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Energy private equity firm diversifies portfolio by investing funds in new sectors of the industry.
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Contract issue clouds plan to build largest solar farm in Texas.
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Whitestone rolls out REIT

IPO will bankroll outside expansion in real estate bust

BY GREG BARR
HOUSTON BUSINESS JOURNAL

A Houston commercial real estate company is counting on investors to fund a shopping spree.

Whitestone REIT has filed for an initial public offering seeking as much as \$50 million to expand the 11-year-old company's holdings outside of Hous-

SEE WHITESTONE, PAGE 55

HEADQUARTERS: Houston
BUSINESS: Commercial real estate property owner set up as self-managed real estate investment trust
BACKGROUND: Founded in 1998
TOP EXECUTIVE: James Mastandrea, president and CEO
EMPLOYEES: 48
IPO FILING: Seeking to raise as much as \$50 million
UNDERWRITER: Wunderlich Securities Inc.
PROPOSED LISTING: NYSE under symbol "WSR"

Oil patch bubbles with mounting deals

BY FORD GUNTER
HOUSTON BUSINESS JOURNAL



U.S. E&P MERGERS AND ACQUISITIONS

	Q3 2008	Q1 2009	Q3 2009
No. of deals	66	22	45
Deal value	\$14.4 billion	\$429 million	\$4.4 billion

For a comprehensive update on transactions involving Houston companies see pages 56-57

SEE OIL PATCH, PAGE 56

CITYBEAT

Sooner firm forms Texas stock fund

Texans love their local football teams and their country music. Keith Geary is gambling that they feel equally passionate about home-grown securities.



Okla- Geary
homa
City-based Geary Advisors LLC last week launched the Texas Large Companies fund to monitor the stock performance of 85 publicly traded companies headquartered in the Lone Star State.



The fund, which tracks the Spade Texas Index put together for Geary by Alps Distributors Inc., is traded on the New York Stock Exchange under the symbol "TXF".

As might be expected for a fund focusing on Texas companies, the energy sector is front and center, and more than half of the 85 companies are based in Houston.

Local picks range from oil majors such as ConocoPhillips and big services players such as Schlumberger Ltd. to independent exploration and production companies such as Petrohawk Energy Corp. and master limited partnerships such as Kinder Morgan Energy

SEE CITYBEAT, PAGE 4



FOCUS: EXECUTIVE EDUCATION

Seeking shelter from the recession, many professionals are opting for full-time MBA programs.
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THE LIST:

Largest Houston-area Computer Training Companies
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UPS & DOWNS

 The median price of an existing home in the Houston area rose by 0.2 percent to \$160,600 during the third quarter, according to figures released by the National Association of Realtors. The median price in the same quarter last year was \$160,200. Total sales in Texas for the third quarter were up 9.8 percent from the second quarter, but were down 1.9 percent year-over-year. For the nation as a whole, the median price of an existing home fell 11 percent in the third quarter compared to the second quarter, NAR reported. Existing home sales rose 11 percent between the second and third quarters, and were also up 5.9 percent from the third quarter of 2008.

 Rice University has been ranked No. 4 in the nation in Kiplinger's Personal Finance's 2009 study of the nation's 100 best-value private colleges. The Top 100 schools were selected from a pool of 600 and were ranked based on student performance, faculty-to-student ratio, financial aid and average tuition, among other factors. The average cost for a year of private school was about \$35,000, up 4.3 percent from the year before, according to Kiplinger's. However, colleges boosted financial aid by an average of 9 percent for the year. San Antonio's Trinity University, at No. 31, was the only other Texas university to make the list.

 Houston professional employer organization Employer Flexible nabbed the No. 3 spot on Texas A&M University's fifth annual Aggie 100 list, which honors Aggie-owned or Aggie-led businesses that experienced significant growth from 2006 to 2008. The company had 166 percent growth during the three-year period, according to the Mays Business School's Center for New Ventures and Entrepreneurship. Employer Flexible was among 36 Houston-area companies making the list, which included Mackey & Tanner LLC at No. 8 with 95 percent growth, and Arch-Con Corp. at No. 10 with 83 percent growth. The Aggie 100 recipients were selected based on compound annual revenue growth rate for the 2006 to 2008 period. In all, companies from seven states and five countries were honored at the event.

