

# Moneymakers

## FIVE QUESTIONS WITH STEWART FELDMAN

### Listed in Toronto, based in Houston

The Toronto Stock Exchange wants to lure small to midsize U.S. companies across the border to trade in Canada's equity markets.

To generate interest in the exchange, representatives from the TSX Group, who are on a 10-city U.S. tour, visited Houston this week to tout Houston's Northstar Healthcare, which is listed on the Toronto exchange, and Capstone Associated, the company that helped Northstar get on the exchange.

Capstone created a stock offering that took advantage of changing Canadian tax laws and provided a high rate of return for investors, said Stewart Feldman, founder of Houston-based Capstone and a tax attorney.

He said what sets his company apart is that it specializes in a new field called "financial engineering," which draws on expertise in tax law and accounting to create strategies and business deals for its clients.

Reporter Purva Patel spoke recently with Feldman about the Northstar transaction and why some U.S. companies are looking for financing on foreign exchanges.

**Q: Are there any other companies beside Northstar Healthcare in the**

**Houston area that have gone public on the Canadian stock exchange?**

**A:** There are. But what's different about this company is there are no Canadian operations.

All the operations are in Houston, and simply put, we were approached by the company two years ago to design a transaction where we could sell off a significant portion of the company.

We're in discussions now with other companies interested in doing this.

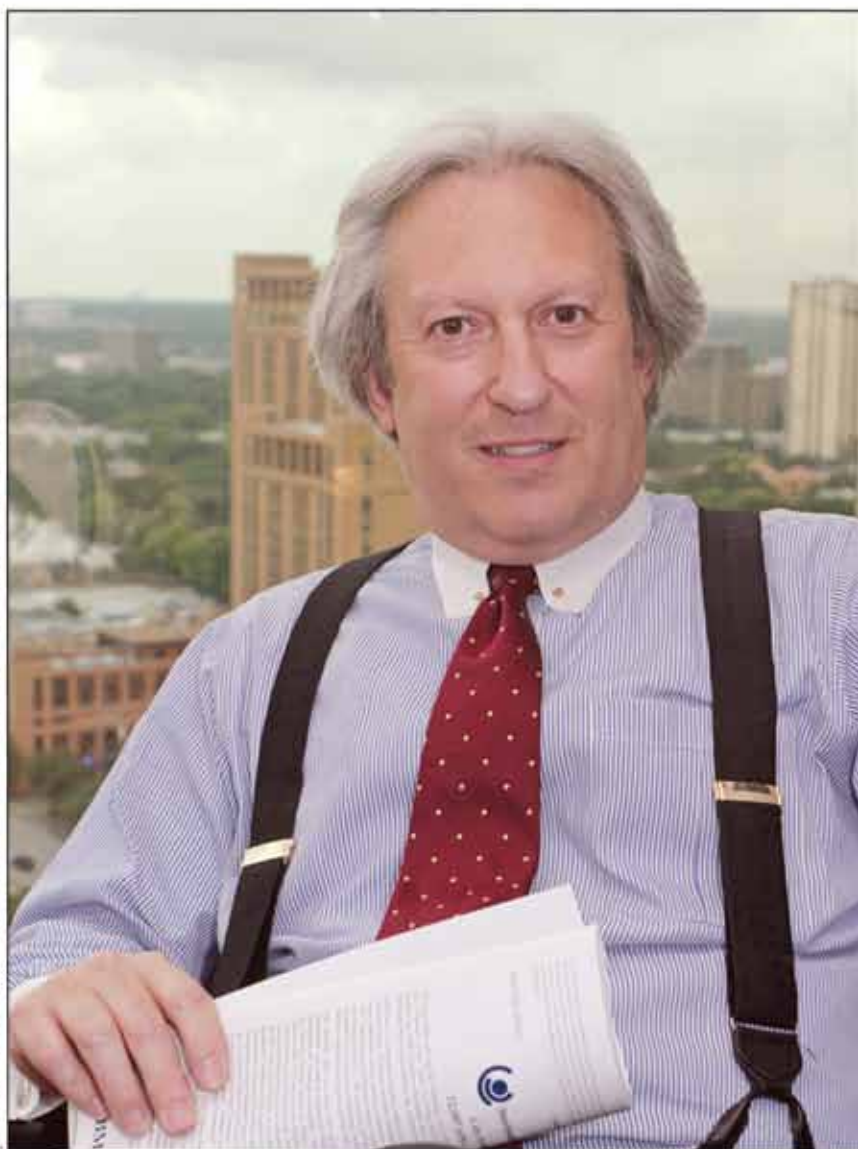
**Q: What's behind this trend of going public outside the country?**

**A:** What happens is foreign investors can afford to pay more for U.S. companies than U.S. investors can afford to pay for U.S. companies. It's a different tax structure here, so it's not really a level playing field.

