Home Health

BUSINESS REPORT

MONDAY, AUG. 16, 1999 VOL. 6, NO. 33 PAGE 1 OF 7

A WEEKLY REPORT ON NEWS, TRENDS & STRATEGIES FOR THE HOME HEALTHCARE EXECUTIVE

Adecco SA in talks to take over part of Olsten Corp.

By KAREN PIHL-CAREY
***HHBR* Staff Writer**

A part of **Olsten Corp**. (Melville, NY) may be sold to Lausanne, Switzerland-based **Adecco SA**, one of the largest temporary service corporations in the world.

Olsten officials confirmed last week that they are in talks with a third party "relative to a possible significant corporate transaction." Olsten did not name the company, but analysts suspected it was Adecco, and the *Wall Street Journal* reported Friday that it was indeed the Swiss company, according to "people familiar with the matter."

Analysts had debated over which section of Olsten was up for sale, but some believed it was the temporary-help arm of the 49-year-old company. A deal with that part of Olsten could be valued at nearly $950 million, plus assumption of part of the company's $650 million in debt, analyst Matthew Roswell of **Legg Mason** (Baltimore) told the *Journal*. Olsten's home healthcare operation would be valued at $250 million, but it is unlikely that a buyer would be interested, Roswell said.

"I can't think of any buyers for Olsten's home care unit," he told *Newsday*. "It's the company's problem child. If Olsten sold the home care unit, they wouldn't get full value."

Analyst Kevin Dyches of **Prudential Securities** (Kansas City, MO) initially thought that Adecco was considering buying Olsten in its entirety. Even though Olsten had recently lost money and the home care unit was struggling, Dyches believed a potential for future profitability made it attractive, reported *Newsday*. If Adecco purchased Olsten, Dyches expected it would go for $12 to $15 a share – more than double the company's average stock price of $7.25 over the past year.

News of the possible takeover has greatly affected Olsten stock, which jumped to $10.938 Thursday on the New York Stock Exchange for a 52-week intraday high. It closed that day at $10.875. When the *Journal* reported on Friday that Adecco was interested in acquiring only a por-

See Olsten, Page 5

Home health M&A market slows significantly in FY99

By MEREDITH BONNER
***HHBR* Editor**

The amount of mergers and acquisitions that have taken place in the home health sector has slowed significantly since the Balanced Budget Act of 1997 (BBA) was passed. In fact, merger and acquisition (M&A) activity in the entire healthcare services industry in FY99 so far has been at its lowest since FY95, according to **Irving Levin Associates** (New Canaan, CT).

The BBA's affect on the M&A market can be traced to two primary things, said Dexter Braff of **The Braff Group** (Pittsburgh), adding that both have had an immediate impact on the industry. Braff blames the decreased interest in merging and acquiring to the establishment of the interim payment system (IPS) and the prospective payment system (PPS).

See M&As, Page 7

Deep back-door IR cuts on DME items sought by HCFA

By MATTHEW HAY
***HHBR* Washington Correspondent**

BALTIMORE – The **Health Care Financing Administration** (HCFA; Baltimore) issued a proposed rule last week that creates special payment limits for five items of durable medical equipment (DME) and one prosthetic device using a rarely used provision that allows it to make reductions based on inherent reasonableness (IR). The proposed rule would slash reimbursement for these items 22% to 57%. DME providers see the cuts as part of the agency's long-running campaign to expand its pricing authority using this authority.

The six items included in the Aug. 13 *Federal Register* notice are folding walkers (pick-up) (E0135), wheeled walkers without seats (E0143), commode chairs with fixed arms (E0163), TENS units (2 lead) (0720), TENS units (4 lead)

See IR, Page 2

IR

Continued from Page 1

(EO730), and vacuum erection systems (L7900). HCFA plans to phase the reductions in over a period of two to four years.

The notice proposes that payment for these items be 80% of the actual charges for the items or the special payment limits set for the items established in the proposed rule, whichever is less. "It is intended to prevent continuation of excessive payment for these items," according to the notice.

HCFA based these revisions on a comparison of the 1998 fee schedule and what the **Department of Veterans Affairs** (VA; Washington) pays for these items. HCFA then marked up the 1998 VA wholesale price by 67% to come up with the new fees. "The notice gives no indication any consideration was given to prevailing retail prices, what other health plans pay, or any other factors," said **Invacare Corp**. (Elyria, OH) Director of Government Relations Dave Williams.

