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CLERK U.S. DISTRICT COURT
CENTRAL DIST. OF CALIF.
SANTA ANA

BY _____

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

SACR 14-00034

UNITED STATES OF AMERICA,
Plaintiff,
v.
MICHAEL D. DROBOT,
Defendant.

SA CR NO 14

I N F O R M A T I O N

[18 U.S.C. § 371: Conspiracy;
42 U.S.C. § 1320a-7b(b) (2) (A):
Payment of Kickbacks in Connection
with a Federal Health Care
Program]

The United States Attorney alleges:

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 defendant MICHAEL D. DROBOT ("defendant DROBOT").

1 2. International Implants LLC ("I2") was a limited liability
2 company owned and operated by defendant DROBOT that was located in
3 Newport Beach, California. I2 purchased implantable medical devices
4 ("hardware") for use in spinal surgeries from original manufacturers
5 and sold them to hospitals, particularly Pacific Hospital. I2 was
6 registered with the United States Food and Drug Administration as a
7 repackager/relabeler, but was not registered as a manufacturer, and,
8 in fact, did not manufacture medical devices.

9 3. Ronald S. Calderon was an elected California State Senator
10 ("Senator Calderon") who owed a fiduciary duty and a duty of honest
11 services to the citizens of California, including his constituents in
12 the 30th Senate District, which included, among others, the cities of
13 Bell, Bell Gardens, Commerce, Cudahy, Montebello, Norwalk, Pico
14 Rivera, Santa Fe Springs, and Whittier.

15 B. RELEVANT LEGISLATION

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

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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 of anything of value in return for referring
11 a patient for medical services.

12 7. Before January 2013, California law allowed a hospital to
13 bill the cost of medical hardware separately from the other costs of
14 a spinal surgery, such as the hospital's and surgeon's services, the
15 reimbursement rates of which were set by a fee schedule. The
16 hardware was considered a "pass-through" cost and billing was limited
17 to \$250 over what the hospital paid for the hardware.

18 8. Between in or around January 2010 and in or around August
19 2012, the California Senate and the Division of Workers'
20 Compensation, an agency within the CWCS system, took several steps
21 designed to modify or eliminate this pass-through. This was due, in
22 part, to studies that showed eliminating this pass-through could
23 result in savings of as much as \$60 million.

24 9. By January 2013, California law was changed to eliminate
25 the separate billing of medical hardware used in spinal surgeries;
26 subsequently, reimbursement for all costs of such a surgery was
27 limited to a fee schedule.

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

18 11. Federal law prohibited the offering, delivering,
19 soliciting, or receiving of anything of value in return for referring
20 a patient for medical services paid for by a federal health care
21 benefit program.

22 C. OBJECTS OF THE CONSPIRACY

23 12. Beginning in or around 1998 and continuing to in or around
24 November 2013, in Orange and Los Angeles Counties, within the Central
25 District of California, and elsewhere, defendant DROBOT, together
26 with other co-conspirators known and unknown to the United States
27 Attorney, knowingly combined, conspired, and agreed to commit the
28 following offenses against the United States: 18 U.S.C. §§ 1341 and

1 1346 (Mail Fraud and Honest Services Mail Fraud); 18 U.S.C. §
2 1952(a)(3) (Interstate Travel in Aid of a Racketeering Enterprise);
3 18 U.S.C. § 1957 (Monetary Transactions in Property Derived from
4 Specified Unlawful Activity); and 42 U.S.C. § 1320a-7b(b)(2)(A)
5 (Payment or Receipt of Kickbacks in Connection with a Federal Health
6 Care Program).

7 D. MANNER AND MEANS TO ACCOMPLISH THE CONSPIRACY

8 13. The objects of the conspiracy were to be carried out, and
9 were carried out, in the following ways, among others:

10 a. Defendant DROBOT and other co-conspirators offered to
11 pay kickbacks to dozens of doctors, chiropractors, marketers, and
12 others for their referring workers' compensation patients to Pacific
13 Hospital for spinal surgeries, other types of surgeries, magnetic
14 resonance imaging, toxicology, durable medical equipment, and other
15 services, to be paid primarily through the CWCS and the FECA. For
16 spinal surgeries, typically, defendant DROBOT offered to pay a
17 kickback of \$15,000 per lumbar fusion surgery and \$10,000 per
18 cervical fusion surgery.