Triumph to merge with hospital industry giant

BY MARY ANN AZEVEDO
HOUSTON BUSINESS JOURNAL

Triumph HealthCare, a Houston-based developer and operator of long-term acute-care hospitals, is being snapped up by publicly traded RehabCare Group Inc. in a deal valued at \$570 million.

The combined company will be the fourth-largest, post-acute hospital operator and the third-largest, long-term acute-care hospital provider in the nation, with 29 long-term acute-care hospitals and six inpatient rehabilitation facilities in 13 states. That includes two hospitals that will be added in the first half of 2010.

Triumph, which operates 20 hospitals in seven states and employs 3,800 workers, reported 12-month revenue through Sept. 30 of \$439.7 million. RehabCare had 2008 revenue of \$743 million.

The deal, expected to close by Dec. 1, will increase RehabCare's hospital portfolio from 11 to



Brock Hardaway of Triumph: 'This is an unusual transaction in that we are going to actually absorb all of their hospital operations into Houston.'

35 properties by 2010, RehabCare President and CEO John Short said in a statement.

Officials from St. Louis, Mo.-based RehabCare could not be reached for comment, but said during a conference call last week that the company expects to realize \$5 million to \$6 million in synergies from a reduction in duplicate positions and overhead expenses. The back office of RehabCare's hospital division will be relocated from St. Louis to Houston, while some legal and compliance operations will be moved from Houston to St. Louis.

Triumph President Brock Hardaway says details of the work force changes are still being worked out, but there could be some hiring in the Houston area as a result of the merger.

Following the closing, Hardaway will oversee operations of the combined company's long-term acute-care hospital business under the direction of Kevin Gross, RehabCare's senior vice

SEE TRIUMPH, PAGE 58

Private equity firm invests in new energy sectors

BY GREG BARR
HOUSTON BUSINESS JOURNAL

A Houston-based energy private equity firm has made two more start-up investments that diversify its portfolio into the midstream sector and oil and gas exploration.

TPH Partners LP, which is targeting \$250 million in its initial capital-raising effort, has committed funding to Colorado-based Meritage Midstream Services LLC in partnership with well-heeled Houston private equity firm EnCap Investments LP, through its EnCap Energy Infrastructure Fund.

The second TPH deal backs a start-up E&P firm focusing on natural gas plays known as Storm Peak Energy LLC, based in Midland.

Because fundraising efforts are still under way, TPH officials would not divulge the exact funding commitment, but the firm's typical investments range between \$5 million



George McCormick of TPH Partners: 'We're being selective about the type of investments we want to make, to see what makes sense for us.'

SEE TPH, PAGE 58

City, NRG solar power deal could run out of steam

A DEAL GOING DIM

THE NUMBERS BEHIND WHAT WAS PROJECTED TO BE THE LARGEST SOLAR FARM IN TEXAS:

WHO: The City of Houston and NRG Energy Inc.
WHAT: 10-megawatt, 70-acre solar array
WHEN: Second quarter of 2010
WHERE: TH Wharton Electrical Generating Station, Northwest Houston
COST: An estimated \$40 million
HOW MUCH POWER: 7,000 homes annually

BY FORD GUNTER
HOUSTON BUSINESS JOURNAL

Less than two months after it was announced, a joint project between NRG Energy Inc. and the City of Houston to develop the largest solar farm in Texas appears to be flaming out.

In late September, the city and Princeton, N.J.-based NRG came to terms on a deal that called for the city to enter into a 25-year power purchase agreement in exchange for NRG footing the \$40 million construction bill. Now, the city wants to go year-by-year, but NRG isn't willing to invest that much money up-front without a guaranteed long-term contract.

"We and NRG both would like to proceed with this deal, but we're at a bit of an impasse

with how the financing would go," says Frank Michel, a spokesman for Mayor Bill White's office. "Until we can come up with a solution, we would not go forward at this point."

David Knox, a Houston-based spokesman for NRG, says the company needs a bigger commitment than what the city is offering.

"NRG is unable to finance this project without the certainty of future payments under a power purchase agreement," he says.