The proposed payment limits would replace the current fee schedule amounts for these items. Currently, payment under the Medicare program for these items is equal to 80% of the lesser of the actual charge for the item or the fee schedule amount for the item. HCFA said it determined that Medicare fee schedule amounts for the items were not inherently reasonable because they are grossly excessive compared to the amounts paid for these items by the VA.

The DME industry knew the proposal was under review at the **Office of Management and Budget** (Washington) prior to its publication. "But the details of the proposal were tightly guarded secrets prior to publication," according to Williams. He said this action is the first time in several years that HCFA has invoked its long established authority to reduce fees it finds to be inherently unreasonable.

"We kept hearing whisperings from HCFA that this was in the works, but we did not know what items were going to be included," said Erin Bush of the **Health Industry Distributors Association** (Alexandria, VA). "This is under the old authority, not the new authority that was granted through the Balanced Budget Act of 1997 (BBA)," said Bush. "Because this is the old authority it gives HCFA the ability to cut more than 15%, but constrains them in that they have to go through the normal notice and comment period so they can't just do it by fiat." Bush said this is the method HCFA used to reduce payments for blood glucose monitors in the late 1980s. "I think that is the only time this has ever been used before," she added.

Bush said HCFA selected these items from an examination known as "the 100 items study," completed several years ago, which looked at pricing of DME items with the 100 top HCPCS codes and whether the reimbursement rates were equitable to reimbursement by other payers. "There were many problems with the study, and (former HCFA Administrator) Bruce Vladeck was taken to task by Congress," she said. "Finally, they put out the study that said roughly 20% of the items should have increased reimbursement and roughly 20% should have decreased reimbursement, and the rest were OK."

Bush said HCFA selected these six items because they had the highest outlay amounts for Medicare compared to what the VA paid. "For some reason, that is not at all obvious to anybody, yet they took the VA price and marked it up by 67%," she added.

HCFA's new IR tactic comes in the wake of news about further delays in proposed IR cuts for six other items, including Category I enteral nutrition formulas and home blood glucose monitors. Those cuts were made under the expanded IR authority that was included in the BBA, which allows HCFA to bypass the notice and comment process if the reduction is less than 15%. But critics charged HCFA with misusing that authority by limiting its reductions to 15% a year, then proposing further cuts later.

House Ways and Means Health Subcommittee Chairman Bill Thomas (R-CA) asked the **General Accounting Office** (GAO; Washington) to examine whether the agency had overstepped its authority. Even if GAO completes its report this fall, HCFA won't be able to take any action until next summer because of Y2K updates.

"The good news is that HCFA has admitted they can't go forward with it until the middle of next summer no matter what GAO comes out with," said one industry representative. HCFA had earlier signaled that it had to have the final IR numbers this month in order to make the necessary system edits or they could not go forward with it until well after the Y2K transmission, the representative added. ■

Home Health Business Report® (ISSN 1073-9572) is published every Monday by American Health Consultants®, 3525 Piedmont Road, Building Six, Suite 400, Atlanta, GA 30305.

ATLANTA NEWSROOM: Executive Editor: **Jim Stommen**. Managing Editor: **Lee Landenberger**. Editor: **Meredith Bonner**. Staff Writer: **Karen Pihl-Carey**. Washington Correspondent: **Matthew Hay**.

BUSINESS OFFICE: Vice President/Group Publisher: **Donald R. Johnston**. Marketing Manager: **Amber Godfrey**. Operations Coordinator: **Amy Wesolowski**. Account Representative: **Bob Sobel**. Reprints: (800) 688-2421.

SUBSCRIBER INFORMATION
Please call **(800) 688-2421** to subscribe or if you have fax transmission problems. Outside U.S. and Canada, call **(404) 262-5476**. Our customer service hours are 8:30 a.m. to 6:00 p.m. EST.