19 b. Influenced by the promise of kickbacks, doctors,
20 chiropractors, marketers, and others referred patients insured
21 through the CWCS and the FECA to Pacific Hospital for spinal
22 surgeries, other types of surgeries, and other medical services. The
23 workers' compensation patients were not informed that the medical
24 professionals had been offered kickbacks to induce them to refer the
25 surgeries and other medical services to Pacific Hospital.

26 c. The surgeries and other medical services were
27 performed on the referred workers' compensation patients at Pacific
28 Hospital.

1 d. I2, or, at times, another distributor who was a co-
2 conspirator, purchased medical hardware from a manufacturer and sold
3 it to Pacific Hospital for use in spinal surgeries. Typically, the
4 price I2 or the co-conspirator distributor charged for the hardware
5 was inflated by a multiple of the price at which I2 or the other
6 distributor had purchased the device from the manufacturer. At some
7 point, I2 included a stamp on its invoices falsely stating that I2
8 was an "FDA Registered Manufacturer."

9 e. Pacific Hospital submitted claims, by mail and
10 electronically, to SCIF and other workers' compensation insurance
11 carriers for payment of the costs of the surgeries and other medical
12 services. Included with the claims for spinal surgeries were the
13 inflated hardware invoices from I2 or the co-conspirator distributor.

14 f. As defendant DROBOT and the other co-conspirators knew
15 and intended, and as was reasonably foreseeable to them, in
16 submitting claims for payment, Pacific Hospital made materially false
17 and misleading statements to, and concealed material information
18 from, SCIF and other workers' compensation insurance carriers,
19 including that a) Pacific Hospital did not disclose to the insurance
20 carriers that it had offered or paid kickbacks for the referral of
21 the surgeries and other medical services for which it was submitting
22 claims, and b) the hardware invoices were fraudulently inflated.

23 g. The insurance carriers paid Pacific Hospital's claims,
24 by mail or electronically.

25 h. Defendant DROBOT and other co-conspirators paid and
26 caused others to pay kickbacks to the doctors, chiropractors,
27 marketers, and others who had referred patients to Pacific Hospital
28 for surgeries and other medical services.

1 i. To conceal the nature of the kickback payments from
2 both workers' compensation insurance carriers and patients, defendant
3 DROBOT, through one of the companies he owned and/or operated,
4 entered into bogus contracts with the doctors, chiropractors,
5 marketers, and others. The services discussed in those contracts
6 were, in fact, generally not provided or were provided at highly
7 inflated prices; rather, the compensation paid was based on the
8 number and type of surgeries and other medical services referred to
9 Pacific Hospital. Defendant DROBOT and his co-conspirators entered
10 into the following bogus contracts, among others, in order to hide
11 kickback payments: collection agreements, option agreements,
12 research and development agreements, lease and rental agreements,
13 consulting agreements, marketing agreements, and management
14 agreements.

15 j. Defendant DROBOT and other co-conspirators kept
16 records of the number of surgeries and other medical services
17 performed at Pacific Hospital due to referrals from the kickback
18 recipients, as well amounts paid to the kickback recipients for those
19 referrals. Periodically, defendant DROBOT and other co-conspirators
20 amended the bogus contracts with the kickback recipients to increase
21 or decrease the amount of agreed compensation described in the
22 contracts, in order to match the amount of kickbacks paid or promised
23 in return for referrals.

24 k. The spinal pass-through, the provision of California
25 law that allowed Pacific Hospital to fraudulently inflate the cost of
26 the medical hardware used during spinal surgeries, was a vital
27 component of defendant DROBOT's ability to pay kickbacks to the
28 doctors, chiropractors, marketers, and others who had referred

1 patients to Pacific Hospital for surgeries and other medical
2 services.

3 1. To prevent and delay steps being taken in the
4 California Senate and the Division of Workers' Compensation to limit
5 or eliminate the pass-through, as well as to promote legislative
6 efforts that would protect and expand his health care fraud scheme,
7 defendant DROBOT would pay bribes to Senator Calderon to influence,
8 and in exchange for, Senator Calderon's official acts relating to the
9 pass-through and other areas of workers' compensation and regulation.

