

Hospital Buyer Offers Bitter Pill

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This much is certain about Dr. Prem Reddy, an Indian native of modest origins who immigrated to the U.S. 32 years ago.

He's a respected cardiologist, dedicated philanthropist and successful entrepreneur, who in a few short years has shaken up the L.A. hospital industry.

But whether or not he's the potential savior of the region's struggling community hospitals or simply out to make a buck depends on whom you talk to.

"Prem Reddy causes a lot of people heartburn," said Jim Lott, vice president and spokesman for the Hospital Association of Southern California, a local trade group. "But the fact is that he's taking over and turning around hospitals with emergency rooms that were on the road to being closed. And we can't afford to lose another ER in Los Angeles."

Reddy is the controversial founder and chairman of Victorville-based Prime Healthcare Services LLC, which is fast becoming the region's largest single hospital owner. Prime announced this month that it was acquiring its 10th, 11th and 12th facilities, including the Encino campus of Encino-Tarzana Medical Center and San Dimas Community Hospital, both from Dallas-based Tenet Healthcare Corp.

But it's not the size of his company that has ruffled feathers, but his business model.

Prime aims to turn around a hospital's finances by making it more efficient. That can include reducing administrators and other staff and eliminating low-profit outpatient medical procedures that Reddy maintains they can get elsewhere. He's notorious for cancelling managed care contracts he contends do not cover the cost of services.

This practice, plus an emphasis on admitting most patients through the emergency room, enables Prime hospitals to bill insurers at higher rates.

Reddy's critics – including doctors, labor leaders and health care activists – claim the 58-year old millionaire is enriching himself through patients with limited access to health care.

He's even been sued by former employees over business practices and patient care policies that employees alleged were putting patients in jeopardy. In most instances, the cases were settled out of court. Sometimes, Reddy has countersued.

"His model of business is of grave concern to us," said Barbara Lewis, the Los Angeles-based vice president of SEIU United Healthcare Workers – West, which is in the midst of contentious contract negotiations at Inglewood's Centinela Hospital Medical Center, which Prime acquired in 2007. "He's growing so fast he wants to be the McDonald's of health care."

That's a characterization that Reddy and his supporters strongly dispute, noting that Reddy has won awards as a board certified cardiologist, businessman and civic leader. The respected industry weekly Modern Healthcare in April included Reddy on its list of the nation's top 25 minority health care executives.

Phil Dalton, president of El Segundo based Medical Development Specialists, a consulting firm that has reviewed Reddy's business for state health care regulators, said critics can't accept his tough-love approach.

"His approach to managing hospitals is unique in this market," Dalton said. "He's pretty firm and focused – and he definitely gets some backlash over it."

Humble Beginnings

Reddy, who is wary of talking to the media after being the subject of unflattering articles, admits he has little patience for those unwilling to make cuts at struggling hospitals.

"Why am I successful where these other groups haven't been?" Reddy said. "There's an element of luck, but I've been doing this for 30 years and I see the future from my past successes and failures."

That past is in many ways the embodiment of the American immigrant dream. He was born to a farming family in the state of Andhra Pradesh in a region known as the "Rice Bowl of India" in the subcontinent's south.

Reddy's village didn't get electricity until he was in his teens. He once recalled in an interview that he often studied by kerosene lamp. But he earned high enough grades to qualify for government-subsidized university education at Christian Medical College in Vellore, where he met his wife.

Lex Reddy, Prime Healthcare's chief executive and Prem's brother-in-law, considers his sister Venkamma's husband a mentor and role model. (Both families have the same last name, a common one in their home state.)

"When I first met him I thought he was very passionate, very committed, and wouldn't compromise his principles for anything," said Lex Reddy, adding that his brother-in-law's favorite saying is "You're only as good as the last promise you kept."

After completing their residencies, the couple immigrated to the U.S. in 1978, and pursued post-graduate study in New York until moving to Southern California's High Desert in 1981. Reddy worked as a cardiologist at St. Mary Medical Center in Apple Valley, but soon felt a desire to go into business.

Reddy's family had played leadership roles in his home village for generations and he naturally picked up leadership skills and drive from his elders.

Reddy, who only stopped practicing medicine last year, co-founded Desert Valley Medical Group in 1985. The success of that enterprise led to the construction of 85-bed Desert Valley Hospital in Victorville.

The combined operations eventually became known as PrimeCare International Inc., with managed care revenues of more than \$500 million. The business was sold in 1998 to Tennessee-based PhyCor, but was reacquired and turned around by Reddy in 2001 after PhyCor declared bankruptcy.

But it wasn't until 2004 that his hospital empire started to take off. In addition to specialized commercial lenders and traditional banks, he began employing sale and lease back arrangements with real estate investment trusts to minimize his capital outlays.

In 2004, Reddy gained control of bankrupt Chino Valley Medical Center in Chino, and a year later entered into a sale and lease-back agreement with a real estate investment trust for Chino Valley and Desert Valley. He employed the same REIT strategy in his first foray into Los Angeles in late 2005 when he acquired Sherman Oaks Hospital. Centinela Hospital Medical Center followed in late 2007.

Generous philanthropist

Reddy's success in business has allowed him to be a generous contributor to Republican causes. He also lives in a 15,000-square-foot mansion in Victorville and owns a multi-million-dollar second home in Beverly Hills near UCLA, where two of his three children have or are attending college. His eldest daughter, Dr. Kavitha Reddy-Bhatia, is on the faculty of UCLA's School of Medicine.

His family foundation has supported several health care-related charities in the High Desert and adjacent communities, with a particular emphasis on enabling more young people to get into the health professions. Victor Valley College renamed its allied health science program in Reddy's honor after he gave them \$1 million in 2003. Western University of Health Science in Pomona has its largest lecture hall named after him.

But that philanthropy has not shielded him from his harshest critics who believe that the solution to failing hospitals is better reimbursements from the government and private insurers. Others believe in government-run health care.

"He's still got to prove himself to this community," said Lark Galloway-Gilliam, executive director of the non-profit Community Health Councils Inc. "By cutting elective procedures, he's forcing doctors to send their patients to other hospitals outside the community. That's not good for local access."

However, Reddy said his critics do not understand that he is committed to turning around his hospitals, not cutting costs and selling them for a quick profit. These days, a company owned helicopter shuttles him from Victorville to the Los Angeles area when he checks in personally on his latest acquisitions.

He anticipates one day soon moving company headquarters closer to its urban holdings in Los Angeles and Orange County. When the latest deal with Tenet is completed, Prime will own four hospitals each in L.A. and Orange counties, three in the Inland Empire and one in San Diego.

"I am here for the long haul in the hospitals we acquire," he said. "We pour lots of money into them and can afford to wait for them to be profitable."