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STATE COMPENSATION
6 INSURANCE FUND, a Public
Enterprise Fund and Independent
7 Agency of the State of California

8 UNITED STATES DISTRICT COURT
9 CENTRAL DISTRICT OF CALIFORNIA
10 SOUTHERN DIVISION

11 STATE COMPENSATION INSURANCE)
FUND,)

12 Plaintiff,)

13 v.)

14 MICHAEL D. DROBOT, SR., an)
15 individual; MICHAEL R. DROBOT. JR.,)
an individual; HEALTHSMART)
16 PACIFIC INC., a California corporation;)
HEALTHSMART PACIFIC INC. d/b/a)
17 PACIFIC HOSPITAL OF LONG)
BEACH, a California corporation; LONG)
18 BEACH PAIN CENTER MEDICAL)
CLINIC, INC., a California corporation;)
19 INTERNATIONAL IMPLANTS, LLC, a)
California limited liability company;)
20 PACIFIC SPECIALTY PHYSICIAN)
MANAGEMENT, INC., a California)
21 corporation; FIRST MEDICAL)
MANAGEMENT, INC., a California)
22 corporation; INDUSTRIAL PHARMACY)
MANAGEMENT LLC, a California)
23 limited liability company; CALIFORNIA)
PHARMACY MANAGEMENT LLC, a)
24 California limited liability company;)
COASTAL EXPRESS PHARMACY,)
25 INC., a California corporation; LONG)
BEACH PRESCRIPTION PHARMACY,)
26 a California corporation; MEDS)
MANAGEMENT GROUP, LLC, a)
27 California limited liability company,)
Defendants.)

Case No. SACV 13-00956-AG
(CWx)

**SECOND AMENDED
COMPLAINT OF PLAINTIFF
STATE COMPENSATION
INSURANCE FUND FOR:**

- (1) 18 U.S.C. § 1962(c) (CIVIL RICO);
- (2) 18 U.S.C. § 1962(d) (CIVIL RICO CONSPIRACY);
- (3) FRAUD; AND
- (4) UNFAIR COMPETITION (Bus. & Prof. Code § 17200)

[JURY TRIAL DEMANDED]

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1 Plaintiff State Compensation Insurance Fund ("State Fund") alleges as
2 follows in this federal question action, over which this court has jurisdiction
3 pursuant to 28 U.S.C. § 1331 and 28 U.S.C. § 1367(a).

4 **I. SUMMARY OF ACTION**

5 1. State Fund provides workers' compensation insurance to California
6 employers, with no financial obligation to the public, and is the largest provider of
7 workers' compensation insurance in California. When a covered employee suffers
8 an on-the-job injury, State Fund's primary goal is to insure that the injured worker
9 receives proper medical treatment by a provider. The provider is then supposed to
10 bill State Fund for the procedures performed or medicine supplied under the
11 appropriate workers' compensation guidelines.

12 2. Defendants conspired to subvert this process and defraud State Fund in
13 connection with the submission and collection of fraudulent insurance bills for
14 medical services, medical hardware, and medications. Through two connected
15 enterprises, Defendants and their coconspirators engaged in an elaborate kickback
16 scheme designed to game the workers' compensation system and cheat State Fund
17 out of many millions of dollars. The scheme inflicted damage not only on State
18 Fund, but on California's workers, who were used as pawns to maximize ill-gotten
19 profits, and California's employers, forced to pay not only inflated medical costs but
20 higher workers' compensation insurance rates.

21 3. The illegal kickback scheme was carried out through a complex web of
22 interconnected businesses and individuals, including medical providers, pharmacies,
23 medical management companies, repackagers, distributors, healthcare "marketers,"
24 and others. Defendant Drobot Sr. owned and operated, among other related entities,
25 Defendants Healthsmart Pacific, Inc. ("Healthsmart"), Healthsmart Pacific, Inc.
26 d/b/a Pacific Hospital of Long Beach ("Pacific Hospital"), Long Beach Pain Center
27 Medical Clinic, Inc. ("Long Beach Pain"), and International Implants, LLC
28 ("International Implants") (collectively the, "Surgical Defendants"), at least until

1 October 2013, when he has indicated that he sold Pacific Hospital's assets to College
2 Health Enterprises ("CHE"). Drobot Jr. owns and operates, among other related
3 entities, California Pharmacy Management LLC ("CPM"), Industrial Pharmacy
4 Management LLC ("IPM"), Long Beach Prescription Pharmacy ("LBPP"), Coastal
5 Express Pharmacy, Inc. ("Coastal"), and Meds Management Group LLC ("MMG")
6 (the "Pharmacy Defendants"). Drobot Sr. and Drobot Jr. are collectively referred to
7 herein as the "Individual Defendants."

8 4. As described below, the Surgical and Pharmacy Defendants are
9 connected not only through shared patients and doctors, but through Pacific
10 Specialty Physician Management, Inc. ("PSPM") and First Medical Management,
11 Inc. ("FMM") (collectively the "Administrative Defendants"). The Administrative
12 Defendants coordinated the activities between the Surgical and Pharmacy
13 Defendants, medical providers, and suppliers, among others.

14 **A. Initial Pleadings and Drobot Sr.'s Plea Agreement**

15 5. State Fund filed its initial complaint in June 2013 and its First
16 Amended Complaint ("FAC") in August 2013, alleging causes of action pursuant to
17 the Racketeer Influenced and Corrupt Organizations Act ("RICO") for civil
18 violations and conspiracy, common-law fraud, and California's Unfair Competition
19 Law ("UCL," or California Business and Professions code section 17200, *et seq.*).
20 State Fund alleged that Defendants conspired to defraud State Fund by, among other
21 things, entering into illegal agreements designed to inflate the costs of certain
22 medical procedures and medications, paying kickbacks to doctors for referring
23 patients to preferred facilities and for using preferred products or medications,
24 engaging in illegal fee-sharing agreements, and overbilling and double-billing State
25 Fund for medical charges. State Fund further alleged that it had been defrauded into
26 paying illegally inflated costs for spinal surgeries through Defendants' use of
27 fraudulent invoices for medical hardware issued by companies controlled by
28 Defendants.

1 6. After the filing of the FAC, Drobot Sr. pled guilty to workers'
2 compensation fraud against State Fund and others. On February 20, 2014, Drobot
3 Sr. signed a guilty plea agreement with the U.S. Attorney's Office ("Plea
4 Agreement"), admitting to much of the conduct alleged in State Fund's First
5 Amended Complaint, including the payment of illegal kickbacks through the use of
6 shell entities, "co-schemers," and conspiracy to commit fraud upon insurers,
7 including State Fund. *See USA v. Drobot* ("Plea Agreement"), 8:14-cr-000034-JLS-
8 DOC-7, at 8-18 (C.D. Cal. Feb. 21, 2014). This Plea Agreement was entered on
9 April 24, 2014, before the Honorable Josephine L. Staton. *USA v. Drobot*, 8:14-cr-
10 000034-JLS-DOC-20 (C.D. Cal. Apr. 24, 2014).

11 7. Drobot Sr. admitted in the Plea Agreement that, beginning in or around
12 1998 and continuing through in or around November 2013, he "conspired with
13 dozens of doctors, chiropractors, marketers and others to pay kickbacks in return for
14 those persons to refer thousands of patients to Pacific Hospital for spinal surgeries
15 and other medical services including "other types of surgeries, magnetic resonance
16 imaging, toxicology, durable medical equipment, and other services" paid for
17 primarily through the Federal Employees' Compensation Act ("FECA") and the
18 California Workers' Compensation System ("CWCS"). Plea Agreement at 15.

19 8. Drobot Sr. further admitted: "To help generate the monies for the
20 kickback payments, defendant used a co-schemers company or his own company
21 International Implants ("I2"), located in Newport Beach, California, to fraudulently
22 inflate the price of medical hardware purchased by Pacific Hospital to be used in the
23 spinal surgeries." *Id.* at 14. "In paying the kickbacks, inflating the medical
24 hardware costs, and submitting the resulting claims for spinal surgeries and medical
25 services, defendant and his co-conspirators acted with the intent to defraud workers'
26 compensation insurance carriers and to deprive the patients of their right to honest
27 services." *Id.*

28

1 9. To conceal the illegal kickbacks from workers' compensation insurance
2 carriers, including State Fund, Drobot Sr. admitted that he and his co-conspirators
3 "entered into bogus contracts under which the kickback recipients purported to
4 provide services to defendant's companies to justify the kickback payments. The
5 services and other items of value discussed in those contracts were, in fact, generally
6 not provided to Pacific Hospital or were provided at highly inflated prices. The
7 compensation to the kickback recipient was actually based on the number and type
8 of surgeries they referred to the hospital. These contracts included, among others,
9 the following: collection agreements, option agreements, research and development
10 agreements, lease and rental agreements, consulting agreements, marketing
11 agreements, and management agreements." *Id.* at 17.

12 10. The Plea Agreement also confirms, much as State Fund's FAC had
13 alleged: "As defendant and his co-conspirators knew, federal and California law
14 prohibited paying or receiving the aforementioned kickbacks for the referral of
15 patients for medical services. Defendant and his co-conspirators also knew that the
16 insurance carriers would be unwilling to pay claims for medical services that were
17 obtained through such illegal kickbacks. Moreover, defendant and his co-
18 conspirators knew that the insurance carriers would be unwilling to pay claims for
19 spinal surgery hardware that were artificially inflated and substantially above the
20 manufacturer's price. However, defendant and his co-conspirators deliberately did
21 not disclose to the insurance carriers the kickbacks, the inflation of the medical
22 hardware, or the fact that I2 was owned and controlled by defendant and was not a
23 manufacturer of such hardware. Rather, at some point, defendant and his co-
24 conspirators included on I2's invoices stamps falsely stating that I2 was an 'FDA
25 registered manufacturer.'" *Id.* at 16-17.

26 11. Third-party discovery in this litigation has confirmed the use of the
27 "bogus" contracts described in the Plea Agreement by Defendants in furtherance of
28 their conspiracy. As detailed below, many medical providers have (or had)

1 contracts with both Pacific Hospital and CPM/IPM, as well as with PSPM,
2 International Implants, and other coconspirator entities.¹

3 **B. Overview of the Surgical Defendant Enterprise**

4 12. In Section V below, State Fund articulates separate, yet connected,
5 schemes conducted by the Surgical Defendant Enterprise to defraud State Fund
6 while simultaneously concealing the misconduct. The schemes are:

7 (a) As admitted in the Plea Agreement, forming and using shell
8 corporations, or using a co-schemer's company, to grossly and fraudulently
9 increase the bills to State Fund for medical hardware used in Pacific
10 Hospital's surgeries. For example, Drobot Sr. created International Implants
11 and represented it as an implant manufacturer. In reality, International
12 Implants simply bought implants from other manufacturers across the country
13 and then grossly inflated the price at which it resold the implants to Pacific
14 Hospital, which Pacific Hospital then billed to State Fund as the implant's
15 actual cost.

16 (b) As further admitted in the Plea Agreement, conspiring with dozens of
17 doctors, chiropractors, marketers, and others to pay kickbacks in return for
18 those persons to refer thousands of patients to Pacific Hospital for spinal
19 surgeries and other medical services including "other types of surgeries,
20 magnetic resonance imaging, toxicology, durable medical equipment, and
21 other services," and/or in exchange for the medical providers agreeing to use
22 certain equipment or devices, including devices from International Implants.

23
24
25 _____
26 ¹ Several medical providers, when subpoenaed, have refused to produce their
27 agreements and communications with Defendants, invoking their Fifth Amendment
28 rights against self-incrimination. Likewise, the Individual Defendants have invoked
their Fifth Amendment rights and Mr. Drobot Sr. has refused to testify about most of
the allegations in this Second Amended Complaint, including agreements with
medical providers.

1 (c) Billing for services at substantially higher rates than allowed under
2 controlling regulations by, among other things, "upcoding" and "unbundling"
3 items in their billings. "Upcoding" is a practice of using medical treatment
4 codes in the submission of insurance claims that represent a substantially
5 higher billing price than the set amount for the actual services rendered.
6 Similarly, many procedures, such as surgeries, are, by regulation, charged at a
7 rate bundling together a number of necessary elements or pieces of equipment
8 for the procedure. Instead of simply charging the bundled rate, the Surgical
9 Defendants here took particular items or steps involved in the procedure,
10 "unbundled" them, and billed them separately, resulting in a significantly
11 higher bill. For example, Pacific Hospital would bill State Fund separately
12 for toxicology tests using five different codes and charging for all of them,
13 even though one code covered all of the administered tests.

14 (d) Billing Pacific Hospital Registered Nurse First Assistants separately as
15 assistant surgeons, when nurses are considered part of the procedure's cost (a
16 particular type of "unbundling").

17 (e) Billing State Fund separately for autologous transfusions (a procedure
18 used to save the patient's blood during surgeries), when that cost is included,
19 by regulation, in the bundled cost of inpatient admission.

20 (f) Double-billing State Fund for the technical component for radiology
21 procedures performed at Long Beach Pain, which was also billed by the
22 owner of the equipment used for the procedures. Long Beach Pain was
23 managed by Pacific Hospital.

24 13. The involved Defendants concealed this course of conduct for over a
25 decade (although Long Beach Pain and International Implants were formed later),
26 by falsifying invoices and purchase orders, submitting fraudulent bills, hiding the
27 common ownership of the entities in the enterprise, concealing the true nature of the
28 business relationship with providers, and obstructing State Fund's attempts to

1 investigate any issues. While State Fund may have caught certain instances of
2 overbilling and double billing from time to time, Defendants misrepresented these to
3 be mere mistakes; State Fund was misled into making additional payments, as
4 Defendants concealed the fraudulent enterprise of kickbacks, falsified invoices, and
5 sham agreements giving rise to the multifaceted "sub-schemes" designed to cheat
6 the workers' compensation system from all angles.

7 **C. Overview of the Pharmacy Defendant Enterprise**

8 14. The Individual Defendants also conducted many of the same fraudulent
9 schemes using pharmacies and the medication management companies that they
10 formed and operated. As discussed in Paragraphs 27, 43-44, *supra*, Drobot Sr.
11 owned and created CPM and IPM, while Drobot, Jr. ran the companies on a day-to-
12 day basis. According to the Pharmacy Defendants' discovery responses, Drobot Jr.
13 purchased CPM and IPM from his father in mid-2010, after being President of these
14 entities for a number of years. Drobot Jr. is also the CEO and a director of the other
15 Pharmacy Defendants, including Coastal, MMG, and LBPP. [REDACTED]

16 [REDACTED] The Pharmacy Defendant Enterprise is responsible for orchestrating
17 at least the following schemes designed to defraud State Fund:

18 (a) Engaging in activity with respect to prescribed medications without
19 having the licenses required by law, violating the prohibitions against the
20 corporate practice of medicine, and paying kickbacks through sham
21 agreements, all the while concealing the unlawful conduct from State Fund
22 and misrepresenting the nature of their businesses.

23 (b) Overbilling State Fund through a variety of schemes, including billing
24 for medications at rates up to ten times the prices at established retail
25 pharmacies, and well above workers' compensation guidelines. For example,
26 to maximize their profits prior to March 1, 2007, the Individual and Pharmacy
27 Defendants fraudulently manipulated drug pricing benchmarks through their
28 ownership interests in (or other associations with) drug repackagers. When

1 the opportunity for such manipulation closed in 2007, Defendants and their
2 related entities looked for other ways to game the system; for example, by
3 focusing more heavily on compound or other lucrative medications, ancillary
4 services, and urinary drug testing.

5 (c) Double-billing for prescriptions already billed by other Defendants in
6 the scheme. For example, CPM and IPM duplicated bills for thousands of
7 prescriptions submitted to State Fund, with each entity billing State Fund for
8 the same drugs, claim, and date of service. LBPP and CEP also submitted
9 duplicate bills.

10 (d) Rebilling State Fund on claims even after those particular claims had
11 been settled and paid by State Fund.

12 Again, while State Fund may have caught certain instances of overbilling and
13 double billing, Defendants misrepresented these to be mere mistakes; State Fund
14 was misled into making additional payments, as Defendants concealed the
15 fraudulent enterprise of kickbacks, unlicensed corporate practice of medicine,
16 prescription pushing, and sham agreements giving rise to the multifaceted "sub-
17 schemes" designed to cheat the workers' compensation system.

18 15. In so doing, each of the Defendants violated, among other laws, the
19 Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. §§ 1961 *et seq.*
20 ("RICO") with their many predicate acts.

21 **D. Connections Between the Surgical and Pharmacy Enterprises**

22 16. Defendants acted together with a common purpose to obtain more
23 money from State Fund than was rightfully owed. While the Surgical Defendant
24 Enterprise and Pharmacy Defendant Enterprise provided somewhat different
25 services to workers' compensation claimants, all Defendants were connected
26 through a well-orchestrated kickback scheme and all aimed to defraud State Fund
27 through fraudulent billing practices. The Individual Defendants often coordinated
28 their activities through the Administrative Defendants.

1 17. Among other things, FMM acted as an out-sourced human resources
2 department for the Surgical and Pharmacy Defendants, supplying employees,
3 generating payroll, and providing information technology services. PSPM entered
4 into contracts with medical groups and providers and also provided information
5 technology support. FMM and PSPM both facilitated the payment of illegal
6 kickbacks by controlling the flow of human as well as monetary capital between the
7 Surgical and Pharmacy Defendant Enterprises.

8 18. Coordination between and among the Defendants was used to increase
9 profits and ensure a steady stream of income both to Defendants and to physicians at
10 the expense of workers' compensation insurers and employers. [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 [REDACTED]

26 19. [REDACTED]

27 [REDACTED]

28 [REDACTED]

1 [REDACTED]. The goal of the overarching enterprise was to
2 increase the number of patients flowing through this connected group of Defendants
3 and to thereafter submit fraudulent bills to State Fund in connection with the
4 medical services provided to them (often those services offering Defendants the
5 highest profit margins). Defendants pursued and accomplished their goals under the
6 direction of the Individual Defendants using a variety of methods: inflating bills
7 (sometimes through "middleman" or shell companies), double-billing with other
8 entities, concealing the true cost and nature of the services or medications provided,
9 and concealing the true nature of their businesses and contractual relationships with
10 medical providers and groups in order to hide their illegal activities.²

11 20. As a specific example of PSPM's control over the practices of
12 contracting physicians (and corporate practice of medicine), PSPM wrote a letter to
13 doctors in 2006 reminding them that PSPM controlled all referrals from the doctors,
14 including surgeries, pain management, pharmaceuticals, and psychiatric evaluations.
15 The letter explicitly states that "[a]ccording to our management agreement all
16 referrals from your office are to be coordinated by PSPM." PSPM then went on to
17 specifically demand referrals for: pain management physicians, psychological and
18 psychiatric consultations, MRIs, and durable medical equipment. The paragraph on
19 psychological and psychiatric consultation referrals demands that all referrals be
20 "through PSPM to Dr. Zubrick," no matter the patient's wishes nor the physician's
21 judgment, because referring to other specialists "severely reduces the revenue from
22

23 ² The document also references "DME" and "MRI." In his deposition on
24 October 24, 2014, Matthew Umbs—Pharmacy Defendants' CFO and/or economic
25 consultant—testified that another Drobot Jr. entity, Advanced Pharmacy Services,
26 received "commissions" from durable medical equipment ("DME") companies in
27 connection with DME sales to certain customers. Drobot Sr. also has a DME
28 company, PSPM-DME, Inc., to which State Fund has paid over \$4 million. In his
Plea Agreement, Drobot Sr. admitted to paying kickbacks for DME and MRIs. Plea
Agreement at 15.

1 our management contracts." The letter makes clear that PSPM "need[s] this revenue
2 in order to survive and [] must take an aggressive approach to ensure [PSPM]
3 capture[s] all revenues that are available."

4 21. The letter, signed by Drobot Sr., also directs the physician to complete
5 "an accounts receivable purchase agreement" in order for CPM to be able to collect
6 payments from State Fund under its own tax identification number for
7 pharmaceuticals prescribed through its in-office physician dispensing programs.
8 Then, despite instructing physicians to sign those purchase agreements, PSPM
9 assures physicians that "we can proceed as normal to collect a significant amount of
10 receivable from State Fund" and that nothing would change from the existing
11 management agreements in which physicians were to receive a percentage of the
12 collections. The letter asks the physician to fax the sham agreement to Drobot Jr.'s
13 attention, and closes with an exhortation to "Help Us Keep The Pharmacy Alive."

14 22. In another example of PSPM's control over the physicians' practices,
15 Drobot Sr. sends an email on January 4, 2010 to a spinal surgeon who had a
16 dispensing agreement with IPM stating, "PSPM cannot survive without a reduction
17 in expenses . . . what we need to accomplish with your office is the elimination of
18 paying your PA and your malpractice insurance. This is a \$20,000 per month
19 reduction in our costs and a \$20,000 increase in yours." Thus, the physician
20 assistants ("PAs") who often prescribed medications under CPM/IPM's dispensing
21 agreements with medical providers were, on information and belief, hired and paid
22 by PSPM or FMM.

23 23. To assist in coordinating the scheme, the Defendants share the same
24 offices, the same addresses, and the same personnel. For example, in a prior case,
25 Drobot Jr. submitted a sworn declaration admitting that: "CPM does not employ or
26 pay pharmacy technicians. The pharmacy technicians are obtained through a third-

27
28

1 party registry, First Medical Management ("FMM"), owned by Michael Drobot, Sr.,
2 my father."³

3 24. Moreover, corporate formalities were often ignored for these Drobot
4 entities. For example, in a series of emails recently produced by third-party
5 Seaspine, Inc., a "Staff Accountant" for PSPM represented International Implants in
6 communications to Seaspine, Inc., using a "@healthsmartcorp.com" email address.⁴
7 Then, only a few months later, the same employee represented International
8 Implants as a "Staff Accountant" for FMM, using the same email address.

9 25. Similarly, Vonda Ray, another FMM employee, simultaneously
10 represented IPM, CPM, LBPP, and Advanced Practice Services (another entity
11 owned by Drobot Jr.), as shown in an email produced in this litigation by
12 Defendants.

13 26. Thus, FMM and PSPM, as with other entities run by Drobot Sr. and
14 Drobot Jr., were conduits for the conduct of the other entities and individuals in the
15 Surgical and Pharmacy Defendant Enterprises.⁵

18 ³ Declaration of Michael Drobot in Support of Special Motion to Strike
19 Complaint ¶ 9, *Zenith Ins. Co. v. CPM*, Los Angeles Superior Court, Case No.
20 BC406917.

21 ⁴ On information and belief, Healthsmart Corporation was the "corporate
22 umbrella" or "corporate office" under which other Drobot-controlled entities were
23 created and/or managed, including CPM and IPM. In 2001, Healthsmart
24 Corporation changed its name to First Medical Staffing, Inc., and in 2002, the name
25 was changed to First Medical Management, Inc. Thus, California Secretary of State
records suggest that Healthsmart Corporation and Defendant FMM are the same
entity.

26 ⁵ In his deposition on October 15, 2014, Drobot Sr. invoked his Fifth
27 Amendment right against self incrimination nearly every time he was questioned
28 about the conduct of PSPM and FMM, resulting in over fifty invocations during his
deposition on topics relating to PSPM and FMM.

1 27. Furthermore, the Surgical and Pharmacy Defendants are connected
2 through the Individual Defendants, both of whom were involved in both enterprises.
3 Defendants admit that Drobot Sr. concurrently owned and managed the Surgical
4 Defendants and the Pharmacy Defendants at least until 2010. While Drobot Sr.
5 owned the Pharmacy Defendants, Drobot Jr. ran them, serving as Chief Operating
6 Officer of CPM and IPM since around the time of their formation in 2002 and 2003,
7 respectively. On information and belief, Drobot Jr. also served as President of CPM
8 at least as early as 2006. According to CPM and IPM, Drobot Sr.'s ownership
9 interests in CPM and IPM were transferred to Drobot Jr. in 2010.

10 28. Drobot Jr. was also involved in the Surgical Defendant Enterprise. For
11 example, documents produced in this litigation show Drobot Jr. facilitating the
12 referral of patients to Defendant Pacific Hospital while encouraging doctors to
13 contract with CPM/IPM. In an email to a spinal surgeon dated November 10, 2010,
14 Drobot Jr. states, "attached above you will find the original 4 Spine cases that I
15 faxed... with a confirmed delivery notice. Like the 5 I gave you today, please do
16 what you can to make sure that the cases go to Pacific if there is a need for surgery.
17 If you engage [IPM] again I believe I can send 10-15 of these a month." Two days
18 later the spinal surgeon responds to Drobot Jr., declining to engage IPM despite
19 Drobot Jr.'s promise that IPM would "guarantee" a minimum payment of \$40,000
20 for the surgeon's pharmaceutical business, but assuring, "[o]n the patients you
21 referred, if you still want me to see them, I will be sure to do surgery at Pacific
22 Hospital if they come to surgery." Drobot Jr. replies, "please see them and send
23 them to Pacific."

24 29. Similarly, other emails show Drobot Jr. facilitating the payment of
25 monthly "rent" to a physician who referred spinal cases to Pacific Hospital pursuant
26 to what appears to be a sham sublease agreement between the physician and PSPM
27 (an agreement signed by Drobot Sr.). The documents further suggest that Drobot Jr.
28 arranged for monthly payments of at least \$15,000 to be made to the physician for

1 his pharmaceutical referrals under a purported dispensing agreement with CPM.
2 When asked about the purported “rent” payments to this physician, Drobot Jr.'s role
3 in facilitating those payments, and CPM's dispensing agreement with the physician,
4 Drobot Sr. invoked his Fifth Amendment right against self-incrimination and
5 refused to respond.