10 m. The bribe payments were primarily in the form of
11 hiring Senator Calderon's son to perform clerical duties at one or
12 more of defendant DROBOT's companies during the summers of 2010,
13 2011, and 2012, and paying Senator Calderon's son approximately
14 \$10,000 per summer for approximately 15 days of work per summer.
15 Defendant DROBOT would also provide Senator Calderon a stream of
16 other financial benefits, such as trips on privately chartered
17 airplanes, golf at exclusive, high-end golf resorts, and meals at
18 expensive restaurants.

19 n. In exchange for these financial benefits, defendant
20 DROBOT would have Senator Calderon perform official acts favorable to
21 defendant DROBOT in connection with the spinal pass-through and other
22 areas of worker's compensation legislation and regulation. For
23 example, defendant DROBOT would have Senator Calderon arrange and
24 participate in meetings with other public officials and their staff,
25 where defendant DROBOT and Senator Calderon would attempt to convince
26 the other public officials and their staff to take action favorable
27 to defendant DROBOT in connection with the spinal pass-through and
28 other areas of worker's compensation legislation and regulation.

1 More specifically, this favorable action by Senator Calderon and
2 other public officials would support defendant DROBOT's ability to
3 commit and expand his health care fraud scheme.

4 E. EFFECTS OF THE CONSPIRACY

5 14. Had SCIF and the other workers' compensation insurance
6 carriers known the true facts regarding a) the payment of kickbacks
7 for the referral of workers' compensation patients for surgeries and
8 other medical services performed at Pacific Hospital, and b) the
9 fraudulent inflation of the cost of medical hardware used in spinal
10 surgeries, they would not have paid the claims or would have paid a
11 lesser amount.

12 15. From in or around 2008 to in or around April 2013, Pacific
13 Hospital billed workers' compensation insurance carriers
14 approximately \$500 million in claims for spinal surgeries that were
15 the result of the payment of a kickback; and defendant DROBOT or
16 other co-conspirators paid kickback recipients between approximately
17 \$20 million and \$50 million in kickbacks relating to those claims.

18 F. OVERT ACTS IN FURTHERANCE OF THE CONSPIRACY

19 16. In furtherance of the conspiracy and to accomplish the
20 objects of the conspiracy, defendant DROBOT and other co-conspirators
21 known and unknown to the United States Attorney, committed various
22 overt acts within the Central District of California, including but
23 not limited to the following:

24 Overt Act No. 1

25 On or about November 10, 2009, defendant DROBOT caused a check
26 in the amount of \$43,650.00 from SCIF to be sent by mail to Pacific
27 Hospital in reimbursement for a claim for spine surgery on patient
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1 J.M. performed by doctor C.D., which claim was induced by the payment
2 of a kickback to J.C.

3 Overt Act No. 2

4 In or around February 2010, defendant DROBOT met with
5 Senator Calderon in Sacramento, California, and agreed to hire
6 Senator Calderon's son each summer for the next several summers and
7 to pay him \$10,000 per summer, so that Senator Calderon would have
8 enough money to pay for his son's college tuition.

9 Overt Act No. 3

10 On or about April 14, 2010, defendant DROBOT caused a check in
11 the amount of \$90,467.80 from SCIF to be sent by mail to Pacific
12 Hospital in reimbursement for a claim for spine surgery on patient
13 L.T. performed by doctor M.C., which claim was induced by the payment
14 of a kickback to P.S.

15 Overt Act No. 4

16 In or around April 2010, defendant DROBOT had Senator Calderon
17 meet with a Director at the Division of Workers' Compensation and
18 discuss the negative impact that proposed regulations would have on
19 Pacific Hospital and other hospitals.

20 Overt Act No. 5

21 On or about July 13, 2010, defendant DROBOT caused Senator
22 Calderon's son to be paid \$10,000 in advance of clerical work Senator
23 Calderon's son was to perform at one of defendant DROBOT's companies.

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1 Overt Act No. 6

2 In or around February 2011, defendant DROBOT had Senator
3 Calderon meet with Senator A and request that Senator A introduce
4 legislation in the California Senate that would be favorable to
5 defendant DROBOT.

