

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

FOR IMMEDIATE RELEASE

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Four Indicted in Compound Cream Prescription Scam that Cost Government and Union Health Plans Over \$22 Million

LOS ANGELES – Federal authorities this morning arrested two defendants charged in a scheme that generated millions of dollars through an Orange County compound pharmacy that submitted fraudulent bills to the military's TRICARE health plan and a labor union health plan for medically unnecessary compound cream prescriptions. Two other defendants named in a 48-count grand jury indictment are expected to surrender tomorrow.

The indictment – which contains charges of health care fraud, mail fraud, illegal kickbacks and money laundering – outlines a scheme in which the Orange County-based Professional Compounding Pharmacy (PCP), its team of marketers and a collusive physician made millions of dollars in illegal profits by fraudulently generating prescriptions for custom-made compound cream medications, some of which led to bills for as much as \$15,000 per tube.

The scheme was fueled in part by the participation of two bogus “pain clinics” in Lawndale and National City, which recruited beneficiaries of TRICARE and the International Longshore and Warehouse Union's (ILWU) Pacific Maritime Association Welfare Plan. The defendants allegedly paid beneficiaries \$200 each to receive treatment by doctors who supposedly were conducting “pain studies” to evaluate the effectiveness of the compound pain creams.

PCP, which operated in La Habra and Brea, allegedly used a network of marketers and one principal doctor to locate beneficiaries of the TRICARE and ILWU plans. PCP and its marketers also enlisted the participation of other doctors and a nurse practitioner to write prescriptions for pain-relief creams, and PCP ultimately filled prescriptions – including myriad refills – that were not medically necessary.

The scheme's participants allegedly provided the \$200 payments to the “patients” for agreeing to show up at the clinics for the bogus pain studies. They also paid kickbacks to medical marketers and professionals in exchange for generating a large volume of compound prescriptions, the indictment alleges.

PCP paid marketers approximately 50 percent of the payments it received from TRICARE and ILWU Plan manager to provide the marketers with ongoing incentives to find doctors and patients willing to write or accept the medically unnecessary compound cream prescriptions, according to the indictment. Health care professionals engaged to work at these bogus “pain clinics” were encouraged to write prescriptions for medically unnecessary compounded creams to keep the revenue stream flowing to PCP and its marketers, the indictment alleges.

The four defendants named in the indictment are:

- James Nate Bell, 38, of Anaheim Hills, the owner of PCP and two medical marketing companies that were allegedly used to funnel kickbacks to PCP marketers;

- Regina Piehl, 66, of Pacific Palisades, who was affiliated with several companies that allegedly received and paid kickbacks to refer and obtain prescriptions for PCP;
- Dr. Michael Edwards, 52, of Huntington Beach, a physician who allegedly worked with Piehl to set up clinics to study the efficacy of compound creams, but which in reality served as prescriptions mills that generated millions of dollars in profits for PCP and its marketers; and
- Sara Samhat, 45, of Huntington Beach, who allegedly worked with Dr. Edwards to route prescriptions to PCP and other companies involved in the health care fraud scheme in exchange for receipt of kickbacks from the referral of the prescriptions.

Bell and Piehl were arrested this morning by federal agents and are expected to be arraigned on this indictment this afternoon in United States District Court, with Bell appearing in Santa Ana and Piehl appearing in Los Angeles. Edwards and Samhat are expected to surrender tomorrow morning at the federal courthouse in Santa Ana.

The indictment, which was returned by a federal grand jury in Santa Ana on January 29 and unsealed today, alleges that the scheme peaked in the first half 2015 and continued into 2016. The fraudulent billings to TRICARE, in particular, dropped significantly in the second half of 2015 when TRICARE, and then later the ILWU Plan, reduced reimbursement rates for compounded creams.

As result of the scheme, TRICARE sustained losses of approximately \$19 million, and the ILWU Plan sustained additional losses of approximately \$3 million.

In relation to this morning's arrests, federal agents obtained warrants to seize a Cadillac Escalade and two of Bell's brokerage accounts.

An indictment contains allegations that a defendant has committed a crime. Every defendant is presumed innocent until and unless proven guilty beyond a reasonable doubt.

The ongoing investigation in this case is being conducted by the Department of Defense Office of Inspector General, the Defense Criminal Investigative Service, the FBI, IRS Criminal Investigation, the United States Department of Labor's Office of Inspector General and the U.S. Department of Labor's Employee Benefits Security Administration.

This matter is being prosecuted by Assistant United States Attorney Paul G. Stern of the Environmental and Community Safety Crimes Section. Assistant United States Attorney Jonathan S. Galatzan of the Asset Forfeiture Section is also working on the case.