6 30. Furthermore, according to Pacific Hospital testimony during a Rule
7 30(b)(6) deposition on September 26, 2014, Drobot Jr. also worked at Pacific
8 Hospital in the Purchasing Department for at least some period of time, focusing on
9 the supply chain "because that was his specialty." According to this testimony, this
10 department was responsible for negotiating purchases and discounts of "every
11 supply that's used in the hospital." Drobot Sr. himself confirmed during his
12 deposition on October 15, 2014 that Drobot Jr. worked for Pacific Hospital,
13 including that he negotiated some contracts on behalf of the hospital.

14 31. Drobot Jr. also had a Pacific Hospital email address (*i.e.*,
15 michaelr.drobot@phlb.org) and a Healthsmart Corporation email address (*i.e.*,
16 michaelr.drobot@healthsmartcorp.com).

17 32. Additionally, around 2011, Drobot Jr. started Advanced Lab-Services,
18 Inc. (“Advanced Lab”), which billed State Fund for lab services performed on
19 patients of physicians who had agreements with one of the Pharmacy Defendants
20 and/or patients who were scheduled for surgery at Pacific Hospital or treatment at
21 Long Beach Pain. Another Drobot Jr. entity, Advanced Practice Services,
22 coordinated the lab services for the physicians. When the Pharmacy Defendants'
23 CFO, Matthew Umbs, was questioned about these entities during his deposition on
24 October 24, 2014, counsel for the Pharmacy Defendants instructed him not to
25 answer.

26 33. Thus, the Defendants are connected through a vast network of entities
27 owned or controlled by the Drobots. State Fund records indicate that over 8,700
28 claims submitted to State Fund for reimbursement involve at least one Surgical

1 Defendant and one Pharmacy Defendant, further indicating a connected flow of
2 patients between and among these Defendant groups.

3 34. State Fund brought this action to recoup payments made to Defendants,
4 who concealed the system of illegal kickbacks, fee-splitting, corporate practice of
5 medicine, and other misconduct, as described below, and to prevent future
6 fraudulent activity by Defendants and others.

7 **II. THE PARTIES**

8 **A. Plaintiff**

9 35. State Fund is a self-supporting, non-profit public enterprise fund that
10 was established by the California Legislature pursuant to California Insurance Code
11 §§ 11770 *et seq.* State Fund provides workers' compensation insurance to California
12 employers with no financial obligation to the public and is the largest provider of
13 workers' compensation insurance in California.

14 **B. Individual Defendants**

15 36. Drobot Sr., on information and belief, is a resident of Corona Del Mar,
16 CA. His links to, and control of, the relevant entities and other Defendants are set
17 forth in detail in the next section, as demonstrated in part through public records,
18 including California Secretary of State records.

19 37. Drobot Jr. is the son of Defendant Drobot Sr. On information and
20 belief, Drobot Jr. is a resident of Orange County, CA. His links to, and control of,
21 the relevant entities and other Defendants are also set forth in detail in the next
22 section, as demonstrated in part through public records, including California
23 Secretary of State records.

24 **C. Surgical, Pharmacy, and Administrative Defendants and Control** 25 **Allegations**

26 38. Defendant Healthsmart is, and at all relevant times was, a California
27 corporation, with its principal place of business at 2776 Pacific Avenue, Long
28 Beach, CA 90806. In 1996, Drobot Sr. signed the Certificate of Amended

1 Incorporation of Healthsmart, filed with the California Secretary of State on
2 December 24, 1996, as its President, and in 1997, filed a Certificate of
3 Determination for Healthsmart, as Chairman of the Board and President (filed with
4 the California Secretary of State on March 18, 1997). In the most recent Statements
5 of Information on file with the California Secretary of State, Drobot Sr. was listed as
6 Chief Executive Officer and a Director of Healthsmart.

7 39. Defendant Pacific Hospital was at all relevant times a California
8 corporation, and a for-profit hospital that specialized in surgeries in general, and
9 orthopedic and spinal surgeries in particular, with its principal place of business at
10 2776 Pacific Avenue, Long Beach, CA 90806, up until its assets were purportedly
11 sold around October 2013. *See* the above paragraph regarding Drobot Sr.'s control
12 of the Healthsmart entity which, on information and belief, mirrored that of Pacific
13 Hospital. Further, Pacific Hospital filed a corporate disclosure statement in this
14 case, listing Abrazos Healthcare, Inc. as the parent corporation; California Secretary
15 of State records indicate that Abrazos Healthcare, Inc. is located at 20377 SW
16 Acacia Street, Newport Beach, CA 92660, which is the headquarters for the
17 Pharmacy Defendants described below. Drobot Sr. is listed as the principal of
18 Abrazos Healthcare, Inc. The disclosure statement also references Mickey Medical,
19 Inc. as the holding company of Abrazos Healthcare, Inc.; California Secretary of
20 State records list Mickey Medical, Inc. as having the same Acacia Street address,
21 with Drobot Sr. as the principal. Pacific Hospital also occupied 1740 Pacific
22 Avenue, Long Beach, CA 90813, which was owned by Mickey Motors, LLC up
23 until August 2013. Secretary of State records reflect that Drobot Sr. is the manager
24 of Mickey Motors, LLC.

25 40. Many of the employees of Healthsmart and Pacific Hospital were
26 supplied by Defendant FMM and many of the properties occupied by Pacific
27 Hospital were purportedly leased by Defendant PSPM. Indeed, documents from
28

1 third parties reveal significant payments made from Pacific Hospital to FMM and
2 PSPM.

3 41. Defendant Long Beach Pain is, and at all relevant times was, a
4 California corporation. Long Beach Pain, on information and belief, has a physical
5 location at 2760 Pacific Avenue, Long Beach, CA 90806 (the same block as Pacific
6 Hospital), and, on information and belief, is associated with Pacific Hospital in
7 terms of patient referrals, doctor privileges, and industry publications. According to
8 California Secretary of State records, Long Beach Pain headquarters are *also* located
9 at 20377 SW Acacia Street, Newport Beach, CA 92660. According to the most
10 recent Statement of Information on file with the California Secretary of State (May
11 18, 2012), Drobot Sr. is listed as Chief Executive Officer, Secretary, and a director
12 of Long Beach Pain. Further, Long Beach Pain has filed a corporate disclosure
13 statement in this Court noting that PSPM is its parent corporation. California
14 Secretary of State records list the same Acacia Street, Newport Beach address for
15 Defendant PSPM, and indicate that Drobot Sr. is also the principal of Defendant
16 PSPM.

17 42. Defendant International Implants is, and at all relevant times was, a
18 California limited liability company. International Implants is *also* located at 20377
19 SW Acacia Street, Newport Beach, CA. The involvement of International Implants
20 is laid out in the Plea Agreement for Defendant Drobot Sr., *USA v. Drobot*, No.
21 8:14-cr-00034-JLS-DOC-7 at 14-16 (C.D. Cal. Feb. 21, 2014). International
22 Implants was owned and controlled by Drobot Sr. according to the Plea Agreement,
23 and, on information and belief, was not only staffed with employees from Defendant
24 FMM, but was also involved with PSPM (both Drobot Sr.-controlled entities).

25 43. Defendant IPM is, and at all relevant times was, a California
26 corporation. IPM's website states that it helps dispense medications to patients in
27 doctor's offices, and, according to California Secretary of State records, is *also*
28 located at 20377 SW Acacia Street, Newport Beach, CA, although it states that IPM

1 also has a sales office located in Baltimore, Maryland. IPM also leased property
2 from Mickey Motors, LLC though at least 2013, while Drobot Sr. served as manager
3 of Mickey Motors, LLC. In the Statement of Information filed with the California
4 Secretary of State on September 7, 2007, Drobot Sr. was listed as the sole manager
5 for IPM. In its May 31, 2011 Statement of Information, Drobot Jr. was listed as the
6 sole manager. Drobot Jr. acted as an officer of IPM since around the time of its
7 formation in 2003. IPM was also staffed with employees from FMM.

8 44. Defendant CPM underwent a merger in or around 2010 and became
9 IPM, on information and belief. Following the merger, CPM was no longer a valid
10 California entity and had no right to conduct business, on information and belief.
11 CPM nonetheless continued to bill State Fund for prescription medications well into
12 2012. According to California Secretary of State records, CPM is (or was) *also*
13 located at 20377 SW Acacia Street, Newport Beach, CA 92660. In the Certificate
14 of Merger on file with the California Secretary of State, dated January 28, 2010 but
15 filed August 17, 2010, Drobot Sr. signed as the manager of both the surviving entity
16 (IPM) *and* the disappearing entity (CPM). Drobot Jr. served as Chief Operating
17 Officer of CPM since around the time of its formation in 2002. Drobot Jr. also
18 served as President of CPM at least as early as 2006. Drobot Jr.'s role included, for
19 example, representing CPM at a Public Hearings before the State of California
20 Department of Industrial Relations (*see* Transcript of Public Hearing at 74-76,
21 Workers' Compensation Proposed Regs., Official Medical Fee Schedule –
22 Pharmaceuticals, Oct. 31, 2006) and negotiating and entering contracts on behalf of
23 CPM. According to Drobot Sr.'s deposition testimony, Drobot Jr. "ran the operation
24 on a day-to-day basis underneath [Drobot Sr.'s] direction," including entering into
25 contracts on behalf of CPM. Furthermore, both Individual Defendants
26 simultaneously held an ownership interest in CPM before it merged into IPM.
27 Drobot Sr.'s ownership interests in CPM were transferred to Drobot Jr. in 2010.
28 CPM was also staffed with employees from FMM.

1 45. Defendant Coastal is, and at all relevant times was, a California
2 corporation. According to California Secretary of State records, Coastal's principal
3 executive office is *also* located at 20377 SW Acacia Street, Newport Beach, CA
4 92660, with an additional street address of 2632 Pacific Avenue in Long Beach. In
5 the most recent Statement of Information with the California Secretary of State
6 (October 29, 2010), Drobot Jr. is listed as the Chief Executive Officer, Chief
7 Financial Officer, and a director of Coastal. [REDACTED]

8 [REDACTED]
9 46. Defendant LBPP is, and at all relevant times was, a California
10 corporation. According to California Secretary of State records, LBPP's executive
11 office is *also* located at 20377 SW Acacia Street, Newport Beach, CA 92660, and
12 also has a place of business on Pacific Avenue in Long Beach, CA (near Pacific
13 Hospital). In response to requests for admission, Defendant LBPP admitted that
14 Drobot Sr. "associated with and acted on behalf of [LBPP] from its inception until
15 late July or early August, 2010 when Michael D. Drobot, Sr. sold his interests in
16 certain aspects of [LBPP] to Michael R. Drobot, Jr." In its most recent Statement of
17 Information filed with the California Secretary of State (December 28, 2011),
18 Drobot Jr. is listed as the Chief Executive Officer, Secretary, and a director. [REDACTED]

19 [REDACTED]
20 [REDACTED]
21 47. Defendant MMG is, and at all relevant times was, a California limited
22 liability company. According to California Secretary of State records, MMG is *also*
23 located at 20377 SW Acacia Street, Newport Beach, CA 92660. In MMG's Articles
24 of Incorporation, filed with the California Secretary of State on March 21, 2011,
25 Drobot Jr. is listed as the initial agent for service of process, and in the Statement of
26 Information filed on April 13, 2011, Drobot Jr. is listed as the sole manager for
27 MMG. On information and belief, MMG was also staffed with employees from
28 FMM.

1 48. Defendant PSPM is, and at all relevant times was, a California
2 corporation, with its principal place of business also at 20377 SW Acacia Street,
3 Newport Beach, CA 92660. PSPM is the parent entity of Long Beach Pain and
4 holds a significant ownership interest in International Implants. In PSPM's Articles
5 of Incorporation, filed with the California Secretary of State on May 1, 1998, Drobot
6 Sr. is listed as the initial agent for service of process, and on PSPM's Statement of
7 Information filed on May 31, 2011 Drobot Sr. is the only officer listed (the
8 subsequent Statement of Information filed on May 19, 2013 indicates that there was
9 no change in the preceding statement). As described below, on information and
10 belief, the Individual Defendants used PSPM to enter into fraudulent agreements
11 with medical providers and medical groups, including, but not limited to, option and
12 rental agreements, in order to conceal the payment of kickbacks for the medical
13 providers' participation in the Defendants' fraud schemes. Upon information and
14 belief, PSPM was the alter ego of the Individual Defendants and a conduit of CPM,
15 IPM, Healthsmart, International Implants, and LB Pain.

16 49. Defendant FMM is, and at all relevant times was, a California
17 corporation. According to California Secretary of State records, FMM is *also*
18 located at 20377 SW Acacia Street, Newport Beach, CA 92660. According to
19 Secretary of State records, FMM was formerly First Medical Staffing, Inc., which
20 was formerly Healthsmart Corporation. Drobot Sr. signed as the President and
21 Secretary of FMM on the October 9, 2002 Certificate of Amendment to the Articles
22 of Incorporation. The April 15, 2014 Statement of Information for FMM indicates
23 that Drobot Sr. is the Chief Executive Officer, Randolph Taylor is the Secretary, and
24 G. William Hammer is the Chief Financial Officer of FMM. FMM entered into
25 various agreements with the Pharmacy Defendants and Surgical Defendants,
26 pursuant to which they, among other things, supplied employees to those
27 Defendants. Moreover, according to the recent deposition testimony of Matthew
28 Umbs, FMM not only supplied employees, but it also provided information

1 technology services to the Pharmacy and Surgical Defendants. Upon information
2 and belief, FMM was the alter ego of the Individual Defendants and a conduit of the
3 other Drobot-controlled entities.

4 50. Collectively, these entities are referred to herein as the "Entity
5 Defendants."

6 51. The overlap in ownership, officers, personnel, management, addresses,
7 and operations demonstrate that the Entity Defendants and Individual Defendants
8 are alter egos of each other. Corporate formalities were often ignored. On
9 information and belief, many of the entities did not maintain corporate meeting
10 minutes or regularly elect directors. Furthermore, the Individual Defendants acted
11 with disregard for the separate nature of each entity. On information and belief, the
12 Drobots owned and/or controlled several other entities that similarly functioned as
13 mere conduits through which the overall scheme was implemented. The Individual
14 Defendants' network of shell companies ensures that their unlawful acts remain
15 hidden and victims and the courts are unable to easily identify the responsible party
16 or track the flow of money.

17 **D. DOE Defendants**

18 52. State Fund is unaware of the true names and capacities, whether
19 individual, corporate, associate or otherwise, of those defendants named herein as
20 DOES 1 through 10, inclusive. State Fund sues DOES 1 through 10 by fictitious
21 names. State Fund will seek leave to amend this complaint to show their true names
22 and capacities when the same have been ascertained. Said defendants are sued as
23 principals, and all of the acts performed by them as agents, servants or employees
24 were performed within the scope and course of their authority and employment.
25 State Fund is informed and believes, and thereon alleges, that each of the fictitiously
26 named defendants is responsible for the events, harm, and damages as alleged
27 herein.

28

1 53. State Fund is further informed and believes, and thereon alleges, that
2 each of the defendants was the co-conspirator of each and every other defendant
3 and, in performing the acts herein alleged, was acting within the scope of such
4 conspiracy, and that such actions were reasonably foreseeable to each of the other
5 co-conspirators, and/or were taken with the express or implied consent of each of
6 the other co-defendants.

7 54. The named and DOE defendants are occasionally referred to
8 collectively as "Defendants."

9 **III. JURISDICTION AND VENUE**

10 55. This Court has subject matter jurisdiction over this action pursuant to
11 28 U.S.C. § 1331 because it arises under 18 U.S.C. § 1961 *et. seq.*, the Racketeering
12 Influenced and Corrupt Organizations Act ("RICO"). This Court has supplemental
13 jurisdiction over State Fund's state law claims under 28 U.S.C. § 1367(a).

14 56. Venue is proper in the Central District of California under 28 U.S.C.
15 § 1391, because all or almost all Defendants reside in this District, and a substantial
16 portion of the events or omissions giving rise to the claims herein occurred in this
17 District. Venue is proper in the Southern Division because, based on information
18 from the California Secretary of State and other sources, a majority of Defendants
19 reside in this Division, and Plaintiff State Fund has an office in Santa Ana.

20 **IV. STATE FUND AND ITS CLAIMS PROCESS**

21 57. State Fund provides workers' compensation insurance policies to
22 employers, under which medical treatment and compensation benefits are provided
23 to employees who are injured or become ill during the course of employment, or due
24 to employment-related injury. In California, every employer is required to carry
25 insurance to cover the cost of occupational injuries and illnesses. This is also true
26 for California offices or branches of multistate or multinational corporations,
27 meaning the system itself has a significant impact on interstate commerce.
28

1 58. State Fund pays medical providers for medical services provided to
2 covered workers, including spinal implants, other spinal surgeries, and a wide
3 variety of other procedures. State Fund also pays medical providers for prescription
4 drugs supplied to injured workers.

5 59. In order to receive reimbursement from State Fund for Medical
6 Services, providers submit a Health Insurance Claim Form or other types of bills to
7 State Fund. The Health Insurance Claim Form includes, among other things,
8 warning language that any person who knowingly files a claim containing any
9 misrepresentation or any false, incomplete, or misleading information may be guilty
10 of a criminal act punishable under law and may be subject to civil penalties.

11 60. State Fund does not knowingly pay for fraudulent bills, including:
12 (a) bills for office visits or medical services not provided; (b) bills for unnecessary
13 medical services; (c) bills that are the product of a provider's employment of
14 runners, cappers, or steerers to solicit or obtain patients for the medical provider; (d)
15 bills involving illegal kickbacks; (e) bills that are "upcoded"; (f) bills that are
16 "unbundled"; and (g) bills that are artificially inflated. State Fund does not
17 knowingly reimburse unlicensed providers or entities, or those who engage in illegal
18 activity such as kickbacks and the corporate practice of medicine, which are
19 violations of the California Labor and Insurance Codes. State Fund also attempts to
20 adhere to all California guidelines and regulations on costs.⁶

21 61. State Fund is generally required to pay all bills within a relatively short
22 statutory period of time pursuant to the California Labor Code and attendant
23 regulations, or face large penalties, with some exceptions. As such, State Fund has a
24

25 ⁶ Some medical procedures are governed by an Official Medical Fee Schedule
26 ("OMFS"), pursuant to Title 8, Article 5.5, Sections 9790 *et seq.* of the California
27 Code of Regulations. The OMFS was promulgated by the Administrative Director
28 of the Division of Workers' Compensation to rein in medical costs and generally ties
provider reimbursement to a multiplier of Medicare's rates for the same service.

1 limited ability to review each bill and corresponding claim prior to paying within the
2 requisite time period. The schemes described in this Amended Complaint are not
3 readily apparent upon the face of the bills, and Defendants have actively sought to
4 conceal their various schemes. This, along with the sheer volume of bills State Fund
5 processes on a daily basis and the fact that State Fund is the largest workers'
6 compensation carrier, makes detection of this fraudulent behavior extremely
7 difficult. While State Fund was sometimes able to detect certain instances of
8 overbilling or double billing, it could not catch them all; Defendants knew this and
9 took advantage of it, purposefully overwhelming the system to maximize their
10 chances of getting their fraudulently inflated bills reimbursed.

11 62. At all times relevant to this Second Amended Complaint, medical
12 providers or their representatives submitted insurance bills to State Fund manually
13 (on paper) through the United States mail or electronically through interstate wire.
14 Representative mailings and/or wire communications for each particular scheme,
15 broken down by entity Defendant, have been lodged with the Court. For each claim
16 submitted, State Fund would send an explanation of benefits ("EOB") and/or related
17 correspondence to the provider via U.S. Postal Service. State Fund also reimbursed
18 providers by sending payment through the United States mail.

19 63. State Fund has paid Pacific Hospital around \$125 million (*see* ¶ 67,
20 n. 7) and Long Beach Pain around \$7.585 million for services purportedly rendered
21 by Pacific Hospital and Long Beach Pain pursuant to workers' compensation
22 policies, not including sums paid on liens, global settlements, and other payments.
23 This includes at least 16,490 bills for services, including spinal surgery and
24 implants.

25 64. State Fund has also paid over \$60 million to the Pharmacy Defendants,
26 not including sums paid on liens, global settlements, and other payments. Of the
27 over \$60 million paid to the Pharmacy Defendants, over \$30 million related to
28 claims for injured workers who were also treated by the Surgical Defendants.

1 65. On information and belief, State Fund is one of the largest victims of
 2 Defendants' unlawful behavior. State Fund has suffered millions of dollars in
 3 damage as a result of the payments it has made to the Surgical and Pharmacy
 4 Defendants and their coconspirators for these procedures, medical services, and
 5 prescriptions. State Fund would not have paid Defendants or their coconspirators
 6 had it known of their unlawful and fraudulent misconduct.

7 66. State Fund is informed and believes, and thereon alleges, that the
 8 Defendants engaged in the following schemes to defraud, broken out by Defendant,
 9 particular scheme, and particular examples of each such scheme. This information
 10 is based on discovery in this litigation, the Plea Agreement, and State Fund's review
 11 of bills and internal reports, which was prompted by the reported service of federal
 12 warrants on Pacific Hospital's and IPM's offices in April 2013 (Section VII below,
 13 "State Fund Uncovers Defendants' Well-Concealed Fraud").

14 **V. FRAUDULENT SCHEMES BY THE SURGICAL DEFENDANT**
 15 **ENTERPRISE**

16 **A. Fraudulent Scheme re: Spinal Implants/Surgeries (Pacific**
 17 **Hospital, International Implants, Individual Defendants, and**
 18 **Administrative Defendants)**

19 67. From 1998 to the present, State Fund has received thousands of bills
 20 and claims relating to spinal surgery from Pacific Hospital. The spinal
 21 implant/surgery claims that Pacific Hospital submitted to State Fund were
 22 fraudulent.⁷

23
 24
 25 ⁷ State Fund reserves the right to amend its Second Amended Complaint to
 26 add additional claims and increased damages if material is uncovered in discovery
 27 or through expert analysis. State Fund continues to investigate, for example, the
 28 approximately \$125 million in payments to Pacific Hospital as well as payments
 made to the Pharmacy Defendants and related entities.

1 68. Before January 1, 2013, providers were entitled to reimbursement
2 provided under the Official Medical Fee Schedule based on the cost of the implant.
3 Because the reimbursement amount depends on how much the provider paid for the
4 implant, Pacific Hospital and Drobot Sr. sought to defraud State Fund by
5 establishing shell entities, and holding them out as manufacturers of spinal implants,
6 according to the Plea Agreement. Drobot Sr. and Pacific Hospital then arranged to
7 acquire spinal hardware from the shell entities or a "co-schemer's company" at
8 fraudulently excessive costs. These Defendants knew the fraudulent invoices did
9 not reflect the actual or reasonable cost of the implants, which was significantly
10 lower.

11 69. In or around August of 2007, Drobot Sr. formed International Implants.
12 Pacific Hospital, Drobot Sr., and International Implants represented International
13 Implants as a manufacturer of spinal implants. Such a manufacturer must be
14 registered with the United States Food and Drug Administration ("FDA"). In fact,
15 many of the International Implants invoices submitted to State Fund included the
16 legend that it was an "FDA registered manufacturer." *See* Plea Agreement at 17.
17 However, State Fund, pursuant to its investigation, discovered that the FDA lists
18 International Implants as a "repackager," not a manufacturer.

19 70. This scheme centers on inflating the prices of implants used in spinal
20 surgery. Physicians performing surgeries at Pacific Hospital would "order" implants
21 from an implant repackager, including International Implants. The repackager
22 would purchase the implants from a manufacturer of implants like Seaspine, Inc.,
23 Alphatec Spine, Inc., and US Spine, Inc., and then would "sell" the implants to
24 Pacific Hospital at a grossly inflated price. Pacific Hospital would then typically
25 double the price of the "documented" cost from International Implants and often
26 added an additional charge. Pacific Hospital then would bill State Fund the grossly
27 inflated prices. A kickback is paid to the medical provider who referred and/or
28 performed the surgery at Pacific Hospital using the implants from International

1 Implants or another coconspirator company under the guise of an unrelated
2 contractual agreement.

3 71. These charges are fraudulent because Pacific Hospital actually pays
4 only a small percentage of the prices reflected on the invoices or purchase orders
5 submitted to State Fund, in addition to being illegal because of the kickbacks
6 provided.

7 72. To create the illusion that Pacific Hospital actually paid the grossly
8 inflated prices, International Implants, for example, transmitted to Pacific Hospital
9 invoices listing the fraudulent prices. Pacific Hospital then sent these invoices or
10 purchase orders reflecting the same fraudulent prices to State Fund, representing that
11 it had paid the false wholesale invoice or purchase order amounts. In reality, the
12 price on the invoice and purchase order is not the actual and reasonable cost of the
13 implant, but is grossly inflated.

14 73. Pacific Hospital also sent claims forms and progress reports to State
15 Fund with certifications as to the propriety of the bills and underlying procedures.
16 The medical providers who signed these forms signed subject to the various
17 certifications, knowing that they were false or recklessly without knowledge of their
18 truth or falsity.

19 74. By engineering and participating in these sham transactions, Pacific
20 Hospital and the Individual Defendants reaped substantial profit from the scheme, as
21 described in more detail below.

