

Omninet plunges into health care

Venture capital firm to revive Alvarado

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A Beverly Hills venture capital firm headed by a family that made its fortune in Qualcomm stock is providing the financial muscle behind the pending acquisition of San Diego's Alvarado Hospital.

The investment by Omninnet Capital is its first in a health care company and a departure from its more typical high-tech and communications ventures.

Sherwood Oaks pediatricians and brothers Pejman and Pedram Salimpour agreed in October to purchase 306-bed Alvarado from Tenet Healthcare for \$36.5 million.

Pejman Salimpour said this week that Omninnet headed an investor group that was financing the deal and providing capital to operate and revive the 34-year-old hospital. The sale is expected to be completed by the end of the year.

The Salimpours' connection to Omninnet is rooted in family ties. Pejman Salimpour is married to the daughter of Omninnet principal Parviz Nazarian.

However, Omninnet's interest in Alvarado is about more than kinship, Salimpour said yesterday. "We had significant investor interest in the acquisition. We took that to affirm our own belief that Alvarado continues to be a strong and vibrant organization," he said.

"I would not get myself or my family involved in anything less than this. We came to believe that our family appreciates best the appropriateness of physician leadership in the vision of a hospital," he said.

Nazarian immigrated to the United States from Iran in 1979, the same year that the Salimpour brothers came to this country with their parents. Both families belonged to an ancient Persian Jewish community centered in Tehran that came under pressure after an Islamic revolution toppled the shah in 1979.

The Nazarian family became associated with Qualcomm in the mid-1980s when OmniTRACS, a mobile digital satellite communications system that they developed, was acquired by the fledgling San Diego wireless telecommunications company.

That deal made Nazarian a major Qualcomm shareholder and eventually landed him on the company's board of directors, where he served until December 1994.

Omninet and the Salimpours became interested in acquiring Alvarado earlier this year after Tenet struck a deal with federal prosecutors to sell or close the hospital by February to end several criminal and civil cases. Administrators had been accused of making illegal payments – in the form of relocation compensation – to doctors in exchange for sending patients to Alvarado.

Omninet's interest in the hospital helped convince Tenet that the Salimpours were the right buyers, Pejman Salimpour said. "Tenet had very strict requirements for the buyer to have adequate access to capital, and we met and exceeded that requirement," he said.

Tenet spokesman Steve Campanini confirmed yesterday that financial backing played an important role in narrowing the field of bidders.

"A potential operator has to have the ability to complete the (acquisition) and to fund long-term operations," he said. "We were very careful to select a qualified bidder who could meet those conditions."

Alvarado needs a large infusion of cash, more than \$20 million by some estimates, to upgrade facilities neglected by Tenet in recent years. Its medical staff must be rebuilt after shrinking under the strain of the criminal probe. And recent financial losses must be reversed. In 2005, the hospital lost \$15.7 million, according to Ingenix, an Eden Prairie, Minn., hospital researcher.

In addition, the hospital needs as much as \$70 million in upgrades to meet state earthquake safety standards.

Benjamin Nazarian, another Omninnet principal and the son of Parviz Nazarian, wouldn't disclose how much money his firm planned to sink into Alvarado, but he said the investor group was committed to returning the hospital to its earlier status as a premier San Diego medical center.

"We are not concerned about the need to invest in Alvarado to make it an excellent hospital," he said. "We think it will be a successful hospital for the community as well as for the investors."

One of only two hospitals that serves eastern San Diego County, every year Alvarado handles 18,000 emergency room visits, admits 12,000 patients and treats 56,000 outpatients. The hospital employs about 1,000 workers.



Pejman Salimpour



Pedram Salimpour

Omninet's other principal is Neil Kadisha, another son-in-law of Parviz Nazarian.

The Nazarians are not related to Mina Nazaryan, Alvarado's former associate administrator and the only person to be convicted in the federal government's criminal probe of the hospital.

Omninet has invested over the past decade in at least 11 companies, mostly located in California and involved in technology development, according to Dow Jones VentureOne, a venture capital research organization in San Francisco. Most recently, the firm became a lead investor in Altra, a Los Angeles company that produces and markets ethanol and biodiesel fuels.

Omninet also owns The Manchester Center, an indoor shopping center in Fresno, and the firm is constructing a \$325 million condominium tower in downtown Las Vegas.

The firm consciously maintains a low profile, and the principals rarely speak in public about their investments. "We really try to stay out of the papers and under the radar," Benjamin Nazarian said.

Omninet's interest in Alvarado, a struggling suburban general hospital, is unusual, said Emily Mendell, spokeswoman for the National Venture Capital Association in Arlington, Va.

"Venture capitalists are very interested in investing in areas where they can leverage innovation and make a return for their investors," she said. Those that get involved in the health care sector "usually invest in highly innovative technical areas like biotechnology and medical devices."

Venture capital investment in hospitals was \$104.3 million in the first nine months of 2006, or less than 1 percent of the \$19.2 billion invested by all U.S. venture capital firms during that period, according to Thomas Financial.

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