NRG won the competitive bid process over 10 other companies to develop, own and operate the 10-megawatt facility, to be located on 70 acres at NRG's TH Wharton Electrical Generating Station in Northwest Houston. The initial announcement said the city had agreed to buy 100 percent of the solar power produced at a blended purchase price of 8.2 cents per kilowatt hour for what would amount to

SEE SOLAR, PAGE 59

CONTINUED FROM...

TPH: Pair of investments opens door to new chapters in firm's growing energy portfolio

FROM PAGE 2

and \$25 million. Both deals closed last month.

The latest TPH investments boost the firm's portfolio investments to five across a range of upstream, oilfield services and midstream companies. TPH is an affiliate of energy investment banking and research firm Tudor, Pickering, Holt & Co. LLC.

TPH closed two other investments this year, including participating in a \$15 million funding round in September with two Norwegian investors in Houston's Ingrain Inc., which provides data analysis of reservoir rock samples for energy companies.

In the summer, TPH gained majority ownership in BlueRock Energy Capital II LLC, another private equity firm eyeing investments in small E&P companies (see "Energy funding springs from new BlueRock," June 12, 2009).

George McCormick, TPH managing director, says adding exposure across the entire energy spectrum was certainly a factor in the two latest decisions.


"We're being selective about the type of investments we want to make, to see what makes sense for us," he says. "We're looking for businesses that will grow and create value. But we've been purposeful about diversification."

TPH's majority ownership investment in Storm Peak will fund a joint venture with another operator in a horizontal oil play in

TPH INVESTMENTS AT A GLANCE

Houston-based TPH Partners LP closed two more portfolio investments in energy sector companies in October. Here's a look at the private equity firm's holdings:

Meritage Midstream Services LLC



BUSINESS: Provides gathering and treatment services to E&P companies for oil and natural gas and carbon dioxide sequestration. Based in Golden, Colo.

Ingrain Inc.

BUSINESS: Provides data analysis of reservoir rock samples from cores or drill cuttings for oil and gas producer clients. Based in Houston.

Storm Peak Energy LLC



BUSINESS: E&P company focusing on production in West Texas Permian Basin. Based in Midland.

BlueRock Energy Capital II LLC

BUSINESS: Private equity firm investing in independent oil and gas producers for acquisition and development projects. Based in Houston.

UP Holdings Inc.

BUSINESS: Global engineering and construction company formed after combination of Pegasus International Inc. and Universal Ensco Inc. in 2008. Based in Houston.

the established Permian Basin along the Texas-New Mexico border region.

McCormick says the firm was attracted to the Storm Peak deal because David Cox, company president, and two other principals — Bill Coggin, chief financial officer and Mark Ellerbe, vice president of operations — have been active in Permian Basin projects for more than 20 years with Mobil Oil and other private-equity backed ventures.

Prior to joining Storm Peak, Cox was vice president of engineering with Midland-based Bold Energy LP, another EnCap investment.

Storm Peak is working a New Mexico horizontal drilling project in the Lower Abo play that was initiated by Concho Resources Inc. and Cimarex Energy Co. in 2007. Cox says the company intends to look for other acquisitions, narrowing in on low-risk reserves at depths of less than

10,000 feet.

DRILLING DOWN

Golden, Colo.-based Meritage, which was also on the receiving end of funding from TPH in conjunction with EnCap, is in negotiations with an unidentified Texas E&P company to provide infrastructure services for the company's natural gas drilling program in the Eagle Ford shale in South Texas near the Mexico border. Company officials expect the deal to close in December.

Steven Huckaby, Meritage president and CEO, says he had been talking first with EnCap and San Antonio-based Flatrock Energy Advisors LLC, Huckaby which co-manages EnCap's infrastructure fund, about an investment.

In the past 20 years, EnCap has established itself as a prolific energy investor, forming 13 funds with capital commitments of \$6.5 billion, typically making investments that start at \$25 million. EnCap partnered with Flatrock in 2008 to manage its midstream investments.

In this case, Huckaby says TPH was brought in as a partner to help finance the deal.

"We were out in that awful market last year trying to raise capital and were casting a wide net, and a principal at Flatrock knew TPH Partners, so it made sense for



SEE TPH, PAGE 59

TRIUMPH: Merger will make speciality hospital operator part of a larger public company

FROM PAGE 2

president of hospital operations.