22 75. The involved Defendants misrepresented that: (a) the costs Pacific
23 Hospital purportedly incurred in purchasing implants from International Implants or
24 another coconspirator entity were the actual and reasonable cost of the implants,
25 when in fact the prices reflected on the invoices were much greater than the prices
26 actually paid to manufacturers; (b) the supplies were ordered by a physician based
27 on medical necessity and the independent medical judgment of the physician, when
28 in fact the involved Defendants and their coconspirators were influencing the

1 medical decisions of physicians by providing them with kickbacks and controlling
2 their medical operations through fraudulent management contracts; and (c) Pacific
3 Hospital and International Implants (or another co-schemer company) were
4 independent companies conducting bona fide business transactions, when in fact the
5 Drobot Sr. owned and/or controlled both Pacific Hospital and International
6 Implants.

7 76. These Defendants each knew or believed that these statements were
8 false and/or misleading. They made the false and/or misleading statements and
9 certifications to induce State Fund and others to overpay for the medical services
10 and supplies provided.

11 77. Defendants made use of the United States mail and interstate wires in
12 furtherance of their scheme, by sending the bills and supporting documentation to
13 State Fund through the United States mail or interstate wires. They also collected
14 their checks from State Fund via the U.S. Postal Service.

15 78. As an example, Exhibit 1.A contains documents from Pacific Hospital
16 and International Implants, sent to State Fund, to commit precisely this type of fraud
17 on State Fund on or shortly after September 2, 2011.

18 a. On or shortly after September 2, 2011, Pacific Hospital
19 submitted a bill to State Fund (Claim #SP401079) via the U.S. Postal Service for,
20 among other things, spinal implants. Pacific Hospital billed the spinal implants and
21 related hardware at \$161,952.00, which Pacific Hospital and other Defendants knew
22 misrepresented the amount of reimbursement to which Pacific Hospital was entitled.
23 State Fund was also provided, via the U.S. Postal Service, with two invoices from
24 International Implants purportedly showing the prices paid by Pacific Hospital for
25 these items. The invoices listed prices for spinal implant hardware several times
26 higher than the prices Pacific Hospital actually paid. Pacific Hospital purchase
27 orders were also submitted with the bills. The purchase orders listed the same items
28 and the same prices as the International Implants invoices.

1 b. Both invoices from International Implants represent that
 2 "International Implants is an FDA Registered Manufacturer." One of the invoices,
 3 dated August 15, 2011, shows the following supplies were purchased from
 4 International Implants, along with the fraudulent prices Pacific Hospital purportedly
 5 paid:

6 Qty	Product ID	Description	I.I. Price Each	Total
7 1	64715-106	Novel XS-Peek 5 Degrees Medium 8 Spacer 14mm x 12mm x 5mm	\$4,000.00	\$4,000.00
9 1	64713-106	8-5, Novel XS Peek 5mm	\$4,000.00	\$4,000.00
10 1	64713-105	8-5, Novel XS Peek 6mm	\$4,000.00	\$4,000.00
11 1	64713-107	8-5, Novel XS Peek 7mm	\$4,000.00	\$4,000.00
12 1	61001-014	Anterior Cervical Plate LVL 1, 13 Assy, 14mm, TI	\$3,385.00	\$3,385.00
14 1	61003-054	Anterior Cervical Plate Level 3 15 Assembly, 54mm	\$4,407.00	\$4,407.00
16 9	61340-014	4.0mm Variable Angle Self- 17 Tapping Screw 14mm	\$692.00	\$6,228.00
18 3	61345-014	4.5mm Variable Angle Self- 19 Tapping Screw 14mm, TI	\$786.00	\$2,368.00
20 2	64715-105	M-5, Novel XS-Peek 5mm	\$4,000.00	\$8,000.00

21 c. Pacific Hospital represented the prices above as the actual cost of
 22 the implants and other hardware, but the prices actually paid for these items, based
 23 on the Distribution Agreement between ██████████ and International Implants (*see*
 24 Exhibit 1.B), show they were not:
 25
 26
 27
 28

Qty	Product ID	Description	I.I. Price	Price	Spread	% Markup
1	64715-106	Novel XS-Peek 5 Degrees Medium Spacer 14mm x 12mm x 5mm	\$4,000.00	\$875.00	\$3,125.00	357%
1	64713-106	8-5, Novel XS Peek 5mm	\$4,000.00	\$875.00	\$3,125.00	357%
1	64713-105	8-5, Novel XS Peek 6mm	\$4,000.00	\$875.00	\$3,125.00	357%
1	64713-107	8-5, Novel XS Peek 7mm	\$4,000.00	\$875.00	\$3,125.00	357%
1	61001-014	Anterior Cervical Plate LVL 1, Assy, 14mm, TI	\$3,385.00	\$873.00	\$2,512.00	288%
1	61003-054	Anterior Cervical Plate Level 3 Assembly, 54mm	\$4,407.00	\$1,136.00	\$3,271.00	288%
9	61340-014	4.0mm Variable Angle Self-Tapping Screw 14mm	\$692.00	\$178.00	\$514.00	289%
3	61345-014	4.5mm Variable Angle Self-Tapping Screw 14mm, TI	\$786.00	\$202.00	\$584.00	289%
2	64715-105	M-5, Novel XS-Peek 5mm	\$4,000.00	\$875.00	\$3,125.00	357%

d. For each of these items, International Implants listed a price on its invoices that far exceeded what it paid [REDACTED]—which in these examples

1 represented the actual cost of the implants and other hardware. On the first invoice,
2 International Implants—and thus, Pacific Hospital—actually paid \$9,467.00 for the
3 implants and hardware, not the \$40,378.00 represented on the invoice submitted to
4 State Fund. Similarly, the second invoice from International Implants that was
5 submitted to State Fund, dated August 16, 2011, purports to charge Pacific Hospital
6 \$33,621 for implants and hardware that actually cost Pacific Hospital \$8,838.

7 e. When the items listed on the two invoices from International
8 Implants are priced using the [REDACTED] Distribution Agreement, the total comes to
9 \$18,305. In other words, under the [REDACTED] Distribution Agreement, Pacific
10 Hospital effectively paid only \$18,305 for the items listed on the two invoices from
11 International Implants, yet billed State Fund around \$148,148.00 for the same
12 items—more than eight times the amount it paid. State Fund paid approximately
13 \$110,000 for the implants listed on the invoices from International Implants, which
14 is over six times the actual cost.

15 f. State Fund paid at least \$202,660.32 in total on bills relating to
16 the spinal surgery procedure under this claim, relying on certifications that the bill
17 was not the product of an illegal kickback or other fraudulent activity in addition to
18 the fraudulent purchase orders and invoices submitted by Pacific Hospital.

19 79. As another example, Exhibit 1.C contains documents from Pacific
20 Hospital and International Implants, sent to State Fund, to commit precisely this
21 type of fraud on or shortly after March 30, 2010.

22 a. On or shortly after March 30, 2010, Pacific Hospital submitted a
23 bill to State Fund (Claim #01067019) via the U.S. Postal Service for, among other
24 things, spinal implants. Pacific Hospital billed the spinal implants and related
25 hardware at \$90,282.00, which Pacific Hospital and other Defendants knew
26 misrepresented the amount of reimbursement to which Pacific Hospital was entitled.
27 State Fund was also provided, via the U.S. Postal Service, with a Pacific Hospital
28 purchase order and International Implant invoice purportedly showing the prices

1 paid by Pacific Hospital for these items. The purchase order listed prices for spinal
2 implants and hardware several times higher than the prices Pacific Hospital actually
3 paid.

4 b. The purchase order lists the following supplies from
5 International Implants, along with the fraudulent prices Pacific Hospital supposedly
6 paid:

Qty	Product ID	Description	I.I. Price Each	Total
4	62065-45	6.5 x 45 Poly Implant Screw	\$2,364.00	\$9,456.00
2	62075-40	7.5 x 40 Poly Implant	\$2,364.00	\$4,728.00
2	64815-012	12mm SD Peek	\$6,009.00	\$12,018.00
2	64815-014	9 x 25 x 14 SD Med Peek	\$6,009.00	\$12,018.00
6	22015	Set Screw	\$396.00	\$2,376.00
2	62004-07	70mm Rod Curved	\$868.00	\$1,736.00
1	11-2053	Medium Cross Link	\$2,734.00	\$2,734.00

15 c. Pacific Hospital represented the prices above as the actual cost of
16 the implants and other hardware, but the prices actually paid for these items, based
17 on the Distribution Agreement between [REDACTED] and International Implants
18 (Exhibit 1.B) show they were not:

Product ID	Description	I.I. Price	[REDACTED] Price	Spread	% Markup
62065-45	6.5 x 45 Poly Implant Screw	\$2,364.00	\$712.50	\$1,651.50	232%
62075-40	7.5 x 40 Poly Implant	\$2,364.00	\$712.50	\$1,651.50	232%
64815-012	12mm SD Peek	\$6,009.00	\$1,250.00	\$4,759.00	381%
64815-014	9 x 25 x 14 SD Med Peek	\$6,009.00	\$1,250.00	\$4,759.00	381%
22015	Set Screw	\$396.00	\$95.00	\$301.00	317%
62004-07	70mm Rod Curved	\$868.00	\$142.50	\$725.50	509%

1	11-2053	Medium Cross Link	\$2,734.00	\$775.00	\$1,959.00	252%
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2 d. For each of these items, International Implants listed a price that
3 far exceeded what it paid Alphatec—which in these examples represented the actual
4 cost of the implants and other hardware.

5 e. Pacific Hospital billed State Fund \$90,282.00 for the items on
6 the March 30, 2010 purchase order. When the items on the Pacific Hospital
7 purchase order are priced using [REDACTED] Distribution Agreement, the total comes to
8 \$10,905.00. In other words, under the [REDACTED] Distribution Agreement, Pacific
9 Hospital effectively paid only \$10,905.00 for the items listed on the Pacific Hospital
10 purchase order, yet billed State Fund \$90,282.00 for the same items, more than eight
11 times the amount it paid. State Fund paid around \$51,395.94 for the implants listed
12 on the purchase order from International Implants, over four times the actual cost of
13 those implants.

14 f. State Fund paid at least \$94,352.73 in total on bills relating to the
15 spinal surgery procedure under this claim, relying on certifications that the bill was
16 not the product of an illegal kickback or other fraudulent activity in addition to the
17 fraudulent invoices and purchases orders submitted by Pacific Hospital.

18 80. As another example, Exhibit 1.D contains documents from Pacific
19 Hospital and International Implants, to commit precisely this type of fraud on State
20 Fund on or shortly after March 17, 2009.

21 a. On or shortly after March 17, 2009, Pacific Hospital submitted a
22 bill to State Fund (Claim #01048725) via the U.S. Postal Service for, among other
23 things, spinal implants. Pacific Hospital billed the spinal implants and related
24 hardware at \$83,980.00, which Pacific Hospital and other Defendants knew
25 misrepresented the amount of reimbursement to which Pacific Hospital was entitled.
26 State Fund was also provided, via the U.S. Postal Service, with a Pacific Hospital
27 purchase order, and other supporting documents from International Implants,
28 purportedly showing the prices paid by Pacific Hospital for these items. The

1 purchase order lists prices for spinal implants and hardware several times higher
2 than the prices Pacific Hospital actually paid.

3 b. The purchase order lists the following supplies from
4 International Implants, along with the fraudulent prices Pacific Hospital purportedly
5 paid:

6 Qty	Product ID	Description	I.I. Price Each	Total
7 2	62004-06	80mm Rod Precontoured	\$789.00	\$1578.00
8 6	22015	Set Screw	\$360.00	\$2,160.00
9 3	62055-45	5.5 x 45 Multi Screw	\$2,149.00	\$6,447.00
10 1	62055-40	5.5 x 40 Implant Screw	\$2,149.00	\$2,149.00
11 2	62065-40	6.5 x 40 Poly Implant Screw	\$2,149.00	\$4,298.00
12 1	11-2053	Medium Cross Link	\$2,485.00	\$2,485.00
13 4	64113-110	10 xx 20 x 10 LCC Peek Cage	\$5,485.00	\$21,940.00

14 c. Pacific Hospital represented the prices above as the actual cost of
15 the implants, but the prices actually paid for these items, based on the Distribution
16 Agreement between [REDACTED] and International Implants (Exhibit 1.B), show they
17 were not:

18 Product ID	Description	I.I. Price	Alphatec Price	Spread	% Markup
19 62004-06	80mm Rod Precontoured	\$789.00	\$118.75	\$670.25	564%
20 22015	Set Screw	\$360.00	\$95.00	\$265.00	279%
21 62055-45	5.5 x 45 Multi Screw	\$2,149.00	\$712.50	\$1,436.50	202%
22 62055-40	5.5 x 40 Implant Screw	\$2,149.00	\$712.50	\$1,436.50	202%
23 62065-40	6.5 x 40 Poly Implant Screw	\$2,149.00	\$712.50	\$1,436.50	202%
24 11-2053	Medium Cross Link	\$2,485.00	\$775.00	\$1,710.00	221%
25 64113-110	10 xx 20 x 10 LCC Peek 26 Cage	\$5,485.00	\$1,704.00	\$3,781.00	222%

1 d. For each of these items, Pacific Hospital listed a price that far
2 exceeded what it paid ██████—which in these examples represented the actual
3 cost of the implants.

4 e. Defendants billed State fund \$83,980.00 for the items supplied
5 on the April 23, 2009 purchase order. When the items on that purchase order are
6 priced using the ██████ Distribution Agreement, the total comes to \$11,195.00. In
7 other words, Pacific Hospital effectively paid \$11,195.00 for these items, yet billed
8 State Fund \$83,980.00—more than seven times what it paid. State Fund paid
9 around \$41,290.00 for the implants from International Implants, which is over three
10 times the actual cost.

11 f. State Fund paid at least \$87,264.99 in total on bills relating to the
12 spinal surgery procedure under this claim, relying on certifications that the bill was
13 not the product of an illegal kickback or other fraudulent activity in addition to the
14 fraudulent invoices and purchase orders submitted by Pacific Hospital.

15 81. These Defendants created and provided such fraudulent invoices and
16 purchase orders to State Fund when Pacific Hospital billed State Fund for spinal
17 implants and related hardware, including, but not limited to, the bills listed in the
18 document titled "Pacific Hospital – Spinal Hardware," lodged with the Court, in
19 order to induce State Fund to overpay for spinal implants. These Defendants caused
20 the fraudulent invoices and purchase orders to be mailed and wired to State Fund.
21 State Fund reasonably relied on the misrepresentations in Pacific Hospital's bills and
22 on the misrepresentations in invoices and purchase orders in issuing payment on the
23 bills. As these Defendants expected, payment was delivered via the U.S. Postal
24 Service.

25 82. Based on State Fund's bill review, International Implants provided
26 around 75% of the spinal implants that Pacific Hospital billed to State Fund since
27 International Implants' formation in 2007. As Defendants knew and intended,
28

1 International Implants fraudulently listed excessive prices for its spinal implants and
2 related equipment. State Fund relied on Defendants' claims and invoices.

3 83. As described below, Pacific Hospital paid, or caused to be paid through
4 the Entity Defendants or other related entities, fees to physicians for referring
5 patients to Pacific Hospital and certain affiliates. Such referral fees are illegal under
6 California and federal law, as admitted and established in the Plea Agreement.
7 Once referred, the hardware could be overbilled in the manner set forth above.

8 84. Pacific Hospital paid, or caused to be paid through the Entity
9 Defendants or other related entities, the illegal referral fees with proceeds from the
10 fraudulently excessive spinal implant and other fees it charged insurers, including
11 State Fund. This illegal scheme allowed Pacific Hospital to acquire additional
12 patients, while further defrauding State Fund.

13 85. As described further below, the Individual Defendants were responsible
14 for devising the fraudulent scheme, and received and controlled profits from it.
15 State Fund is informed and believes, and thereon alleges that the Individual
16 Defendants conducted periodic meetings with medical professionals, staff, and other
17 employees in order to give direction and oversee the scheme. Drobot Sr. was,
18 according to California Secretary of State records, Chief Executive Officer and a
19 director of Healthsmart d/b/a Pacific Hospital. Drobot Sr. admitted in the Plea
20 Agreement that he owns International Implants. Additionally, International
21 Implants is located at the same office as the Pharmacy and the Administrative
22 Defendants. Abrazos Healthcare, Inc., alleged as Pacific Hospital's parent
23 corporation, and Mickey Medical, Inc., also share the same office address and have
24 Drobot Sr. as the principal, according to California Secretary of State records.
25 Moreover, documents produced by third parties show that Drobot Jr. not only sent
26 providers spinal surgery patient referrals, requesting that they be performed at
27 Pacific Hospital, but he also facilitated the payment of illegal kickbacks to providers
28 for those surgeries, under the guise of, for example, rent payments.

1 **B. Billing State Fund for Treatments and Services That Were the**
2 **Product of Illegal Kickbacks and Referral Fees (Pacific Hospital,**
3 **International Implants, Administrative Defendants, and Individual**
4 **Defendants)**

5 86. As admitted in the Plea Agreement, Defendants conspired with dozens
6 of doctors, chiropractors, marketers, and others to pay kickbacks in return for those
7 persons to refer thousands of patients to Pacific Hospital for spinal surgeries and
8 other medical services including "other types of surgeries, magnetic resonance
9 imaging, toxicology, durable medical equipment, and other services," and/or in
10 exchange for the medical providers agreeing to use certain equipment or devices,
11 including devices from International Implants or a co-schemer's company.

12 87. To facilitate and conceal the payment of these kickbacks, Pacific
13 Hospital—often through the various Entity Defendants or other related entities—
14 entered into fraudulent contracts with providers and others under the guise of
15 management agreements, consulting agreements, rental agreements, option
16 agreements, collection agreements, research and development agreements, and
17 marketing agreements.

18 88. These fraudulent contracts also allowed the Defendants to control or
19 influence the medical decisions of the providers, resulting in bills generated by
20 providers that were driven by financial considerations rather than the needs of the
21 patients.

22 89. California Bus. & Prof. Code § 650(a) forbids this specific conduct in
23 prohibiting "the offer, delivery, receipt, or acceptance" by or to any licensed medical
24 provider or chiropractor "of any rebate, refund, commission, preference, patronage
25 dividend, discount, or other consideration, whether in the form of money or
26 otherwise, as compensation or inducement for referring patients, clients, or
27 customers to any person." Moreover, California Bus. & Prof. Code §§ 652
28 and 652.5 provide that violations of the article constitute misdemeanors as to any

1 and all persons, whether or not licensed. California Insurance Code §§ 750 and 754
2 similarly prohibit offering or paying referral fees for services or goods for which
3 reimbursement will or may be made by an insurer.

4 90. Many of the bills and various reports submitted to State Fund for
5 services contained representations that the provider had “not offered, delivered,
6 received or accepted any rebate, refund, commission, preference, patronage,
7 dividend, discount or other consideration, whether in the form of money or
8 otherwise, as compensation or inducement for any referred examination or
9 evaluation.”

10 91. Two of the “Overt Acts” that Drobot Sr. admitted to in the Plea
11 Agreement specifically involve Pacific Hospital submitting a fraudulent bill to State
12 Fund. Drobot Sr. admitted that, “[o]n or about November 10, 2009, defendant
13 caused a check in the amount of \$43,650.00 from SCIF to be sent by mail to Pacific
14 Hospital in reimbursement for a claim for spine surgery on patient J.M. performed
15 by doctor C.D., which claim was induced by the payment of a kickback to J.C.”
16 Plea Agreement at 19. State Fund paid at least \$89,624.99 on the fraudulent bills
17 relating to this surgery.

18 92. Drobot Sr. also admitted that “[o]n or about April 14, 2010, [he]
19 caused a check in the amount of \$90,467.80 from SCIF to be sent by mail to Pacific
20 Hospital in reimbursement for a claim for spine surgery on patient L.T. performed
21 by doctor M.C., which claim was induced by the payment of a kickback to P.S.”
22 Plea Agreement at 20. State Fund paid at least \$141,532.80 on the fraudulent bills
23 relating to this surgery.

24 93. Pacific Hospital, PSPM, FMM, CPM, IPM, and MMG (detailed further
25 below), among other Drobot-related entities, entered into various contractual
26 agreements with medical providers and medical groups. These contractual
27 agreements included rental agreements, management agreements, option
28 agreements, consulting agreements, lending agreements, and pharmaceutical

1 dispensing agreements. As Drobot Sr. admitted in the Plea Agreement, through
2 these agreements Defendants remitted referral fees to medical providers and groups
3 under the guise of contracts for legitimate services.

4 94. For example, Drobot Sr., through PSPM, entered into an "Option
5 Agreement" with an orthopedic surgeon on or around March 15, 2010. [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 95. On information and belief, payments contemplated by this agreement
14 were not really "Option Payments" but illegal kickbacks to be paid to the surgeon
15 for performing spinal implant surgeries at Pacific Hospital using devices from
16 International Implants or another coschemer's company and/or for the referral of
17 patients to the Surgical or Pharmacy Defendants. Drobot Sr. admitted in the Plea
18 Agreement that he paid a kickback to an individual in connection with a spinal
19 surgery performed by that individual on at least one occasion. Plea Agreement at

20 21. [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]

25 96. Furthermore, as alleged in paragraphs 70, 83-85, *supra*, Drobot Jr. sent
26 spinal surgery patient cases to providers, requesting that the surgeries be performed
27 at Pacific Hospital, and facilitated the payment of the kickbacks for referrals of
28 patients to Pacific Hospital.

1 97. The Plea Agreement further establishes that this scheme, as well as the
2 scheme in the previous subsection, has operated to defraud State Fund since 1998
3 through at least 2013.

4 **C. Fraudulent Scheme to Overbill Services By Unbundling/Upcoding,**
5 **Including Unbundling and Overbilling re: Toxicology Screening**
6 **(Pacific Hospital, Long Beach Pain, and Drobot Sr.)**

7 98. The Surgical Defendants generated substantial bills by "upcoding"
8 claims and billing double or triple the approved rate for services. The Surgical
9 Defendants represented that higher and more complex services were provided than
10 actually were and represented that codes with higher billing rates were justified,
11 when, in fact, they were not. Both Pacific Hospital and Long Beach Pain overbilled
12 their services through upcoding.

13 99. The Surgical Defendants have also repeatedly submitted bills to State
14 Fund with "unbundled" services. A surgical procedure's rate often "bundles"
15 elements such as surgical gloves, trays, and other equipment, including them in the
16 procedure's cost. The Surgical Defendants billed for the surgical procedure while
17 also billing State Fund for the individual elements or pieces of equipment involved
18 in performing the procedure. This practice amounts to double-billing on the
19 bundled elements, and it substantially increases the billed amounts.

20 100. By providing upcoded and unbundled bills to State Fund (through the
21 United States mail and interstate wires, as described above), the Surgical Defendants
22 provided State Fund with fraudulent bills, purportedly signed or reviewed by
23 medical providers. Defendants knew the upcoded and unbundled charges did not
24 reflect the actual or reasonable cost of the services. By submitting upcoded and
25 unbundled bills, Defendants represented that the services they rendered justified a
26 higher billing than was appropriate.

27 101. When State Fund receives a bill that is upcoded, unbundled, or
28 overbilled, State Fund generally pays the approved rates for that procedure and

1 indicates to the billing provider that if it disagrees with the amount of the payment,
2 to send additional documentation showing that the services rendered were above and
3 beyond what is normally provided for the particular treatment (upon which the rates
4 are based). Despite such requests, the Surgical Defendants typically did not (and do
5 not) submit any additional documentation to justify the excess billing. Instead,
6 Surgical Defendants routinely filed liens against State Fund with the Workers'
7 Compensation Appeals Board ("WCAB") and then sought (and continue to seek) to
8 collect for the balance of the amount billed ("Liens").⁸

9 102. Lodged with the Court is a spreadsheet documenting hundreds of
10 instances where Pacific Hospital engaged in unbundling and upcoding for individual
11 services (titled "Pacific Hospital – Unbundling and Upcoding"). The spreadsheet
12 contains the claim number, the document mailed or wired, the approximate date it
13 was sent, the billed amount, and an explanation of the issue.

14 103. Also lodged with the Court is a spreadsheet documenting hundreds of
15 instances where Long Beach Pain engaged in unbundling and upcoding for
16 individual services (titled "Long Beach Pain – Unbundling and Upcoding"). The
17 spreadsheet contains the claim number, the document mailed or wired, the
18 approximate date it was sent, the billed amount, and an explanation of the issue.

19
20
21 _____
22 ⁸ State Fund does not assert that the procedure of filing Liens before the
23 WCAB constitutes independently actionable fraud – the fraud is the attempt to
24 collect more for services than the authorized rate. However, the lien process helps
25 to conceal the fraud and puts additional pressure on State Fund to settle such claims
26 quickly, whether or not a proper investigation can take place. Accordingly, State
27 Fund asserts the remedy of rescission of certain settlements for fraudulent claims
28 involving Liens, or damages if rescission is not available. Plainly, if the Lien
represents an attempt to collect on an illegal bill, such as one representing a
transaction involving an illegal kickback, referral, or false certification, the act of
filing a lien does not cleanse the prior fraud.

1 104. As a particular and discrete example, Pacific Hospital practiced
2 unbundling and upcoding in its bills for urine toxicology services, allegedly
3 rendered at the request of doctors treating workers' compensation patients.

4 105. In these bills, Pacific Hospital billed State Fund using a batch of CPT
5 codes, including those for a urine drug screen (80101), chromatography (82541),
6 creatinine (82570), molecular diagnostic tests (83896), and opiates (83925). State
7 Fund has identified four separate issues with respect to these bills for toxicology
8 testing, which resemble and relate to many of the other schemes alleged in this
9 Amended Complaint.

10 106. First, CPT code 80101 has been out of usage since January 1, 2011,
11 according to Medicare regulations, but Pacific Hospital continued to use it
12 throughout 2012.