EDITORIAL
Meredith Bonner **(404) 262-5478**
Karen Pihl-Carey **(404) 262-5514**

VICE PRESIDENT/GROUP PUBLISHER
Donald R. Johnston **(404) 262-5439**

INTERNET
http://www.ahcpub.com

Home care industry is disappointed with new IPS cost limits

Home health representatives continued to express disappointment last week in the interim payment system cost limits for FY00 published in the *Federal Register* Aug. 5. The schedules of limitations, which are effective for cost reporting periods beginning on or after Oct. 1, 1999, or until a home health prospective payment system is implemented, increased per-beneficiary limits by a modest 1.7% (see table below). The notice also includes a modest 13-cent increase in per-visit costs to offset costs associated with OASIS.

"We are not happy with them in general, and the little pittance they throw at us for OASIS is nothing," said Scott Lara with the **Home Care Association of America**. ■

The IPS HHA Limits Effective Oct. 1, 1999:

	Number of Agencies	% of agencies exceeding visit limits	% of costs exceeding visit limits	%of agencies exceeding beneficiary limits	% of costs exceeding beneficiary limits
ALL AGENCIES	7161	14.9	1.3	78.6	12.1
FREESTANDING	4703	6.8	0.3	86.0	14.1
HOSPITAL-BASED	2458	30.4	2.8	64.3	9.1
OLD AGENCIES	4467	17.2	1.6	78.2	10.3
FREESTANDING	2467	7.9	0.4	87.6	11.5
HOSPITAL-BASED	2000	28.8	2.7	66.7	9.1
NEW AGENCIES	2693	10.9	0.7	79.2	17.2
FREESTANDING	2235	5.5	0.3	84.3	18.4
HOSPITAL-BASED	458	37.2	4.1	54.3	9.4
ALL URBAN	4612	15.2	1.5	79.1	12.0
FREESTANDING	3397	7.1	0.4	85.7	14.0
HOSPITAL BASED	1215	38.0	3.0	60.4	9.1
OLD AGENCIES	2574	16.0	1.7	82.0	10.2
FREESTANDING	1611	8.9	0.5	88.3	11.4
HOSPITAL-BASED	963	37.6	2.9	62.4	9.1
NEW AGENCIES	2038	12.2	0.9	74.8	16.9
FREESTANDING	1786	5.5	3 8	3.4	18.0
HOSPITAL-BASED	252	39.3	4.0	52.9	8.8
ALL RURAL	2549	14.2	0.8	77.7	12.4
FREESTANDING	1306	5.9	0.1	86.7	14.3
HOSPITAL-BASED	1243	23.0	2.1	68.2	9.3
OLD AGENCIES	1894	10.1	1.0	80.2	10.5
FREESTANDING	857	6.0	0.1	86.1	11.6
HOSPITAL-BASED	1037	20.6	2.1	70.6	9.1
NEW AGENCIES	655	10.9	0.2	80.4	18.9
FREESTANDING	449	5.7	0.0	88.0	20.3
HOSPITAL-BASED	206	34.7	1.4	55.9	11.6
BY REGION					
OLD AGENCIES	4467	17.2	1.6	78.2	10.3
MIDWEST	1298	16.9	2.6	78.6	6.8
NORTHEAST	649	7.4	0.3	89.2	10.3
SOUTH	1857	17.0	1.2	80.1	12.0
WEST	662	28.4	4.1	61.4	8.4
NEW AGENCIES	2693	10.9	0.7	79.2	17.2
MIDWEST	607	15.2	1.0	73.1	10.9
NORTHEAST	247	19.6	2.4	60.2	9.9
SOUTH	1316	7.2	0.4	83.5	21.4
WEST	524	11.3	0.3	84.4	16.2

COMPANIES IN THE NEWS

AHOM to trade on OTC

American HomePatient (AHOM; Brentwood, TN) said it has stopped pursuing a listing on the American Stock Exchange and will begin trading on the over-the-counter bulletin board Sept. 1. Its trading symbol will remain AHOM, the company said. AHOM reported in late July that its shares were being delisted from Nasdaq Aug. 31 for failing to meet the minimum bid price requirement of $5.

Mallinckrodt posts EPS of $2.72 for FY99

Mallinckrodt (St. Louis) reported results for its FY99 and 4Q99 ended June 30. For the year, the company posted a net income of $196 million, $2.72 per share, compared to a net loss of $204 million, $2.81 per share, in FY98. Net sales in FY99 were $2.58 billion, compared to $2.37 billion in FY98. For 4Q99, the company recorded a net income of $52.7 million, 74 cents per share, compared to a net income of $71.9 million, 98 cents per share, in 4Q98. The company is comfortable with earnings per share projections of $2.50 to $2.60 for FY00, said CFO Michael Rocca.