**Q: What is it about Canada's tax system that changed?**

**A:** Companies were converting to what's called an "income trust" in Canada, which in the U.S. is like the limited partnership structure.

Canada saw that as a potential loss of tax revenue. So Canada shut



GARY FOUNTAIN : FOR THE CHRONICLE

**STEWART FELDMAN:** "What happens is foreign investors can afford to pay more for U.S. companies than U.S. investors can afford to pay for U.S. companies. It's a different tax structure here, so it's not really a level playing field."

down income trusts. That happened on Oct. 31. By December, we came up with an alternative structure of high-yield securities.

**Q: Why are companies able to get more per share in foreign markets?**

**A:** A dollar of revenue here will support a

higher price abroad than in the United States, as a general proposition.

**Q: How much of the trend can be attributed to companies looking to escape heavy regulation and Sarbanes-Oxley requirements?**

**A:** SOX is a factor. However, Canada has a form of SOX, so that this issue is not dispositive. Canada has a well-regulated securities market. Companies finance abroad for tax and financial reasons.

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## Capstone Announces Opening of Trading of the Largest Canadian IPO of 2007

### Houston Group Takes Local Businesses Public on TSX Using Groundbreaking Cross-Border Structure

**HOUSTON, May 17 /CNW/** - Capstone Associated announced today the completion of the largest initial public offering in Canada for calendar year 2007. Northstar Healthcare (TSX:NHC), with operations located in Houston, began trading on the Toronto Stock Exchange this morning with a \$150 million public float and with an enterprise value of \$250 million.

Stewart Feldman, chairman and chief executive officer of Capstone Associated, led this cross-border transaction for the last two years. The transaction involved the formation of Delaware-based Northstar Healthcare Acquisitions, LLC and the rollup of the two largest independent ambulatory surgery centers in Houston - The Palladium for Surgery and Kirby Surgical Center with related operations elsewhere in Houston and Dallas. These two surgery centers serve 100 of Houston's top surgeons who performed almost 30,000 procedures at these facilities in 2006. Northstar Healthcare Acquisitions sold its ownership in these Houston businesses in the Canadian public offering.

Feldman and his partner in Northstar Healthcare Acquisitions, Donald Kramer, M.D., chose Bank of Montreal's (TSX:BMO) BMO Capital Markets, Inc., a \$300 billion financial services institution, to serve as the sole bookrunner and lead investment banker joined in the selling syndicate by other large Canadian investment banks.

"The Toronto Stock Exchange enabled us to achieve the greatest valuation possible," noted Capstone's Feldman. "Although Capstone and all of Northstar's operations are located in Houston, the TSX offered the best alternative." Capstone's Harry Fleming, who holds both U.S. and Canadian citizenship, noted that the Canadian dollar has appreciated 6 percent this year alone, making Canada the "go to" market for \$250 million and under U.S. offerings. Feldman, who also was raised in the North an hour from Toronto, has experience in the Canadian capital markets going back to the early 1980s.

Feldman added: "Once the acquisition targets were onboard, the Canadian offering moved along reasonably well despite the sophisticated cross-border nature of the deal and the many team members involved. The transaction addressed the desire of these U.S. business owners to sell a controlling interest at an excellent price while at the same time, we were able to appeal to the interests of Canadian investors in the high yield common stock of the U.S.-based businesses."

Feldman further commented: "For many years, the Canadian market has had an unsatisfied demand for high yield securities. Unlike in the U.S., Canada hasn't developed a high yield equity market. This type of innovative high yield, tax advantaged common stock will be a Canadian adaptation of what is found in the U.S."

Serving as chief architects of the Northstar Healthcare transaction, Feldman's Capstone Associated led a team of investment bankers, lawyers, and accountants from Vancouver, Toronto, New York, Philadelphia, Houston and San Francisco in completing this groundbreaking deal.

Feldman is the senior partner in a Houston-based tax and corporate law firm, as well as three affiliated financial service companies that employ more than 40 lawyers, financial professionals and support staff. Capstone regularly serves as principals in complex multi-year transactions.