13 107. Second, these toxicology tests – allegedly ordered to monitor usage of
14 prescribed opiates – are performed using simple "dipstick" cups, similar to over-the-
15 counter pregnancy tests which show immediate results on the cup. The non-defunct
16 CPT codes listed above are reserved for "confirmatory" testing, which is more
17 complicated and intensive and usually performed in a laboratory. Pacific Hospital,
18 nevertheless, uses these codes to bill State Fund each time it administers a simple
19 toxicology test—an example of upcoding.

20 108. Third, confirmatory testing for opiates would include the other tests for
21 creatinine, chromatography, and molecular diagnostic tests. By unbundling these
22 tests from the opiate test, Pacific Hospital charged more for the test than
23 contemplated by the bundle.

24 109. Fourth, starting in or around May 2012, Pacific Hospital ceased billing
25 for toxicology directly, apparently in order to submit claim amounts higher than
26 Pacific Hospital's contracts allowed. Pacific Hospital has occasionally agreed, via
27 contracts with networks and insurers, to fee schedules for certain services, including
28 its toxicology reports. Beginning in May 2012, State Fund began receiving bills

1 from UDT Solutions, discussed above, which was not a party to these contracts.
2 According to UDT Solution's website, the president of UDT Solutions was Jennifer
3 Ensminger, the daughter of Drobot Sr., who was also listed by various sources as the
4 Chief Executive Officer of Pacific Hospital. According to its website's contact
5 page, UDT Solutions shared a physical address with Pacific Hospital (2776 Pacific
6 Avenue). State Fund received toxicology bills from UDT Solutions even though the
7 bills state that the testing was performed at Pacific Hospital. Accordingly, Pacific
8 Hospital was attempting to avoid its lower contract rates for the toxicology bills,
9 resulting in inflated bills and payments. By passing its upcoded and unbundled bills
10 for toxicology services through UDT Solutions without informing State Fund,
11 Pacific Hospital inflated further the amounts it billed State Fund.

12 110. Through this toxicology scheme, Pacific Hospital, acting by itself or
13 through UDT Solutions or other Drobot entities, has billed and received payments in
14 (at least) the hundreds of thousands of dollars. Lodged with the Court is a
15 spreadsheet containing sixty particular examples of the toxicology scheme just
16 described (titled "Pacific Hospital – Toxicology Overbilling"). This spreadsheet
17 lists upcoded and unbundled bills for toxicology services, with claim numbers,
18 approximate dates of service, the provider, and other details, including which entity
19 sent each bill. It includes thirty representative examples of unbundled and upcoded
20 bills sent to State Fund by Pacific Hospital and another thirty sent by UDT
21 Solutions. These Defendants concocted this scheme to mislead State Fund into
22 paying inflated prices for these tests; State Fund reasonably relied on these
23 misrepresentations in making payments.

24 111. On information and belief, the involved Defendants were responsible
25 for devising the fraudulent scheme, and received and controlled profits from it.
26 State Fund is informed and believes, and thereon alleges that the Individual
27 Defendants conducted periodic meetings with medical professionals, staff, and other
28 employees in order to give direction and oversee the scheme. Drobot Sr. is,

1 according to California Secretary of State records, Chief Executive Officer and a
2 director of Healthsmart d/b/a Pacific Hospital as well as Long Beach Pain. As
3 documented above, Drobot Sr. and Drobot Jr. have worked together in numerous
4 business ventures, sharing control and personnel through management contracts.

5 **D. Fraudulent Scheme re: Nurse Billing (Pacific Hospital and Drobot**
6 **Sr.)**

7 112. At Pacific Hospital, a Registered Nurse First Assistant ("RNFA") was
8 provided during most surgeries. Based on State Fund's review, Pacific Hospital had
9 a pattern and practice of billing RNFAs as "assistant surgeons," allowing it to
10 double-bill the services provided by its RNFAs. This is a particular example of
11 "unbundling," where State Fund is charged for the "bundle" and then again for the
12 separated service.

13 113. California's OMFS, which is modeled on the federal Medicare system,
14 already accounts for services performed by RNFAs in setting reimbursement rates
15 for inpatient medical services. 8 CCR § 9798.22(b) provides that the "maximum
16 payment for inpatient medical services includes reimbursement for all of the
17 inpatient operating costs specified in Title 42, Code of Federal Regulations, Section
18 412.2(c)." 42 CFR § 412(c) in turn provides that inpatient operating costs include
19 "routine nursing services." 42 CFR § 413.53(b) defines "routine services" to mean
20 "the regular room, dietary, and nursing services ... and the use of equipment and
21 facilities for which a separate charge is not customarily made."

22 114. California law does not allow providers to seek separate reimbursement
23 for inpatient medical services rendered by an RNFA: "Except for physician services,
24 all fees shall be in accordance with the fee-related structure and rules of the relevant
25 Medicare and Medi-Cal payment systems" Cal. Lab. Code § 5307.1.

26 115. As one example of this type of fraud, on or shortly after November 17,
27 2010, Pacific Hospital sent State Fund claim number 05597226 (date of surgery
28 November 12, 2010), which included a bill of \$11,000.00 for the services of an

1 RNFA, who was listed in the surgical report as an assistant surgeon, even while the
2 report recorded that the individual's proper position was an RNFA.

3 116. Lodged with the Court is a spreadsheet (titled "Pacific Hospital –
4 RNFA Billing") with thirty examples of an RNFA—whose services are supposed to
5 be included within the bundled charge for the procedure—billed separately from
6 Pacific Hospital while still using Pacific Hospital's tax identification number. In
7 each bill, Pacific Hospital misrepresented that it was entitled to payment for
8 purported services rendered by an RNFA when such cost, under the OMFS, was
9 included in the bundled rate for the procedure. Defendants made the false and
10 misleading statements to induce State Fund to overpay for the medical procedures
11 purportedly provided.

12 117. These Defendants thus misrepresented the services provided and their
13 right to collect these additional payments, in addition to reimbursement for inpatient
14 medical services, for the services of an RNFA. They made these misrepresentations
15 in furtherance of their scheme to double-bill and overbill State Fund for the services
16 of an RNFA. State Fund reasonably relied on the misrepresentations in Pacific
17 Hospital's bills in issuing payment on the admission and RNFA bills. As these
18 Defendants expected, payment was delivered via the U.S. Postal Service.

19 118. On information and belief, Drobot Sr. was responsible for devising the
20 fraudulent scheme, and received and controlled profits from it. State Fund is
21 informed and believes, and thereon alleges that Drobot Sr. gave direction and
22 oversaw the fraudulent overbilling schemes, given his control of Pacific Hospital
23 and related entities as specified above.

24 **E. Fraudulent Scheme re: Autologous Transfusion Billing (Pacific**
25 **Hospital and Drobot Sr.)**

26 119. During some surgeries, autologous blood transfusion technologies are
27 used to save the patient's blood. The machines (one brand of which goes by the
28 name "Cell saver") are often provided by a third party during surgeries. The use of

1 this technology is, according to the standard procedures (including Medicare
2 procedures), bundled as a part of inpatient admission.

3 120. Pacific Hospital, however, engaged in an apparent practice of not
4 paying the third-party provider (often Cardiovascular Plus). This most often led to
5 the third-party provider billing the cost directly to State Fund, effectively
6 unbundling this particular charge that should have been included in Pacific
7 Hospital's inpatient admission charge.

8 121. This particular instance of unbundling happens with Pacific Hospital
9 admissions. Lodged with the Court is a spreadsheet with over thirty examples of a
10 separate invoice coming from a third-party provider for autologous blood
11 transfusion technologies, when the service should have been included in the Pacific
12 Hospital bundled admission charge (titled "Pacific Hospital – Autologous
13 Transfusions").

14 122. These Defendants misrepresented the services provided and their right
15 to collect these additional payments (in addition to reimbursement for inpatient
16 medical services) for autologous blood transfusion services. They made these
17 misrepresentations in furtherance of their scheme to double-bill and overbill State
18 Fund for these services. State Fund reasonably relied on the misrepresentations in
19 Pacific Hospital's claims and on the misrepresentations in purchase orders in issuing
20 payment on the admission and third-party bills. As Defendants expected, payment
21 was delivered via the U.S. Postal Service.

22 123. On information and belief, Drobot Sr. was responsible for devising the
23 fraudulent scheme, and received and controlled profits from it. State Fund is
24 informed and believes, and thereon alleges that Drobot Sr. gave direction and
25 oversaw the fraudulent overbilling scheme, given their control of Pacific Hospital
26 and related entities as specified above.

27
28

1 **F. Fraudulent Scheme re: Duplicate Radiology Billing (Long Beach**
2 **Pain and Drobot Sr.)**

3 124. State Fund's review uncovered that Long Beach Pain uses outside
4 radiology services on numerous occasions, often on claimants involving Pacific
5 Hospital as well. Long Beach Pain is or was managed by Pacific Hospital, and is
6 also owned by Drobot Sr. These services are generally billed to State Fund by the
7 outside vendor, yet Long Beach Pain bills State Fund for them as well, even though
8 a Pacific Hospital representative indicated at deposition that there would be no
9 reason to bill for technical radiology services provided by a third party. For
10 example, for a number of services provided by Saddleback Portable X-Ray
11 ("Saddleback") for spinal X-Rays, Long Beach Pain billed for the same technical
12 component as Saddleback, resulting in duplicate billing. Radiology services, under
13 the physician OMFS, can be split up into technical and professional (physician)
14 components, or billed globally. Long Beach Pain splits up the components and bills
15 State Fund for both, while the owner of the equipment (Saddleback) also bills for
16 the technical component. While the "unbundling" here is allowed by the
17 regulations, the double-billing, of course, is not. Because these billings are
18 submitted by two wholly different entities, it is very difficult for State Fund to catch
19 this duplication without a searching and time-intensive review.

20 125. As specific examples, same-service bills were received from Long
21 Beach Pain and Saddleback on State Fund Claim Number 01341571 (date of service
22 July 15, 2011) and Claim Number SP199038 (date of service June 3, 2011). This
23 pattern has continued since at least 2007, and Long Beach Pain continues to bill for
24 services rendered by a third-party provider and paid to that provider. Lodged with
25 the Court is a spreadsheet of thirty such examples (titled "Long Beach Pain –
26 Duplicate Radiology Billing") with separate claim numbers, CPT codes, and dates
27 of service.
28

1 126. Long Beach Pain knowingly misrepresented its right to collect these
2 additional payments. Long Beach Pain knew that the third-party providers directly
3 billed State Fund—not Long Beach Pain—for their radiology services, yet billed
4 State Fund for those same services, claiming "reimbursement" for services they
5 neither provided nor paid for. These misrepresentations were made in furtherance
6 of their scheme to double-bill and overbill State Fund for these services. State Fund
7 reasonably relied on the misrepresentations in Long Beach Pain's bills in accepting,
8 processing, and paying them in full or in part. As Defendants expected, payment
9 was delivered via the U.S. Postal Service.

10 127. On information and belief, Drobot Sr. was responsible for devising the
11 fraudulent scheme, and received and controlled profits from it. State Fund is
12 informed and believes, and thereon alleges that Drobot Sr. conducted periodic
13 meetings with medical professionals, staff, and other employees in order to give
14 direction and oversee the scheme. Drobot Sr. is, according to California Secretary
15 of State records, Chief Executive Officer and a director of Healthsmart d/b/a Pacific
16 Hospital as well as Long Beach Pain. The alleged parent of Long Beach Pain,
17 PSPM, shares the same office address and Drobot Sr. is the principal, according to
18 California Secretary of State records.

19 **VI. FRAUDULENT SCHEMES BY THE PHARMACY DEFENDANT**
20 **ENTERPRISE**

21 128. The Surgery Defendant Enterprise shares much in common with the
22 Pharmacy Defendant Enterprise, including the Individual Defendants as operators,
23 owners, officers and directors; offices and addresses; submission of bills for services
24 or pharmaceuticals provided or prescribed by the same medical providers; the
25 provision of employees and management services by the same Administrative
26 Defendants; and similar methods of defrauding State Fund, including the referral of
27 spine patients to doctors (for surgeries to be performed at Pacific Hospital) in
28 connection with inducing these doctors to engage CPM/IPM. The Pharmacy

1 Defendants shared many patients with the Surgical Defendants; as noted above, of
2 the over \$60 million paid to the Pharmacy Defendants by State Fund, more than \$30
3 million of it can be traced to patients who received services from the Surgical
4 Defendants.

5 129. The five schemes below are all closely related to the Surgery Defendant
6 Enterprise schemes, but are broken out separately because they some contain unique
7 elements.

8 **A. Lack of Licenses, Corporate Practice of Medicine, and Payment of**
9 **Illegal Referral Fees (CPM, IPM, MMG, Administrative**
10 **Defendants, and Individual Defendants)**

11 **1. Lack of Licenses**

12 130. CPM and IPM, entered into "Physician Office Dispensing Program
13 Management Agreements" with physicians pursuant to which the physicians
14 purportedly retained the Pharmacy Defendants to [REDACTED]

15 [REDACTED]
16 [REDACTED]

17 Pursuant to these agreements, CPM and IPM would receive a share of the profits
18 generated by the filling of prescription drugs in return for managing the "Pharmacy
19 Program."

20 131. But rather than simply assisting the physicians in the management of
21 their dispensing programs, CPM and IPM controlled nearly every aspect these
22 programs. They chose the suppliers, purchased the drugs, employed and supervised
23 (through FMM) the pharmacy technicians and other employees who dispensed the
24 drugs, determined which drugs could and could not be listed on the formularies,
25 provided monetary incentives to push providers to overprescribe or to prescribe the
26 most lucrative medications, covered direct pharmacy costs, submitted bills for
27 reimbursement to insurers, and ultimately controlled the flow of money and how
28 much physicians would be paid for their prescriptions. On information and belief,

1 FMM also provided the physicians' assistants to the providers, who would prescribe
2 medications to patients.

3 132. Recent deposition testimony of the Pharmacy Defendants' CFO,
4 Matthew Umbs, confirms that CPM and IPM had complete control over the funds
5 paid to pharmaceutical repackagers and over the funds received from insurers in the
6 form of reimbursements. For example, while the dispensing agreements provided
7 that the physicians were responsible for purchasing the medications necessary for
8 the pharmacy programs, instead, CPM and IPM purchased the medications directly
9 from pharmaceutical repackagers with funds held in a "physician lockbox account,"
10 an account controlled by CPM and IPM and to which the physicians had no access.

11 [REDACTED]

12 [REDACTED]

13 [REDACTED] Upon reimbursement from State Fund,
14 Pharmacy Defendants would control the funds, determine whether or not to
15 "paydown" the advances for their purchase of pharmaceuticals (often electing not
16 to), and provide the physicians with some portion of the profits from the
17 reimbursements.

18 133. Thus, the physicians never bore any significant out-of-pocket financial
19 risk and were paid simply for prescribing medications to their patients and referring
20 them to the pharmacies run by the Pharmacy Defendants, which were often exam
21 rooms in the same building as the physicians' office buildings. The fee-splitting
22 agreements were therefore simply vehicles through which CPM and IPM paid
23 kickbacks to physicians for referring patients to the pharmacies run by CPM and
24 IPM, and for prescribing lucrative medications to their patients. When Drobot Sr.
25 was questioned about these and other dispensing agreements, he regularly invoked
26 his Fifth Amendment right against self-incrimination.

27 134. This conduct violates the restrictions placed on provider dispensaries
28 set forth in California Bus. & Prof. Code § 4170. Moreover, by illegally operating

1 physician dispensaries, CPM and IPM also acted as pharmacies under California
2 Bus. & Prof. Code § 4037, which defines "pharmacy" as "includ[ing], but not
3 limited to, any area, place, or premises...from which the controlled substances,
4 dangerous drugs, or dangerous devices are furnished, sold, or dispensed at retail."
5 Yet neither CPM nor IPM ever had pharmacy licenses, nor were they licensed
6 medical providers.

7 135. CPM and IPM also acted as wholesalers, despite the fact that CPM
8 never had a wholesaler license, and IPM's wholesaler license expired on September
9 1, 2012, according to California state public records.

10 136. Under California Bus. & Prof. Code § 4043, "wholesaler" means and
11 includes a person who acts as a wholesale merchant, broker, jobber, customs broker,
12 reverse distributor, agent, or a nonresident wholesaler, who sells for resale, or
13 negotiates for distribution, or takes possession of, any drug or device included in
14 California Bus. & Prof. Code § 4022. A wholesaler license is required by any
15 business that distributes, brokers, or transacts the sale or return of dangerous drugs
16 or dangerous devices into or within California to other wholesalers, practitioners, or
17 pharmacies.

18 137. Here, CPM and IPM, not the physicians, purchased the drugs from the
19 pharmaceutical repackagers. They also controlled all, or nearly all, aspects of the
20 pharmacy operations for the physicians. At the very least, then, CPM and IPM
21 acted as "brokers" for the acquisition of pharmaceuticals for the physicians, meaning
22 that under California Bus. & Prof. Code § 4160, they required a license from the
23 California Board of Pharmacy to operate.

24 138. According to California state public records, after a 2005 inspection of
25 CPM, the California Board of Pharmacy on October 28, 2005 ordered CPM to cease
26 and desist operations so long as CPM did not have a license. In response, CPM
27 assured the California Board of Pharmacy that it had ceased operations and had
28

1 transferred its contracts to IPM. CPM also stated that it intended to operate "as a
2 broker, the same as IPM," and thus was applying for a wholesale license.



2005 DEC -7 PM 5:40

VIA FEDERAL EXPRESS

December 6, 2005

California State Board of Pharmacy
400 R Street, Suite 4070
Sacramento, CA 95814-6237

Re: Application for Wholesaler/Broker Permit

Dear Sir or Madam:

California Pharmacy Management, LLC ("CPM") is a sister company to Industrial Pharmacy Management, LLC ("IPM"). IPM currently holds Permit No. WLS 4639. On October 28, 2005 your office conducted an inspection of the IPM offices and operations. It was determined by the Board that CPM was operating without the appropriate permit and that all operations should cease until CPM applied for a permit. A copy of the inspection report is attached for your reference.

All operations did cease at that time and all contracts were assigned or transferred to IPM in order that we would be compliant with the Board's orders. CPM has now decided that it desires to move forward with other operations and that it will need to obtain a permit from the Board. CPM will not operate until the Board issues such a permit. Upon issuance of the permit, CPM will act as a broker, the same as IPM. To that end, I am submitting the following documents in support of CPM's Application for Wholesaler License:

139. Above is an excerpt from a letter to the California Board of Pharmacy dated December 6, 2005, where CPM represented that "all operations did cease [as of October 28, 2005] and all contracts were assigned or transferred to IPM in order that we would be compliant with the Board's orders."

140. Despite this representation to the Pharmacy Board, CPM never ceased operation—indeed, it billed State Fund for over 7,000 prescriptions from October 28, 2005 through the end of 2005 alone. No license was *ever* issued to CPM, yet CPM continued its operations, including billing State Fund, through 2012.

141. On information and belief, Defendant MMG also ran pharmacies out of physician's offices and used the physician's names to submit bills to State Fund. According to California state public records, MMG, like CPM, was never licensed in any capacity by the Board of Pharmacy when it submitted these bills to State Fund.

1 142. CPM, IPM, and MMG misrepresented the services they provided and
2 their right to collect payment. Lacking the required license and/or authority, these
3 Defendants misrepresented their right to collect from State Fund in furtherance of
4 their scheme to overbill State Fund for prescriptions. State Fund reasonably relied
5 on the misrepresentations in receiving, processing, paying, and settling the invoices
6 and bills from these Defendants. Each Defendant requested payment from State
7 Fund through the United States mail and/or interstate wires, and payments were
8 delivered via the U.S. Postal Service or wires.

9 143. On information and belief, the Individual Defendants were responsible
10 for devising the fraudulent scheme to bill without license or authority, and received
11 and controlled profits from it. State Fund is informed and believes, and thereon
12 alleges that the Individual Defendants gave direction and oversaw the fraudulent
13 scheme, through their control over the Pharmacy Defendants, Administrative
14 Defendants, and related entities as specified above. All the Pharmacy Defendants
15 share the same address and the Individual Defendants were involved in their
16 ownership and management structure.

17 **2. Corporate Practice of Medicine**

18 144. The Medical Practice Act, California Bus. and Prof. Code § 2052,
19 provides: "Any person who practices or attempts to practice, or who holds himself
20 or herself out as practicing...[medicine] without having at the time of so doing a
21 valid, unrevoked, or unsuspended certificate...is guilty of a public offense."
22 California Bus. and Prof. Code § 2400, within the Medical Practice Act, provides in
23 pertinent part: "Corporations and other artificial entities shall have no professional
24 rights, privileges, or powers."

25 145. The policy expressed in Business and Professions Code against the
26 corporate practice of medicine is intended to prevent unlicensed persons, like
27 Defendants, from interfering with or influencing the physician's professional
28 judgment. For example, the following types of decisions and activities should not

1 be delegated to an unlicensed person, including Defendants: (1) determining what
2 diagnostic tests, medications, or treatments are appropriate for a particular
3 condition; (2) determining the need for referrals to, or consultation with, another
4 physician/specialist; (3) selection and hiring/firing of health staff and medical
5 assistants; (4) decisions regarding coding and billing procedures for patient care
6 services; (5) determining the selection of medical equipment and medical supplies
7 for the medical practice; and (6) arranging for, advertising, or providing medical
8 services rather than only providing administrative staff and services for a physician's
9 medical practice (*i.e.*, non-physician exercising controls over a physician's medical
10 practice, even where physicians own and operate the business).

11 146. Here, Defendants interfered with or influenced the physicians'
12 professional judgment by paying them for patient referrals and for prescribing
13 medications or tests (or using devices) that would yield the greatest profit margins,
14 regardless of whether those decisions were in the best interests of their patients.
15 Indeed, as discussed in paragraphs 20 and 21, *supra*, PSPM wrote a letter to doctors
16 in 2006 reminding them that PSPM controlled all referrals from the doctors,
17 including surgeries, pain management, pharmaceuticals, and psychiatric evaluations.
18 The letter explicitly states that “[a]ccording to our management agreement all
19 referrals from your office are to be coordinated by PSPM.” PSPM then goes on to
20 specifically demand referrals for: pain management physicians, psychological and
21 psychiatric consultations, MRIs, and durable medical equipment.

22 147. The Pharmacy Defendants' similarly took control of the physicians'
23 pharmacy programs through their "Physician Office Dispensing Program
24 Management Agreements." Indeed, on information and belief, the physicians
25 committed almost nothing in the way of financial, capital, or human resources to the
26 pharmacy program. Instead, the Pharmacy Defendants purchased the medications
27 from vendors of their choosing, selected, hired, and supervised the pharmacy
28 technicians and other health staff for the pharmacies, dispensed the drugs through

1 their employees, controlled which drugs would be listed on the formularies, and
2 submitted bills to State Fund for collection. When the costs of certain
3 pharmaceuticals escalated (*e.g.*, Wellbutrin), making them less lucrative from
4 Drobot Jr.'s perspective, he unilaterally decided that those pharmaceuticals needed
5 to be removed from the formularies.

6 148. Moreover, documents recently produced in this litigation demonstrate
7 that the Pharmacy Defendants went so far as to actually form or attempt to form
8 sham corporations for the medical providers in order to collect against State Fund.
9 In a letter dated February 1, 2005, CPM explained to a medical provider that in
10 order to avoid issues with collecting on bills submitted to State Fund, CPM had
11 “formed a new California Professional Corporation for [the provider] at no expense
12 to [the provider] and [] obtained a new EIN for the new corporation.” The letter
13 included a list of forms that were “necessary to complete the formation of” the
14 corporation and offered to “maintain the Corporation’s Minute book in our office.”
15 Drobot Jr. is copied on this letter and the letter is signed by Randolph Taylor, who,
16 according to Drobot Sr., served as a paralegal for Drobot Sr.’s former counsel,
17 Michael Tichon.

18 149. Recently produced documents also show that the Pharmacy Defendants
19 and Drobot Jr.—through newly created entities—sought to expand their control over
20 physician decision making by branching into urinary drug testing and ancillary
21 durable medical equipment (“DME”) services.

22 150. On information and belief, Drobot Jr., through IPM or his more
23 recently formed entity, Advanced Practice Services, would coordinate and control
24 physicians' "UDT testing" within their practices in much the same way they
25 controlled the pharmaceutical dispensing. IPM or Advanced Practice Services
26 would dictate what testing the providers should perform and place a “UDT
27 technician” in a provider’s facility. Moreover, recently produced documents show
28 Defendants, or entities controlled by them, making set monthly payments to

1 physicians in exchange for their agreeing to perform a certain number of UDT tests
2 per month, regardless of patient need. And other emails show Drobot Jr.
3 encouraging a physician to perform more UDT testing, again regardless of need. ■

4 ■
5 ■ Another Drobot Jr. entity, Advanced
6 Lab, would submit bills to State Fund for the lab services.

7 151. When the Pharmacy Defendants' CFO, Matthew Umbs, was asked
8 about these UDT entities in his deposition, counsel for the Pharmacy Defendants
9 instructed him not to answer. Umbs also refused to answer questions about his own
10 recently formed urinalysis laboratory, US Lab LLC, for which the Planning
11 Commission of the City of Newport Beach recently approved a conditional use
12 permit for the laboratory located at 20377 Acacia Street, the same address listed for
13 many of the Defendants (as described above).

