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13 UNITED STATES DISTRICT COURT
14 FOR THE CENTRAL DISTRICT OF CALIFORNIA
15 SOUTHERN DIVISION

16 UNITED STATES OF AMERICA,
17 Plaintiff,
18 v.
19 MICHAEL R. DROBOT,
20 Defendant.

No. SA CR 15-155-UA
AMENDED PLEA AGREEMENT FOR
DEFENDANT MICHAEL R. DROBOT

21
22 1. This constitutes the plea agreement between MICHAEL R.
23 DROBOT ("defendant") and the United States Attorney's Office for the
24 Central District of California (the "USAO") in the above-captioned
25 case. The United States Attorney's Office for the Southern District
26 of Alabama also agrees to be bound by this plea agreement so long as
27 the defendant agrees to cooperate fully with that district as well.
28 This agreement cannot bind any other federal, state, local, or

1 foreign prosecuting, enforcement, administrative, or regulatory
2 authorities.

3 DEFENDANT'S OBLIGATIONS

4 2. Defendant agrees to:

5 a. Give up the right to indictment by a grand jury and,
6 at the earliest opportunity requested by the USAO and provided by the
7 Court, appear and plead guilty to both counts of the two-count
8 information filed in United States v. Michael R. Drobot, No. SA CR
9 15-155-UA, which charges defendant with Conspiracy, in violation of
10 18 U.S.C. § 371, and Illegal Remunerations for Health Care Referrals,
11 in violation of 42 U.S.C. § 1320a-7b(b) (2) (A).

12 b. Not contest facts agreed to in this agreement.

13 c. Abide by all agreements regarding sentencing contained
14 in this agreement.

15 d. Appear for all court appearances, surrender as ordered
16 for service of sentence, obey all conditions of any bond, and obey
17 any other ongoing court order in this matter.

18 e. Not commit any crime; however, offenses that would be
19 excluded for sentencing purposes under United States Sentencing
20 Guidelines ("U.S.S.G." or "Sentencing Guidelines") § 4A1.2(c) are not
21 within the scope of this agreement.

22 f. Be truthful at all times with Pretrial Services, the
23 United States Probation Office, and the Court.

24 g. Pay the applicable special assessments at or before
25 the time of sentencing unless defendant lacks the ability to pay and
26 prior to sentencing submits a completed financial statement on a form
27 to be provided by the USAO.

28 3. Defendant further agrees:

1 a. Truthfully to disclose to law enforcement officials,
2 at a date and time to be set by the USAO, the location of,
3 defendant's ownership interest in, and all other information known to
4 defendant about, all monies, properties, and/or assets of any kind,
5 derived from or acquired as a result of, or used to facilitate the
6 commission of, defendant's illegal activities, and to forfeit all
7 right, title, and interest in and to such items.

8 b. To the Court's entry of an order of forfeiture at or
9 before sentencing with respect to these assets and to the forfeiture
10 of the assets.

11 c. To take whatever steps are necessary to pass to the
12 United States clear title to the assets described above, including,
13 without limitation, the execution of a consent decree of forfeiture
14 and the completing of any other legal documents required for the
15 transfer of title to the United States.

16 d. Not to contest any administrative forfeiture
17 proceedings or civil judicial proceedings commenced by the United
18 States of America against these properties.

19 e. Not to assist any other individual in any effort
20 falsely to contest the forfeiture of the assets described above.

21 f. Not to claim that reasonable cause to seize the assets
22 was lacking.

23 g. To prevent the transfer, sale, destruction, or loss of
24 any and all assets described above to the extent defendant has the
25 ability to do so.

26 h. To fill out and deliver to the USAO a completed
27 financial statement listing defendant's assets on a form provided by
28 the USAO.

1 b. Abide by all agreements regarding sentencing contained
2 in this agreement.

3 c. At the time of sentencing, provided that defendant
4 demonstrates an acceptance of responsibility for the offenses up to
5 and including the time of sentencing, recommend a two-level reduction
6 in the applicable Sentencing Guidelines offense level, pursuant to
7 U.S.S.G. § 3E1.1, and recommend and, if necessary, move for an
8 additional one-level reduction if available under that section.

9 d. Recommend that defendant be sentenced to a term of
10 imprisonment no higher than the low end of the applicable Sentencing
11 Guidelines range, provided that the offense level used by the Court
12 to determine that range is 31 or higher and provided that the Court
13 does not depart downward in offense level or criminal history
14 category. For purposes of this agreement, the low end of the
15 Sentencing Guidelines range is that defined by the Sentencing Table
16 in U.S.S.G. Chapter 5, Part A.

17 e. Except for criminal tax violations (including
18 conspiracy to commit such violations chargeable under 18 U.S.C.
19 § 371), not further criminally prosecute defendant for violations
20 arising out of defendant's conduct described in the agreed-to factual
21 basis set forth in paragraph 22 below. Defendant understands that
22 the USAO is free to criminally prosecute defendant for any other
23 unlawful past conduct or any unlawful conduct that occurs after the
24 date of this agreement. Defendant agrees that at the time of
25 sentencing the Court may consider the uncharged conduct in
26 determining the applicable Sentencing Guidelines range, the propriety
27 and extent of any departure from that range, and the sentence to be
28

1 imposed after consideration of the Sentencing Guidelines and all
2 other relevant factors under 18 U.S.C. § 3553(a).

3 f. The parties further understand that the Fraud Section
4 of the Civil Division of the United States Department of Justice has
5 represented that should defendant enter a guilty plea pursuant to
6 this agreement, it has no present intention to pursue civil action
7 against defendant arising out of defendant's conduct described in the
8 agreed-to factual basis set forth in paragraph 22 below ("factual
9 basis"). The parties further understand that the California
10 Department of Insurance has represented that it does not intend to
11 refer conduct described in the factual basis to California state
12 prosecutorial agencies, on its own initiative, for additional
13 criminal prosecution. If a prosecutorial agency requests information
14 regarding the California Department of Insurance's investigation of
15 facts or circumstances related to the factual basis, the California
16 Department of Insurance will cooperate with that prosecutorial agency
17 and present any evidence in its possession. Defendant, however,
18 understands that neither the Fraud Section of the Civil Division of
19 the Department of Justice or the California Department of Insurance
20 is bound by this agreement, and their decision to forego such action
21 is not a condition of this agreement.