McKesson HBOC records charge for ITB troubles

McKesson HBOC (San Francisco) posted a charge of $16.3 million after taxes in 1Q99 ended June 30 for accounting and legal expenses relating to the audit review that led to the company's restatement of earnings, as well as for severance and benefit costs for the change in executive management. The restatements were the result of improperly recognized revenues in the Information Technology Business (ITB) unit, formerly **HBO & Co**. before McKesson acquired it in January. For 1Q99, McKesson HBOC recorded a net income of $70.1 million, 25 cents per share, compared to $69.1 million, 25 cents per share, in 1Q98. Revenues were $8.7 billion, which includes sales to customers' warehouses of $2.2 billion and is an increase of 38% from $6.28 billion in 1Q98. Co-CEOs John Hammergren and David Mahoney said that negative effects from Y2K upgrades, changes in Medicare spending and the implementation of the prospective payment system had an impact on 1Q99 results. The company's total debt at the end of 1Q99 was $1.7 billion, while stockholders' equity was about $3 billion. McKesson HBOC has an earnings goal of $2.50 a diluted share for FY00, but a First Call estimate of 15 analysts predicts it will be $1.63 per share.

Nyer to sell interest in Nyer Nutritional

Nyer Medical Group (Bangor, ME) has signed a letter of intent to sell its interest, an 80% stake, in **Nyer Nutritional Systems**, which has suffered continued losses. The buyer or the purchase price has not been disclosed. The *Bangor Daily News* reported that the company buying Nyer's subsidiary is a national medical distribution company with more than $3 billion in annual sales. Terms of the agreement are expected to be signed this week. The acquisition is subject to a definitive asset purchase agreement, expected to be completed within 40 days.

Olsten instructs employees in Web creation

Olsten Corp. (Melville, NY) is using FrontPage 98 software to evaluate job candidates. The software is part of the company's new Precise System with an interactive, performance-based evaluation. The company expects there will be a demand for people skilled in basic Web creation and editing so it is training its assignment employees in the skills, said Ron Malone, president of Olsten Staffing Services North American Operations.

Option Care reports 2Q99 results

Option Care (Bannockburn, IL) reported earnings of 9 cents per share for 2Q99 ended June 30, exceeding analysts expectations of 7 cents per share for that period. Net income for 2Q99 was $1.1 million, 9 cents per share, compared to a net loss of $585,000, 5 cents per share, in 2Q98. Revenue increased 4% from $55 million in 2Q98 to $58.4 million in 2Q99. The company plans to continue with expansion of its managed pharmaceutical distribution program and to expand its penetration of existing markets and new areas through strategic partnerships, acquisitions or start-ups, said CEO Michael Rusnak.

PSA to file 2Q99 results late

Pediatric Services of America (PSA; Norcross, GA) said it intends to sell the paramedical testing business of its **Paramedical Services of America** subsidiary. To allow time for modification of its financial statements to reflect the paramedical testing business as a discontinued operation, PSA said it will report its 2Q99 ended June 30 financial results late. PSA said it will file a notice with the **Securities and Exchange Commission** (Washington) extending its 2Q99 filing date.

PSA said it is discussions with prospective purchasers of the business, but that it has not reached agreement on the terms of a transaction at this time.

Sunrise introduces compliance meter

Sunrise Medical (Carlsbad, CA) has introduced DeVilbiss Horizon LT CPAP, a compliance meter that can record up to six months of data in graphic or numeric form. The information can be downloaded so healthcare providers can quickly identify non-compliant patients. ■

MANAGED CARE REPORT

• **Blue Cross and Blue Shield of Massachusetts** (BCBSMA; Boston) is planning to offer an HMO that requires no referrals for patients who want to see a specialist. By doing away with referrals, BCBSMA hopes to attract more subscribers – roughly 135,000 members within five years – to its Access Blue HMO, BCBSMA Vice President of Marketing Alan Rosenberg told the *Boston Globe*. Under the new plan, patients will have a $30 copayment, which the *Globe* reported is triple the average physician copayment, every time they see one of BCBSMA's network of 7,500 specialists. Visits to primary care physicians, obstetricians, and gynecologists will carry a copayment of $10 per visit. BCBSMA will continue to sell its standard HMO Blue insurance, the *Globe* reported.

