

Health Group Of The Year: Sheppard Mullin

By **David McAfee**

Law360, Los Angeles (January 28, 2014, 6:04 PM ET) -- Sheppard Mullin Richter & Hampton LLP's health care team has represented nearly every variation of health care and industry-associated organization, most recently assisting physician group Lakewood IPA in its unique acquisition by Tenet Healthcare Corp., earning it a place among Law360's Health Care Practice Groups of the Year.

Sheppard Mullin's full-service health care group services payors, including Health Maintenance Organizations and insurance companies, as well as providers, such as hospitals, on everything from regulatory compliance to mergers and acquisitions. The group does not limit its health care representations to a specific sector within the industry, but instead it seeks a diversified client base representing multiple player categories within health care, according to the firm.

Sheppard Mullin partner Eric A. Klein, who leads the 86-attorney practice group from his office in Century City, Calif., said the trend for many in the health care industry is toward consolidation and integration of services and that the Sheppard Mullin team has been a pioneer in that area.

"If somebody wants to do these types of deals, we are the law firm that they go to," Klein told Law360, referring to vertical integrations between health systems and physician groups. "A lot of people would like to but very few people have done as many physician group deals as we have. They are good, but they haven't done as many creative or cutting-edge deals."

Last year, Dallas-based Tenet bought Lakewood IPA of an undisclosed amount. Tenet was previously involved with physician groups but then got out of the business for a while, according to Klein.

"This was their first foray back into this area and we sold them a medical group, a management company, a Knox-Keene California HMO plan, and then also we sold an accountable care organization," Klein said. "That was one of the first sales of ACOs in the country."

Kenneth Yood, a partner in Sheppard Mullin's health care group, called the Lakewood deal "a complex transaction that showcases how leading health care providers are meeting the challenges of health reform today."

“The sale of Lakewood IPA and its affiliates encapsulated in a single transaction the multiple driving themes in health care reform today: Hospital systems partnering with physicians and management services providers to move into population health management models, hospitals moving up the ‘food chain’ by acquiring health plans and increasing vertical integration and the ‘first impression’ sale of a controlling interest in a Medicare Accountable Care Organization,” Yood said.

The team also put together the first ACO in Mexico, which, according to Klein, had not seen managed care or coordinated care before.

Also in 2013, Sheppard Mullin’s health care group represented Molina HealthCare Inc. in its creation of a long-term services agreement for Molina to manage a community hospital’s medical and surgical beds. Molina’s vertical integration transaction was among the first of its kind, according to Klein.

“Molina partnered with behavior health company College Health Enterprises and CHE bought a community hospital and will run the psychiatric unit,” Klein said. “Molina is running the medical and surgical beds, giving Molina easy access to the hospital. This system improves quality and reduces the costs of health care.”

According to Yood, it is rare to see payors vertically integrate downward to hospital providers.

"This innovative management agreement transaction allows Molina to have access to the community hospital for its members, to directly manage the quality and efficiency of the services provided and to save costs through reduction of the hospital’s profit margin that a third-party hospital provider would charge," Yood said. "We expect to see additional transactions of this type in an effort for payors to more directly affect the levers of patient care and to eliminate redundant profit margins in the health care industry."

The health care team also does a substantial amount of work buying and selling HMOs, with 11 purchase or sale transactions in the last 18 months, according to Klein.

Klein said that although 2012 was a great year for the Sheppard Mullin health care practice with deals including the \$4.4 billion acquisition of physician network chain HealthCare Partners LLC by dialysis giant DaVita Inc., the practice was even busier in 2013.

“That’s because the health care industry is not only consolidating, but it’s facing health care reform,” Klein said. “Now people are repositioning to manage the health of populations instead of just taking care of them when their sick.”

But Sheppard Mullin’s health care workload isn’t the only thing on the rise. The group has also recently hired a number of new partners, according to Klein.

“We are continuing to grow. We have a pipeline right now that’s very strong,” Klein said. “We have 10 or 11 lateral partners in the process of being hired and hope to have more announcements in the future.”

The health care group also regularly partners attorneys from its transactional, regulatory, labor and employment, litigation, tax, finance, real estate and antitrust specialties to provide integrated solutions for its clients, according to Sheppard Mullin.

Klein said the firm’s health care group has continued to thrive from its humble beginnings, saying the firm has seen a lot of “good buzz” and growth opportunities.

“This is a firm that, five or six years ago, didn’t have a health care presence. But we have been growing steadily,” Klein said. “We have a very strong vision and it’s a national practice, serving both public and private companies. We went from nowhere to where we are today.”

Although some law firms and health care practices have recently seen some downsizing or slowed business, Klein said that’s not always a bad thing.

“There are a number of firms that are shrinking or they’ve had to close offices, so there are a lot of opportunities for us,” Klein said.

--Editing by Chris Yates.

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