22 7. The USAO further agrees:

23 a. Not to offer as evidence in its case-in-chief in the
24 above-captioned case or any other criminal prosecution that may be
25 brought against defendant by the USAO, or in connection with any
26 sentencing proceeding in any criminal case that may be brought
27 against defendant by the USAO, any Cooperation Information.
28 Defendant agrees, however, that the USAO may use both Cooperation

1 Information and Plea Information: (1) to obtain and pursue leads to
2 other evidence, which evidence may be used for any purpose, including
3 any criminal prosecution of defendant; (2) to cross-examine defendant
4 should defendant testify, or to rebut any evidence offered, or
5 argument or representation made, by defendant, defendant's counsel,
6 or a witness called by defendant in any trial, sentencing hearing, or
7 other court proceeding; and (3) in any criminal prosecution of
8 defendant for false statement, obstruction of justice, or perjury.

9 b. Not to use Cooperation Information against defendant
10 at sentencing for the purpose of determining the applicable guideline
11 range, including the appropriateness of an upward departure, or the
12 sentence to be imposed, and to recommend to the Court that
13 Cooperation Information not be used in determining the applicable
14 guideline range or the sentence to be imposed. Defendant
15 understands, however, that Cooperation Information will be disclosed
16 to the probation office and the Court, and that the Court may use
17 Cooperation Information for the purposes set forth in U.S.S.G.
18 § 1B1.8(b) and for determining the sentence to be imposed.

19 c. In connection with defendant's sentencing, to bring to
20 the Court's attention the nature and extent of defendant's
21 cooperation.

22 d. If the USAO determines, in its exclusive judgment,
23 that defendant has both complied with defendant's obligations under
24 paragraphs 2 and 3 above and provided substantial assistance to law
25 enforcement in the prosecution or investigation of another
26 ("substantial assistance"), to move the Court pursuant to U.S.S.G.
27 § 5K1.1 to fix an offense level and corresponding guideline range
28

1 below that otherwise dictated by the sentencing guidelines, and to
2 recommend a term of imprisonment within this reduced range.

3 DEFENDANT'S UNDERSTANDINGS REGARDING COOPERATION

4 8. Defendant understands the following:

5 a. Any knowingly false or misleading statement by
6 defendant will subject defendant to prosecution for false statement,
7 obstruction of justice, and perjury and will constitute a breach by
8 defendant of this agreement.

9 b. Nothing in this agreement requires the USAO or any
10 other prosecuting, enforcement, administrative, or regulatory
11 authority to accept any cooperation or assistance that defendant may
12 offer, or to use it in any particular way.

13 c. Defendant cannot withdraw defendant's guilty pleas if
14 the USAO does not make a motion pursuant to U.S.S.G. § 5K1.1 for a
15 reduced guideline range or if the USAO makes such a motion and the
16 Court does not grant it or if the Court grants such a USAO motion but
17 elects to sentence above the reduced range.

18 d. At this time the USAO makes no agreement or
19 representation as to whether any cooperation that defendant has
20 provided or intends to provide constitutes or will constitute
21 substantial assistance. The decision whether defendant has provided
22 substantial assistance will rest solely within the exclusive judgment
23 of the USAO.

24 e. The USAO's determination whether defendant has
25 provided substantial assistance will not depend in any way on whether
26 the government prevails at any trial or court hearing in which
27 defendant testifies or in which the government otherwise presents
28 information resulting from defendant's cooperation.

NATURE OF THE OFFENSES

1
2 9. Defendant understands that for defendant to be guilty of
3 the crime charged in count one, that is, Conspiracy, in violation of
4 Title 18, United States Code, Section 371, the following must be
5 true: (1) Beginning no later than in or around 2007, and continuing
6 to in or around November 2013, there was an agreement between two or
7 more persons to commit Mail Fraud and Honest Services Mail Fraud, in
8 violation of Title 18, United States Code, Sections 1341 and 1346,
9 Interstate Travel in Aid of a Racketeering Enterprise, in violation
10 of Title 18, United States Code, Section 1952(a)(3), Monetary
11 Transactions in Property Derived from Specified Unlawful Activity, in
12 violation of Title 18, United States Code, Section 1957, and Payment
13 or Receipt of Kickbacks in Connection with a Federal Health Care
14 Program, in violation of Title 42, United States Code, Section 1320a-
15 7b(b)(2)(A); (2) defendant became a member of the conspiracy knowing
16 of at least one of its objects and intending to help accomplish it;
17 and (3) one of the members of the conspiracy performed at least one
18 overt act for the purpose of carrying out the conspiracy.

19 10. Defendant understands that Mail Fraud, in violation of
20 Title 18, United States Code, Section 1341, has the following
21 elements: (1) the defendant knowingly devised or participated in a
22 scheme or plan to defraud, or a scheme or plan for obtaining money or
23 property by means of false or fraudulent pretenses, representations
24 or promises; (2) the statements made or facts omitted as part of the
25 scheme were material, that is, they had a natural tendency to
26 influence, or were capable of influencing, a person to part with
27 money or property; (3) the defendant acted with the intent to
28

1 defraud; and (4) the defendant used, or caused to be used, the mails
2 to carry out or attempt to carry out an essential part of the scheme.

3 11. Defendant further understands that Honest Services Mail
4 Fraud, in violation of Title 18, United States Code, Sections 1341
5 and 1346, has the following elements: (1) the defendant devised or
6 participated in a scheme or plan to deprive a patient of his or her
7 right to honest services; (2) the scheme or plan consisted of a bribe
8 or kickback in exchange for medical services; (3) a medical
9 professional person owed a fiduciary duty to the patient; (4) the
10 defendant acted with the intent to defraud by depriving the patient
11 of his or her right of honest services; (5) the defendant's act was
12 material, that is, it had a natural tendency to influence, or was
13 capable of influencing, a person's acts; and (6) the defendant used,
14 or caused someone to use, the mails to carry out or attempt to carry
15 out the scheme or plan.