• **United Wisconsin Services** (Milwaukee) has formed a new managed care company that consolidates five of its specialty managed care subsidiaries. The new company, **Innovative Resource Group**, joins United Wisconsin's medical and behavioral health management services, case management, employee assistance programs, workers' compensation and disability case management, and pharmacy services management. United Wisconsin reported a net loss for 2Q99, citing costs to reorganize and additional claims being paid out as the company works to catch up on a backlog, reported *Best's Insurance News*. United Wisconsin recorded a net loss of $8 million, 47 cents per share, compared to a net income in 2Q98 of $4.9 million, 30 cents per share. Revenues for the quarter totaled $174.9 million, up 6.8% from 2Q98 revenues of $163.8 million.

• **Humana** (Louisville, KY) CEO Gregory Wolf resigned last week after 20 months at the company. Wolf replaced Humana's chairman and cofounder, David Jones, who retired as CEO in December 1997. When asked by the *Courier-Journal* of Louisville if the company's recent poor financial results were the reason for accepting Wolf's resignation, Jones said, "People can speculate, obviously, but I'm not going to engage in speculation about that."

• **Aetna** (Hartford, CT) says it is only rumors that the company is targeting **Oxford Health Plans** (Norwalk, CT) for acquisition and has put those rumors to rest. Aetna said in a statement last week that it plans to focus its energies on its acquisition of **Prudential HealthCare**, a $1 billion deal that was completed last week. With this acquisition, Aetna has more than 18 million managed care members.

• **Trigon Healthcare** (Richmond, VA) reported a 12% drop in 2Q99 net income, posting a net income of $18.3 million, 43 cents per share, compared to a 2Q98 net income of $20.7 million, 49 cents per share. Revenues rose 8% to $587.9 million, the company said. Financial results for 2Q99 include net realized losses of $4.2 million.

• **Maxicare Health Plans** (Los Angeles) Chairman Paul Dupee was named to the additional post of CEO. Dupee succeeded Peter Ratican as chairman earlier this year.

• **First American Group of Companies** (Richton Park, IL) has completed the previously announced acquisition of **Community Health Choice of Illinois** (Chicago). The acquisition will most likely have no effect on Community health's members or providers, said First America President Daniel Splain. First American is the holding company for a number of managed care related ventures, including **American Health Care Providers**. With the addition of Community Health, First American now serves more than 170,000 subscribers in Illinois. ■

Olsten

Continued from Page 1

tion of Olsten, the shares dropped to $9.938 on volume of about one million, triple the daily average.

Both Olsten and Adecco officials have kept mum about what exactly is transpiring. Adecco has not even officially announced that it is discussing a corporate transaction with Olsten. Olsten spokeswoman Nancy Macenko said it could be "a matter of days" before Olsten releases information about a deal.

In a statement last Wednesday, Olsten said that "there was no assurance that any agreement would be reached, or that a transaction would occur." It declined to give more information citing "confidentiality obligations."

Olsten agreed earlier this year to pay the federal government $61 million in cash to settle a Medicare fraud investigation. The agreement included a guilty plea from Olsten's subsidiary, **Kimberly Home Health Care**. Investigators had said that Olsten sold several Florida home health agencies to **Columbia/HCA Healthcare Corp**. (Nashville, TN) for an amount far below their worth, then charged inflated management fees and billed them to Medicare. Medicare pays for management fees, but not acquisition costs.

As a result of the settlement and a restructuring, Olsten reported a 1Q99 loss of $62.3 million, 77 cents per share, which included a $70 million, 86 cents per share, charge.

But the company now appears ready to report profits or break even, Dyches told *Dow Jones Business News* last week. "The Olsten family wants to see a return on their money," he said.

Today, Olsten reported a 2Q99 ended July 4 net income of $13.5 million, 17 cents per share, compared to a net loss in 2Q98 of $33.5 million, 41 cents per share. Revenues were $1.25 billion, compared to $1.13 billion in 2Q98.

