

**Minutes of Meeting  
Health Services Council  
Project Review Committee-I**

**DATE: 11 January 2005**

**TIME: 3:00 PM**

**LOCATION: Health Policy Forum**

**ATTENDANCE:**

**Committee I: Present: Victoria Almeida (Vice Chair), Edward F. Almon, Joseph V. Centofanti, MD, John W. Flynn, Robert S.L. Kinder, MD, Robert J. Quigley, DC, (Chair), Robert Ricci,**

**Not Present: Robert L. Bernstein, John Keimig, Marvin Greenberg, Robert Whiteside, John Young**

**Staff: Valentina D. Adamova, Michael K. Dexter, Joseph Miller**

**Public: (see attached)**

**1. Call to Order, Approval of Minutes, Conflict of Interest Forms and Time Extension for the Minutes Availability**

**The meeting was called to order at 3:00 PM. The minutes of the 21**

September and 5 October 2004 meetings of the Project Review Committee-I were approved as submitted. Staff noted that conflict of interest forms are available to any member who may have a conflict. The Chairman stated that due to the Open Meetings Act, the minutes of the meetings have to be available to the public by the next meeting date or within thirty-five days, whichever is sooner. The Chairman stated that because the next meeting might not occur within thirty-five days or the minutes might not be available by the next meeting time, he would ask the Committee members to vote to extend the availability of minutes beyond the time frame as provided for under Open Meeting Act. A motion was made and seconded, and the motion passed by a vote of seven in favor and none opposed (7-0) that the availability of the minutes for this meeting be extended beyond the time frame as provided for under the Open Meetings Act. Those members voting in favor were: Almeida, Almon, Centofanti, Flynn, Kinder, Quigley, Ricci.

## **2. General Order of Business**

The first item on the agenda was the application of Beacon Hospice, Inc. [a Delaware Corporation] for a change in effective control of Allen of Michigan, Inc. d/b/a Beacon Hospice located at 1 Catamore Boulevard in East Providence. Staff stated that Betty J. Brennan is here representing the applicant.

**Ms. Brennan, CEO of Allen of Michigan, Inc. d/b/a Beacon Hospice (“Allen of Michigan”) and CEO of Beacon Hospice, Inc. d/b/a Beacon Hospice (“Beacon”), made the following presentation to the Committee:**

- o She was before the Council two years ago regarding the initial licensure of the East Providence facility which has been Medicare certified in June of 2003 and discussed the statistics for the facility.**
- o She has been the CEO and Managing Director of Allen of Michigan for 5 years.**
- o Mr. Hildebrant, owner of Allen of Michigan, gave her the exclusive right to purchase the company.**
- o She retained Cronus Partners, an investment banking firm, to represent her in finding investment money.**
- o She selected Halpern, Denny & Co. (“Halpern”) to be her partner.**
- o Board membership of Beacon will be: Betty J. Brennan, Mr. David Malm, Jack Derby, past CEO of several HealthCare companies and faculty at Sloan School of Business at MIT, Earl M. Collier, President of Genzyme Surgical and architect of the Hospice Benefit, and Bill LaPoint, from Halpern.**
- o East Providence facility had no negative effect on other hospice programs since its establishment.**
- o The facility has a relationship with 47 nursing homes, 4 hospitals, and is involved in the community with education programs.**
- o She introduced Bill LaPoint, a partner from Halpern and Mark Haddad, corporate counsel representing the transaction.**

**Mr. LaPoint made the following presentation to the Committee:**

- o His focus is in healthcare services and he will serve on the Board of Beacon Hospice, and currently serves on the Board of Oncure Medical and Enduracare/Therapy Management.**
- o He worked at Bain & Company, which is a strategy-consulting firm based in Boston and Proctor & Gamble.**
- o Halpern invests in rapidly growing profitable business in 4 sectors, one of which is healthcare services.**
- o It currently manages over \$600 million and Halpern, Denny Fund III, LP (“Fund III”) is \$355 million in size.**
- o Money is from institutions, like corporate pension funds.**
- o Halpern invests in companies that are leaders in their market segments, like Beacon Hospice.**
- o Partners from Halpern sit on the Boards of the companies they invest in.**
- o Beacon Hospice has been very successful and there are no plans to change anything about the company operationally.**
- o There are growth prospects for the company, industry dynamics are favorable for the hospice industry, and competition is fragmented.**
- o Ms. Brennan and her team are strong.**
- o Beacon has a good reputation compared to their competitors.**

**Mr. Haddad, attorney with Folley Haag and counsel to the applicant, made the following presentation to the Committee:**

- o Mr. Hildebrant offered Ms. Brennan to purchase Allen of Michigan for \$27.5 million but the business is worth more.**

