



Donald Sapaugh, president, University General Hospital

## University General Health moves forward with expansion plans

BY BAYAN RAJI  
HOUSTON BUSINESS JOURNAL

In the health care industry, it's go big or go home, and University General Health Systems Inc. plans to go big in 2013.

To allow for that growth, the Houston-based health system this month entered into a \$19 million financing agreement with MidCap Financial LLC to pay off debt. University General expects to close on 32 acres of land within the next couple weeks, keeping momentum with its plans to build four hospitals in the Houston region that will bring its total bed count to 225 from the 72 beds it currently operates. That would make it approximately the 13th largest health system in Houston.

The hospital ranked No. 25 on the *Houston Business Journal's* 2012 list of Largest Houston-Area Hospitals with 3,267 patient admissions in 2011. This year it has seen a 40 percent increase in average daily activity from 2011, and the expansion would likely boost those numbers considerably, said President Donald Sapaugh.

University General Hospital plans to purchase 32 acres within the next two weeks that will become home to a medical complex including a hospital, senior living complex and medical office building, Sapaugh said. The land value of the property is \$11 million, and Sapaugh estimates construction of the complex could cost \$70 million. He predicts the facility will create about 400 jobs.

Sapaugh wouldn't disclose the location of the 32-acre site, but a public hearing held in April to rezone property northeast of Pearland Parkway at Stable Stone Road shows the project includes a proposed 80,000-square-foot hospital. The majority of the land is owned by Abilene-based Musgrave-Grohman Ventures Ltd., with Houston-based Brandon Lee Investments Inc. owning about two acres. Sapaugh would neither confirm nor deny Pearland as the location.

In addition, University General expects to break ground in 2013 on a 27,000-square-foot critical care hospital in Alvin, backed by \$2.5 million in government incentives. And the system in August acquired Robert Horry Center for Sports and Physical Rehabilitation for an undisclosed amount.

"It's a trend out there," said Sofia Adrogué of Houston-based Looper Reed & McGraw PC, who specializes in commer-

**HQ:** Houston  
**REVENUE:** \$72.5 million in 2011  
**TOP EXEC:** Donald Sapaugh, president  
**EMPLOYEES:** 620  
**FOUNDED:** 2006  
**OPERATIONS:** Two ambulatory surgical centers and a hyperbaric wound care center in Houston. Owns three senior living facilities, manages six senior living facilities and owns a support services company that produces revenue-management services.  
**OTCQB:** UGHS  
**WEB:** universitygeneralhospital.com

cial litigation and represents parties in the health care field. "In order to succeed in this market, you have to be aggressive in expanding both in size and depth."

### PAYING DOWN DEBT

While the hospital is concentrating on growth, it's also concerned about paying off debt. Its \$19 million financing agreement with Bethesda, Md.-based MidCap Financial enabled University General to pay off, among other things, a \$2 million federal tax lien concerning unemployment and quarterly withholding taxes, dating back to 2009.

"We've got a long way to go, but we've had a pretty amazing turnaround story," Sapaugh said.

While the hospital has paid back millions in debt instead of "declaring bankruptcy," Sapaugh said, it also faced several recent lawsuits, although they will not slow down University General's growth, he said, calling them the "normal course of business."

Kingwood Emergency Center LLC filed suit against University General June 15 in Harris County District Court for \$1.4 million in allegedly unpaid "management and guaranteed fees" as set forth in a Feb. 15, 2011 contract. University General on Sept. 18 filed a "defendant's original answer" to Kingwood Emergency Center, stating, "Defendants are not liable to plaintiff be-

SEE EXPANSION, PAGE 57A



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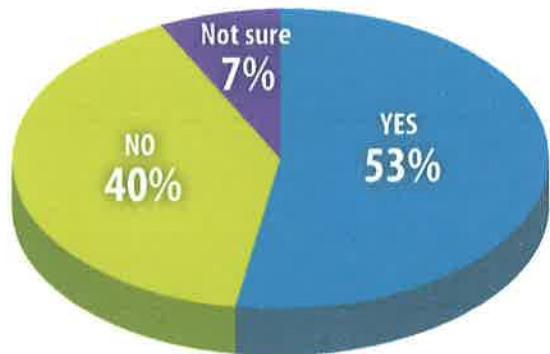
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## Business Pulse Survey

# Has your company delayed hiring and/or investments until after the presidential election?



Total votes: 916

### THIS WEEK'S QUESTION:

To coincide with this week's unveiling of the 2012 Best Places to Work winners, *HBJ* asks: What makes a business a great place to work?

### EDITOR'S NOTE:

While voters mull over the choice between President Barack Obama and challenger Mitt Romney, for the slight majority of respondents to this week's Business Pulse Survey, the choice is clear: they are delaying hiring and investments until after the dust settles from the Nov. 6 vote. Some reader comments:

"Not knowing what our taxes will be and health care cost, we have decided to wait."

— Tomas Puente

"We are still making plans, but if Obama keeps the presidency it's clear that a small business should remain small because there will be no reason to hire or invest but plenty of reason to release more workers from employment. This is his vision and it has nothing to do with trust, but everything to do with direction."

— Michael Flood

"We're very confident that Obama's direction is appropriate for our well-being, and that all of our leaders will grow up and unite to grow our country forward."

— Odell Dova

## EXPANSION

FROM PAGE 3A

cause of mutual or unilateral mistake of the parties." In the filing, University General alleges the contract was not compliant with federal antikickback laws.

Also in June, Redi Staff LLC filed suit in Harris County District Court, alleging University General "failed to pay plaintiff for the services provided." Redi Staff claims in the original petition about \$730,000 worth of unpaid services, attorney fees and costs of court. Redi Staff filed on Sept. 19 for a motion of default judgment after University General did not respond.

Harris County on June 22 filed a lawsuit against University General in Harris County District Court for "delinquent ad valorem taxes." The suit was filed on behalf of several county entities for \$424,000 worth of "taxes, penalties, interest and attorney's fees." The taxes have since been repaid.

The hospital also recently reached a settlement with Regions Bank, which alleged in a June lawsuit filed in Harris County District Court that University General "failed to pay rent, taxes and late fees due under the equipment lease." In its response, University General denied all allegations. After refinancing this month, Sapaugh said the hospital paid down \$2.1 million of the settlement reached with Birmingham, Ala.-based Regions.

University General opened in 2006 and many of these issues date back to the hospital's first three years of operation during which it didn't act like a general acute-care hospital, Sapaugh said. University General is now a multifaceted physician-centric hospital looking to expand. It has paid off \$30 million dollars in debt over the last 18 months in an attempt to move forward, Sapaugh said.

Revenue for the first six months of the year was \$48 million, compared with the hospital's total 2009 revenue of \$47 million, Sapaugh pointed out.

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