The company also said that talks are continuing with a "third party." Adecco told *Reuters* on Thursday that it planned to announce a takeover today, but it would not identify Olsten as the target. ■

REGIONAL DIGEST

• **Home Care Medical** (Milwaukee) was selected the 1999 Home Medical Equipment Provider of the Year by the **Wisconsin Association of Medical Equipment Services** (WAMES). One of seven companies nominated for the award, Home Care Medical received the award, WAMES said, based on its "outstanding contributions to the home medical equipment industry." Home Care Medical received the same award in 1997.

• The **Visiting Nurse Association of Central New York** (VNACNY) is closing a sister company and absorbing its operations. The association expects to close the operations of Home Health Providers (HHP) by Aug. 31, reported the *Post-Standard* of Syracuse, NY. All 30 employees of HHP have been given the option of working for VNACNY, which has about 350 employees. Also, the patients have been notified and have been given the choice to continue services with VNACNY. The company cites cuts in Medicare and Medicaid reimbursements, as well as stricter requirements for documenting claims, as reasons for the decision to combine the agencies.

• Home care workers in Los Angeles County will soon get a 50-cent-an-hour raise under their first union contract, which was approved by mailed ballots counted last week. The raise, from minimum wage to $6.25 an hour, was the maximum allowed by state legislation that provides partial funding for the program, reported the *Los Angeles Times*. Home care workers voted to join the union last April in an election that expanded union membership in Los Angeles by 10%.

• State officials in Washington have dismissed charges against a Spokane home healthcare company that allegedly overbilled Medicaid by $6,000. Last year, the attorney general's office filed one theft charge and 12 Medicaid fraud counts against Hope Thommes, co-owner of **A New Hope Home Health Care**. Thommes and her husband said the state was on a "witch hunt" against them. Their attorney pointed out that the state's audit also showed that Thommes had not billed the state for $30,000 in other services and explained that the $6,000 was overbilled due to computer errors and an inexperienced bookkeeper. As part of the agreement to dismiss charges, the Thommeses agreed to repay the $6,000 and another $5,000 to cover the state's investigation costs, reported the *Spokesman Review*.

• **Family Service of Greater Lowell** in the Boston, MA, area shut down its home healthcare division after failing to pay employees in July. The 38 employees were offered employment with **Intercity Homemaking Service** in Malden, MA, which gave Family Service $35,000 for the list of workers. The money is expected to pay back wages to the workers. ■

TECH UPDATE

• The **Community Health Accreditation Program** (CHAP; New York) has introduced Benchmarks II, a second-generation performance measurement system that combines PC software and CHAP clinical expertise. CHAP Benchmarks II provides OASIS and/or ORYX compliance, customized reporting, ongoing outcome measurement, and suggestions on improving outcomes from CHAP clinical experts. The system is derived in part from a CHAP study on consumer oriented outcome measures for home care, which was performed by CHAP and funded by a $1.2 million grant from the **W.K. Kellogg Foundation**.

• **Thornberry Ltd**. (Manlius, NY) has been awarded a contract for home care application software by the Ocean County Board of Health in New Jersey. Thornberry's N-DOC point-of-care nursing documentation system is a software program that allows caregivers to enter patient information into a laptop computer on site, reported the *Herald American*. The information is then downloaded into the agency's main records system, improving accuracy and efficiency. N-DOC is among several healthcare software products developed and sold by Thornberry.

• **TeleComputing** (Fort Lauderdale, FL) has formed an agreement with **TherAssist Software** (Miami) making TeleComputing the exclusive application service provider to deploy and maintain TherAssist's products. In August, the companies will launch a pilot project in which TeleComputing will host and manage the TherAssist products in Fort Lauderdale, FL. TherAssist President Todd Andros said the company's customers, which include home health operations, need the latest computing resources available. Analysts estimate that $250 million is wasted each year on healthcare paperwork and filings, TeleComputing reported.

• **ORCA Technologies** (Bothell, WA) has released its CuraSys System software for the home healthcare industry. The software accommodates the requirements of the Outcome Assessment and Information Set and offers the latest technology for cost-effective patient care that stays in line with government regulations.