16 12. Defendant further understands that Interstate Travel in Aid
17 of a Racketeering Enterprise, in violation of Title 18, United States
18 Code, Section 1952(a)(3), has the following elements: (1) defendant
19 used the mail or a facility of interstate commerce with the intent to
20 promote, manage, establish, or carry on, or facilitate the promotion,
21 management, establishment, or carrying on, of unlawful activity,
22 specifically payment and receipt of kickbacks in violation of
23 California Business & Professions Code § 650, California Insurance
24 Code § 750, and California Labor Code § 3215; and (2) after doing so,
25 defendant performed or attempted to perform an act to promote,
26 manage, establish, or carry on, or facilitate the promotion,
27 management, establishment, or carrying on, of such unlawful activity.

1 period of supervised release; a fine of \$250,000 or twice the gross
2 gain or gross loss resulting from the offense, whichever is greatest;
3 and a mandatory special assessment of \$100.

4 17. Defendant understands, therefore, that the total maximum
5 sentence for all offenses to which defendant is pleading guilty is:
6 10 years imprisonment; a 3-year period of supervised release; a fine
7 of \$500,000 or twice the gross gain or gross loss resulting from the
8 offenses, whichever is greatest; and a mandatory special assessment
9 of \$200.

10 18. Defendant understands that supervised release is a period
11 of time following imprisonment during which defendant will be subject
12 to various restrictions and requirements. Defendant understands that
13 if defendant violates one or more of the conditions of any supervised
14 release imposed, defendant may be returned to prison for all or part
15 of the term of supervised release authorized by statute for the
16 offense that resulted in the term of supervised release, which could
17 result in defendant serving a total term of imprisonment greater than
18 the statutory maximum stated above.

19 19. Defendant understands that, by pleading guilty, defendant
20 may be giving up valuable government benefits and valuable civic
21 rights, such as the right to vote, the right to possess a firearm,
22 the right to hold office, and the right to serve on a jury.
23 Defendant understands that once the court accepts defendant's guilty
24 plea, it will be a federal felony for defendant to possess a firearm
25 or ammunition. Defendant understands that the conviction in this
26 case may also subject defendant to various other collateral
27 consequences, including but not limited to revocation of probation,
28 parole, or supervised release in another case and suspension or

1 revocation of a professional license. Defendant understands that
2 unanticipated collateral consequences will not serve as grounds to
3 withdraw defendant's guilty plea.

4 20. Defendant understands that, if defendant is not a United
5 States citizen, the felony conviction in this case may subject
6 defendant to: removal, also known as deportation, which may, under
7 some circumstances, be mandatory; denial of citizenship; and denial
8 of admission to the United States in the future. The court cannot,
9 and defendant's attorney also may not be able to, advise defendant
10 fully regarding the immigration consequences of the felony conviction
11 in this case. Defendant understands that unexpected immigration
12 consequences will not serve as grounds to withdraw defendant's guilty
13 plea.

14 21. Defendant understands that defendant will be required to
15 pay full restitution to the victims of the offenses to which
16 defendant is pleading guilty. Defendant agrees that, in return for
17 the USAO's compliance with its obligations under this agreement, the
18 Court may order restitution to persons other than the victims of the
19 offenses to which defendant is pleading guilty and in amounts greater
20 than those alleged in the counts to which defendant is pleading
21 guilty. In particular, defendant agrees that the Court may order
22 restitution to any victim of any of the following for any losses
23 suffered by that victim as a result: (a) any relevant conduct, as
24 defined in U.S.S.G. § 1B1.3, in connection with the offenses to which
25 defendant is pleading guilty; and (b) any charges not prosecuted
26 pursuant to this agreement as well as all relevant conduct, as
27 defined in U.S.S.G. § 1B1.3, in connection with those counts and
28

1 charges. The parties have not come to an agreement on the amount of
2 restitution.

3 FACTUAL BASIS

4 22. Defendant admits that defendant is, in fact, guilty of the
5 offenses to which defendant is agreeing to plead guilty. Defendant
6 and the USAO agree to the statement of facts provided below and agree
7 that this statement of facts is sufficient to support pleas of guilty
8 to the charges described in this agreement and to establish the
9 Sentencing Guidelines factors set forth in paragraph 24 below but is
10 not meant to be a complete recitation of all facts relevant to the
11 underlying criminal conduct or all facts known to either party that
12 relate to that conduct.

13 Pacific Hospital of Long Beach ("Pacific Hospital") was a
14 hospital located in Long Beach, California, specializing in
15 surgeries, particularly spinal and orthopedic surgeries. From at
16 least in or around 1997 to October 2013, Pacific Hospital was owned
17 and/or operated by Michael D. Drobot ("Drobot Senior"). Drobot
18 Senior also owned and/or operated Pacific Specialty Physician
19 Management, Inc. ("PSPM"), a physician practice management company,
20 and two companies that managed in-house pharmaceutical dispensary
21 programs on behalf of doctors: California Pharmacy Management LLC
22 ("CPM") and Industrial Pharmacy Management LLC ("IPM") (collectively,
23 the "Dispensary Management Companies"). Beginning in or around 2003,
24 defendant operated CPM under the direction of Drobot Senior, with CPM
25 ceasing operations around 2007. From 2007 to 2010, defendant and
26 Drobot Senior together owned, and defendant operated, IPM. From 2010
27 to at least November 2013, defendant was the majority owner of IPM,
28 and controlled and directed its operations.

1 **A. The Hospital Kickback Scheme**

2 Beginning no later than 2001 and continuing through in or around
3 November 2013, Drobot Senior, along with others working for Pacific
4 Hospital, the Dispensary Companies, PSPM, and related companies,
5 conspired with dozens of doctors, chiropractors, marketers, and
6 others to pay kickbacks in return for those persons to refer
7 thousands of patients to Pacific Hospital for spinal surgeries and
8 other medical services paid for primarily through the Federal
9 Employees' Compensation Act ("FECA") and the California Workers'
10 Compensation System ("CWCS"). In paying the kickbacks and submitting
11 the resulting claims for spinal surgeries and medical services,
12 including through the mails, the conspirators acted with the intent
13 to defraud workers' compensation insurance carriers and to deprive
14 the patients of their right of honest services. In particular, the
15 conspirators knew that by paying kickbacks to doctors and
16 chiropractors who treated workers' compensation patients, they were
17 inducing the provision of spinal surgeries and other medical services
18 which could be paid for by a Federal health care program.