Donald Kramer, M.D., who owned The Palladium for Surgery, the larger of the two acquired companies, joined Feldman as a co-owner and funding source for Northstar Healthcare Acquisitions, the consolidation company. Kramer now serves as president of Northstar Healthcare. Feldman is among the sellers today and resigns his position as chairman and chief executive officer of the acquiring company.

This new financial structure applies to all types of U.S. businesses and provides their owners better value for their companies in the Canadian markets. Feldman and his Capstone team are currently in discussions with other potential cross-border IPO candidates in the energy and healthcare sectors that can benefit from this highly tax efficient, cross border structure.

#### More about the Transaction

Feldman explained that this financial structure, which is new to Canada, will further develop the small existing Canadian market of high yield common stocks.

Initially, Capstone considered an income trust structure for the Houston acquisition targets, which had developed over the last several years into a \$200 billion dollar market in Canada for both Canadian domestic and U.S.-based businesses. However, late into the Northstar transaction, Canada's Conservative government unexpectedly proposed new tax rules in the face of newly announced conversions of major companies to income trusts. Ottawa's October 31, 2006 evening pronouncement freezing Canadian-based income trusts came on the heels of \$70 billion in announced conversions to income trusts by Bell Canada and Telus Corp. alone, resulted in the Canadian Government's announced freeze, known colloquially as the "Halloween Surprise."

However, within a month of these significant year-end (2006) Canadian tax changes capital markets, the Feldman-led team of attorneys, investment bankers and accountants on both sides of the U.S.-Canadian border, created the new high dividend common share vehicle for the Canadian public markets. The new structure uses common stock with underlying cross border debt to give investors unusual tax efficiency. This new type of structure is widely expected to lead to a series of similar cross-border acquisitions.

#### About Capstone

Capstone Associated was founded in 1998 by Feldman, and, together with its affiliates, provides specialized financial services to owners of closely held businesses. In addition to cross-border financings, Capstone's financial engineering is more generally directed towards enhancing the enterprise value of its clients' businesses. Capstone is one of the largest and most prominent providers of turnkey services for closely-held insurance companies, having grown since 1998 to managing 50 insurance companies with several hundred million dollars in assets. See [www.CapstoneAssociated.com](http://www.CapstoneAssociated.com). Related divisions operate domestic international sales corporations ([www.ExportAssurance.com](http://www.ExportAssurance.com)), with another division providing specialized factoring services for long-term financial receivables ([www.RapidSettlements.com](http://www.RapidSettlements.com)). All of Capstone's operations draw upon the resources of The Feldman Law Firm LLP of Houston, Texas ([www.feldlaw.com](http://www.feldlaw.com)).



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## Texas surgery clinics get TSX push

May 17, 2007 03:41 PM

### CANADIAN PRESS

Investors aching for a high-yield investment have a new option with the \$150-million initial public offering of Northstar Healthcare (TSX: NCH), focused on surgery clinics in Texas.

Northstar used the proceeds of the offering to buy a 55 per cent interest in the Palladium for Surgery and 60 per cent of Medical Ambulatory Surgical Suites, both in Houston. Northstar also manages clinics in Houston.

"For many years, the Canadian market has had an unsatisfied demand for high-yield securities," stated Ken Manget, who led the underwriting by BMO Capital Markets.

The "innovative high-yield, tax-advantaged" Northstar stock, sold through Texas financial firm Capstone Associated, "will be the Canadian form of the U.S. high-yield bond market and will find a welcome home here," Manget said.

Capstone Chairman and CEO Stewart Feldman said the listing on the Toronto Stock Exchange maximized the issue's value.

"Although Capstone and all of Northstar's operations are located in Houston, the TSX offered the best alternative," Feldman stated.

"The transaction addressed the desire of these U.S. business owners to sell a controlling interest at an excellent price, while at the same time we were able to appeal to the interests of Canadian investors in the high-yield common stock of the U.S.-based businesses."

Feldman's Capstone team is "in discussions with other potential cross-border IPO candidates in the energy and health-care sectors that can benefit from this highly tax-efficient, cross-border structure."

Within a month of last Halloween's federal government announcement that quashed the income-trust boom, a Feldman-led team of lawyers, investment bankers and accountants on both sides of the border created Northstar's high-dividend common share vehicle.

It uses common stock with underlying cross-border debt to provide "unusual tax efficiency."