



NEWS RELEASE

Eileen M. Decker

United States Attorney
Central District of California

For Immediate Distribution

June 3, 2016

Thom Mrozek, Public Affairs Officer

thom.mrozek@usdoj.gov

(213) 894-6947

www.justice.gov/usao-cdca

@CDCANews

3 New Defendants, including Chiropractor, Plead Guilty in Scheme Involving nearly \$600 Million in Fraudulent Claims by SoCal Hospitals

Son of Man who Owned Pacific Hospital in Long Beach Pleads Admits Role in Kickback Scheme that Resulted in Thousands of Spinal Surgeries

Santa Ana, California – As two criminal cases became public this week, the Justice Department today announced three cases in which additional defendants have pleaded guilty to federal charges for participating in a long-running health care fraud scheme that illegally referred thousands of patients for spinal surgeries and generated nearly \$600 million in fraudulent billings over an eight-year period.

The three new defendants join six others who were previously charged in relation to the government's ongoing investigation into kickbacks for patient referrals and fraudulent bills for spinal surgeries performed at Pacific Hospital in Long Beach. The scheme involved tens of millions of dollars in illegal kickbacks to dozens of doctors, chiropractors and others. As a result of the illegal payments, thousands of patients were referred to Pacific Hospital, where they underwent spinal surgeries that led to more than \$580 million in fraudulent bills being submitted during the last eight years of the scheme alone. Many of the fraudulent claims were paid by the California worker's compensation system and the federal government through the Federal Workers' Compensation System.

Two of the three new cases were recently ordered unsealed by United States District Judge Josephine L. Staton. The documents in the two unsealed cases became publicly available this week. In the now-unsealed cases and another case recently filed:

- Michael R. Drobot, 44, of Newport Beach, the son of Pacific Hospital owner Michael D. Drobot (Drobot Senior), pleaded guilty on March 4 to conspiracy and illegal kickback charges. Drobot Junior is scheduled to be sentenced on November 18.
- Chiropractor Michael E. Barri, 48, of San Clemente, who owned and operated the Santa Ana companies Tri-Star Medical Group and Jojaso Management Company, pleaded guilty on March 11 to a conspiracy count and admitted that he received illegal kickbacks for referrals to Pacific Hospital from 2009 through October 2013. During a nine-month period that ended in 2013, Barri admitted

receiving \$158,555 in illegal kickbacks after referring a dozen patients to Pacific Hospital, where they had back surgeries. As a result of his referrals, Pacific Hospital billed insurance carriers approximately \$3.9 million for spinal surgeries. Barri is scheduled to be sentenced by Judge Staton on January 13, 2017.

- Linda Martin, 66, of Clovis, California, who was a marketer for Pacific Hospital who recruited medical professionals and others to refer patients with promises of kickbacks, pleaded guilty to a conspiracy charge on May 27. She is scheduled to be sentenced on August 19.

These three defendants join six others – including Drobot Senior – who have also pleaded guilty. All nine defendants have agreed to cooperate with the government’s ongoing investigation – dubbed “Operation Spinal Cap” – into the kickback scheme, which involved dozens of surgeons, orthopedic specialists, chiropractors, marketers and other medical professionals.

“Federal law prohibits kickbacks to health care professionals because these payments impose additional costs on all patients and corrupt the relationship between the doctor and patient,” said United States Attorney Eileen M. Decker. “This scheme resulted in what can only be called a massive amount of fraudulent billing. The continuing investigation into the scheme demonstrates our commitment to protecting patients and prosecuting those in the health care industry who care more about money than those in their care.”

“The guilty pleas announced today are the latest step in holding accountable the individuals who co-opted doctors and other specialized healthcare workers to carry out multiple kickback conspiracies that abused the state and federal healthcare systems for more than a decade,” said Deirdre Fike, the Assistant Director in Charge of the FBI’s Los Angeles Field Office. “The continuing results of Operation Spinal Cap are based on a tremendous effort by investigators and prosecutors handling this case, which is among the largest healthcare fraud schemes to be perpetrated in the state of California.”

As described in court documents, Drobot Senior – who was the owner and/or CEO of Pacific Hospital of Long Beach until late 2013 and who [pleaded guilty](#) in April 2014 – ran a 15-year-long scheme in which he and others submitted hundreds of millions of dollars in bills to workers’ compensation insurers and the U.S. Department of Labor for spinal surgeries and other procedures performed on patients who had been referred by dozens of doctors, chiropractors and others who were paid illegal kickbacks.