14 152. Similarly, Pharmacy Defendants' CFO, Matthew Umbs, recently
15 testified at his deposition that another entity owned by Drobot Jr., Advanced
16 Pharmacy Services, received "commissions" from DME companies whenever such
17 companies sold their products (*e.g.*, back braces) to certain "customers" –
18 presumably physicians associated with Pharmacy Defendants. Drobot Sr. also has a
19 DME company, PSPM-DME, Inc., to which State Fund has paid over \$4 million.
20 On information and belief, Pharmacy Defendants exercised control over physicians'
21 professional judgment through these types of arrangements, which were simply
22 vehicles through which the Pharmacy Defendants paid kickbacks to physicians for
23 referring patients to the Pharmacy Defendants (and other Drobot-controlled entities),
24 for medications, UDT testing, and DME.

25 3. Payment of Referral Fees and Fee-Splitting Agreements

26 153. On information and belief, as discussed above, the Pharmacy
27 Defendants paid kickbacks to medical providers in the form of "advances" for the
28 purchase of pharmaceuticals under the "Physician Office Dispensing Program

1 Management Agreements" and through illegal fee-splitting agreements. In reality,
2 the Pharmacy Defendants, not the physicians, purchased the pharmaceuticals from
3 repackagers and other suppliers (often obtaining substantial "rebates" in light of
4 their ownership interests in or other associations with these repackagers/suppliers,
5 thereby increasing profit margins). Physicians did not incur any significant out-of-
6 pocket expense in connection with these pharmaceutical purchases because CPM
7 and IPM wrote the checks for such purchases using funds from a bank account
8 controlled by them.

9 154. In other words, the physicians kept the sizable monthly advances as
10 payment for referring patients to the pharmacies run by the Pharmacy Defendants in
11 the physicians' offices. On information and belief, additional kickbacks were paid
12 to physicians pursuant to the fee-splitting provisions in the Physician Office
13 Dispensing Program Management Agreements after the Pharmacy Defendants were
14 reimbursed by State Fund. The fee-splitting provisions typically provided that the
15 physicians were entitled to 50% of the collections after costs. Many also specified a
16 minimum, "guaranteed" monthly payment for the physicians.

17 155. The Individual Defendants asked medical providers to sign sham
18 medical lien purchase agreements to satisfy State Fund's requests for proof that the
19 Pharmacy Defendants had the right to collect directly on the claims submitted by
20 them, all the while assuring the medical providers that the fee-splitting arrangement
21 would stay intact despite the purported "sale" of the claims to the Pharmacy
22 Defendants.

23 156. Moreover, doctors were encouraged to sign CPM/IPM contracts with
24 the promise that spinal surgery referrals (to be performed at Pacific Hospital) would
25 be made as consideration for the contract (according to Drobot Jr.'s emails with an
26 orthopedic surgeon). PSPM and FMM provided another "bridge" between the
27 Pharmacy Defendants Enterprise and the Surgical Defendants Enterprise. On
28 information and belief, in recruiting medical providers and other coconspirators to

1 participate in their scheme, the Individual Defendants marketed the strength of the
2 overall enterprise as a "full-service" operation, whereby patients could be recruited
3 at all points of service—from pain management to medications to diagnostic testing
4 to DME to spinal fusion surgery. PSPM's management allowed it (and related
5 Drobot Sr. entity FMM) to control the medical practices of physicians from all
6 angles.

7 157. Had State Fund known that the claims submitted by the Pharmacy
8 Defendants were the byproduct of illegal kickback and fee-splitting arrangements, it
9 would not have paid on those claims.

10 158. In addition to the prohibitions against such referral fees and kickbacks
11 contained in California Bus. & Prof. Code §§ 650, 652, and 652.5 and California
12 Ins. Code §§ 750 and 754, California Lab. Code § 139.3 specifically prohibits this
13 conduct in the worker's compensation context, including, but not limited to, the
14 referral of patients for "pharmacy goods" to entities in which the physician has a
15 "financial interest." California Lab. Code § 139.3(f) also provides, "No insurer, self
16 insurer, or other payor shall pay a charge or lien for any goods or services resulting
17 from a referral in violation of this section." Many medical providers submitted
18 certifications to State Fund along with their claims for reimbursement that they had
19 not violated California Lab. Code § 139.3 or had "not offered, delivered, received or
20 accepted any rebate, refund, commission, preference, patronage, dividend, discount
21 or other consideration, whether in the form of money or otherwise, as compensation
22 or inducement for any referred examination or evaluation."

23 159. Furthermore, since the contracts between the medical providers and
24 Pharmacy Defendants violated California Bus. & Prof. Code §§650, 652, 652.5,
25 2400, 2052, 4022, 4037, 4043, 4160, and 4170, California Ins. Code §§ 750 and
26 754, and California Lab. Code § 139.3, among other laws, they are illegal. As
27 mentioned above, illegal contracts are void and unenforceable; the Pharmacy
28

1 Defendants therefore had no standing to submit the bills to State Fund or receive
2 payment for them.

3 **B. Overbilling and Pricing Manipulation (Pharmacy Defendants and**
4 **Individual Defendants)**

5 The Pharmacy Defendants—acting as the purported "assignees" of medical
6 providers—engaged in an overbilling scheme against State Fund, similar to that of
7 the Surgical Defendants, only with medications. From 2002 to the present, the
8 Pharmacy Defendants have billed over half a million prescription drugs to State
9 Fund. State Fund has paid out over \$60 million to these Defendants based on these
10 bills.

11 **1. Background on Drug Pricing**

12 160. All drugs intended for retail sale are identified by an eleven-digit
13 National Drug Code ("NDC") that is listed with the FDA. The NDC is used to
14 identify the drug delivered to the patient. The first five digits of the NDC identify
15 the company that manufactured and/or packaged the drug, the middle four digits
16 identify the drug ingredient and dosage, and the last two digits identify package size.

17 161. Once a drug gets repackaged by a repackager it gets assigned a new
18 NDC. The first five NDC digits are changed to correspond to the repackager. Thus,
19 when a repackager sells a drug to a retailer and that drug gets dispensed to a patient,
20 the reported NDC identifies the repackager, not the manufacturer.

21 162. Each NDC has associated with it pricing benchmarks reported by the
22 manufacturer or repackager that are published in commercial publications. The two
23 benchmarks relevant to this action are the wholesale acquisition cost ("WAC") and
24 average wholesale price ("AWP").

25 163. A drug's wholesale acquisition cost ("WAC") is the baseline price at
26 which the drug's manufacturer sells the drug to wholesalers/repackagers. While
27 WAC may not represent a wholesaler's actual acquisition cost (as wholesalers may
28 obtain modest discounts off the WAC), it is the baseline price at which the

1 manufacturer sells the drug to wholesalers. Due to a competitive market, drug
2 wholesaler margins on their sales to retailers tend to be thin. As a result, the WAC
3 serves as the *de facto* baseline price for two different transactions: (1) the price a
4 wholesaler pays the manufacturer to acquire the drug, and (2) the price a retailer
5 pays a wholesaler to acquire the drug.

6 164. A drug's average wholesale price or "AWP" is the nominal price at
7 which wholesalers sell that drug to retailers, including pharmacies and physicians
8 who operate in-office dispensaries. Historically, a drug's AWP is set directly or
9 indirectly by its manufacturer. The *Red Book*, a trade publication that publishes
10 AWP's and other data for thousands of drugs, explains that "[w]hen the manufacturer
11 does not provide an AWP or markup formula from which AWP can be calculated,
12 the AWP will be calculated by applying a standard 20% markup over the
13 manufacturer supplied WAC." A repackager is also free to report its own AWP's for
14 any drugs it repackages. Since each NDC comes with its own AWP, any firm that
15 repackages can set both a new NDC and a new AWP.

16 165. AWP is important because it is used as a baseline for reimbursement by
17 end payors, including State Fund, to retailers for drugs provided to patients. This
18 results in a system where the amount retailers pay wholesalers for drugs is pegged to
19 the drug's WAC, but the amount retailers get paid (*i.e.*, receive in reimbursement) is
20 pegged to the drug's AWP. The amount by which a drug's AWP exceeds its WAC
21 creates a "spread" between the actual cost of the drug to the retailer and the
22 reimbursement paid to the retailer by an insurer.

23 **2. Defendants' Schemes**

24 166. Pharmacies and repackagers can increase their profits by increasing the
25 "spread." Given the proliferation of NDC codes and generic medications, it
26 becomes difficult to track the actual prescription and the actual price.

27 167. Since they began billing State Fund, the Pharmacy Defendants have
28 engaged in a massive overbilling scheme whereby they billed up to ten times the

1 price of basic-over-the-counter medication. Excessive amounts were charged for
2 tablets, and occasionally, the same provider billed the same prescription twice on the
3 same day. For example, IPM consistently billed \$3.50 for 20 mg of omeprazole (an
4 antacid) per tablet. Omeprazole is available, over the counter, for approximately
5 \$0.40 per tablet.

6 168. As with medical procedures and the Surgical Defendants, State Fund
7 indicates to the billing provider that if it disagrees with the amount of the payment
8 for prescriptions, it should send additional documentation in support of the claimed
9 amount. Despite such requests, the Pharmacy Defendants typically did not (and do
10 not) submit any additional documentation to justify the excess billing. Instead, the
11 Pharmacy Defendants routinely send additional bills to State Fund and take other
12 actions to collect additional amounts, as detailed below.

13 169. For each of the five Pharmacy Defendants, a spreadsheet specifying
14 particular examples listing medication overbilling has been lodged with the Court,
15 with claim numbers, dates of mailing or wiring, amounts, and descriptions (titled
16 "CPM – Overbilling;" "IPM – Overbilling;" "LBPP – Overbilling;" "MMG –
17 Overbilling;" and "Coastal – Overbilling").

18 170. CPM and IPM have billed for compound medications as well, which
19 are generally topical creams that contain more than one drug in the ingredients.
20 CPM consistently billed the entire costs of these medications based on the highest-
21 priced drug in the combination, even when that drug represents the smallest
22 percentage (for example, 10% or less) of the total ingredients. A spreadsheet of
23 examples of this misconduct is lodged with the Court (titled "CPM – Overbilling
24 Compounds").

25 171. State Fund reasonably relied on the Pharmacy Defendants fraudulent
26 bills and invoices in paying for the services and prescriptions. Based on State
27 Fund's review of billing runs and particular bills, the bills submitted by the
28 Pharmacy Defendants contained false statements, primarily that the alleged cost of

1 prescriptions provided to covered workers was the actual or reasonable cost of those
2 pharmaceuticals. On information and belief, each Defendant in the Pharmacy
3 Defendant Enterprise knew that these bills contained false statements, which were
4 made to induce State Fund to grossly overpay for the prescriptions provided.

5 172. The bills and accompanying forms submitted by the Pharmacy
6 Defendants, as assignees of providers also contained false certifications by the
7 providers.

8 173. On information and belief, the Individual Defendants were responsible
9 for devising the fraudulent scheme, and received and controlled profits from it.
10 State Fund is informed and believes, and thereon alleges that the Individual
11 Defendants gave direction and oversaw the fraudulent overbilling scheme, given
12 their control of the Pharmacy Defendants and related entities as specified above. All
13 the Pharmacy Defendants share the same address, and involve the Individual
14 Defendants in their ownership and management structure.

15 **2001-2007 Overbilling Through AWP Manipulation**

16 174. A more particular kind of overbilling scheme was carried out by the
17 Pharmacy and Individual Defendants from 2001 to 2007, in an attempt to exploit the
18 then-existing regulatory structure which, like the spinal implant structure, often
19 based charges on middleman charges.

20 175. From 2001 to 2007, the "spread" between a drug's AWP and WAC had
21 a predictable standard dictated by industry custom. For most drugs, the market
22 understood and expected a spread of about 20%. For example, a particular NDC
23 might have a published WAC (*e.g.*, \$100 for a 100 count bottle) and a published
24 AWP typically 1.20 times its WAC (*e.g.*, \$120). A retailer who bought this drug at
25 WAC and sold it at AWP would pocket the \$20—the spread. The standard spread
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1 thus allowed retailers a 20% return on each drug they dispense (and sometimes
2 more).⁹

3 176. From 2001-2007, the Pharmacy Defendants and Individual Defendants,
4 on information and belief, enacted a complex scheme where they acquired or
5 partnered with repackagers, allowing them to engineer spreads over 600% by having
6 the repackagers report wildly inflated AWP. Defendants and the repackagers they
7 conspired with knew these inflated AWP were nowhere near the "average
8 wholesale price" paid by retailers, nor were they remotely tethered to the drugs'
9 WACs. Once these inflated AWP were published, Defendants billed State Fund
10 and others based on these fraudulent AWP, allowing the Defendants to reap returns
11 in excess of 600% per transaction.

12 177. For drugs prescribed before March 2007, the amount a retailer could
13 charge for drugs depended on whether its NDC was listed in the Medi-Cal fee
14 schedule. For NDCs not listed in the Medi-Cal fee schedule, California law
15 generally authorized payment for generic drugs at 1.4 times the drug's AWP; brand
16 name drugs were generally paid at 1.1 times the drug's AWP.

17 178. Because State Fund and other workers' compensation insurers were
18 required by law to reimburse retailers based on AWP for drugs whose NDC was not
19 listed in the Medi-Cal fee schedule, State Fund relied on AWP data published in
20 commercial publications such as the *Red Book*. This reliance was well known to the
21 Defendants, who, on numerous occasions, actively induced State Fund and others to
22 rely on the *Red Book's* published AWP. When State Fund denied payment on one
23 of CPM's many excessive bills, CPM often responded with data taken from the *Red*
24

25 ⁹ A retailer who pays exactly WAC (*e.g.*, \$100) and bills exactly AWP (*e.g.*,
26 \$120) would see a 20% profit. But retailers often pay *below* WAC (due to discounts
27 on the WAC from the manufacturer to wholesaler, passed on to the retailer). And
28 retailers often bill *above* AWP—until 2007, California generally allowed retailers to
bill generic drugs at 1.4 times AWP.

1 *Book* showing the relevant AWP (which State Fund later discovered during its
2 investigation was fraudulently inflated).

3 179. Defendants conducted a scheme in which the repackagers under their
4 control vastly overstated the AWPs of many drugs in the data they reported to *Red*
5 *Book* and other drug pricing publications. After the inflated AWPs were published,
6 the involved Defendants would continue to pay the same price to acquire their
7 drugs, but they would now charge State Fund much more, claiming that
8 reimbursement was pegged to the published AWPs. This artificial, fraudulent
9 inflation of reported AWP data led to enormous spreads, which, on information and
10 belief, Pharmacy Defendants split with the physicians as part of the payment of
11 kickbacks for referrals and for the use of CPM or IPM's services and pharmacy
12 technicians.

13 180. The kickback fees incentivized providers to only order drugs through
14 CPM or IPM's preferred repackagers (who offered the opportunity for huge profit
15 margins through inflated AWPs and deep discounts) and to direct their patients to
16 fill their prescriptions at the pharmacies run by the Pharmacy Defendants in the
17 providers' offices.

18 181. CPM frequently chose to buy from the repackager DRx. This choice
19 was deliberate. In his deposition, Drobot Sr. admitted that he and Drobot Jr.
20 invested in Essence Group Holdings, Inc., the parent company of DRx and another
21 pharmaceutical repackager, Wellinx. On information and belief, the Individual
22 Defendants exerted control over DRx by demanding rebates on pharmaceuticals in
23 exchange for access to the medical providers' pharmaceutical business, which the
24 Individual Defendants controlled through CPM, IPM, and MMG. The Individual
25 Defendants had arranged for DRx to report fraudulently high AWPs to the *Red*
26 *Book*. Defendants would order from DRx drugs with wildly inflated AWPs and then
27 bill insurers at 1.4 times these AWPs.

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1 182. This scheme to systematically overbill State Fund and other insurers by
2 fraudulently reporting inflated AWP's ran from 2001 through March 2007. It
3 effectively ended in March 2007 after California scrapped its AWP-based
4 reimbursement model for repackagers (the effect is not retroactive, however, so
5 claims with dates of service before March 2007 continue to be reimbursed under the
6 AWP-based formula). However, Defendants continue to contract with
7 pharmaceutical repackagers to receive "rebates" or "refunds" based on the volume of
8 their business.

9 3. Specific Examples

10 183. After acquiring an ownership share in Essence Group Holdings
11 Corporation, the parent company of DRx and Wellinx, Defendants began to falsify
12 the AWP data that DRx reported to the *Red Book*.

13 184. For instance, DRx reported an AWP of \$185.40 for 60 tablets of 150
14 mg Ranitidine. Yet an invoice from DRx produced in another litigation reveals that
15 DRx actually sold 60 tablets of 150mg Ranitidine to CPM for just \$5.26 during the
16 same period. Assuming DRx sold Ranitidine to CPM at its wholesale acquisition
17 cost, the AWP-WAC spread comes out to 3,424%—many, many times over the
18 standard industry markup. DRx also reported an AWP of \$177.00 for 60 tablets of
19 350mg Carisoprodol. A relatively contemporaneous DRx invoice shows DRx sold
20 the same amount of the same medication for \$8.12, a spread of 2,079%.

21 185. The \$185.40 AWP for DRx's Ranitidine is over nine times the drug's
22 federal upper limit ("FUL") of \$20.47—the maximum amount a state Medicaid
23 program is permitted to reimburse providers for the drug. Before 2007, a drug's
24 FUL was calculated as 150% of the lowest published AWP for therapeutically
25 equivalent products (*e.g.*, the same generic drug from a different manufacturer or
26 repackager). The same drug has recently been available over the counter for \$0.135
27 per 150mg tablet, amounting to \$8.10 for 60 tablets. CPM billed \$259.56 (1.4 times
28 AWP) for a drug it had purchased for \$5.26 and that retails for \$8.10—a 4,900%

1 markup over CPM's actual acquisition cost, and a 3,200% markup over the drug's
2 retail price.

3 186. As another example, on or shortly after October 26, 2006, CPM and the
4 Individual Defendants used the United States mail in furtherance of their scheme to
5 defraud. CPM submitted a bill to State Fund (Claim #0114173) via the U.S. Postal
6 Service for drugs one of its physicians had prescribed and dispensed to a patient at
7 Pacific Hospital for \$815.34, which CPM and other Defendants knew
8 misrepresented the amount of reimbursement to which CPM was entitled.

9 187. All the drugs for this particular bill have NDCs beginning with
10 "55045," indicating that DRx had supplied all the dispensed drugs. Defendants used
11 DRx's fraudulently reported AWP's to charge State Fund excessive amounts for the
12 drugs dispensed. In doing so, Defendants knowingly misrepresented DRx's AWP's,
13 which it knew to be fraudulently inflated and false. For example, CPM billed State
14 Fund \$255.30 for Carisprodol by multiplying DRx's fraudulent AWP—\$177.00—by
15 1.4 and adding a \$7.50 dispensing fee. DRx's reported AWP for Carisprodol is over
16 20 times higher than what it actually charges CPM for the drug: \$8.12.

17 188. As another example on this bill, CPM billed State Fund \$267.06 for
18 Ranitidine by multiplying DRx's fraudulent AWP—\$185.40—by 1.4 and adding a
19 \$7.50 dispensing fee. DRx's reported AWP for Ranitidine is over 34 times higher
20 than what it actually charges CPM for the drug: \$5.26.

21 189. These Defendants knew and intended that the submitted invoice
22 misrepresented the pharmaceuticals' AWP's, and each knew that the reported AWP's
23 were grossly misleading by industry standards. CPM and the Individual Defendants
24 reported the fraudulent AWP's in order to induce State Fund to overpay for drugs
25 prescribed by CPM's physicians. CPM caused the fraudulent bill—based off
26 fraudulent AWP's—to be mailed by mailing it to State Fund. State Fund reasonably
27 relied on the misrepresentations in CPM's bill in issuing payment on the bill of at
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1 least \$552.96. As CPM and the Individual Defendants expected, payment was
2 delivered via the U.S. Postal Service.

3 190. CPM thus partnered with repackagers such as DRx and Wellinx to offer
4 physicians drugs at one price, while billing State Fund at much higher prices, using
5 those repackagers' fraudulently inflated AWP. Lodged with the Court is a
6 spreadsheet with representative examples of CPM overbilling State Fund based on
7 the repackagers' fraudulent AWP (titled "CPM – AWP Manipulation"). Each
8 example is identified by claim number, date of service, NDC, repackager (DRx or
9 Wellinx), the provider, and amount billed.

10 191. Based on the management agreements with PSPM and FMM as well as
11 with CPM and IPM directly, the difference between the actual cost of the drug and
12 the reimbursement paid—the spread—is split between CPM and the prescribing
13 physician. As a result of this fee-splitting arrangement, CPM provided the
14 physicians it contracted with significant incentives. For certain drugs, the enormous
15 spread between the drugs' actual cost and their reported AWP gave physicians a
16 significant incentive to prescribe and dispense these drugs—even when better
17 alternatives existed—in order to share in the outsized profits. Moreover, many of
18 the patients referred to CPM/IPM for medications were referred to Pacific Hospital
19 for treatments as well, making the illegal kickback scheme even more lucrative
20 when the patients were induced to have prescriptions filled by the Pharmacy
21 Defendants.

22 192. The Pharmacy and Individual Defendants hid their scheme by using
23 privately held out-of-state repackagers, such as DRx and Wellinx, to manipulate
24 AWP for CPM's benefit, and by concealing their ownership interests in these
25 repackagers. Defendants meanwhile wielded DRx's and Wellinx's fraudulent
26 AWP to demand excessive payments from insurers.

27 193. At all relevant times (*i.e.*, 2001-2007), the Individual Defendants
28 owned and controlled CPM, pursuant to California and Secretary of State records.

1 Drobot Jr. was the President of CPM. As President, Drobot Jr. managed and
2 operated CPM's affairs. In managing and operating CPM's affairs, Drobot Jr.
3 collaborated with his father Drobot Sr. as well as with the Administrative
4 Defendants.

5 **C. Double-Billing of Prescriptions (CPM, IPM, LBPP, Coastal, and**
6 **Individual Defendants)**

7 194. Pursuant to its investigation, State Fund has uncovered three related
8 schemes in which the Pharmacy Defendants, excepting MMG, double-billed State
9 Fund for the same prescriptions going to the same claimant, but through different
10 processes. Each of these Pharmacy Defendants, as purported assignees of medical
11 providers, coordinated with the others to submit bills that another Defendant had
12 already submitted to State Fund. On information and belief (see below), the
13 Pharmacy Defendants identified and shared the information required to double-bill
14 drugs that another Pharmacy Defendant had dispensed and already billed for.

15 195. First, even though CPM was supposedly terminated (in large part for
16 the lack of a license as described in Section VI.A) by the Individual Defendants in
17 or around 2009, it continued to bill State Fund for medications into 2012, often
18 duplicating bills for the same medications that were submitted by IPM. Lodged
19 with the Court is a spreadsheet of such double-billing (titled "CPM & IPM –
20 Duplicate Billing,") by claim number, date, prescribing provider, and CPT or NDC
21 codes). Indeed, on at least one occasion in 2012, an IPM claim was settled, and
22 State Fund was told by a representative of IPM to (and unwittingly did) use CPM's
23 tax identification number.

24 196. Second, as with IPM and CPM, Coastal, on information and belief, was
25 created by the Individual Defendants to take over the business of LBPP, with the
26 transition occurring in approximately 2011. In 2013, Coastal began to bill for some
27 dates of service that had previously been billed by LBPP. The bills from Coastal
28 have the same date of service, NDC number, and same medication in the same

1 quantities. This double-billing occurred even after State Fund had been fraudulently
2 induced to settle with LBPP on a number of bills on a consolidated basis (see VI.C,
3 below). Lodged with the Court is a spreadsheet of Coastal-LBPP duplicative billing
4 examples (titled "Coastal & LBPP – Duplicate Billing").

5 197. Third, Coastal billed State Fund for medications – with the same date
6 of service by the same physician for the same pharmaceuticals – that were also
7 billed through Express Scripts, State Fund's network pharmacy provider, with which
8 Coastal has a contract. Coastal directly billed prescriptions at higher rates than
9 Express Scripts, which is one reason Coastal is required to bill through Express
10 Scripts. Yet Coastal has engaged in a practice of billing both directly and through
11 Express Scripts for the same medication. Lodged with the Court is a spreadsheet of
12 such double-billing (titled "Coastal & Express – Duplicate Billing").

13 198. State Fund reasonably relied on the Pharmacy Defendants' fraudulent
14 bills and invoices for these prescriptions that were double-billed by (a) CPM and
15 IPM; (b) Coastal and LBPP; and (c) Coastal and Express Scripts. Based on State
16 Fund's review of billing runs and particular bills, the bills submitted by these
17 Defendants contained false statements, primarily that the alleged cost of
18 prescriptions provided to covered workers was the actual or reasonable cost of those
19 pharmaceuticals and had not been paid or billed by others. On information and
20 belief, the Pharmacy Defendants made the false statements in the duplicative bills to
21 induce State Fund to overpay for the prescriptions provided.

22 199. On information and belief, the Individual Defendants were responsible
23 for devising the fraudulent scheme, and received and controlled profits from it.
24 State Fund is informed and believes, and thereon alleges that the Individual
25 Defendants conducted periodic meetings with medical professionals, staff, and other
26 employees of the fraudulent providers in order to give direction and oversee the
27 fraudulent overbilling scheme, given their control of the Pharmacy Defendants and
28 related entities as specified above. Indeed, the constant phasing in and out of the

1 Pharmacy Defendants and other entities show the control and intentional direction
2 of this enterprise.

3 **D. Double-Billing of Prescriptions after Global Settlements (CPM,**
4 **IPM, LBPP, and Drobot Jr.)**

5 200. State Fund's investigation also led it to review certain settlement
6 agreements State Fund entered with Defendants related to liens Defendants brought
7 before the WCAB based on their billings to State Fund. State Fund was unaware of
8 Defendants' pattern of racketeering activity and other misconduct when it entered
9 into the settlement agreements with the Defendants named therein.