19 Beginning no later than in or around 2007 and continuing to in
20 or around 2013, in Orange and Los Angeles Counties, within the
21 Central District of California, and elsewhere, defendant, together
22 with other co-conspirators known and unknown to the United States
23 Attorney, knowingly combined, conspired, and agreed to commit the
24 following offenses against the United States in connection with the
25 above-described hospital kickback scheme: Mail Fraud and Honest
26 Services Mail Fraud, in violation of Title 18, United States Code,
27 Sections 1341 and 1346, Interstate Travel in Aid of a Racketeering
28 Enterprise, in violation of Title 18, United States Code, Section

1 1952(a)(3), Monetary Transactions in Property Derived from Specified
2 Unlawful Activity, in violation of Title 18, United States Code,
3 Section 1957, and Payment or Receipt of Kickbacks in Connection with
4 a Federal Health Care Program, in violation of Title 42, United
5 States Code, Section 1320a-7b(b)(2)(A).

6 As defendant knew, the hospital kickback scheme operated as
7 follows: Drobot Senior and other co-conspirators offered to pay
8 kickbacks to doctors, chiropractors, marketers, and others (the
9 "kickback recipients") in return for their referring workers'
10 compensation patients to Pacific Hospital for spinal surgeries, other
11 types of surgeries, magnetic resonance imaging, toxicology, durable
12 medical equipment, and other services which would be paid through
13 FECA and the CWCS. As of approximately 2009, for spinal surgeries,
14 kickback recipients were typically paid \$15,000 per lumbar fusion
15 surgery and \$10,000 per cervical fusion surgery, provided that the
16 surgeon used in the surgery hardware supplied by a specified
17 distributor.

18 Influenced by the promise of kickbacks, the kickback recipients
19 referred patients insured through the CWCS and the FECA to Pacific
20 Hospital for spinal surgeries, other types of surgeries, and other
21 medical services. In some cases, the patients lived dozens or
22 hundreds of miles from Pacific Hospital, and closer to other
23 qualified medical facilities. The workers' compensation patients
24 were not informed that the medical professionals had been offered
25 kickbacks to induce them to refer the surgeries to Pacific Hospital.

26 Defendant knew that it was illegal to pay or receive kickbacks
27 for the referral of patients for medical services. Defendant also
28 knew that the insurance carriers would be unwilling to pay claims for

1 medical services that were obtained through such illegal kickbacks.
2 However, as defendant knew, his co-conspirators deliberately did not
3 disclose to the insurance carriers the kickback payments.

4 Further, as defendant knew, to conceal the illegal kickback
5 payments from the workers' compensation insurance carriers and
6 patients, defendant's co-conspirators entered into bogus contracts
7 under which the kickback recipients purported to provide services to
8 Drobot Senior's companies to justify the kickback payments. The
9 services and other items of value discussed in those contracts were,
10 in fact, generally not provided to Pacific Hospital or the other
11 companies, or were provided at highly inflated prices. The
12 compensation to the kickback recipients was actually based on the
13 number and type of surgeries they referred to the hospital. These
14 contracts included, among others, the following: collection
15 agreements, option agreements, research and development agreements,
16 lease and rental agreements, marketing agreements, and management
17 agreements. Defendant learned the details of the hospital kickback
18 scheme by, among other means, participating in weekly executive
19 management meetings with Drobot Senior and other co-conspirators, in
20 which the conspirators discussed the details and status of the
21 kickback agreements with various doctors, chiropractors, and
22 marketers.

23 Defendant's primary role in the conspiracy involved his
24 operation of the Dispensary Management Companies. In or around 2003,
25 defendant became the chief operating officer ("COO") of CPM, acting
26 under the direction of Drobot Senior. CPM managed pharmaceutical
27 dispensaries located in doctors' and chiropractors' offices, which
28 dispensed medication to those doctors' and chiropractors' patients.

1 The conspirators used CPM as a vehicle to pay certain doctors and
2 chiropractors kickbacks for referring patients to Pacific Hospital
3 for spine surgeries and other services, and used the CPM dispensary
4 management contracts to cover up the true nature of the kickback
5 payments. When IPM was formed in or about 2005, the conspirators
6 used it in a similar manner.

7 After he became the COO of CPM, defendant learned that Drobot
8 Senior and his co-conspirators were using CPM to facilitate the
9 kickback arrangements. Beginning in or around 2005, defendant
10 himself began directly soliciting doctors and chiropractors to enter
11 into contracts with CPM. In a number of cases, defendant discussed
12 with the doctors and chiropractors their interest in receiving
13 kickbacks in exchange for referring patients to Pacific Hospital for
14 spinal surgeries, and he introduced them to Drobot Senior to
15 negotiate the details of the arrangements.

16 In some cases, beginning in or around 2007, defendant also acted
17 as a liaison between certain kickback recipients on the one hand and
18 Drobot Senior and the other co-conspirators on the other hand. For
19 example, when kickback recipients complained to defendant that Drobot
20 Senior and other co-conspirators were not paying kickbacks on time as
21 agreed, and threatened both to stop referring patients to Pacific
22 Hospital and to terminate their relationship with the Dispensary
23 Management Companies, defendant interceded to encourage the co-
24 conspirators to make the payments and to resolve the dispute. In
25 other cases, when certain kickback recipients did not refer as many
26 patients to Pacific Hospital as the conspirators had expected,
27 defendant encouraged the kickback recipients to increase their rate
28 of referrals. Defendant also worked with other co-conspirators to

1 track the number of referrals from certain kickback recipients, to
2 ensure they were given proper credit for those referrals. In
3 addition, defendant worked with certain kickback recipients to
4 arrange for them to refer patients to certain surgeons, who in turn
5 had agreed to perform surgery on those patients at Pacific Hospital.

