

COPY

UNDER SEAL

FILED - SOUTHERN DIVISION
CLERK, U.S. DISTRICT COURT
DEC 10 2015
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

SACR15-00155

UNITED STATES OF AMERICA,

SA CR No. 15-

Plaintiff,

I N F O R M A T I O N

v.

[18 U.S.C. § 371: Conspiracy; 42
U.S.C. § 1320a-7b(b) (2) (A):
Illegal Remunerations for Health
Care Referrals]

MICHAEL R. DROBOT,

Defendant.

The United States Attorney charges:

COUNT ONE

[18 U.S.C. § 371]

A. RELEVANT PERSONS AND ENTITIES

At all times relevant to this Information:

1. Pacific Hospital of Long Beach ("Pacific Hospital") was a hospital located in Long Beach, California, specializing in surgeries, particularly spinal and orthopedic surgeries. From at least in or around 1997 to in or around November 2013, Pacific Hospital was owned and/or operated by Michael D. Drobot ("Drobot Senior"), defendant MICHAEL R. DROBOT's ("defendant DROBOT") father.

2015 DEC 10 AM 11:02
CLERK U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
SANTA ANA

FILED

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

1 2. California Pharmacy Management, Inc. ("CPM") was a
2 corporation formed and owned by Drobot Senior. CPM contracted with
3 doctors to manage doctors' in-house pharmaceutical dispensaries,
4 providing such services as logistical, billing, and collection
5 services on behalf of the in-house pharmacies. From 2003 to 2007,
6 defendant DROBOT operated and/or controlled CPM along with Drobot
7 Senior.

8 3. Industrial Pharmacy Management LLC ("IPM," and collectively
9 with CPM, the "Dispensary Management Companies"), was a limited
10 liability company formed in 2006 by Drobot Senior. Like CPM, IPM
11 also contracted with doctors to manage doctors' in-house
12 pharmaceutical dispensaries. From 2007 to 2010, defendant DROBOT and
13 Drobot Senior together owned, and defendant DROBOT operated, IPM.
14 From 2010 to at least November 2013, defendant DROBOT was the

15 majority owner of IPM, and controlled and directed its operations.

16 B. RELEVANT LEGISLATION

17 4. The California Worker's Compensation System ("CWCS") was a
18 system created by California law to provide insurance covering
19 treatment of injury or illness suffered by individuals in the course
20 of their employment. Under the CWCS, employers were required to
21 purchase workers' compensation insurance policies from insurance
22 carriers to cover their employees. When an employee suffered a
23 covered injury or illness and received medical services, the medical
24 service provider submitted a claim for payment to the relevant
25 insurance carrier, which then paid the claim. Claims were submitted
26 to and paid by the insurance carriers either by mail or
27 electronically. The CWCS was governed by various California laws and
28 regulations.

1 5. The California State Compensation Insurance Fund ("SCIF")
2 was a non-profit insurance carrier, created by the California
3 Legislature, which provided workers' compensation insurance to
4 employees in California, including serving as the "insurer of last
5 resort" under the CWCS system for employees without any other
6 coverage.

7 6. California law, including but not limited to the California
8 Business and Professions Code, the California Insurance Code, and the
9 California Labor Code, prohibited the offering, delivering,
10 soliciting, or receiving anything of value in return for referring a
11 patient for medical services.

12 7. The Federal Employees' Compensation Act ("FECA") provided
13 benefits to civilian employees of the United States, including United
14 States Postal Service employees, for medical expenses and wage-loss
15 disability due to traumatic injury or occupational disease sustained
16 while working as a federal employee. Benefits available to injured
17 employees included rehabilitation, medical, surgical, hospital,
18 pharmaceutical, and supplies for treatment of injury. The Department
19 of Labor ("DOL") - Office of Workers' Compensation Programs ("OWCP")
20 was the governmental body responsible for administering the FECA.
21 When a federal employee suffered a covered injury or illness and
22 received medical services, the medical service provider submitted a
23 claim for payment by mail or electronically to Affiliated Computer
24 Services ("ACS"), located in London, Kentucky, which was contracted
25 with the DOL to handle such claims. Upon approval of the claim, ACS
26 sent payment by mail or electronic funds transfer from the U.S.
27 Treasury in Philadelphia, Pennsylvania, to the medical service
28 provider.

1 8. Federal law prohibited the offering, delivering,
2 soliciting, or receiving of anything of value in return for referring
3 a patient for medical services paid for by a federal health care
4 benefit program.