10 201. As mentioned above, State Fund entered into one global settlement
11 (meaning it resolved multiple claims and liens) with CPM on August 25, 2010,
12 another with CPM and IPM both on May 19, 2011, and a third with LBPP on July 2,
13 2012. State Fund detected that CPM and IPM had submitted a huge number of
14 duplicate claims; State Fund tried to deny duplicate payments, and tried to guard
15 against the submission of duplicate claims in the future in those agreements. While
16 State Fund did detect some of the duplicate bills, CPM and IPM claimed they were
17 mere mistakes and continued to submit duplicate claims after the settlement.

18 202. Even after inducing State Fund to enter into the 2010, 2011, and 2012
19 settlements, Pharmacy Defendants CPM and LBPP continued to bill State Fund and
20 seek payments for claims that were part of the Global Settlements and supposedly
21 resolved, and in some circumstances, received additional payments. Lodged with
22 the Court are two spreadsheets containing examples of CPM (now IPM) and LBPP
23 continuing to bill State Fund for claims that were a part of these Global Settlements
24 after the Global Settlements were concluded. (titled, "CPM – Billing After
25 Settlement" and "LBPP – Billing After Settlement"). State Fund did detect some of
26 these duplicate billings, and is not attempting to recover twice on bills it detected
27 but did not pay.

28

1 203. A fourth global settlement proposed in 2013 fell apart because CPM
2 and IPM were again commingling their claims. As State Fund's in-house counsel
3 notified Drobot Jr.: "I would note that IPM and Cal Pharmacy comingled their AR
4 [accounts receivable] for our consideration. This was not disclosed to State Fund
5 until we recently called it to their attention. It is the improper comingling of the AR
6 that has caused the current delay." This 2013 settlement was not consummated
7 before federal and state agencies raided the offices of CPM, IPM, and Pacific
8 Hospital as described below.

9 **E. The Global Settlements (CPM, IPM, LBPP and the Individual**
10 **Defendants)**

11 204. The Global Settlements with CPM, IPM, and LBPP contained
12 "Representations & Warranties" clauses providing that each party to the agreement
13 "is not aware of any duress, menace, *fraud*, coercion, or undue influence which has
14 caused any Party to enter into this Agreement." *See* Ex. 1-3 to Counterclaim of
15 CPM, IPM, and LBPP (Dkt. No. 67) (three global settlement agreements from 2010,
16 2011 and 2012). Further, as described in Section VI.A, the settlement agreements
17 specifically contemplate that Pharmacy Defendants had the authority to settle claims
18 on behalf of the medical providers because they had the right, title, or interest to the
19 claims at issue.

20 205. State Fund is seeking rescission of the settlement agreements because
21 of the fraud perpetrated on it in the course of submitting fraudulent bills and
22 fraudulently inducing State Fund to settle them. The inflated prices and double-
23 billing, as alleged above, were meant to make State Fund pay far larger amounts on
24 these claims than otherwise warranted. If State Fund had known the true nature of
25 Pharmacy Defendants' businesses and the scope of the fraudulent enterprise, it
26 would not have settled with these Defendants. State Fund relied on Pharmacy
27 Defendants' representations that they had authority to collect and settle the claims at
28 issue—as stated in the agreements themselves—and relied on Pharmacy Defendants'

1 representations that they were not aware of any fraud causing State Fund to enter
2 into the settlement agreements.

3 206. Yet, Pharmacy Defendants were fully aware of their fraudulent
4 activities and billing practices. Not only were Pharmacy Defendants paying illegal
5 kickbacks to providers, engaging in the corporate practice of medicine, and running
6 pharmacies and purchasing pharmaceuticals without licenses, among other things,
7 they were also intentionally misrepresenting and concealing the nature of their
8 arrangements with medical providers from State Fund.

9 207. Indeed, before paying bills submitted by the Pharmacy Defendants and
10 before entering into the Global Settlements, State Fund demanded that the Pharmacy
11 Defendants provide copies of their contracts with providers to demonstrate the
12 Pharmacy Defendants' right to collect from State Fund. Pharmacy Defendants
13 deliberately determined to withhold or alter certain agreements with medical
14 providers—*e.g.*, those which showed the amount of guaranteed "advances" being
15 paid to medical providers in exchange for their pharmaceutical business—to
16 "protect the innocent." Furthermore, other documents show the Individual
17 Defendants asking medical providers to sign sham medical lien purchase agreements
18 to satisfy State Fund's requests, all the while assuring the medical providers that the
19 fee-splitting arrangement would stay intact despite the purported "sale" of the claims
20 to the Pharmacy Defendants.

21 **VII. STATE FUND UNCOVERS DEFENDANTS' WELL-CONCEALED**
22 **FRAUD**

23 208. Defendants have concealed the fraudulent schemes from State Fund by
24 submitting the same or similar bills for procedures and materials over the course of
25 years. Defendants never indicated they had inflated the costs of procedures or
26 materials in their bills to State Fund. Defendants continued to represent that they
27 were billing State Fund for their actual and reasonable costs. Defendants also did
28 not disclose the connections between and among their related entities, repeatedly

1 discontinuing entities and forming others, while using different tax identification
2 numbers, knowing that State Fund, operating in good faith in the workers'
3 compensation system, could not keep track of morphing entities and schemes.
4 Defendants did not disclose the true contractual relationships with medical providers
5 or the involvement of the Administrative Defendants. Indeed, the Plea Agreement
6 with Drobot Sr. indicates that their undetected schemes had been perpetrated against
7 a number of workers' compensation insurers since at least 1998.

8 209. The Surgical and Pharmacy Defendants also filed Liens at the WCAB
9 on the basis of their fraudulent bills, similarly contending before the WCAB that the
10 bills were legitimate and that the Defendants were legally entitled to full payment.

11 210. As noted, the workers' compensation system provides for, among other
12 things, accelerated treatment and submission and payment of bills, and in certain
13 circumstances, penalties against an insurer when payment of a bill is delayed. State
14 Fund's limited resources as a public enterprise fund and non-profit state agency,
15 along with the massive number of bills it receives each day, make the early
16 detection of fraud—especially complex schemes involving multiple sophisticated
17 entities—difficult, if not impossible. State Fund had no reasonable opportunity to
18 investigate Defendants' individual bills or the schemes as a whole, and had no
19 reason to suspect the extent and systemic nature of the fraud conducted by the
20 Defendants.

21 211. On April 5, 2013, as reported by numerous publications and media
22 outlets, the corporate offices of Pacific Hospital and IPM were served with search
23 warrants by federal and state authorities, including but not limited to the United
24 States Postal Service, the Federal Bureau of Investigation, the Internal Revenue
25 Service, the investigatory arm of the United States Department of Defense, and the
26 California Department of Insurance. The search warrants remain under seal in this
27 Court, so that State Fund still does not know the details, except for those disclosed
28 in the Plea Agreement.

1 216. State Fund, Pacific Hospital, International Implants, Long Beach Pain,
2 PSPM, FMM, Drobot Sr., and Drobot Jr. are each "persons" as defined in 18 U.S.C.
3 § 1961(3).

4 **A. Individual Defendants, Surgical Defendants, and Administrative**
5 **Defendants Formed an Association-in-Fact Enterprise.**

6 217. The Individual Defendants, Surgical Defendants, and Administrative
7 Defendants (in this First Cause of Action, shortened to "Defendants" with
8 exceptions noted below), including their employees and agents, formed an
9 association-in-fact enterprise within the meaning of 18 U.S.C. § 1961(4), the
10 "Surgical Defendant Enterprise."

11 218. The Surgical Defendant Enterprise is an ongoing organization
12 consisting of both corporations and individuals that associated for common and
13 shared purposes, including: (a) the fraudulent billing and overbilling of spinal
14 surgeries and other medical services through the use of fraudulent invoices, illegal
15 kickbacks, fee-splitting, and sham agreements (which were also designed to hide the
16 corporate practice of medicine); (b) deriving increased profits from the activities of
17 the enterprise; and (c) concealing the fraudulent nature of the enterprise's activities.
18 *See supra* paragraphs 67-127. Lodged with the Court are the following spreadsheets
19 containing non-exhaustive, representative samples of predicate acts committed in
20 furtherance of the alleged fraudulent schemes:

- 21 • Pacific Hospital – Spinal Hardware (Section V.A)
- 22 • Pacific Hospital – Unbundling and Upcoding (Section V.C)
- 23 • Long Beach Pain – Unbundling and Upcoding (Section V.C)
- 24 • Pacific Hospital – Toxicology Overbilling (Section V.C)
- 25 • Pacific Hospital – RNFA Billing (Section V.D)
- 26 • Pacific Hospital – Autologous Transfusions (Section V.E)
- 27 • Long Beach Pain – Duplicate Radiology Billing (Section V.F)

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1 219. Drobot Sr. owns and controls each of the Surgical Defendants.
2 Specifically, Drobot Sr. owns Pacific Hospital and Long Beach Pain (and is an
3 officer and director of both), as well as International Implants. Moreover,
4 International Implants registered the same business address with the California
5 Secretary of State as the Pharmacy Defendant entities now under Drobot Jr.'s
6 control, including CPM, IPM, Coastal, and LBPP, as well as the Administrative
7 Defendants, PSPM and FMM. Drobot Jr., according to Pacific Hospital testimony,
8 also worked in the Purchasing Department of Pacific Hospital, used Healthsmart
9 Corp. and Pacific Hospital email addresses, referred patients to spinal surgeons for
10 surgery at Pacific Hospital, facilitated the payment of kickbacks to medical
11 providers, and directed the Pharmacy Defendant Entities at the same address as
12 many Surgical Defendants. Thus, on information and belief, State Fund alleges that
13 the Individual Defendants coordinated with one another and with the Surgical
14 Defendants to implement and disguise the enterprise's schemes.

15 220. The enterprise functioned as a continuing unit as evidenced by the
16 numerous, ongoing transactions between its members. For example, since 2007
17 International Implants has provided Pacific Hospital with over 75% of Pacific
18 Hospital's spinal implant equipment, with numerous fraudulent invoices being
19 exchanged between the entities and distributed to State Fund. Indeed, patients have
20 been shuffled back and forth between the surgical and pharmacy sides, with over
21 \$30 million of the over \$60 million paid by State Fund to the Pharmacy Defendants
22 representing patients who were also used in the Surgical schemes. Further, over
23 8,700 claims submitted to State Fund involved treatment by both a Pharmacy
24 Defendant and a Surgical Defendant.

25 **B. Individual Defendants, Surgical Defendants, and Administrative**
26 **Defendants Each Conducted the Enterprise's Affairs**

27 221. International Implants supplied Pacific Hospital with fraudulent
28 invoices, knowing that the invoices would be used in furtherance of the enterprise's

1 scheme to overbill spinal implants. Pacific Hospital participated in the enterprise by
2 submitting fraudulent invoices and bills containing false certifications to State Fund,
3 in furtherance of the enterprise's scheme to overbill spinal implants. Long Beach
4 Pain participated in the affairs of the enterprise by submitting fraudulent bills to
5 State Fund and other insurers, in furtherance of the enterprise's scheme to overbill
6 medical services. *See supra* paragraphs 67-127. Drobot Sr. owns and directs the
7 activities of Pacific Hospital (at least until it was recently sold), Long Beach Pain,
8 and International Implants; Abrazos Healthcare, Inc. (the parent corporation of
9 Pacific Hospital) and International Implants have registered the same business
10 address with the California Secretary of State as the Pharmacy Defendant entities
11 now under Drobot Jr.'s control, including CPM, IPM, Coastal, and LBPP, as well as
12 the Administrative Defendants, PSPM and FMM. Emails show Drobot Jr.
13 facilitated the payment of kickbacks, referred spine patients to doctors in connection
14 with getting them to sign management agreements with IPM/CPM (for surgeries to
15 be performed at Pacific Hospital), and according to Pacific Hospital testimony, also
16 worked in the Purchasing Department of Pacific Hospital. Thus, State Fund alleges
17 that, on information and belief, working with one another, the Individual Defendants
18 directed their respective entities in carrying out the enterprise's schemes.

19 222. The Administrative Defendants participated in both enterprises by
20 "leasing" or providing employees to facilitate and conceal that the Surgical and
21 Pharmacy Defendants were engaging, among other things, in kickbacks, the
22 corporate practice of medicine, and illegal fee-splitting. The Administrative
23 Defendants' contracts were designed to, and did, hide the true nature of the fraud in
24 which the other Defendants were engaged from State Fund and other insurers.

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1 **C. The Surgical Defendant Enterprise Engaged in a Pattern of**
2 **Racketeering Activity, Consisting of Mail and Wire Fraud**
3 **Violations**

4 223. The Surgical Defendant Enterprise engaged in a pattern of racketeering
5 activity by committing multiple acts of mail fraud, in violation of 18 U.S.C. § 1341,
6 and wire fraud, in violation of 18 U.S.C. § 1343. Pacific Hospital and Long Beach
7 Pain each caused the fraudulent use of United States mail and interstate wires by
8 sending thousands of fraudulent bills and invoices via U.S. Postal Service or
9 electronically, in furtherance of the scheme to overbill spinal surgeries, including
10 spinal implants, and other medical services. International Implants caused the
11 fraudulent use of United States mail by providing Pacific Hospital with fraudulent
12 invoices, intending and foreseeing that the invoices would be mailed in furtherance
13 of the enterprise's scheme to overbill spinal implants.

14 224. Defendants engaged in a pattern of racketeering activity by directing
15 Surgical Defendants to use the United States mail and interstate wires in furtherance
16 of the overbilling schemes, in violation of 18 U.S.C. § 1341 and 18 U.S.C. § 1343.
17 In furtherance of the enterprise's overbilling schemes, Drobot Sr. arranged for:
18 International Implants to mail and wire fraudulent invoices to Pacific Hospital;
19 Pacific Hospital to mail and wire fraudulent bills and invoices to State Fund; Long
20 Beach Pain to mail and wire fraudulent bills to State Fund; and Pacific Hospital,
21 through the Administrative Defendants, to mail and wire illegal payments to medical
22 providers and marketers. Drobot Jr. acted in furtherance of the enterprise's schemes
23 through his patient referrals and by facilitating the payment of kickbacks to
24 providers, along with his involvement with the Administrative Defendants.
25 Defendants made these arrangements intending to defraud State Fund and others by
26 making them overpay for spinal surgeries, including spinal implants, and other
27 medical services.

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1 225. Defendants also used, and caused the use of, the United States mail and
2 interstate wires to submit other correspondence and documents in furtherance of the
3 Surgical Defendant Enterprise, including communications designed to conceal the
4 enterprise's fraudulent activities.

5 **D. The Surgical Defendant Enterprise Affected Interstate Commerce**

6 226. The Surgical Defendant Enterprise could not have been carried out
7 without the United States mail or interstate wires, which were used for the
8 submission of the fraudulent bills, correspondence about them, and payment on
9 them.

10 227. Further, on information and belief, the Surgical Defendant Enterprise's
11 schemes cheated State Fund and other workers' compensation insurers out of
12 hundreds of millions of dollars. The cost of this fraud is passed on, at least in part,
13 to employers who purchase workers' compensation insurance in California. Many
14 employers with California employees have their principal place of business outside
15 California. Many employers are also publicly traded companies, with shareholders
16 spread across the United States. The Surgical Defendant Enterprise's racketeering
17 injured both in-state and out-of state employers and their shareholders, therefore
18 affecting interstate commerce. Provider fraud affects the premiums charged for
19 workers' compensation insurance for these multi-state and international employers.

20 228. The spinal implants were shipped by interstate commerce carriers,
21 including United States mail services. On information and belief, many of the
22 spinal implants were manufactured outside of California and shipped into
23 California.

24 229. As alleged in a prior RICO action brought by Defendant CPM against
25 another insurer, the interstate nature of many companies and the mobility of
26 employees means that the business of workers' compensation insurance, even for
27 only California workers, dramatically impacts interstate commerce. This is
28 confirmed by the federal nature of the investigation revealed earlier this year, with

1 participation by the United States Postal Service as well as the Federal Bureau of
2 Investigation.

3 **E. State Fund Relied on the Surgical Defendant Enterprise's**
4 **Misrepresentations and Suffered Financial Injury As a Result.**

5 230. In carrying out their fraudulent schemes, Defendants knew that State
6 Fund would rely on the accuracy of the Defendants' misrepresentations in order to
7 set proper reimbursement amounts.

8 231. In addition, Defendants knew that State Fund reimburses medical
9 providers in accordance with the California Labor Code and regulations
10 promulgated thereunder. Defendants were keenly aware of these laws and
11 regulations, and made specific misrepresentations intending and foreseeing that
12 State Fund would rely on these misrepresentations in complying with law, causing
13 Defendants to be overpaid.

14 232. State Fund reasonably relied on Defendants' misrepresentations.
15 Defendants' violations of 18 U.S.C. § 1962(c) directly and proximately caused State
16 Fund substantial injury to business and property by causing State Fund to overpay
17 many millions of dollars in inflated reimbursements for spinal surgeries, including
18 spinal implants, and other medical services. State Fund would not have made these
19 overpayments had Defendants not engaged in their pattern of racketeering activity.
20 Defendants' racketeering activity also caused State Fund to incur out-of-pocket costs
21 and related expenses that would otherwise not have been incurred.

22 233. As a direct and proximate result of Defendants' unlawful racketeering
23 activity, State Fund suffered damages in an amount to be proven at trial. However,
24 as alleged above, State Fund would not have done business with Defendants had it
25 known of the well-concealed fraud, so that State Fund claims all amounts it paid to
26 Defendants under these false pretenses as damages, since Defendants had no right to
27 it.

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1 containing non-exhaustive, representative samples of predicate acts committed in
2 furtherance of the alleged fraudulent schemes:

- 3 • CPM – Overbilling (Section VI.B)
- 4 • Coastal – Overbilling (Section VI.B)
- 5 • IPM – Overbilling (Section VI.B)
- 6 • LBPP – Overbilling (Section VI.B)
- 7 • MMG – Overbilling (Section VI.B)
- 8 • CPM – Overbilling Compounds (Section VI.B)
- 9 • CPM – AWP Manipulation (Section VI.C)
- 10 • CPM & IPM – Duplicate Billing (Section VI.C)
- 11 • Coastal & Express – Duplicate Billing (Section VI.C)
- 12 • Coastal & LBPP – Duplicate Billing (Section VI.C)
- 13 • CPM – Billing After Settlement (Section VI.D)
- 14 • LBPP – Billing After Settlement (Section VI.D)

15 239. Individual Defendants own and control each of the Pharmacy
16 Defendants, or owned and controlled them in the past. Individual Defendants
17 coordinated with one another and with Pharmacy Defendants to implement and
18 disguise the enterprise's schemes. Drobot Jr., who now owns and controls the
19 Pharmacy Defendants, coordinated with Drobot Sr., who formerly owned CPM and
20 IPM, to implement the enterprise's schemes to run pharmacies and purchase and sell
21 drugs without the required license. As noted above, CPM replaced IPM, and
22 Coastal apparently replaced or took over for LBPP, and IPM used LBPP in its
23 business.

24 240. Individual Defendants also coordinated with DRx and Aidarex, owned
25 by Drobot Sr. and Drobot Jr., in implementing the enterprise's scheme of reporting
26 and disseminating fraudulent AWPs and overbilling for drugs. The Individual
27 Defendants and the Pharmacy Defendants further coordinated with the repackagers
28 in arranging for these drugs to be purchased and shipped to physicians and patients.

1 The enterprise functioned as a continuing unit as evidenced by the numerous,
2 ongoing transactions between its members. For example, from 2001 through at least
3 2007, DRx provided drugs to Pharmacy Defendants and/or the physicians with
4 whom the Pharmacy Defendants contracted. The enterprise's functioning as a
5 continuing unit is further evidenced by Individual Defendants' common ownership
6 and/or control over each of the Pharmacy Defendants and the repackagers with
7 whom they conspired, and the medical providers' continued involvement.

8 241. The Administrative Defendants and CPM/IPM also entered into
9 contracts with providers and provided employees, at the Individual Defendants'
10 guidance and direction, which led to unlicensed activity, the illegal corporate
11 practice of medicine, and improper fee-splitting.

12 **B. Individual Defendants, Pharmacy Defendants, and Administrative**
13 **Defendants Each Conducted the Affairs of the Enterprise**

14 242. Each Pharmacy Defendant participated in the affairs of the Pharmacy
15 Defendant Enterprise. For example, to conceal the enterprise's fraudulent activities,
16 each Pharmacy Defendant, acting under the direction of the Individual Defendants,
17 implemented practices of overbilling certain medications. The Pharmacy
18 Defendants also coordinated with one another in submitting duplicate bills to State
19 Fund, for example, by sharing with each other the information needed to submit
20 duplicate claims.

21 243. Both Individual Defendants conducted the affairs of the Pharmacy
22 Defendant Enterprise by devising the enterprise's schemes and operating the
23 enterprise's members in furtherance of those schemes. Individual Defendants own
24 and control each of the Pharmacy Defendants. For example, Drobot Jr. is currently
25 the owner and the President and CEO of IPM/CPM; in this capacity, he directed and
26 managed CPM's participation in the Pharmacy Defendant Enterprise. Drobot Jr.
27 further conducted the affairs of the Pharmacy Defendant Enterprise by entering into
28 contracts with physicians and repackagers (such as DRx and Aidarex) on

1 IPM/CPM's behalf. Drobot Sr. conducted the affairs of the Pharmacy Defendant
2 Enterprise by owning CPM/IPM and directing its activities at least until 2010, as
3 well as acquiring DRx, on information and belief, in order to manipulate its AWP's.
4 *See supra* paragraphs 38-51, 57-66, 181, 174 -193.

5 244. The Pharmacy Defendant Enterprise has or had additional connections
6 to the Surgical Enterprise as well. Patients have been shuffled back and forth
7 between the surgical and pharmacy sides, with over \$30 million of the \$60 million
8 paid by State Fund to the Pharmacy Defendants representing patients who were also
9 used in the Surgical Scheme. Over 8,700 claims submitted to State Fund involved
10 treatment by both a Pharmacy Defendant (or by physicians with whom they
11 contracted) and a Surgical Defendant.

12 **C. The Pharmacy Defendant Enterprise Engaged in a Pattern of**
13 **Racketeering Activity, Consisting of Mail and Wire Fraud**
14 **Violations**

15 245. Pharmacy Defendants engaged in a pattern of racketeering activity by
16 committing multiple acts of mail fraud, in violation of 18 U.S.C. § 1341, and wire
17 fraud, in violation of 18 U.S.C. § 1343. Each Pharmacy Defendant caused the
18 fraudulent use of United States mail or interstate wires by sending, via U.S. Postal
19 Service or electronically, bills where it misrepresented its right to reimbursement for
20 drugs on which it had no right to collect. Each Pharmacy Defendant also caused the
21 fraudulent use of United States mail or interstate wires by sending fraudulently
22 inflated bills; some of these bills contained further misrepresentations in the form of
23 falsified AWP data. Pharmacy Defendants mailed and wired their fraudulent bills
24 intending to defraud State Fund and others, making them overpay for the drugs sold.

25 246. Individual Defendants engaged in a pattern of racketeering activity by
26 directing Pharmacy Defendants and their repackagers to use the United States mail
27 and interstate wires in furtherance of the enterprise's schemes, in violation of 18
28 U.S.C. § 1341 and § 1343. In furtherance of the enterprise's schemes, Defendants

1 arranged for, among other things: Pharmacy Defendants to misrepresent, via
2 interstate mail and wire, their right to reimbursement for drugs on which they had no
3 right to collect; Pharmacy Defendants to enter into improper contracts and activities
4 with providers as well as Administrative Defendants that provided for the illegal
5 corporate practice of medicine, illegal fee-splitting, and unlicensed pharmaceutical
6 practices; and Pharmacy Defendants to overbill State Fund via interstate mail and
7 wire. Individual Defendants made these arrangements intending to defraud State
8 Fund and others, making them overpay for the drugs sold.

9 247. Pharmacy Defendants shared patients and providers with the Surgical
10 Defendant Enterprise. On information and belief, Defendants by contract agreed to
11 share certain proceeds from the enterprise's activities with physicians who referred
12 patients to the pharmacies run by Defendants in the physicians' offices. Defendants
13 thus provided physicians with a strong financial incentive to prescribe drugs and
14 refer the patients to Defendants—an incentive that often counseled against the best
15 interests of the physicians' patients, resulting in bills for medically unnecessary
16 pharmaceuticals.

17 248. Defendants also used and caused the use of the United States mail and
18 interstate wires to submit other correspondence and documents in furtherance of the
19 Pharmacy Defendant Enterprise, including communications and contractual
20 agreements with the Entity Defendants designed to conceal the enterprise's
21 fraudulent activities.

22 **D. The Pharmacy Defendant Enterprise Affected Interstate**
23 **Commerce**

24 249. The Pharmacy Defendant Enterprise could not have been carried out
25 without the United States mail and interstate wires, which were used for the
26 submission of the fraudulent bills, correspondence about them, and payment on
27 them.