6 After defendant became the majority owner of IPM in August 2010
7 and assumed control of the company, he continued to coordinate with
8 certain kickback recipients to ensure that they continued referring
9 patients to Pacific Hospital and that, in return, Drobot Senior and
10 his co-conspirators continued to pay kickbacks, in some cases through
11 IPM.

12 B. The Dispensary Management Companies

13 The Dispensary Management Companies contracted with doctors and
14 chiropractors to manage in-house pharmaceutical dispensaries located
15 in doctors' and chiropractors' offices. Under the terms of many of
16 the contracts entered into by the parties, the doctor received either
17 the net monthly collections of the dispensary after paying to the
18 Dispensary Management Companies a percentage-based management fee, or
19 a fixed monthly amount secured by the dispensary's future
20 collections. The contracts typically provided that the Dispensary
21 Management Companies would advance nearly all costs associated with
22 the dispensary, including if necessary, the purchase of prescription
23 drugs, and the salaries of pharmacy technicians who staffed the
24 dispensary, with the doctors ultimately responsible for any
25 shortfalls if the amounts collected were less than the amounts
26 advanced.

27 In practice, and as defendant sometimes promised the doctors,
28 the Dispensary Management Companies would not require doctors to

1 repay any shortfalls, to the extent any such shortfalls occurred.
2 The doctors were often advanced a certain minimum monthly payment,
3 and were required to do little more than write prescriptions meant to
4 be filled at the dispensary. Thus, some doctors who entered into
5 contracts with the Dispensary Management Companies assumed little, if
6 any, financial risk related to the in-house dispensary.

7 In the event that collections from an in-house dispensary
8 dropped below the amount anticipated by the Dispensary Management
9 Companies, defendant or others from the Dispensary Management
10 Companies would, at times, encourage doctors to cause more patients
11 to fill prescriptions at the doctor's dispensary, or to cause
12 patients to fill more profitable prescriptions at the doctor's
13 dispensary. If collections did not increase, the guaranteed monthly
14 payment to that doctor would be reduced in some cases, or the
15 doctor's contract would be terminated in other cases.

16 In some instances, the Dispensary Management Companies
17 influenced doctors to make available in the dispensary, and to
18 prescribe to appropriate patients, specific medications that were
19 promoted by the Dispensary Management Companies based on the
20 anticipated profit generated when those medications were prescribed
21 to worker's compensation patients. This was accomplished through
22 several mechanisms, including by contractual language (in the case of
23 Surgeon D), by emphasizing the higher reimbursement rate associated
24 with a particular medication versus an alternative, or by offering to
25 increase or maintain a doctor's guaranteed monthly payment.

26 With respect to at least two doctors, defendant attempted to
27 leverage the referral of potential spinal surgery patients for the
28 benefit of the Dispensary Management Companies, either by

1 guaranteeing those referrals in return for a doctor's agreement to
2 engage the Dispensary Management Companies, or by threatening to
3 withdraw those referrals if the doctor terminated his contract with
4 the Dispensary Management Companies.

5 In those instances where defendant operated the Dispensary
6 Management Companies in the means identified above, defendant
7 intended to incentivize and reward doctors for writing prescriptions
8 to patients that would be filled in the doctors' in-house pharmacy.

9 Finally, on a number of occasions, defendant improperly induced
10 doctors who contracted with the Dispensary Management Companies to
11 use ancillary products and services offered by defendant, Medi-Lab
12 Corporation ("Medi-Lab"), or companies affiliated with defendant.
13 Those ancillary products and services included toxicology, magnetic
14 resonance imaging, and Lanx spinal hardware (in the case of Medical
15 Practice A located in Elmhurst, Illinois), none of which had any
16 relation to the in-house dispensary program. Defendant induced the
17 ancillary referrals either by increasing the guaranteed monthly
18 payment for doctors with dispensary accounts in good standing, or by
19 agreeing to maintain the existing guaranteed monthly payment for
20 doctors whose guaranteed monthly payment amount was not commensurate
21 with actual collection amounts. In return for referrals to Medi-Lab,
22 defendant received a monthly payment from Medi-Lab designed, at least
23 in part, to reimburse defendant for the kickback payments he had made
24 to induce referrals to Medi-Lab.

25 In furtherance of the conspiracy and to accomplish the objects
26 of the conspiracy, defendant and other co-conspirators committed
27 various overt acts within the Central District of California,
28 including but not limited to the following:

1 Overt Act No. 1

2 In or around March 2008, after Drobot Senior caused IPM to pay
3 \$60,000 to Surgeon A as a kickback for spinal surgeries Surgeon A
4 performed at Pacific Hospital, defendant sought reimbursement for IPM
5 from PSPM for the kickback payment made by IPM.

6 Overt Act No. 2

7 On or about May 12, 2008, Drobot Senior caused IPM to pay
8 \$35,000 to Chiropractor A, of which \$18,000 represented a kickback
9 for spinal surgeries performed at Pacific Hospital on patients
10 referred by Chiropractor A.

11 Overt Act No. 3

12 On or about July 29, 2008, defendant sent an email message to
13 Executive A requesting a \$60,000 payment from Pacific Hospital to IPM
14 as reimbursement for kickbacks paid by IPM for spinal surgeries
15 performed at Pacific Hospital, including \$18,000 IPM had paid to
16 Chiropractor A in kickbacks.

17 Overt Act No. 4

18 On or about March 10, 2009, defendant advised Executive B that
19 Surgeon B was estimated to perform three to four spinal surgeries per
20 month at Pacific Hospital on patients referred to Surgeon B by Dr.
21 Philip Sobol, which referrals were caused by kickbacks paid to Dr.
22 Philip Sobol.

23 Overt Act No. 5

24 On or about June 15, 2011, defendant received an email message
25 from Pacific Hospital CFO James Canedo listing spinal surgeries
26 performed by, among others, Surgeon C, Surgeon D, and Surgeon E,
27 which were referred to Pacific Hospital by Dr. Philip Sobol, as a
28 result of kickbacks paid to Dr. Philip Sobol.