Hardaway says all of the Triumph hospitals will retain the Triumph name.

"We think the brand has been very strong," he says. "It would be a mistake to change the name, so we are going to retain the name and logo."

Although RehabCare is a larger company, Triumph's infrastructure will be set up to support all the long-term acute-care hospitals and some rehab hospitals for the combined company.



BUSINESS: Provider of physical rehabilitation services in conjunction with more than 1,250 hospitals and skilled nursing facilities in 41 states. The company also owns and/or operates freestanding rehabilitation and long-term acute-care hospitals across the country.

HEADQUARTERS: St. Louis, Mo.

FOUNDED: 1984

EMPLOYEES: 6,500

2008 REVENUE: \$743 million

HOSPITALS: Seven rehab hospitals and seven LTAC hospitals, one of which is located in Webster.

"This is an unusual transaction in that we are going to actually absorb all of their hospital operations into Houston," Hardaway says of RehabCare. "We're better at, and have longer experience at, hospital operations while RehabCare is much stronger in its other business lines."

RehabCare — which in addition to a hospital division also has a skilled nursing rehabilitation services division and a hospital rehabilitation services division — plans to finance the transaction through a combination of committed bank financing, equity and/or seller financing in the form of convertible preferred stock and cash on hand.

Officials from Triumph's owner, Boston private equity firm TA Associates Inc., could not be reached for comment, but Hardaway says the company will give up its entire stake in Triumph as part of the transaction.

He says Triumph, which was founded in 1999, has had a number of discussions with RehabCare over the last two years.

"The markets had not been receptive, so we didn't think there was a market for financing it," he says. "But over the last couple of months, the market became more receptive to a deal like this."

Indeed, investors reacted positively to the news of the merger. On Nov. 4, the day after the deal was an-

nounced, RehabCare's stock shot up to \$25.50 per share from a closing of \$18.95 on Nov. 3.

A GOOD FIT

Hardaway says Triumph will not close any hospitals as a result of the merger.

In fact, he expects "there will be additional capital under this arrangement to expand all of our lines of business, both rehab and LTAC."

Andreas Dirnagl, managing director of investment banking firm Stephens Inc., describes the deal as a "triumph" for RehabCare.

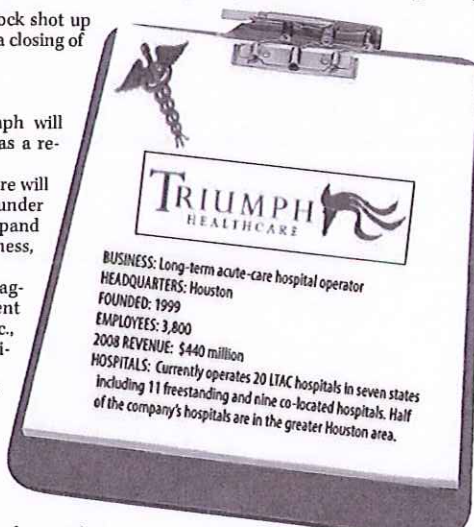
"Over the past couple of years, RehabCare has worked to broaden its exposure ... and so from a strategic point of view, Triumph is a very good fit," Dirnagl says.

RehabCare and Triumph are also complementary in that there is overlap between their existing markets, he says.

"Eighteen out of the 22 markets that Triumph is in has overlap with at least one RehabCare market or business," Dirnagl says, "so if they're trying to build a continuum of care, that's great overlap to have."

Triumph's facilities are concentrated in Texas, with approximately 55 percent of the company's EBITDA coming from the Houston market.

With 10 facilities in the greater Houston



BUSINESS: Long-term acute-care hospital operator

HEADQUARTERS: Houston

FOUNDED: 1999

EMPLOYEES: 3,800

2008 REVENUE: \$440 million

HOSPITALS: Currently operates 20 LTAC hospitals in seven states including 11 freestanding and nine co-located hospitals. Half of the company's hospitals are in the greater Houston area.

area, Dirnagl describes Triumph as the dominant long-term acute-care provider in the Bayou City.

"We consider Triumph to be one of the better regarded LTACH owner/operators," he says.