5 C. OBJECTS OF THE CONSPIRACY

6 9. Beginning in or around 2007, and continuing to in or around
7 November 2013, in Orange and Los Angeles Counties, within the Central
8 District of California, and elsewhere, defendant DROBOT, together
9 with others known and unknown to the United States Attorney,
10 knowingly combined, conspired, and agreed to commit the following
11 offenses against the United States: Mail Fraud and Honest Services
12 Fraud, in violation of Title 18, United States Code, Sections 1341
13 and 1346; Use of an Interstate Facility in Aid of Racketeering, in
14 violation of Title 18, United States Code, Section 1952(a)(3);

15 Conducting Monetary Transactions in Property Derived from Specified
16 Unlawful Activity, in violation of Title 18, United States Code,
17 Section 1957; and Payment of Illegal Remunerations for Health Care
18 Referrals, in violation of Title 42, United States Code, Section
19 1320a-7b(b)(2)(A).

20 D. MANNER AND MEANS TO ACCOMPLISH THE OBJECTS OF THE CONSPIRACY

21 10. The objects of the conspiracy were to be carried out, and
22 were carried out, in the following ways, among others:

23 a. Drobot Senior and other co-conspirators offered to pay
24 kickbacks to dozens of doctors, chiropractors, marketers, and others
25 for their referring workers' compensation patients to Pacific
26 Hospital for spinal surgeries, other types of surgeries, magnetic
27 resonance imaging, toxicology, durable medical equipment, and other
28 services, to be paid primarily through CWCS and the FECA. As of

1 approximately 2009, for spinal surgeries, kickback recipients were
2 typically paid \$15,000 per lumbar fusion surgery and \$10,000 per
3 cervical fusion surgery, provided that the surgeon used in the
4 surgery hardware supplied by a specified distributor.

5 b. Influenced by the promise of kickbacks, doctors,
6 chiropractors, marketers, and others referred patients insured
7 through the CWCS and the FECA to Pacific Hospital for spinal
8 surgeries, other types of surgeries, and other medical services. The
9 workers' compensation patients were not informed that the medical
10 professionals had been offered kickbacks to induce them to refer the
11 surgeries to Pacific Hospital.

12 c. The surgeries and other medical services were
13 performed on the referred workers' compensation patients at Pacific
14 Hospital.

15 d. Pacific Hospital submitted claims, by mail and
16 electronically, to SCIF and other workers' compensation insurance
17 carriers for payment of the costs of the surgeries and other medical
18 services.

19 e. As defendant DROBOT and the other co-conspirators knew
20 and intended, and as was reasonably foreseeable to them, in
21 submitting claims for payment, Pacific Hospital made materially false
22 and misleading statements to, and concealed material information
23 from, SCIF and other workers' compensation insurance carriers,
24 including that Pacific Hospital had offered or paid kickbacks for the
25 referral of the surgeries and other medical services for which it was
26 submitted claims.

27 f. The insurance carriers paid Pacific Hospital's claims,
28 by mail or electronically.

1 g. Among other means used to pay kickback recipients,
2 defendant DROBOT, Drobot Senior, and other co-conspirators caused the
3 Dispensary Management Companies to pay certain doctors and
4 chiropractors kickbacks for referring patients to Pacific Hospital
5 for spine surgeries and other services, and used the Dispensary
6 Management Companies' contracts with those doctors and chiropractors
7 to cover up the kickback arrangement.

8 h. Defendant DROBOT and other co-conspirators recorded
9 and/or tracked the number of surgeries and other medical services
10 performed at Pacific Hospital due to referrals from the kickback
11 recipients, as well as amounts paid to the kickback recipients for
12 those referrals.

13 E. EFFECTS OF THE CONSPIRACY

14 11. Had SCIF and the other workers' compensation insurance
15 carriers known the true facts regarding the payment of kickbacks for
16 the referral of workers' compensation patients for surgeries and
17 other medical services performed at Pacific Hospital, they would not
18 have paid the claims or would have paid a lesser amount.

19 12. From in or around 2008 to in or around April 2013, Pacific
20 Hospital billed workers' compensation insurance carriers
21 approximately \$500 million in claims for spinal surgeries that were
22 the result of the payment of a kickback; and defendant DROBOT or
23 other co-conspirators paid kickback recipients between approximately
24 \$20 million and \$50 million in kickbacks relating to those claims.

25 F. OVERT ACTS

26 13. On or about the following dates, in furtherance of the
27 conspiracy and to accomplish the objects of the conspiracy, defendant
28 DROBOT and other co-conspirators known and unknown to the United

1 States Attorney committed various overt acts within the Central
2 District of California, and elsewhere, including, but not limited to,
3 the following:

4 Overt Act No. 1: In or about March 2008, after Drobot Senior
5 caused IPM to pay \$60,000 to Surgeon A as a kickback for spinal
6 surgeries Surgeon A performed at Pacific Hospital, defendant DROBOT
7 sought reimbursement for IPM from PSPM for the kickback payment made
8 by IPM.