As part of the scheme, members of the conspiracy typically paid a kickback of \$15,000 for each lumbar fusion surgery and \$10,000 for each cervical fusion surgery. Some of the patients lived hundreds of miles away from Pacific Hospital, and closer to other qualified medical facilities. The patients were not informed that medical professionals had been offered kickbacks to induce them to refer the surgeries to Pacific Hospital. From 2005 through 2013 (which is only part of the overall scheme), Pacific Hospital billed insurers more than \$580 million for spinal surgeries related to over 4,400 patients. Insurers paid the hospital more than \$226 million for the surgeries performed as a result of illegal kickbacks.

Those involved in the scheme concealed the kickback payments by entering into bogus contracts to provide a “cover story” for the doctors, chiropractors and others who received illegal payments. For example, a number of doctors entered into agreements with a company owned by Drobot Senior, Pacific Specialty Physician Management (PSPM), under which the doctors received as much as \$100,000 per month from PSPM in return for the right to purchase their medical practices – an option that was never exercised. In other cases, Pacific Hospital entered into contracts with doctors under which the doctors were to help the hospital collect on its surgery bills to insurance companies, but the hospital’s own collection staff, rather than the doctors, actually performed the collections work. Several doctors entered into lease agreements under which PSPM or Pacific Hospital paid rent for the use of office space, but rarely used the space. And other doctors had agreements to provide consulting services to Drobot’s companies, but did not actually provide the services. Still others, including marketers who introduced doctors to Pacific Hospital, had additional agreements with Drobot’s companies.

Two other Drobot companies – California Pharmacy Management (CPM) and its successor, Industrial Pharmacy Management (IPM) – were also important players in the scheme. Both companies set up and managed what were essentially mini-pharmacies within doctors’ offices. CPM and IPM bought and dispensed medication that the doctors prescribed to their patients, and these businesses received a portion of the money reimbursed by insurance companies for the medications. Drobot Senior, along with others at CPM and IPM, often agreed to increase the doctors’ shares of the insurance claims in return for those doctors’ referral of patients to Pacific Hospital. In many cases, for doctors who made such referrals, the conspirators “advanced” payments from CPM and IPM before the companies had collected any money for the medications or even prescribed them, and often simply wrote off these payments as losses when collections fell short. Drobot Junior was involved in these companies for over a decade, first as the manager of CPM, and then as co-owner and manager of IPM.

In his plea agreement, Drobot Junior admitted participating in the kickback scheme, primarily through his operation of CPM and IPM. As far back as 2005, Drobot Junior began personally soliciting doctors and chiropractors to enter into contracts with CPM and specifically discussed kickback arrangements, which were finalized by his father. Drobot Junior later acted a liaison when disputes arose concerning the payment of kickbacks to medical professionals or when those kickback recipients did not refer as many patients as expected.

Drobot Junior also admitted that he induced doctors who had contracted with CPM or IPM to also use products and services by companies he was affiliated with, including Medi-Lab Corporation. In return for referrals to Medi-Lab, Drobot Junior received monthly payments, some of which he used to make kickback payments to the doctors.

“These unscrupulous defendants thought they had figured out a clever scheme to line their pockets in their bilking of the insurance system. Federal and state worker’s compensation programs were not designed as a slush fund for the greedy,” stated IRS Criminal Investigation Acting Special Agent in Charge Anthony J. Orlando. “Law

enforcement is serious about investigating these crimes and holding accountable those who defraud government health care programs and deprive patients of their right to honest services.”

“Kickback schemes such as these threaten the financial integrity of public healthcare programs,” said Special Agent in Charge Scott Pierce, USPS Office of Inspector General, Contract Fraud Investigations Division. “The workers’ compensation program benefits thousands of postal employees who have received legitimate on-the-job injuries. This case should send a clear message to all health care providers that workers’ compensation fraud is a federal crime that carries serious consequences and will not be tolerated.”

When he is sentenced, Drobot Junior will face a statutory maximum penalty of 10 years in federal prison.

Barri and Martin each face potential prison sentences of five years as a result of their guilty pleas.

Last year, the United States Attorney’s Office [announced charges](#) against five other defendants, including two doctors involved in the Pacific Hospital kickback scheme, and a similar scheme involving Tri-City Regional Medical Center in Hawaiian Gardens.

The ongoing investigation into abuses involving kickbacks paid for spinal surgery patients is being conducted by the Federal Bureau of Investigation; the United States Postal Service, Office of Inspector General; IRS Criminal Investigation; and the California Department of Insurance.

CONTACT: Assistant United States Attorney Joseph T. McNally
(714) 338-3590

Assistant United States Attorney Scott D. Tenley
(714) 338-2829

Special Assistant United States Attorney Ashwin Janakiram
(213) 894-2875