• **Health Hero Network** (Mountain View, CA) has signed agreements with six organizations, including three schools, to implement disease management programs. The programs will link healthcare providers to patients with the Health Buddy, an appliance that sits at the patient's home. The organizations are researching early symptom management for coronary artery bypass graft surgery, congestive heart failure, diabetes, asthma, mental health, and senior well being.

• **Simione Central Holdings** (Atlanta) has completed the acquisition of **CareCentric Solutions**, according to the terms of the agreement first announced in early July. ■

M&As

Continued from Page 1

According to Irving Levin's latest *Health Care Merger & Acquisition Report*, there were 20 transactions publicly announced in the home health sector in 2Q99, which is a 33% increase from those reported in 1Q99, but down 29% from 2Q98. In the healthcare services industry overall, there were 190 deals publicly announced in 2Q99, down 5% from 1Q99 and down 42% compared to the 325 deals reported in 2Q98.

According to a further Irving Levin study, which covers transactions in the home healthcare, contract rehabilitation therapy, and institutional pharmacy markets, as the demand for post acute care services grew in the 1990s, the volume of acquisitions, as well as the pricing, increased dramatically. Providing home healthcare, rehabilitation therapy, and medication management services all were viewed as essential to the future success of post acute care providers, especially as acuity levels rose, the study said.

"The BBA, however, has practically destroyed many of the service areas," said Stephen Monroe, a partner at Irving Levin. "As an example, one of the largest contract therapy companies in the country closed down after being unable to find a buyer, and another sold its $100 million-plus business for a nominal amount.

"Some home healthcare company consolidators have questioned the rationale for buying a home health company when they could pick up the customers for free if the seller goes out of business, which has frequently been the case," Monroe said. "Although presumably not intentional, the changes in Medicare reimbursement that came with the BBA have caused extreme financial hardship to many providers."

Braff told *HHBR* that at his firm, the BBA is looked at "as kind of an interesting line of demarcation – before BBA and after BBA. And we can see how the market has changed dramatically in those times.

"IPS changed reimbursement for Medicare patients in such a complicated manner that it substantially wiped out a lot of the value of the companies that provided special services," Braff said. "Companies continue to struggle under the guidelines of IPS, and buyers are looking at the market and saying, 'We are afraid.' They are staying away from it."

Braff said **Medshares**' (Memphis, TN) recent announcement that it had filed for Chapter 11 protection was a function of IPS. Many of the buyers who rushed to buy agencies at discount pricing, like Medshares did, found there isn't the market for the sale of Medicare-certified agencies right now, he told *HHBR*.

But Braff said the home health sector will rebound some, although not to what it was like before BBA.

"People will learn how to deal with IPS and will have rejiggered their business," he said. "Furthermore, PPS is supposed to be implemented in October, and companies will figure out how to make it work."

A lot of agencies will close, and that will continue to happen, he said, but over some period of time, the industry will be left with agencies that have refigured themselves so they can provide services adequately. Once that happens, and the risk has been taken away from the buyers, they will understand these are the companies that have survived, and without that concern, the buyers will buy, Braff said.

Some other sectors included in Irving Levin's M&A report were hospitals, which reported 41 transactions in 2Q99, down 15% from 2Q98; HMOs, which reported 14 deals in 2Q99, up 7% from 2Q98; rehabilitation, which reported 11 transactions in 2Q99, down 27% from the number in 2Q98; and long term care, which reported 10 deals, down 76% from those deals reported in 2Q98. ■

BRIEFLY NOTED

• The **National Association for Home Care** (NAHC; Washington) is now offering *Wednesdays with NAHC's Experts*, a series of 10 one-and-a-half hour teleconferences every Wednesday at noon EST. A portion of each teleconference will be devoted to answering questions from participants. To register to participate in the teleconferences, which last until Wednesday, Dec. 8, call (800) 775-7654.

• A new study in the *New England Journal of Medicine* suggests caring for Medicare patients by for-profit hospitals raises Medicare spending by $5 billion a year. The authors cite alleged fraud as a reason, but also said that there are more hospital admissions in for-profit facilities, a greater use of services not covered by Medicare, and regional variations in how similar medical conditions are treated, reported *USA Today*. The study notes that Medicare spends an average of $732 more per beneficiary on hospital, physician, outpatient, and home health expenses. ■