- o Ms. Brennan was the CEO, grew the business and never received an equity stake in the company, and will buy the business at a reduced price and keep the excess.**
- o In summary, the new company, Beacon, which Ms. Brennan formed, is acquiring Allen of Michigan, and there will be no change in staff.**
- o The owners of Beacon will be Ms. Brennan, Halpern, and 10% will be set aside for employee incentives.**
- o Beacon will purchase the company through the Asset Purchase Agreement for \$27.5 million.**
- o Beacon's valuation from Halpern was \$43 million.**
- o Beacon will raise \$43 million and additional money for expenses to do the acquisition.**
- o The excess money of \$15.5 million is for Ms. Brennan of which some will remain in the company.**
- o The Stock Purchase Agreement is an agreement by Fund III to fund up to \$45 million the transactions.**
- o The company will raise debt financing to leverage the acquisition which will decrease the financing needed from Fund III to provide for the transaction.**
- o After the closing, Ms. Brennan will own 24%, others 10% and Fund III 66%.**

**A schematic of the flow of funds was passed out to the Committee members identifying two scenarios, one with debt financing and one without.**

**Mr. Haddad continued his presentation as follows:**

- o American Capital Strategies, Ltd. (“American Capital”) has committed \$28.5 million of debt and \$5 million as a revolving line of credit.**
- o Halpern’s investment would be \$14 million.**

**The Chairman requested that the applicant submit their description of the transactions in a letter to which the applicant agreed.**

**Ms. Brennan read a statement from a patient’s family regarding care received.**

**To a question regarding how the debt is secured, the applicant stated that it is secured by the assets of the business, stream of cash flow and stock pledge. The Chairman requested that the applicant describe the equity and debt financing involved in the proposed transaction. The Chairman stated that there is a minimum 20% equity requirement. The applicant stated that they are proposing the debt-financing scenario and that there will be \$14 million of equity from Fund III and \$28.5 million of debt and \$5 million revolving line of credit from American Capital. The applicant stated that the \$14 million is greater than the 20% equity requirement. Staff inquired as to the sources of the \$14 million equity. The applicant stated that the source is Fund III.**

**The applicant discussed the hospice benefit.**

**The Chairman requested that the applicant provide a job description and resume for the Medical Director and RNs, and staffing information.**

**Mr. Flynn asked whose stock would serve as collateral for the debt from American Capital. The applicant stated that it would be the stock owned by Fund III and Ms. Brennan and that those documents have not yet been finalized. To the question of whose stock would be at risk in the case of a default, the applicant stated that all the stock would be equally at risk. To the question of applicant's market share in Rhode Island, the applicant stated that they are the second largest hospice service provider with 130 patients and serve 47 nursing homes.**

**Staff requested that the applicant assign a value to the Rhode Island facility, which is the facility under the review. Staff asked what is the final financing plan. The applicant stated that they expect to do the debt financing and if the debt financing is not there in time for the closing then Fund III is committed to providing \$45 million.**

**Staff inquired as to why the collateral for debt financing is all of the stock when the debt is only for \$28.5 million for a \$45 million facility, it appears that the value of the assets far exceeds the debt. The applicant stated that this is a common arrangement, like a mortgage where the bank has the security in the entire house.**

**Mr. Miller, legal counsel to the Department, inquired how there is equity if debt is secured by interest in all of Beacon and if that meets the equity requirement. The applicant stated that the equity is funds that Fund III is contributing which doesn't have a security interest against it and it's more than 20%. Staff inquired if that amount would be at risk in case of a default. The applicant stated that it is at risk. Mr. Miller stated that equity is a debt free contribution of the purchaser and if there is a lean on the assets of the entity being purchased how is that then equity. He stated that if no part of the entity is lean free then how is there any equity in that entity. The applicant stated that this is like a mortgage.**

**The Chairman requested that the applicant meet with staff and counsel to the Department to address the concerns of the Committee regarding the equity requirement.**

**Mr. Miller read the definition of equity as follows: which funds are free and clear of any repayment or leans against the assets of the proposed owner and/or licensee. The applicant stated that their equity does not have any claims. The applicant stated that it's customary in all loan transaction to have all assets as security interest.**

**Mr. Miller asked if the applicant was saying that \$14 million was equity because it doesn't have any strings attached to it, that it is free**

**and clear of any payment or loans against the assets of the owner.  
The applicant answered yes.**

**Staff read from the letter from American Capital regarding the debt financing as follows: in addition the shareholders will pledge all of their outstanding share of capital stock of the company to American Capital as additional collateral security. The applicant stated that the \$28.5 million debt has strings attached but they are not related to the \$14 million investment by Fund III.**

**The Chairman restated that the applicant should meet with staff and legal counsel to the Department to address the equity concerns of the Committee.**

**Mr. Miller requested that the applicant value the Rhode Island facility.**

**There being no further business the meeting was adjourned at 4:35 PM.**

**Respectfully submitted,**

**Valentina D. Adamova**