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1 250. Further, on information and belief, the Pharmacy Defendant
2 Enterprise's schemes cheated State Fund and other workers' compensation insurers
3 out of millions of dollars. The cost of this fraud is passed on, at least in part, to
4 employers who purchase workers' compensation insurance in California. Many
5 employers with California employees have their principal place of business outside
6 California. Many employers are also publicly traded companies, with shareholders
7 spread across the United States. The Pharmacy Defendant Enterprise's pattern of
8 racketeering injured both in-state and out-of-state employers and their shareholders,
9 therefore affecting interstate commerce. Provider fraud affects the premiums
10 charged for workers' compensation insurance for these multi-state and international
11 employers and entities.

12 251. As alleged in a prior RICO action brought by CPM against another
13 insurer, the interstate nature of many companies and the travel and transport of
14 employees means that the business of workers' compensation insurance, even for
15 California workers, dramatically impacts interstate commerce. This is confirmed by
16 the federal nature of the investigation revealed earlier this year, with participation by
17 the United States Postal Service as well as the Federal Bureau of Investigation.

18 252. CPM/IPM also partnered with at least one medical group in Indiana,
19 OrthoIndy, and used LBPP to dispense prescription medications to individuals
20 living there. IPM's website also lists an apparent business office in Maryland, and
21 promotes itself as a nationwide manager of prescriptions for physicians.

22 **E. State Fund Relied on the Pharmacy Defendant Enterprise's**
23 **Misrepresentations and Suffered Financial Injury as a Result**

24 253. In carrying out their fraudulent schemes, the Pharmacy Defendants,
25 Administrative Defendants, and Individual Defendants knew that State Fund would
26 rely on the accuracy of the Defendants' misrepresentations in order to set proper
27 reimbursement amounts.

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1 254. The Pharmacy Defendants, Administrative Defendants, and Individual
2 Defendants knew that State Fund reimburses medical providers in accordance with
3 the California Labor Code and regulations promulgated thereunder. Pharmacy and
4 Individual Defendants were aware of these laws and regulations and made specific
5 misrepresentations intending and foreseeing that State Fund would rely on these
6 misrepresentations in order to comply with law, causing Defendants to be overpaid.

7 255. State Fund reasonably relied on Defendants' misrepresentations.
8 Defendants' violations of 18 U.S.C. § 1962(c) directly and proximately caused State
9 Fund substantial injury to business and property by causing State Fund to overpay
10 millions of dollars in inflated reimbursements for the drugs that Pharmacy
11 Defendants illegally sold. State Fund would not have made these payments had
12 Defendants not engaged in their pattern of racketeering activity. Defendants'
13 racketeering activity also caused State Fund to incur out-of-pocket costs and related
14 expenses that would not have otherwise been incurred.

15 256. As a direct and proximate result of Defendants' unlawful racketeering
16 activity, State Fund suffered damages in an amount to be proven at trial. However,
17 as alleged above, State Fund would not have done business with Defendants had it
18 known of the well-concealed fraud, so that State Fund claims all amounts it paid to
19 Defendants under these false pretenses as damages, since Defendants had no right to
20 these funds.

21 257. Under the provisions of 18 U.S.C. § 1964(c), Drobot Sr., Drobot Jr.,
22 and each of the Pharmacy, and Administrative Defendants are jointly and severally
23 liable to State Fund for three times the damages that State Fund has suffered, plus
24 the costs of bringing this suit, including reasonable attorneys' fees.

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THIRD CAUSE OF ACTION
(Civil RICO Conspiracy 18 U.S.C. § 1962(d))
(Against Surgical Defendants, Individual Defendants, and Administrative Defendants)

258. State Fund incorporates by reference the allegations in paragraphs 1-127, 208-214, and 215-234 of this Complaint as though fully set forth herein.

A. Each Defendant Knew of and Agreed to Facilitate the Surgical Defendant Enterprise's Criminal Purpose

259. Surgical Defendants, Administrative Defendants, and Individual Defendants formed an agreement to violate 18 U.S.C. § 1962(c). Each of these Defendants knew of the Surgical Defendant Enterprise's conspiracy to defraud State Fund by overbilling State Fund for spinal surgeries, including spinal implants, and other medical services while taking active steps to conceal the fraud. Drobot Jr. acted in furtherance of the enterprise's schemes through his patient referrals and by facilitating the payment of kickbacks to providers, along with his involvement with the Administrative Defendants.

260. Each Defendant agreed to join this conspiracy, and each agreed to commit, facilitate, or participate in a pattern of racketeering activity in furtherance of the conspiracy.

B. Each Defendant Committed Predicate Acts In Furtherance of the Enterprise's Criminal Purpose

261. During the existence of the conspiracy, each of the Defendants agreed to the commission of multiple predicate acts in furtherance of the conspiracy to overbill State Fund.

262. Pacific Hospital agreed to and did commit multiple instances of mail and wire fraud in furtherance of the conspiracy by mailing and wiring fraudulently inflated bills and invoices. International Implants agreed to facilitate Pacific

1 Hospital's pattern of racketeering by supplying Pacific Hospital with fraudulent
2 invoices.

3 263. Long Beach Pain, under the same ownership as the other Surgical
4 Defendants, agreed to and did commit multiple instances of mail and wire fraud by
5 mailing and wiring fraudulent bills.

6 264. Individual Defendants agreed to and did commit multiple instances of
7 mail and wire fraud by directing Surgical Defendants to commit the predicate acts
8 above, intending and foreseeing that the acts of mail and wire fraud would follow in
9 the ordinary course of business. Individual Defendants also agreed to and did
10 conduct the enterprise's affairs. Among other things, on information and belief,
11 Individual Defendants conducted the enterprise's affairs by devising its schemes,
12 obtaining profits from them, and meeting with the Surgical Defendants' employees
13 and medical providers in order to direct the schemes.

14 265. Specific examples of predicate acts committed in furtherance of the
15 conspiracy are provided in paragraphs 67-127 and in the spreadsheets lodged with
16 the Court.

17 **C. State Fund Suffered Injury From the Predicate Acts Committed In**
18 **Furtherance of the Enterprise's Criminal Purpose**

19 266. The predicate acts of mail and wire fraud that Defendants agreed to and
20 did commit directly and proximately caused State Fund to suffer substantial injury
21 to its business and property, as alleged in greater detail above.

22 267. Under the provisions of 18 U.S.C. § 1964(d), Drobot Sr., Drobot Jr.,
23 and each of the Surgical and Administrative Defendants are jointly and severally
24 liable to State Fund for three times the damages that State Fund has suffered, plus
25 the costs of bringing this suit, including reasonable attorneys' fees.

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FOURTH CAUSE OF ACTION
(Civil RICO Conspiracy 18 U.S.C. § 1962(d))
(Against Pharmacy Defendants, Individual Defendants, and Administrative Defendants)

268. State Fund incorporates by reference the allegations in paragraphs 1-66, 128-214, and 235-257 of this Complaint as though fully set forth herein.

A. Each Defendant Knew of and Agreed to Facilitate the Pharmacy Defendant Enterprise's Criminal Purpose

269. Pharmacy Defendants, Administrative Defendants, and Individual Defendants formed an agreement to violate 18 U.S.C. § 1962(c). Each Defendant knew of the Pharmacy Defendant Enterprise's conspiracy to defraud State Fund by (a) running pharmacies and purchasing and selling drugs without a license to do so and collecting reimbursements; (b) overbilling for drugs sold, including past manipulation of AWP's; (c) double-billing with each other for medications paid for by State Fund, including after claims had been resolved; (d) entering into fraudulent contracts and engaging in the corporate practice of medicine, and misrepresenting their right to bill State Fund; (e) deriving increased profits from the activities of the enterprise; and (f) concealing the fraudulent nature of the enterprise's activities.

270. Each Defendant agreed to join this conspiracy, and each agreed to commit, facilitate, or participate in a pattern of racketeering activity in furtherance of the conspiracy.

B. Each Defendant Committed Predicate Acts In Furtherance of the Enterprise's Criminal Purpose.

271. During the existence of the conspiracy, each of the Defendants agreed to the commission of multiple predicate acts in furtherance of the conspiracy to overbill State Fund.

272. Each of the Pharmacy Defendants agreed to and did mail or wire State Fund bills for drugs it had illegally purchased and sold, and had no right to collect

1 on. Each did so with intent to defraud State Fund, in furtherance of the conspiracy.
2 Each of the Pharmacy Defendants also agreed to and did mail or wire State Fund
3 bills with fraudulently inflated drug prices. Each did so with intent to defraud State
4 Fund, in furtherance of the conspiracy.

5 273. Through the Individual and Administrative Defendants, the Pharmacy
6 Defendants shared patients and doctors with the Surgical Defendant Enterprise.
7 Individual Defendants agreed to and did commit multiple instances of mail and wire
8 fraud by directing Pharmacy Defendants to commit the predicate acts above,
9 intending and foreseeing that the acts of mail and wire fraud would follow in the
10 ordinary course of business. Individual Defendants also agreed to and did conduct
11 the enterprise's affairs. Among other things, Individual Defendants conducted the
12 enterprise's affairs by devising its schemes, obtaining profits from the schemes, and
13 conducting meetings with medical providers and the Pharmacy Defendants'
14 employees in order to direct the schemes.

15 274. Specific examples of predicate acts committed in furtherance of the
16 conspiracy are provided in paragraphs 128-214 and in the spreadsheets lodged with
17 the Court.

18 **C. State Fund Suffered Injury From the Predicate Acts Committed In**
19 **Furtherance of the Enterprise's Criminal Purpose**

20 275. The predicate acts of mail and wire fraud that Defendants agreed to and
21 did commit directly and proximately caused State Fund to suffer substantial injury
22 to its business and property, as described in more detail above.

23 276. Under the provisions of 18 U.S.C. § 1964(d), Drobot Sr., Drobot Jr.,
24 and each of the Pharmacy, and Administrative Defendants are jointly and severally
25 liable to State Fund for three times the damages that State Fund has suffered, plus
26 the costs of bringing this suit, including reasonable attorneys' fees.

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1 **FIFTH CAUSE OF ACTION**

2 **(Fraud)**

3 **(Against All Defendants)**

4 277. State Fund incorporates by reference the allegations in paragraphs 1-
5 214, 215-234, 235-257, and 258-276 of this Complaint as though fully set forth
6 herein.

7 278. As alleged in detail above, Defendants made material
8 misrepresentations to State Fund, and/or concealed and/or suppressed material facts
9 from State Fund. Such misrepresentations included false billings for spinal
10 surgeries and other medical services including “other types of surgeries, magnetic
11 resonance imaging, toxicology, durable medical equipment, [] other services,” and
12 medications. Each Defendant also made misrepresentations and/or concealed facts
13 with the intent that State Fund not discover its fraudulent schemes.

14 279. The misrepresentations and omissions by Defendants were material and
15 were false and misleading, and Defendants knew they were material and were false
16 and misleading at the time they were made or, at a minimum, Defendants acted with
17 reckless disregard for the truth or falsity of the representations or omissions.

18 280. Defendants misrepresented, concealed and/or suppressed these facts
19 with the intent to deceive and influence the actions of State Fund, including
20 intending to have State Fund pay the fraudulent billings, as well as to stop any
21 investigation of the challenged practices.

22 281. State Fund reasonably and justifiably relied to its detriment on each
23 Defendant's misrepresentations. At the time State Fund acted in reliance on
24 Defendants' misrepresentations, State Fund was unaware of the representations'
25 falsity and of the facts Defendants concealed and suppressed. State Fund would
26 have acted differently if it had known the true facts. In particular, State Fund would
27 not have paid Defendants' fraudulent claims, and State Fund would have contested
28 (or contested further) Defendants' false billings.

1 282. As a direct and proximate result of Defendants' misrepresentations,
2 State Fund suffered damages in an amount to be proven at trial, but in an amount not
3 less than the monies paid to Defendants because of their fraudulent schemes with
4 respect to spinal surgeries and other medical services including "other types of
5 surgeries, magnetic resonance imaging, toxicology, durable medical equipment, []
6 other services," medications, and overbilling.

7 283. As explained above, State Fund was induced by the foregoing
8 fraudulent schemes to enter into settlement agreements with certain of the
9 Defendants on various dates, including but not limited to the Global Settlements and
10 settlement agreements dated April 20, 2004 and September 1, 2009 with Surgical
11 Defendants ("Surgical Settlement Agreements"). State Fund's consent to enter into
12 these settlement agreements was obtained by Defendants' fraud, including the
13 misrepresentations and omissions articulated above. With respect to the Surgical
14 Settlement Agreements, Drobot Sr. has admitted to perpetrating fraud on insurance
15 carriers, including State Fund, since 1998.

16 284. With respect to the Pharmacy Global Settlements, these
17 misrepresentations and omissions included, but were not limited to, those that
18 represented the parties were aware of no fraud in entering into the Global
19 Settlements, as well as the representations that the Defendants were the proper
20 parties in interest and were legally entitled to collect on the claims, which were
21 representations made in the Global Settlements themselves.

22 285. These misrepresentations by Defendants were made with the intent to
23 induce State Fund to rely thereon, and State Fund did in fact rely thereon. State
24 Fund would not have settled these claims if it had known of Defendants' fraudulent
25 activities and billings and that Defendants had engaged in the foregoing
26 misrepresentations and omissions.

27 286. Indeed, collectively, the contracts between the medical providers and
28 Defendants violated California Bus. & Prof. Code §§650, 652, 652.5, 2400, 2052,

1 4022, 4037, 4043, 4160, and 4170, California Ins. Code §§ 750 and 754, and
2 California Lab. Code § 139.3, among other laws. Accordingly, they are illegal and
3 therefore void and unenforceable; the Defendants therefore had no standing to
4 submit the bills to State Fund or receive payment for them.

5 287. Consequently, the settlement agreements constitute void and/or
6 voidable contracts, and State Fund seeks rescission of them (including the return to
7 State Fund of payments plus interest), or if rescission is not available, damages in an
8 amount to be proven at trial.

9 288. In making the above false statements, Defendants acted with a
10 conscious disregard for the rights of State Fund, and thus are guilty of oppression,
11 fraud, and malice pursuant to California Civil Code § 3294. State Fund is entitled to
12 recover punitive damages from Defendants in an amount to be proven at trial.

13 **SIXTH CAUSE OF ACTION**

14 **(Business & Professions Code § 17200)**

15 **(Against All Defendants)**

16 289. State Fund incorporates by reference the allegations in paragraphs 1-
17 214, 215-234, 235-257, 258-276, and 277-288 of this Complaint as though fully set
18 forth herein.

19 290. Defendants' schemes involving fraudulent misrepresentations and
20 omissions to State Fund constitute unlawful, unfair, or fraudulent business acts and
21 practices, under what is commonly known as the California Unfair Competition Law
22 ("UCL"), California Bus. & Prof. Code §§ 17200 *et seq.*

23 291. Each Defendant violated Section 17200's prohibition against engaging
24 in an unlawful act or practice through conduct that violates, among other things,
25 RICO, 18 U.S.C. § 1962, as described herein. Through their unfair and improper
26 practices, State Fund suffered injury by virtue of Defendants' billing.

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1 292. Defendants further violated Section 17200's prohibition against
2 engaging in an unlawful act or practice through conduct that violates, among other
3 things:

4 a. California Bus. & Prof. Code §§ 2400 and 2052 by entering into
5 illegal contracts to exercise lay or corporate control over medical decisions without
6 the required license, which runs afoul of the corporate practice of medicine doctrine
7 (Pharmacy, Surgical, Individual, and Administrative Defendants);

8 b. California Lab. Code § 139.3, by aiding and abetting and
9 conspiring with physicians to enter into illegal fee-splitting arrangements and
10 provide them with monetary incentives for referrals of patients for clinical
11 laboratory, diagnostic imaging goods, pharmacy goods, among other services and
12 treatments (Pharmacy, Surgical, Individual, and Administrative Defendants);

13 c. California Bus. & Prof. Code §§ 650, 652, and 652.5, directly or
14 by aiding and abetting violations by physicians, by entering into illegal fee-splitting
15 arrangements and by providing physicians with monetary incentives to refer patients
16 to Drobot-controlled entities, to prescribe and dispense particular drugs or provide
17 particular services, and to use particular devices, hardware, implants, or equipment
18 from specified suppliers (Pharmacy, Surgical, Individual, and Administrative
19 Defendants);

20 d. California Ins. Code §§ 750 and 754, by presenting and
21 negotiating claims on behalf of physicians and by soliciting, offering, and paying
22 referral fees to medical providers, chiropractors, marketers, and others for the
23 referral of patients to Pacific Hospital or other operations controlled and/or owned
24 by Defendants, *e.g.*, the physician office dispensing programs "managed" by the
25 Pharmacy Defendants, so that they could submit insurance claims to State Fund for
26 reimbursement (Pharmacy, Surgical, Individual, and Administrative Defendants);

27 e. California Bus. & Prof. Code §§ 4022, 4037, 4043, 4160, and
28 4170, by operating as a pharmacy, pharmaceutical wholesaler, and prescriber

1 dispensary and submitting claims for reimbursement without the required licenses,
2 and by aiding and abetting physicians in the violation of section 4170 (Pharmacy,
3 Individual, and Administrative Defendants).

4 293. In addition to being unlawful and fraudulent, each of Defendants'
5 schemes to defraud State Fund constituted unfair business acts and practices under
6 § 17200.

7 294. Defendants' unfair and unlawful practices were performed in
8 California. For example, the fraudulent billings were sent to and received by State
9 Fund in California.

10 295. State Fund has suffered injury to its business and property as a direct
11 and proximate result of Defendants' unfair and unlawful practices.

12 296. Defendants have fraudulently received up to hundreds of millions of
13 dollars from State Fund as a direct and proximate result of their unfair and unlawful
14 practices. Defendants have been unjustly enriched, and it would be inequitable to
15 allow Defendants to retain the monies they obtained from State Fund through fraud
16 or other unfair practices. Disgorgement should be awarded so as to achieve
17 substantial justice between the parties.

18 **PRAYER FOR RELIEF**

19 WHEREFORE, State Fund prays for judgment against all Defendants as
20 follows:

21 1. For compensatory damages in an amount to be proven at trial, and
22 treble damages under the RICO statute in the first cause of action (Surgical
23 Defendant Enterprise/Civil RICO);

24 2. For compensatory damages in an amount to be proven at trial, and
25 treble damages under the RICO statute in the second cause of action (Pharmacy
26 Defendant Enterprise/Civil RICO);

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1 3. For compensatory damages in an amount to be proven at trial, and
2 treble damages under the RICO statute in the third cause of action (Surgical
3 Defendant Enterprise/Civil RICO Conspiracy);

4 4. For compensatory damages in an amount to be proven at trial, and
5 treble damages under the RICO statute in the fourth cause of action (Pharmacy
6 Defendant Enterprise/Civil RICO Conspiracy);

7 5. For an award of compensatory damages in an amount to be proven at
8 trial, plus an award of punitive and exemplary damages pursuant to the fifth cause of
9 action (fraud);

10 6. For restitution and disgorgement of unjust enrichment, plus interest,
11 pursuant to all appropriate causes of action;

12 7. For rescission of the settlement agreements pursuant to all appropriate
13 causes of action;

14 8. For an award of attorneys' fees and costs, pursuant to all appropriate
15 causes of action; and

16 9. For such other and further relief as the Court may deem just and proper.

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18 Dated: February 7, 2015

HUESTON HENNIGAN LLP

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By: /s/ John C. Hueston

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John C. Hueston
Attorneys for Plaintiff State
Compensation Insurance Fund

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EXHIBIT 1-A
TO SECOND AMENDED
COMPLAINT

LONG BEACH CA 90806

DEPT LA22597
PASADENA CA 91185
562 5951911

FED. TAX NO.

STATEMENT COVER PERIOD
FROM 2011 THROUGH 2011

PATIENT NAME: [REDACTED] PATIENT ADDRESS: [REDACTED]

BIRTHDATE: [REDACTED] SEX: [REDACTED] ADMISSION DATE: 08 03 13 06

ADMISSION TYPE: 13 08 3 1 13 06 STATE: CA

WCCA10000 STATE COMP INSURANCE FU
AK

42 REV. CD.	43 DESCRIPTION	44 HCPCS / RATE / HIPPS CODE	45 SERV. DATE	46 SERV. UNITS	47 TOTAL CHARGES	48 NON-COVERED CHARGES	49
0110	ROOM-BOARD/PVT	1742.00		10	17420.00	0.00	
0120	ROOM-BOARD/SEM	1342.00		3	4026.00	0.00	
0250	PHARMACY			123	8515.00	0.00	
0258	IV SOLUTIONS			49	12138.00	0.00	
0270	MED-SUR SUPPLIES			232	43829.00	0.00	
0272	STERILE SUPPLY			10	2205.00	0.00	
0274	PROSTH/ORTH DEV			2	334.00	0.00	
0278	SUPPLY/IMPLANTS			4	161952.00	0.00	
0300	LABORATORY or (LAB)			11	237.00	0.00	
0301	LAB/CHEMISTRY			5	1975.00	0.00	
0302	LAB/IMMUNOLOGY			1	245.00	0.00	
0305	LAB/HEMATOLOGY			14	949.00	0.00	
0306	LAB/BACT-MICRO			2	369.00	0.00	
0307	LAB/UROLOGY			1	80.00	0.00	
0310	PATHOLOGY LAB			3	268.00	0.00	
0320	DX X-RAY			8	4815.00	0.00	
0360	OR SERVICES			1	47834.00	0.00	
0370	ANESTHESIA			32	11584.00	0.00	
0410	RESPIRATORY SVC			1	380.00	0.00	
0420	PHYSICAL THERP			1	212.00	0.00	
0424	PHYS THERP/EVAL			2	1050.00	0.00	
0430	OCCUPATION THERP			1	627.00	0.00	
TOTALS							

PAGE OF CREATION DATE 09/02/2011

52 DRIVER NAME: STATE COMP INSURANCE FU
51 HEALTH PLAN ID: [REDACTED]
53 PRIOR PAYMENTS: Y Y
54 EST. AMOUNT DUE: [REDACTED]

58 INSURED'S NAME: [REDACTED]
59 INSURED'S UNIQUE ID: 20 [REDACTED]
61 GROUP NAME: STATE COMP INS
62 INSURANCE GROUP NO: [REDACTED]

63 TREATMENT AUTHORIZATION CODES: [REDACTED]
64 DOCUMENT CONTROL NUMBER: [REDACTED]
65 EMPLOYER NAME: [REDACTED]

66 722.0 997.4 787.29 478.6 721.0 070.54 272.4 E849.7 V45.4

69 ADMN DX: 722.0 70 PATIENT REASON DX: [REDACTED]
71 ICD CODE: 454 72 ICD: E878.8
74 PRINCIPAL PROCEDURE CODE DATE: 81.02 2011
75 OTHER PROCEDURE CODE DATE: 81.03 2011 80.51 2011
76 OTHER PROCEDURE CODE DATE: 77.79 2011 78.69 2011 81.63 2011

80 REMARKS: [REDACTED]
81CC a b c d
82 OTHER: NFI
83 LAST FIRST

LONG BEACH CA 90806

DEPT LA22597
PASADENA CA 91185
562 5951911

5 FED. TAX NO. [REDACTED]
6 STATEMENT COVER PERIOD FROM [REDACTED] 2011 THROUGH [REDACTED] 2011

1 PATIENT NAME [REDACTED] 2 PATIENT ADDRESS [REDACTED] 3 [REDACTED]

10 BIRTHDATE [REDACTED] 11 SEX [REDACTED] 12 DATE OF BIRTH [REDACTED] 13 ADMISSION 13 HR 14 TYPE 15 ORG 16 DHR 17 STAT 18 19 20 21 22 23 24 25 26 27 28 29 ACCT 30 STATE CA

31 OCCURRENCE CODE DATE 04 [REDACTED] 2003 32 OCCURRENCE CODE DATE 33 OCCURRENCE CODE DATE 34 OCCURRENCE CODE DATE 35 OCCURRENCE FROM THROUGH 36 OCCURRENCE FROM THROUGH 37

38 WCCA10000 STATE COMP INSURANCE FU
39 AK
40 VALUE CODES AMOUNT
41 VALUE CODES AMOUNT
42 VALUE CODES AMOUNT

43 REV. CD	43 DESCRIPTION	44 HCPCS / RATE / HIPPS CODE	45 SERV. DATE	46 SERV. UNITS	47 TOTAL CHARGES	48 NON-COVERED CHARGES	49
0440	SPEECH PATHOL			5	2104.00	0.00	
0460	PULMONARY FUNC			6	1372.00	0.00	
0636	DRUGS/DETAIL CODE			250	26322.00	0.00	
0710	RECOVERY ROOM			6	2494.00	0.00	
0730	EKG/ECG			1	398.00	0.00	
0940	OTHER RX SVS			11	6050.00	0.00	
0001	TOTAL CHARGE			0	359784.00	0.00	

PAGE OF CREATION DATE 09/02/2011 TOTALS

52 PRIOR NAME STATE COMP INSURANCE FU 51 HEALTH PLAN ID [REDACTED] 53 EST. AMOUNT DUE [REDACTED] 54 PRIOR PAYMENTS Y Y 55 EST. AMOUNT DUE [REDACTED] 56 NPI [REDACTED] 57 OTHER PRV ID [REDACTED]

58 INSURED'S NAME [REDACTED] 59 REL [REDACTED] 60 INSURED'S UNIQUE ID [REDACTED] 61 GROUP NAME STATE COMP INS 62 INSURANCE GROUP NO [REDACTED]