9 Overt Act No. 2: On or about May 12, 2008, Drobot Senior
10 caused IPM to pay \$35,000 to Chiropractor A, of which \$18,000
11 represented a kickback for spinal surgeries performed at Pacific
12 Hospital on patients referred by Chiropractor A.

13 Overt Act No. 3: On or about July 29, 2008, defendant DROBOT
14 sent an email message to Executive A requesting a \$60,000 payment
15 from Pacific Hospital to IPM as reimbursement for kickbacks paid by
16 IPM for spinal surgeries performed at Pacific Hospital, including
17 \$18,000 IPM had paid to Chiropractor A in kickbacks.

18 Overt Act No. 4: On or about March 10, 2009, defendant DROBOT
19 advised Executive B that Surgeon B was estimated to perform three to
20 four spinal surgeries per month at Pacific Hospital on patients
21 referred to Surgeon B by Dr. Philip Sobol, which referrals were
22 caused by kickbacks paid to Dr. Philip Sobol.

23 Overt Act No. 5: On or about June 15, 2011, defendant DROBOT
24 received an email message from Pacific Hospital CFO James Canedo
25 listing spinal surgeries performed by, among others, Surgeon C,
26 Surgeon D, and Surgeon E, which were referred to Pacific Hospital by
27 Dr. Philip Sobol, as a result of kickbacks paid to Dr. Philip Sobol.

28

1 Overt Act No. 6: On or about April 30, 2012, defendant DROBOT
2 caused IPM to pay \$155,000 to Surgeon F, of which \$30,000 represented
3 a kickback for spinal surgeries performed at Pacific Hospital, either
4 by Surgeon F or by surgeons to whom Surgeon F referred surgical
5 candidates.

6 Overt Act No. 7: On or about May 24, 2012, defendant DROBOT
7 caused IPM to pay \$140,000 to Dr. Philip Sobol, of which \$60,000
8 represented a kickback for spinal surgeries performed at Pacific
9 Hospital, either by Dr. Philip Sobol or by surgeons to whom Dr.
10 Philip Sobol referred surgical candidates.

11 Overt Act No. 8: On or about July 2, 2012, Drobot Senior
12 caused PSPM to pay \$23,706.80 to Surgeon B for performing surgeries
13 at Pacific Hospital and for referring surgical candidates to Surgeon
14 G for spinal surgeries at Pacific Hospital, including on patients
15 covered by the FECA and CWCS.

16
17
18
19
20
21
22
23
24
25
26
27
28

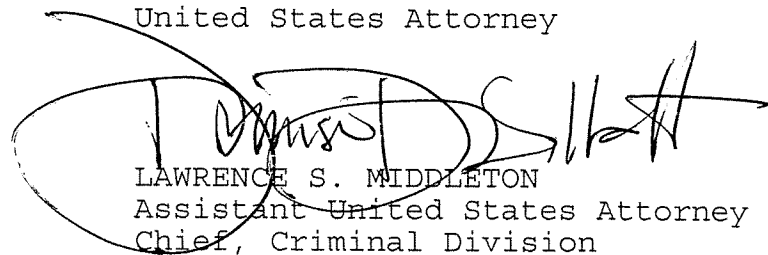
COUNT TWO

[42 U.S.C. § 1320a-7b(b) (2) (A)]

14. Paragraphs 1 through 8 and 10 through 13 of this Information are re-alleged and incorporated as if fully set forth herein.

15. Beginning in or around 2003 and continuing to in or around November 2013, in Orange and Los Angeles Counties, within the Central District of California, and elsewhere, defendant MICHAEL R. DROBOT, together with others known and unknown to the United States Attorney, knowingly and willfully offered and paid remuneration, that is, cash and checks, directly and indirectly, to induce persons to refer individuals to Pacific Hospital for spinal surgery and other medical services for which payment could be made in whole and in part under a Federal health care program, namely, the FECA.

EILEEN M. DECKER
United States Attorney



LAWRENCE S. MIDDLETON
Assistant United States Attorney
Chief, Criminal Division

DENNISE D. WILLET
Assistant United States Attorney
Chief, Santa Ana Branch Office

JOSHUA M. ROBBINS
Assistant United States Attorney

SCOTT D. TENLEY
Assistant United States Attorney

ASHWIN JANAKIRAM
Special Assistant United States
Attorney