1 Overt Act No. 6

2 On or about April 30, 2012, defendant caused IPM to pay \$155,000
3 to Surgeon F, of which \$30,000 represented a kickback for spinal
4 surgeries performed at Pacific Hospital, either by Surgeon F or by
5 surgeons to whom Surgeon F referred surgical candidates.

6 Overt Act No. 7

7 On or about May 24, 2012, defendant caused IPM to pay \$140,000
8 to Dr. Philip Sobol, of which \$60,000 represented a kickback for
9 spinal surgeries performed at Pacific Hospital, either by Dr. Philip
10 Sobol or by surgeons to whom Dr. Philip Sobol referred surgical
11 candidates.

12 Overt Act No. 8

13 On or about July 2, 2012, Drobot Senior caused PSPM to pay
14 \$23,706.80 to Surgeon B for performing surgeries at Pacific Hospital
15 and for referring surgical candidates to Surgeon G for spinal
16 surgeries at Pacific Hospital, including on patients covered by the
17 FECA and CWCS.

18 **C. Physicians Pain Specialists Of Alabama**

19 Prior to May 20, 2015, Xiulu Ruan, M.D. and John Patrick Couch,
20 M.D. jointly owned and operated Physicians Pain Specialists of
21 Alabama ("PPSA"), a pain management clinic in Mobile, Alabama. At
22 PPSA, Dr. Ruan and Dr. Couch treated workers' compensation patients
23 whose medical services and prescriptions were paid for by state and
24 federal workers' compensation insurance providers.

25 In March 2011, both Dr. Ruan and Dr. Couch entered into
26 contracts with IPM pursuant to which IPM assumed management of a pre-
27 existing pharmaceutical dispensary within PPSA. The contracts called
28 for IPM to purchase claims arising from the dispensary in exchange

1 for certain minimum monthly payments to Dr. Ruan and Dr. Couch,
2 beginning at \$45,000 to Dr. Ruan and \$18,000 to Dr. Couch. Defendant
3 signed these contracts on behalf of IPM. The guaranteed payments
4 were offered to, and did, induce Dr. Ruan and Dr. Couch to enter into
5 the contracts, and were made by IPM to induce and in exchange for the
6 doctors' in-house dispensing business. Regardless of the actual
7 number of referrals Dr. Ruan and Dr. Couch made to the dispensary in
8 a given month, the doctors each received at least the guaranteed
9 amount.

10 Thus, defendant knowingly and willfully offered and paid
11 remunerations to Dr. Ruan and Dr. Couch, at least in part, to induce
12 and in exchange for their referral of patients to the IPM-managed
13 dispensary for goods or items that were paid for, in whole or in
14 part, by a federal healthcare program.

15 SENTENCING FACTORS

16 23. Defendant understands that in determining defendant's
17 sentence the Court is required to calculate the applicable Sentencing
18 Guidelines range and to consider that range, possible departures
19 under the Sentencing Guidelines, and the other sentencing factors set
20 forth in 18 U.S.C. § 3553(a). Defendant understands that the
21 Sentencing Guidelines are advisory only, that defendant cannot have
22 any expectation of receiving a sentence within the calculated
23 Sentencing Guidelines range, and that after considering the
24 Sentencing Guidelines and the other § 3553(a) factors, the Court will
25 be free to exercise its discretion to impose any sentence it finds
26 appropriate up to the maximum set by statute for the crimes of
27 conviction.

1 24. Defendant and the USAO agree to the following applicable
2 Sentencing Guidelines factors:

3 Base Offense Level: 6 [U.S.S.G. § 2B1.1(a)(2)]

4 Specific Offense
5 Characteristics

6 Loss between \$20M to \$50M: +22 [U.S.S.G. § 2B1.1(b)(1)(L)]

7 More than 10 victims: +2 [U.S.S.G. § 2B1.1(b)(2)(B)]

8 Federal health care
9 offense with gov't
10 program loss of
11 between \$1M-\$7M: +2 [U.S.S.G. § 2B1.1(b)(7)]

12 Adjustments

13 Aggravating Role: +2 [U.S.S.G. § 3B1.1(a)]

14 Acceptance of
15 Responsibility: -3 [U.S.S.G. § 3E1.1]

16 Total: 31

17 25. The USAO will agree to a two-level downward adjustment for
18 acceptance of responsibility (and, if applicable, move for an
19 additional one-level downward adjustment under U.S.S.G. § 3E1.1(b))
20 only if the conditions set forth in paragraph 6(c)) are met. Subject
21 to paragraph 7 above and paragraph 37 below, defendant and the USAO
22 agree not to seek, argue, or suggest in any way, either orally or in
23 writing, that any other specific offense characteristics,
24 adjustments, or departures relating to the offense level be imposed.
25 Defendant agrees, however, that if, after signing this agreement but
26 prior to sentencing, defendant were to commit an act, or the USAO
27 were to discover a previously undiscovered act committed by defendant
28 prior to signing this agreement, which act, in the judgment of the
USAO, constituted obstruction of justice within the meaning of

1 U.S.S.G. § 3C1.1, the USAO would be free to seek the enhancement set
2 forth in that section.

3 26. Defendant understands that there is no agreement as to
4 defendant's criminal history or criminal history category.

5 27. Defendant and the USAO reserve the right to argue for a
6 sentence outside the sentencing range established by the Sentencing
7 Guidelines based on the factors set forth in 18 U.S.C. § 3553(a)(1),
8 (a)(2), (a)(3), (a)(6), and (a)(7).

9 WAIVER OF CONSTITUTIONAL RIGHTS

10 28. Defendant understands that by pleading guilty, defendant
11 gives up the following rights:

12 a. The right to persist in a plea of not guilty.

13 b. The right to a speedy and public trial by jury.

14 c. The right to be represented by counsel - and if
15 necessary have the court appoint counsel - at trial. Defendant
16 understands, however, that, defendant retains the right to be
17 represented by counsel - and if necessary have the court appoint
18 counsel - at every other stage of the proceeding.

19 d. The right to be presumed innocent and to have the
20 burden of proof placed on the government to prove defendant guilty
21 beyond a reasonable doubt.