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KELSEY VOLKMANN, a reporter with the St. Louis Business Journal, an affiliated publication, contributed to this report.

CONTINUED FROM...

SOLAR: City balks at long-term power purchase commitment for proposed energy farm

FROM PAGE 2A

6.25 percent of annual consumption, as well as all associated renewable energy credits generated.

Blended essentially means that at night and during cloudy days, NRG will make up the loss in solar with power generated from traditional fossil fuels, nuclear or wind energy.

Because solar power costs upwards of 19 cents per kilowatt hour, the low purchase price was to be offset by the guaranteed purchase of other sources of power from NRG, as well.

About 90 percent of the 25-year contract

was to have fixed prices, while the remaining 10 percent would have increased or decreased based on year-to-year changes in the producer price index, or PPI (see "City takes a shine to solar power deal," Sept. 25, 2009).

"The bottom line is that you're blending conventional power with solar power," Issa Dadoush, director of the general services department for the city, said at the time of the announcement. "Because so-



Michel

lar power is expensive, we have a blended structure."

Now, there may be no structure at all.

The city is saying it might still sign the long-term deal, but it would rather execute a year-by-year contract that would be subject to an annual Houston City Council vote.

"Every other multiyear deal calls for annual appropriation," Michel says. "We could sign a deal for the 25 years, but it's not a precedent we want to set. We believe the council should vote on it every year."

Construction was supposed to have created about 100 local jobs, and the

plant — billed as a long-term hedge against price volatility that arose during Hurricanes Ike and Katrina — was scheduled to come online by the second quarter of 2010.

"It is definitely being discussed further," Knox says. "We want to do this, but we need the certainty of that power purchase agreement and the payments under that power purchase agreement."

First Solar Inc. of Arizona, which was tapped to supply the solar panels, declined to comment about the situation. ■

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TPH

FROM PAGE 5B

both funds go in together to mitigate the risk," Huckaby says.

Billy Lemmons, Flatrock executive vice president, says bringing TPH into the transaction was a natural fit considering the firm's depth of experience.

"We had a common philosophy in our approach to the deal," Lemmons says.

Huckaby ran the Rocky Mountain operations for Colorado-based Momentum Energy Group Inc. through 2007 and had struck out on his own the past two years managing a Rockies oil pipeline project backed by high-net-worth individuals, but was looking for investment backing from "guys who were more comfortable in that space."

Meritage will look for opportunities on the outskirts of Eagle Ford where pipeline and other infrastructure is not as concentrated. The company will also consider acquisitions in the infrastructure sector once the merger and acquisition climate improves in 2010, Huckaby says.

Dennis McCannless, Flatrock managing director, says Huckaby and his team are well-suited to the midstream business and should be able to establish a solid presence in the Eagle Ford play.

"We've known the Meritage principals a long time," McCannless says. "Our expertise is finding the teams for these deals, and we go to the trough of people we know, and (Huckaby) fits that bucket."

With credit markets opening up and more money being funneled into energy funds, industry observers say energy private equity deals are heating up, especially as oil prices firm up.

In fact, Flatrock's Lemmons says that just this week his firm made another investment from the EnCap midstream fund to back another midstream player based in Sugar Land.

Rangeland Energy LLC will focus on oil plays, particularly in the Bakken oil shale in North Dakota-Montana, as well as the more traditional onshore oil fields along the Gulf Coast and Rocky Mountains.

Rangeland is headed by Christopher Keene, previously with Sunoco Logistics Partners LP in Sugar Land, and Arturo Vivar, previously president of Houston-based Penumbra Energy LLC. ■



Lemmons

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5 40 Under 40
Thursday 20th-4:00-6:00 pm
Warehouse Live

2 Houston Growth Forum
Wednesday 19th-7:00-10:00 am
Wortham Theater

6 Battle Of The Business Bands
Thursday 20th-6:00-9:00 pm
Warehouse Live

3 Houston Health Care Heroes
Wednesday 19th-11:30-1:30 pm
Wortham Theater

7 Best CFOs of the Year Awards
Friday 21st-11:30-1:30 pm
Wortham Theater

4 Houston Energy Forum
Thursday 20th-7:00-10:00 am
Wortham Theater

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