth															
Total Revenue						30.4%	-19.2%	3.6%	2.8%	3.6%	36.6%	25.3%	15.7%	24.2%	25.0%
Total Cases						6.8%	-7.4%	-0.8%	3.6%	4.5%	5.5%	7.3%	5.2%	22.8%	27.5%
Net Revenue Per Case						22.1%	-12.7%	4.4%	-0.7%	-0.8%	29.5%	16.8%	10.1%	1.0%	-2.0%

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First Surgical Partners (FSPI)

Balance Sheet

($ in thousands)

Assets	**1Q11**	**FY10**	**FY09**
Cash and Cash Equivalents	194	267	262
Accounts Receivables, Net	25,568	22,874	20,141
Due From Affiliates	0	0	605
Inventory	886	1,413	743
Prepaid Expenses and Other Current Assets	328	298	233
Total Current Assets	*26,976*	*24,852*	*21,984*
Property and Equipment, Net	14,926	14,946	8,039
Other Assets, Net	60	66	69
Total Assets	*41,962*	*39,864*	*30,092*
Liabilities and Stockholders' Equity			
Accounts Payable	8,703	9,584	6,907
Accrued Expenses	1,722	1,431	503
Lines of Credit	2,232	1,521	1,290
Current Taxes	1,735	727	
Current Portion of Long-Term Debt, Capital Lease Obigations	1,447	1,238	1,738
Total Current Liabilities	*15,839*	*14,501*	*10,438*
Long-Term Debt, Capital Lease Obigations, Net of Current	13,864	13,700	8,999
Deferred Taxes Payable	3,284	3,750	
Other Long-Term Liabilities	161	74	188
Common Stock	4	4	4
Additional Paid-In Capital	11,685	11,717	2,875
Retained Earnings	(2,875)	(3,882)	7,588
Total Stockholders' Equity	*8,814*	*7,839*	*10,467*
Total Liabilities and Stockholders' Equity	*41,962*	*39,864*	*30,092*

Source: Company reports and California Equity Research

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