22 e. The right to confront and cross-examine witnesses
23 against defendant.

24 f. The right to testify and to present evidence in
25 opposition to the charges, including the right to compel the
26 attendance of witnesses to testify.

1 g. The right not to be compelled to testify, and, if
2 defendant chose not to testify or present evidence, to have that
3 choice not be used against defendant.

4 h. Any and all rights to pursue any affirmative defenses,
5 Fourth Amendment or Fifth Amendment claims, and other pretrial
6 motions that have been filed or could be filed.

7 WAIVER OF APPEAL OF CONVICTION

8 29. Defendant understands that, with the exception of an appeal
9 based on a claim that defendant's guilty pleas were involuntary, by
10 pleading guilty defendant is waiving and giving up any right to
11 appeal defendant's convictions on the offenses to which defendant is
12 pleading guilty.

13 LIMITED MUTUAL WAIVER OF APPEAL OF SENTENCE

14 30. Defendant agrees that, provided the Court imposes a total
15 term of imprisonment on all counts of conviction of no more than the
16 low end of the Guidelines range corresponding to a total offense
17 level of 31 and the criminal history category determined by the
18 Court, defendant gives up the right to appeal all of the following:
19 (a) the procedures and calculations used to determine and impose any
20 portion of the sentence; (b) the term of imprisonment imposed by the
21 Court; (c) the fine imposed by the court, provided it is within the
22 statutory maximum; (d) the amount and terms of any restitution order,
23 provided it requires payment of no more than \$20 million; (e) the
24 term of probation or supervised release imposed by the Court,
25 provided it is within the statutory maximum; and (f) any of the
26 following conditions of probation or supervised release imposed by
27 the Court: the conditions set forth in General Orders 318, 01-05,
28 and/or 05-02 of this Court; the drug testing conditions mandated by

1 18 U.S.C. §§ 3563(a)(5) and 3583(d); and the alcohol and drug use
2 conditions authorized by 18 U.S.C. § 3563(b)(7).

3 31. The USAO agrees that, provided (a) all portions of the
4 sentence are at or below the statutory maximum specified above and
5 (b) the Court imposes a term of imprisonment of no less than the low
6 end of the Guidelines range corresponding to an offense level of 31
7 and the criminal history category determined by the Court, the USAO
8 gives up its right to appeal any portion of the sentence, with the
9 exception that the USAO reserves the right to appeal the amount of
10 restitution ordered if that amount is less than \$20 million.

11 RESULT OF WITHDRAWAL OF GUILTY PLEA

12 32. Defendant agrees that if, after entering guilty pleas
13 pursuant to this agreement, defendant seeks to withdraw and succeeds
14 in withdrawing defendant's guilty pleas on any basis other than a
15 claim and finding that entry into this plea agreement was
16 involuntary, then (a) the USAO will be relieved of all of its
17 obligations under this agreement, including in particular its
18 obligations regarding the use of Cooperation Information; (b) in any
19 investigation, criminal prosecution, or civil, administrative, or
20 regulatory action, defendant agrees that any Cooperation Information
21 and any evidence derived from any Cooperation Information shall be
22 admissible against defendant, and defendant will not assert, and
23 hereby waives and gives up, any claim under the United States
24 Constitution, any statute, or any federal rule, that any Cooperation
25 Information or any evidence derived from any Cooperation Information
26 should be suppressed or is inadmissible; and (c) should the USAO
27 choose to pursue any charge or any civil, administrative, or
28 regulatory action that was either dismissed or not filed as a result

1 of this agreement, then (i) any applicable statute of limitations
2 will be tolled between the date of defendant's signing of this
3 agreement and the filing commencing any such action; and
4 (ii) defendant waives and gives up all defenses based on the statute
5 of limitations, any claim of pre-indictment delay, or any speedy
6 trial claim with respect to any such action, except to the extent
7 that such defenses existed as of the date of defendant's signing this
8 agreement.

9 EFFECTIVE DATE OF AGREEMENT

10 33. This agreement is effective upon signature and execution of
11 all required certifications by defendant, defendant's counsel, and an
12 Assistant United States Attorney.

13 BREACH OF AGREEMENT

14 34. Defendant agrees that if defendant, at any time after the
15 signature of this agreement and execution of all required
16 certifications by defendant, defendant's counsel, and an Assistant
17 United States Attorney, knowingly violates or fails to perform any of
18 defendant's obligations under this agreement ("a breach"), the USAO
19 may declare this agreement breached. For example, if defendant
20 knowingly, in an interview, before a grand jury, or at trial, falsely
21 accuses another person of criminal conduct or falsely minimizes
22 defendant's own role, or the role of another, in criminal conduct,
23 defendant will have breached this agreement. All of defendant's
24 obligations are material, a single breach of this agreement is
25 sufficient for the USAO to declare a breach, and defendant shall not
26 be deemed to have cured a breach without the express agreement of the
27 USAO in writing. If the USAO declares this agreement breached, and
28 the Court finds such a breach to have occurred, then:

1 a. If defendant has previously entered guilty pleas
2 pursuant to this agreement, defendant will not be able to withdraw
3 the guilty pleas.

4 b. The USAO will be relieved of all its obligations under
5 this agreement; in particular, the USAO: (i) will no longer be bound
6 by any agreements concerning sentencing and will be free to seek any
7 sentence up to the statutory maximum for the crimes to which
8 defendant has pleaded guilty; (ii) will no longer be bound by any
9 agreements regarding criminal prosecution, and will be free to
10 criminally prosecute defendant for any crime, including charges that
11 the USAO would otherwise have been obligated not to criminally
12 prosecute pursuant to this agreement; and (iii) will no longer be
13 bound by any agreement regarding the use of Cooperation Information
14 and will be free to use any Cooperation Information in any way in any
15 investigation, criminal prosecution, or civil, administrative, or
16 regulatory action.

17 c. The USAO will be free to criminally prosecute
18 defendant for false statement, obstruction of justice, and perjury
19 based on any knowingly false or misleading statement by defendant.