6 Overt Act No. 7

7 On or about March 31, 2011, defendant DROBOT caused a check in
8 the amount of \$23,531.23 from Vanliner to be sent by mail to Pacific
9 Hospital in reimbursement for a claim for spine surgery on patient
10 R.S. performed by doctor S.O., which claim was induced by the payment
11 of a kickback to S.O.

12 Overt Act No. 8

13 On or about July 11, 2011, defendant DROBOT caused Senator
14 Calderon's son to be paid \$5,000 for clerical work Senator Calderon's
15 son had performed at one of defendant DROBOT's companies.

16 Overt Act No. 9

17 On or about August 16, 2011, defendant DROBOT caused Senator
18 Calderon's son to be paid \$5,000 for clerical work Senator Calderon's
19 son had performed at one of defendant DROBOT's companies.

20 Overt Act No. 10

21 On or about June 12, 2012, defendant DROBOT had Senator Calderon
22 arrange and participate in a meeting with Senator B, where Senator
23 Calderon and defendant DROBOT discussed the negative impact Senator
24 B's proposed legislation would have on Pacific Hospital and other
25 hospitals.

26 Overt Act No. 11

27 On or about June 29, 2012, defendant DROBOT caused a kickback in
28 the amount of \$100,000 to be paid to S.O. for the referral of lumbar

1 and cervical spinal surgeries performed at Pacific Hospital,
2 including on patients covered by the FECA.

3 Overt Act No. 12

4 On or about August 1, 2012, defendant DROBOT authorized Senator
5 Calderon's son to be paid a gross salary of \$18,510.90 for clerical
6 work Senator Calderon's son was performing at one of defendant
7 DROBOT's companies in order to guarantee that Senator Calderon's
8 son's take-home (or net) salary totaled approximately \$10,000 for the
9 summer of 2012.

10 Overt Act No. 13

11 On or about January 18, 2013, defendant DROBOT caused a check in
12 the amount of \$51,115.44 from Traveler's Insurance to be sent by mail
13 to Pacific Hospital in reimbursement for a claim for spine surgery on
14 patient F.C. performed by doctor T.R., which claim was induced by the
15 payment of a kickback to T.R.

16 Overt Act No. 14

17 On or about January 24, 2013, defendant DROBOT caused a check in
18 the amount of \$117,142.36 from Vanliner to be sent by mail to Pacific
19 Hospital in reimbursement for a claim for spine surgery on patient
20 S.F. performed by doctor G.A., which claim was induced by the payment
21 of a kickback to G.A.

22 Overt Act No. 15

23 On or about April 24, 2013, defendant DROBOT caused a check in
24 the amount of \$24,209.90 from ICW to be sent by mail to Pacific
25 Hospital in reimbursement for a claim for spine surgery on patient
26 F.A. performed by doctor L.T., which claim was induced by the payment
27 of a kickback to L.T.

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1 Overt Act No. 16

2 On or about November 27, 2013, defendant DROBOT caused a check
3 in the amount of \$50,903.76 from Traveler's Insurance to be sent by
4 mail to Pacific Hospital in reimbursement for a claim for spine
5 surgery on patient T.V. performed by doctor L.T., which claim
6 resulted from the payment of a kickback to A.I.

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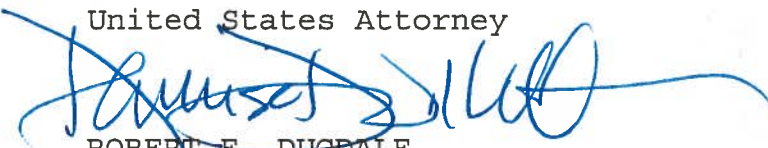
COUNT TWO

[42 U.S.C. § 1320a-7b(b) (2) (A)]

17. Paragraphs one through eleven of this Information are re-
alleged and incorporated as if fully set forth herein.

18. Beginning in or around 1998 and continuing to in or around
November 2013, in Orange and Los Angeles Counties, within the Central
District of California, and elsewhere, defendant DROBOT, together
with other co-conspirators known and unknown to the United States
Attorney, knowingly and willfully offered and paid remuneration, that
is, cash and checks, directly and indirectly, to persons to induce
those 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.

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