63 TREATMENT AUTHORIZATION CODES [REDACTED] 64 DOCUMENT CONTROL NUMBER [REDACTED] 65 EMPLOYER NAME [REDACTED]

66 722.0 67 997.4 68 787.29 69 478.6 70 721.0 71 070.54 72 272.4 73 E849.7 74 V45.4 75

76 ADMN DX 722.0 77 PATIENT REASON DX [REDACTED] 78 ICD CODE 454 79 EST. AMOUNT E878.8 80 PRINCIPAL PROCEDURE CODE DATE 81.02 [REDACTED] 2011 81 OTHER PROCEDURE CODE DATE 81.03 [REDACTED] 2011 82 OTHER PROCEDURE CODE DATE 80.51 [REDACTED] 2011 83 OTHER PROCEDURE CODE DATE 77.79 [REDACTED] 2011 84 OTHER PROCEDURE CODE DATE 78.69 [REDACTED] 2011 85 OTHER PROCEDURE CODE DATE 81.63 [REDACTED] 2011

86 REMARKS [REDACTED] 87 ICD CODE [REDACTED] 88 ICD CODE [REDACTED] 89 ICD CODE [REDACTED] 90 ICD CODE [REDACTED] 91 LAST FIRST 92 OTHER NPI CLAL 93 LAST FIRST

Purchase Order Listing

Date: 3/19/2011

Page 1 of 1

PO Number: PHLB-73062

Alternate PO Number:

Approver:

Please refer to this PO Number on all correspondence

Ship To: 1

Bill To: 2

INTERNATIONAL IMPLANTS
 P.O. BOX 415315
 NEWPORT BEACH, CA 92688
 PHONES: 949-870-3682 FAX: 949-870-3688

PACIFIC HOSPITAL OF LONG BEACH
 ACCOUNTS PAYABLE
 2776 PACIFIC AVE.
 LONG BEACH, CA 90806

PACIFIC HOSPITAL LONG BEACH
 RECEIVING
 2776 PACIFIC AVE
 LONG BEACH, CA 90806

Delivery Date: 2011
 PO Status: TRANSMITTED

FOB: Terms: NISO

Via:

Line	Qty	Unit	Vendor Product ID	Description	Location	Internal Product ID	Unit Price	Ext Price
1	2	EA/1	63005-16	3.6X1.6 POLY SCREW	74200SURG SURGERY	01.7420.3100	\$2,285.0000	\$4,570.0000
2	2	EA/1	63035-12	3.5MMX12MM SOL ANAS SCREWS	74200SURG SURGERY	01.7420.3100	\$2,285.0000	\$4,570.0000
3	B	EA/1	63035-14	3.5X1.4 POLY SCREW	74200SURG SURGERY	01.7420.3100	\$2,285.0000	\$17,840.0000
4	2	EA/1	63001-220	1.20XMM TROD	74200SURG SURGERY	01.7420.3100	\$440.0000	\$880.0000
5	12	EA/1	63005	SET SCREW SOL ANAS	74200SURG SURGERY	01.7420.3100	\$323.0000	\$3,876.0000
6	1	EA/1	63005-37	MEDIUM CROSSLINK	74200SURG SURGERY	01.7420.3100	\$2,330.0000	\$2,330.0000

Sub Total: \$33,546.0000
 Tax: \$0.0000
 Handling: \$0.0000
 Freight: \$73.0000
 Discount: \$0.0000
 PO Total: \$33,621.0000

This fax was received by GFI FAXMARKET fax server. For more information, visit: <http://www.gfi.com>



PACIFIC HOSPITAL LONG BEACH
 2776 PACIFIC AVE
 Phone: 562-497-2556
 Fax: 562-491-6371

PO Number: PHLB-73062
 Buyer: [Redacted]
 PO Date: 2011



P.O. Box 11535
Newport Beach, CA 92658

Phone: (888) 488-2636
Fax: (949) 870-3688

Date	Invoice #
2011	11249

Bill To
Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806

Ship To
Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90806

International Implants is an FDA Registered Manufacturer.
Registration #10027203

P.O. Number	Terms
PHLB - 73062	Net 60

Patient Name	Patient Number

Quantity	Item Code	Description	Price Each	Amount
2	63035-18	TI POLYAXIL PEDICAL SCREW - 3.5MMX16MM..	2,205.00	4,410.00
2	63035-12	3.5MMX12MM POLYAXIL PEDICAL SCREWS	2,205.00	4,410.00
8	63035-14	TI POLYAXIL PEDICAL SCREW - 3.5MMX14MM	2,205.00	17,640.00
2	63001-120	TI CERVICAL ROD - 3.3MMX120MM..	440.00	880.00
12	63005	SET SCREW	323.00	3,876.00
1	63003-37	TI 3.3MM LARGE ADJUSTABLE BRIDGE - 37MM	2,330.00	2,330.00
	Freight	Freight	75.00	75.00

For product information: (888) 488-2636	Total	\$33,621.00
---	--------------	--------------------

Purchase Order Listing

PO Date: 2011 Auxiliary PO Number: [REDACTED] Approver: [REDACTED] Page 1 of 2

PO Number: PHLB-73015

To: V772 [REDACTED] [REDACTED] [REDACTED]

INTERNATIONAL IMPLANTS
 P.O. BOX 11835
 NEWPORT BEACH, CA 92658
 PHONE: 949-670-3692 FAX: 949-870-3688

PAGE: HOSPITAL OF LONG BEACH
 ACCOUNTS PAYABLE
 2776 PACIFIC AVE
 LONG BEACH, CA 90806

PAGE: HOSPITAL LONG BEACH
 RECEIVING
 2776 PACIFIC AVE
 LONG BEACH, CA 90806

From: 9497770900 Page: 2/16 Date: 2011 7:49:47 AM

Line	QTY	UM/Units	Vendor Product ID	Description	Location	Internal Product ID	Unit Price	Ext. Price
1	1	EA/1	64735-106	BANK XS PEEK MED	74200SURG SURGERY	0174203100	\$4,000.0000	\$4,000.0000
2	1	EA/1	64735-106	XS 5 DEGREE SMALL 6MM	74200SURG SURGERY	0174203100	\$4,000.0000	\$4,000.0000
3	1	EA/1	64735-105	5MM SMALL PEEK CAGE	74200SURG SURGERY	0174203100	\$4,000.0000	\$4,000.0000
4	1	EA/1	64719-107	XS SMALL 7MM	74200SURG SURGERY	0174203100	\$4,000.0000	\$4,000.0000
5	1	EA/1	61100-014	7MM TELEVAL PLATE	74200SURG SURGERY	0174203100	\$3,385.0000	\$3,385.0000
6	1	EA/1	61909-054	5MM 2-3/4 ANT CERV PLATE	74200SURG SURGERY	0174203100	\$4,407.0000	\$4,407.0000
7	1	EA/1	61340-014	14MM SCREW 4.0	74200SURG SURGERY	0174203100	\$8,228.0000	\$8,228.0000
8	1	EA/1	61345-014	14MM SCREW 4.5	74200SURG SURGERY	0174203100	\$2,255.0000	\$2,255.0000
9	2	EA/1	64715-105	5MM XS PEEK MED	74200SURG SURGERY	0174203100	\$4,000.0000	\$8,000.0000



PACIFIC HOSPITAL LONG BEACH
 2776 PACIFIC AVE
 Phone: 949-777-2555
 Fax: 949-777-1537

PO Number: PHLB-73015
 PO Date: 8/17/2011

From: 9497770900 Page: 3/16 Date: 2011.7.14 9:47 AM

Purchase Order Listing

PO Date: 2011

Commodity:



Authorized By:



Page 2 of 2

Sub Total:	\$48,378,000.00
Tax:	\$0.00000
Handling:	\$0.00000
Freight:	\$75,000.00
Discount:	\$0.00000
PO Total:	\$48,453,000.00



PACIFIC HOSPITAL LONG BEACH
 2778 PACIFIC AVE
 Phone: 562-997-2558
 Fax: 562-997-6371

PO Number: PHLB73015
 Buyer: [Redacted]
 PO Date: 6/17/2011



P.O. Box 11585
Newport Beach, CA 92658

Phone: (888) 488-2838
Fax: (848) 870-3888

Date	Invoice #
2011	11244

Bill To
Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90808

Ship To
Pacific Hospital Of Long Beach Materials Management 2776 Pacific Ave Long Beach, CA 90808

International Implants is an FDA Registered Manufacturer.
Registration #10027203

P.O. Number	Terms
PHLB - 73018	Net 60

Patient Name	Patient Number
[REDACTED]	[REDACTED]

Quantity	ITEM Code	Description	Price Each	Amount
1	84715-106	NOVEL XS-PEEK 6 DEGREES MEDIUM SPACER -14mmx12mmx8mm	4,000.00	4,000.00
1	84713-108	S-S, NOVEL XS PEEK 6MM	4,000.00	4,000.00
1	84713-106	S-S, NOVEL XS PEEK 6MM	4,000.00	4,000.00
1	84713-107	S-S, NOVEL XS PEEK 7MM	4,000.00	4,000.00
1	81001-014	ANTERIOR CERVICAL PLATE LVL 1, ASSY, 14MM, TI	3,385.00	3,385.00
1	81003-054	ANTERIOR CERVICAL PLATE LEVEL 3 ASSEMBLY, 54MM	4,407.00	4,407.00
8	81340-014	4.0MM VARIABLE ANGLE SELF-TAPPING SCREW, 14MM	892.00	6,228.00
3	81345-014	4.5MM VARIABLE ANGLE SELF - TAPPING SCREW, 14MM, TI	788.00	2,368.00
2	84715-105	M-5, NOVEL XS PEEK 5MM	4,000.00	8,000.00
	Freight	Freight	75.00	75.00

For Product Information: (888) 488-2838	Total	60,456.00
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EXHIBIT 1-B
TO SECOND AMENDED
COMPLAINT

[FILED UNDER SEAL]

EXHIBIT 1-C
TO SECOND AMENDED
COMPLAINT

PACIFIC HOSPITAL OF L.B.
DEPT LA 22597
PASADENA CA 91185-259

CHIT 4
MED REC 1
STATEMENT COVERS PERIOD FROM 10 004 P2P THROUGH 10 004 P2P
111
SCIF

10 BIRTH DATE		11 SEX	12 DATE	13 ADMISSION DATE	14 TYPE	15 SRC	16 DHP	17 STAT	CONDITION CODES										18 MODI	19 STATE							
3		1	13	06					IP	13	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	
31 OCCURRENCE DATE		32 OCCURRENCE DATE		33 OCCURRENCE DATE		34 OCCURRENCE DATE		35 OCCURRENCE DATE		36 OCCURRENCE DATE		37 OCCURRENCE DATE		38 OCCURRENCE DATE		39 OCCURRENCE DATE		40 OCCURRENCE DATE		41 OCCURRENCE DATE		42 OCCURRENCE DATE		43 OCCURRENCE DATE		44 OCCURRENCE DATE	
																										TRD	

38 STATE COMPENSATION INS PO BOX 92622 LOS ANGELES CA 90009-2										39 CODE	40 VALUE CODES	41 AMOUNT	42 CODE	43 NATURE CODES	44 AMOUNT
										80	0				

45 REV CD	46 DESCRIPTION	47 ICDPCS / RATE / HIPPO CODE	48 SERV DATE	49 SERV UNITS	50 TOTAL CHARGES	51 NON-COVERED CHARGES	52
0278	GRAFTON FLEX			1	1944.00		
0278	GRAFTON PASTE			3	5193.60		
0278	INTERNATIONAL IMPLANT			1	90282.00		
0001 PAGE 1 OF 1					CREATION DATE	10	TOTALS
					97419.60	0.00	

53 INSURER NAME	54 HEALTH PLAN ID	55 REL INFO	56 AIND	57 PRIOR PAYMENTS	58 EST AMOUNT DUE	59 NPI
STATE COMPENSATION INS		Y	Y		97419.60	

60 INSURED'S NAME	61 PPREL	62 INSURED'S UNIQUE ID	63 GROUP NAME	64 INSURANCE GROUP NO.
	20			

65 TREATMENT AUTHORIZATION CODES	66 DOCUMENT CONTROL NUMBER	67 EMPLOYER NAME

68 72210	72283	72252	4019	07054	V1251	V1582	69
							0460

70 ADMIT DX	71 PATIENT REASON OR	72 PPS CODE	73
72252	72252	0460	
74 ICD9 PROCEDURE	75 OTHER PROCEDURE	76	77
8108	108051	107779	10
8162	104198	108451	10

80 REMARKS				81 LAST	82 FIRST	83 OTHER	84 NPI	85 QUAL	86 LAST	87 FIRST
STATE COMPENSATION INS F PO BOX 92622 LOS ANGELES, CA. 90009-2										

Itemized Statement Revenue Code 278 Only

[REDACTED] 2010

PACIFIC HOSPITAL OF LONG BEACH
 2776 PACIFIC AVENUE
 LONG BEACH, CA 90806
 (562) 595-1911



Charge Detail

Service Date	Charge Code	Qty.	Description	Amount
[REDACTED]	40531222	1	GRAFTON FLEX MEDIUM	1944.00
[REDACTED]	40531218	3	GRAFTON PASTE 10ML	5193.60
[REDACTED]	40599999	1	INTERNATIONAL IMPLANTS	90282.00
Totals For Rev Code 278 - SUPPLY/IMPLANTS				97419.60

Charge Summary

Code	Revenue Code	Description	Amount
278		SUPPLY/IMPLANTS	97419.60
TOTAL CHARGES			97419.60

Purchase Order Listing

PO Date: 2010

PO Number: PHLB-65086

Auxiliary PO Number:

Approver:

Page 1 of 1

(Please refer to this PO Number on all correspondence)

To: V7792

Ship To: 1

Bill To: 2

INTERNATIONAL IMPLANTS

PACIFIC HOSPITAL LONG BEACH

PACIFIC HOSPITAL LONG BEACH

20377 SW ACACIA

RECEIVING

RECEIVING

SUITE 110

2776 PACIFIC AVE

2776 PACIFIC AVE

NEWPORT BEACH, CA 92880
PHONE: 949-870-3802 FAX: 949-870-3688

LONG BEACH, CA 90808

LONG BEACH, CA 90808

Delivery Date: 2010

FOB:

TERMS: N/80

Via:

PO Status: TRANSMITTED

Line Qty LMT Vendor Product ID

Description

Location

Internal Product ID
GL Account

Unit Price

Ext Price

1	4	EA / 1	62085-45	6.5X46 POLY IMPLANT SCREW	74200SURG SURGERY	01.7420.3100	\$2,364.0000	\$9,458.0000
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Comments:		LOT#627726 (4)						
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2	2	EA / 1	62075-40	7.5X40 POLY IMPLANT	74200SURG SURGERY	01.7420.3100	\$2,364.0000	\$4,728.0000
---	---	--------	----------	---------------------	-------------------	--------------	--------------	--------------

Comments:		LOT#621587 (2)						
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3	2	EA / 1	84815-012	12MM SD PEEK	74200SURG SURGERY	01.7420.3100	\$6,009.0000	\$12,018.0000
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Comments:		LOT#621811 (2)						
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4	2	EA / 1	64815-014	9 X 25 X 14 SD MED PEEK	74200SURG SURGERY	01.7420.3100	\$6,009.0000	\$12,018.0000
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Comments:		LOT#628991 (2)						
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5	6	EA / 1	22015	SET SCREW	74200SURG SURGERY	01.7420.3100	\$399.0000	\$2,376.0000
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Comments:		LOT#627297 (1) 627949 (3) 628279 (2)						
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6	2	EA / 1	62004-07	70MM ROD - CURVED	74200SURG SURGERY	01.7420.3100	\$866.0000	\$1,736.0000
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Comments:		LOT#626114 (1) 619503 (1)						
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7	1	EA / 1	11-2053	MEDIUM CROSS LINK	74200SURG SURGERY	01.7420.3100	\$2,734.0000	\$2,734.0000
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Comments:		LOT#626209						
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Sub Total: \$45,066.0000

Tax: \$0.0000

Handling: \$0.0000

Freight: \$75.0000

Discount: \$0.0000

PO Total: \$45,141.0000

Authorized By: _____

Buyer: _____

PO Number: PHLB-65086

PO Date: 2010



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2566
Fax: 562-981-6371



**20377 Acacia Street
 Suite 110
 Newport Beach, CA 92660**

**Phone: (949) 870-3602
 Fax: (949) 870-3688**

Invoice

Date	invoice #
[REDACTED] 2010	10530

Bill To
Pacific Hospital Of Long Beach Materials Management 2776 Pacific Avenue Long Beach, CA 90806

Ship To
Pacific Hospital Of Long Beach Materials Management 2776 Pacific Avenue Long Beach, CA 90806

P.O. Number	Terms
PHLB-65086	Net 90 days

Patient Name	Patient Number
[REDACTED]	[REDACTED]

Quantity	Item Code	Description	Price Each	Amount
4	62065-45	TI STANDARD POLYAXIAL SCREW ASSY, 6.5MM x 45MM	2,364.00	9,456.00
2	62075-40	TI STANDARD POLYAXIAL SCREW ASSY, 7.5MM x 40MM	2,364.00	4,728.00
2	64815-012	NOVEL-SD - PEEK MEDIUM SPACER - 9MMX25MMX12MM	6,009.00	12,018.00
2	64815-014	NOVEL-SD - PEEK MEDIUM SPACER - 9MMX25MMX14MM	6,009.00	12,018.00
6	22015	TI STANDARD SCREW SET	396.00	2,376.00
2	62004-07	CP TI PRE CONTOURED ROD 5.5 DIA X 7CM FEMALE HEX	868.00	1,736.00
1	11-2053	TI ADJUSTABLE BRIDGE, 5.5 ROD	2,734.00	2,734.00
	Freight	Freight	75.00	75.00

For product information: (562) 997-2425

Total \$45,141.00

EXHIBIT 1-D
TO SECOND AMENDED
COMPLAINT

[REDACTED] 3 1 11 01

04 [REDACTED] TRD

STATE COMPENSATION INS.
P.O.BOX 65005
PINEDALE CA 93650-5005

80 0

0278 GRAFTON FLEX [REDACTED] 2 5284.00
0278 GRAFTON MATRIX [REDACTED] 1 3471.00
0278 INTERNATIONAL IMPLANT [REDACTED] 1 83980.00

0001 1 1 [REDACTED] 09 92735.00 0.00
STATE COMPENSATION INS. Y Y 92735.00 [REDACTED]

06000061608

72210 3492 73395
9 72210 72210 0460

8108 [REDACTED] 098051 [REDACTED] 097779 [REDACTED] 09
8162 [REDACTED] 098451 [REDACTED] 098915 [REDACTED] 09

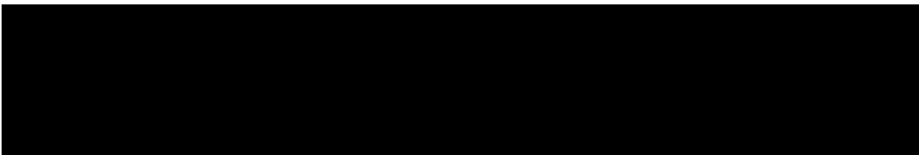
STATE COMPENSATION
INS. P.O.BOX 65005
PINEDALE, CA. 93650-5005



Itemized Statement Revenue Code 278 Only

[REDACTED] 2009

PACIFIC HOSPITAL OF LONG BEACH
2776 PACIFIC AVENUE
LONG BEACH, CA 90806
(562) 595-1911



Charge Detail

Service Date	Charge Code	Qnt.	Description	Amount
[REDACTED]	40531211	2	GRAFTON FLEX	5284.00
[REDACTED]	40531212	1	GRAFTON MATRIX	3471.00
[REDACTED]	40599999	1	INTERNATIONAL IMPLANTS	83980.00
Totals For Rev Code 278 - SUPPLY/IMPLANTS				92735.00

Charge Summary

Code	Revenue Code	Description	Amount
278	SUPPLY/IMPLANTS		92735.00
TOTAL CHARGES			92735.00



20377 Southwest Acacia Street Suite 120
 Newport Beach, CA 92660

BILL ONLY

ORDER # _____ DATE: [redacted] 09

Caller's Name: [redacted] Phone: [redacted]

Hospital Name: Pacific Hosp.

Shipping: _____ Billing: Pacific Hosp.

Surgery Date: [redacted] 09 Doctor: [redacted] Patient: [redacted]

Purchase Order 60004

Circle One
 Replenishment Required? Yes No

If yes, place replenishment order in shipping file

Product Code	Qty	Desc.	*Preserve	Spec. Size/ Packaging	Tissue ID	Fee
162110100	1	Nexus	FD FZ	10cc	082227-012	950
			FD FZ			
			FD FZ			
			FD FZ			
			FD FZ			
			FD FZ			
			FD FZ			
			FD FZ			
			FD FZ			
			FD FZ			950

Nexus IC
 DBM Putty, 10 cc
 082227-012

Standard Shipping Charges: \$25.00

[redacted] *changed* [redacted]



20377 SW Acacia Street, Suite 110
 Newport Beach, CA 92260

Requisition Number _____

SURGERY REQUISITION FORM

PATI [Redacted]

Riviera Hospital
 HOSPITAL NAME

QTY	Catalog Number	Lot Number	Description	Unit Price	Total
2	62004-06	618709	60mm Rod, contoured	789	1578
2	22015	621707	Set Screw	360	720
3	22015	621035	Set Screw	360	1080
1	22015	621480	Set Screw	360	360
2	62055-45	622544	5.5X45 poly screw	2149	4298
1	62055-45	617473	5.5X45 poly screw	2149	2149
1	62055-40	621977	5.5X40 poly screw	2149	2149
1	62065-40	620550	6.5X40 poly screw	2149	2149
1	62065-40	620647	6.5X40 poly screw	2149	2149
1	11-2053	5296701	Adj. Bridge Med.	2485	2485
4	64113-110	622035	10mm X20 LCC Peak Cage	5462	21,848
				Shipping Charge	75.00

Total Amount: 41,040

charged

PURCHASE ORDER: 60004

SURGERY DATE: [Redacted]

Bill Only In-stock

SURGEON NAME: [Redacted]

PROCEDURE: CH-S1

Approved By Signature: _____ Date: _____

Print Name and Title: _____

Submitted By: [Redacted] Date: [Redacted] 09

*+ 950.00
 NEXUS PART*

41,990.00

Internal Use Logged and Processed By: _____ Date: _____

Clerical: Reviewed Prices Faxed to I2 Instrument Repair
 Logged Report Incident Report Other _____

Purchase Order Listing

PO Date: [REDACTED]-009

PO Number: [REDACTED] PHLB-60004

(Please refer to this PO Number on all correspondence)

To: V7792

INTERNATIONAL IMPLANTS

20377 SW ACACIA

SUITE 110

NEWPORT BEACH, CA 92860

PHONE: 949-870-3602 FAX: 949-870-3688

Approver: [REDACTED]

Bill-To: 2

PACIFIC HOSPITAL LONG BEACH

RECEIVING

2776 PACIFIC AVE

LONG BEACH, CA 90806

Delivery Date: [REDACTED]-009

PO Status: TRANSMITTED

Vendor Product ID

Units

Description

Location

Internal Product ID

Unit Price

Ext. Price

GL Account

FOB: 009

Terms: N/80

Via:

Ship-To: 1

PACIFIC HOSPITAL LONG BEACH

RECEIVING

2776 PACIFIC AVE

LONG BEACH, CA 90806

80MM ROD PRECONTOURED

74200SURG

01.7420.3100

\$789.0000

\$1,578.0000

Comments: LOT#618708 (2)

2 EA / 1

62004-06

SET SCREW

74200SURG

01.7420.3100

\$360.0000

\$2,160.0000

Comments: LOT#621707 (2) 621035 (3) 621480 (1)

8 EA / 1

22015

5.5X45 MULTI SCREW

74200SURG

01.7420.3100

\$2,149.0000

\$6,447.0000

Comments: LOT#622544 (2) 617473 (1)

3 EA / 1

62055-45

5.5X40 IMPLANT SCREW

74200SURG

01.7420.3100

\$2,149.0000

\$2,149.0000

Comments: LOT#621977

1 EA / 1

62055-40

6.5X40 POLY IMPLANT SCREW

74200SURG

01.7420.3100

\$2,149.0000

\$4,298.0000

Comments: LOT#620650 (1) 620647 (1)

2 EA / 1

62065-40

MEDIUM CROSS LINK

74200SURG

01.7420.3100

\$2,485.0000

\$2,485.0000

Comments: LOT#6296701

1 EA / 1

11-2053

10XX20X10 LCC PEEK CAGE

74200SURG

01.7420.3100

\$5,462.0000

\$21,848.0000

Comments: LOT#622085

4 EA / 1

64113-110

NEXUS IC DEM PUTTY 10CC

74200SURG

01.7420.3100

\$950.0000

\$950.0000

Comments: LOT#08227-012

1 EA / 1

162110100



PACIFIC HOSPITAL LONG BEACH
2776 PACIFIC AVE

Phone: 562-997-2556
Fax: 562-961-6371

PO Number: PHLB-60004
Buyer: [REDACTED]

PO Date: [REDACTED] 2009

Purchase Order Listing

PO Date: [REDACTED] 2009

Comments:

[REDACTED]

[REDACTED]

Authorized By:

Sub Total:	\$41,915.0000
Tax:	\$0.0000
Handling:	\$0.0000
Freight:	\$75.0000
Discount:	\$0.0000
PO Total:	\$41,990.0000

Page 2 of 2

PACIFIC HOSPITAL LONG BEACH

2776 PACIFIC AVE

Phone: 562-997-2556

Fax: 562-951-6371



PO Number: PHLB-60004 PO Date: [REDACTED] 2009

Buyer: [REDACTED]

This tax was received by CEI FAXmaker fax server. For more information, visit: http://www.cei.com

**SPREADSHEET EXHIBITS
TO SECOND AMENDED
COMPLAINT**

[FILED UNDER SEAL]