20 d. In any investigation, criminal prosecution, or civil,
21 administrative, or regulatory action: (i) defendant will not assert,
22 and hereby waives and gives up, any claim that any Cooperation
23 Information was obtained in violation of the Fifth Amendment
24 privilege against compelled self-incrimination; and (ii) defendant
25 agrees that any Cooperation Information and any Plea Information, as
26 well as any evidence derived from any Cooperation Information or any
27 Plea Information, shall be admissible against defendant, and
28 defendant will not assert, and hereby waives and gives up, any claim

1 under the United States Constitution, any statute, Rule 410 of the
2 Federal Rules of Evidence, Rule 11(f) of the Federal Rules of
3 Criminal Procedure, or any other federal rule, that any Cooperation
4 Information, any Plea Information, or any evidence derived from any
5 Cooperation Information or any Plea Information should be suppressed
6 or is inadmissible.

7 35. Following the Court's finding of a knowing breach of this
8 agreement by defendant, should the USAO choose to pursue any charge
9 or any civil, administrative, or regulatory action that was either
10 dismissed or not filed as a result of this agreement, then:

11 a. Defendant agrees that any applicable statute of
12 limitations is tolled between the date of defendant's signing of this
13 agreement and the filing commencing any such action.

14 b. Defendant waives and gives up all defenses based on
15 the statute of limitations, any claim of pre-indictment delay, or any
16 speedy trial claim with respect to any such action, except to the
17 extent that such defenses existed as of the date of defendant's
18 signing this agreement.

19 COURT AND PROBATION OFFICE NOT PARTIES

20 36. Defendant understands that the Court and the United States
21 Probation Office are not parties to this agreement and need not
22 accept any of the USAO's sentencing recommendations or the parties'
23 agreements to facts or sentencing factors.

24 37. Defendant understands that both defendant and the USAO are
25 free to: (a) supplement the facts by supplying relevant information
26 to the United States Probation Office and the Court, and (b) correct
27 any and all factual misstatements relating to the Court's Sentencing
28 Guidelines calculations and determination of sentence. While this

1 paragraph permits both the USAO and defendant to submit full and
2 complete factual information to the United States Probation Office
3 and the Court, even if that factual information may be viewed as
4 inconsistent with the facts agreed to in this agreement, this
5 paragraph does not affect defendant's and the USAO's obligations not
6 to contest the facts agreed to in this agreement.

7 38. Defendant understands that even if the Court ignores any
8 sentencing recommendation, finds facts or reaches conclusions
9 different from those agreed to, and/or imposes any sentence up to the
10 maximum established by statute, defendant cannot, for that reason,
11 withdraw defendant's guilty pleas, and defendant will remain bound to
12 fulfill all defendant's obligations under this agreement. Defendant
13 understands that no one -- not the prosecutor, defendant's attorney,
14 or the Court -- can make a binding prediction or promise regarding
15 the sentence defendant will receive, except that it will be within
16 the statutory maximum.

17 NO ADDITIONAL AGREEMENTS

18 39. Defendant understands that, except as set forth herein,
19 there are no promises, understandings, or agreements between the USAO
20 and defendant or defendant's attorney, and that no additional
21 promise, understanding, or agreement may be entered into unless in a
22 writing signed by all parties or on the record in court.

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PLEA AGREEMENT PART OF THE GUILTY PLEA HEARING

40. The parties agree that this agreement will be considered part of the record of defendant's guilty plea hearing as if the entire agreement had been read into the record of the proceeding.

AGREED AND ACCEPTED

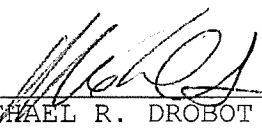
UNITED STATES ATTORNEY'S OFFICE
FOR THE CENTRAL DISTRICT OF
CALIFORNIA

EILEEN M. DECKER
United States Attorney



SCOTT D. TENLEY
Assistant United States Attorney

1/27/16
Date



MICHAEL R. DROBOT
Defendant

1-26-16
Date



JASON DE BRETTEVILLE
Attorney for Defendant MICHAEL R.
DROBOT

1/26/16
Date

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CERTIFICATION OF DEFENDANT

I have read this agreement in its entirety. I have had enough time to review and consider this agreement, and I have carefully and thoroughly discussed every part of it with my attorney. I understand the terms of this agreement, and I voluntarily agree to those terms. I have discussed the evidence with my attorney, and my attorney has advised me of my rights, of possible pretrial motions that might be filed, of possible defenses that might be asserted either prior to or at trial, of the sentencing factors set forth in 18 U.S.C. § 3553(a), of relevant Sentencing Guidelines provisions, and of the consequences of entering into this agreement. No promises, inducements, or representations of any kind have been made to me other than those contained in this agreement. No one has threatened or forced me in any way to enter into this agreement. I am satisfied with the representation of my attorney in this matter, and I am pleading guilty because I am guilty of the charges and wish to take advantage of the promises set forth in this agreement, and not for any other reason.



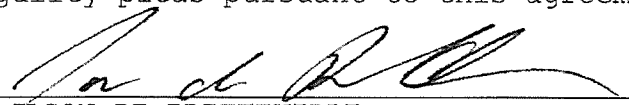
MICHAEL R. DROBOT
Defendant

1-26-15
Date

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CERTIFICATION OF DEFENDANT'S ATTORNEY

I am MICHAEL R. DROBOT's attorney. I have carefully and thoroughly discussed every part of this agreement with my client. Further, I have fully advised my client of his rights, of possible pretrial motions that might be filed, of possible defenses that might be asserted either prior to or at trial, of the sentencing factors set forth in 18 U.S.C. § 3553(a), of relevant Sentencing Guidelines provisions, and of the consequences of entering into this agreement. To my knowledge: no promises, inducements, or representations of any kind have been made to my client other than those contained in this agreement; no one has threatened or forced my client in any way to enter into this agreement; my client's decision to enter into this agreement is an informed and voluntary one; and the factual basis set forth in this agreement is sufficient to support my client's entry of guilty pleas pursuant to this agreement.



JASON DE BRETTEVILLE
Attorney for Defendant MICHAEL R.
DROBOT

1/26/16
Date