

Department of Justice  
U.S. Attorney's Office  
Central District of California

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## **Former Hospital Owner Sentenced to over 5 Years in Prison for Orchestrating Scheme that Paid over \$40 Million in Illegal Kickbacks to Doctors, Other Medical Professionals for Spinal Surgery Referrals**

SANTA ANA, California – A federal judge today sentenced the former owner of Pacific Hospital in Long Beach to 63 months in prison for overseeing a 15-year-long health care fraud scheme that involved more than \$40 million in illegal kickbacks paid to doctors and other medical professionals in exchange for referring thousands of patients who received spinal surgeries.

The scheme operated by Michael D. Drobot led to more than \$500 million in fraudulent bills being submitted during last five years of the scheme – much of which was paid by the California worker's compensation system.

Drobot, 73, of Corona Del Mar, was sentenced this morning by United States District Judge Josephine L. Staton, who noted that Drobot “introduced greed into the doctor-patient relationship.”

Drobot pleaded guilty in 2014 to charges of conspiracy and paying illegal kickbacks, admitting that he orchestrated a wide-ranging fraud scheme in which “[t]housands of patients received surgeries at Pacific Hospital not knowing that [Drobot] bribed their physician to perform their surgery at Pacific Hospital,” prosecutors wrote in a sentencing memorandum filed with the court. Drobot “was motivated by greed and ultimately profited millions of dollars through the scheme.”

From at least 1997 through 2013, Drobot, who owned and/or operated Pacific Hospital during this time, ran a scheme in which he billed workers' compensation insurers hundreds of millions of dollars for spinal surgeries performed on patients who had been referred by dozens of doctors, chiropractors and others who were paid illegal kickbacks.

“The patients believed that they were receiving conflict-free medical advice when, in fact, [Drobot] illegally incentivized their physician to perform the surgery at Pacific Hospital,” prosecutors said in court documents.

The kickbacks were financed largely by money generated from Drobot’s sale of medical devices implanted into state workers’ comp patients during spinal surgeries. Drobot set up a scheme that exploited a now-repealed California law known as the spinal “pass-through” legislation, which permitted hospitals to pass on to workers’ comp insurers the full cost of medical devices implanted in spinal surgery patients.

Drobot generated the kickback money through his own medical hardware company – the Newport Beach-based International Implants (I2) – to sell hardware used in spinal surgeries performed at Pacific Hospital. I2 submitted bills to Drobot’s Hospital and tacked on an additional \$250 per device knowing that the “pass-through” law required to state to pay the full amount of the invoices.

“Through the operation of I2, [Drobot] generated substantial profits that he used to pay at least \$40 million dollars in kickbacks,” prosecutors wrote in court papers. “According to the former CFO of Pacific Hospital, his income, bonuses, and other compensation at the hospital was in excess of \$20,000,000.”

As part of the health care fraud scheme, Drobot paid bribes to California State Senator Ronald Calderon in exchange for Calderon performing official acts to keep the spinal pass-through law on the books. Calderon is currently serving a 3½-year sentence in federal prison after admitting that he took bribes from Drobot and undercover FBI agents.

Drobot typically paid a kickback of \$15,000 per lumbar fusion surgery and \$10,000 per cervical fusion surgery. Some of the patients lived as much as hundreds of miles away from Pacific Hospital, and closer to other qualified medical facilities.

Drobot and his co-conspirators concealed the kickback payments by entering into bogus contracts with the doctors, chiropractors, and others who received kickbacks. In reality, the contracts merely provided a cover story for the kickback payments.

In addition to the prison term, which Drobot will begin serving on June 4, Judge Staton imposed a \$500,000 criminal fine and issued an order directing Drobot to forfeit \$10 million to the government. As part of the forfeiture judgment, which Judge Staton signed on Wednesday, Drobot was ordered to liquidate assets that include real estate and a 1965 Aston Martin, a 1958 Porsche, and a 1971 Mercedes Benz.

Judge Staton has scheduled a restitution hearing for May 11.

In addition to Drobot, prosecutors have charged seven other defendants in relation to the kickback scheme. The seven additional defendants – which include Drobot’s son, Michael R. Drobot – have pleaded guilty and are scheduled to be sentenced by Judge Staton over the next two months.

The ongoing investigation into the spinal surgery kickback scheme is being conducted by the Federal Bureau of Investigation; IRS Criminal Investigation; the California Department of Insurance; and the United States Postal Service, Office of Inspector General.

The case against Drobot was being handled by Assistant United States Attorneys Joseph T. McNally and Scott D. Tenley of the Santa Ana Branch Office, and Ashwin Janakiram of the Major Frauds Section.

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