



UNITED STATES ATTORNEY'S OFFICE
Southern District of New York

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**MANHATTAN U.S. ATTORNEY ANNOUNCES CHARGES AGAINST 48
INDIVIDUALS IN MASSIVE MEDICAID FRAUD SCHEME INVOLVING
THE DIVERSION AND TRAFFICKING OF PRESCRIPTION DRUGS**

*Scheme Caused Losses Estimated at More Than \$500 Billion Dollars to Medicaid and Is
Believed to Be the Largest Single Prescription Drug Diversion Scheme Ever Charged at
One Time*

Preet Bharara, the United States Attorney for the Southern District of New York, Janice K. Fedarcyk, the Assistant Director-in-Charge of the New York Field Office of the Federal Bureau of Investigation (FBI), Raymond W. Kelly, the Police Commissioner of the City of New York (NYPD), and Robert Doar, the Commissioner of the New York City Human Resources Administration (HRA), announced today the unsealing of charges against 48 defendants for their participation in a massive fraud scheme involving the unlawful diversion and trafficking of hundreds of millions of dollars' worth of prescription drugs that had previously been dispensed to Medicaid recipients in the New York City area (second-hand drugs), in a national, underground market. As a result of the fraud, Medicaid lost more than an estimated \$500 million in reimbursements for pills that were diverted into this second-hand, black market. Forty-two of the defendants were charged in a Superseding Indictment, and six more were charged in a Complaint.

Thirty-four of the defendants were arrested this morning in connection with today's charges. Fifteen defendants were taken into custody in New York and New Jersey, and an additional defendant from the area will surrender today. These sixteen defendants will be presented and arraigned in Manhattan federal court before U.S. Magistrate Judge Frank Maas later this afternoon. Nineteen other defendants were arrested in Pennsylvania, Massachusetts, Florida, and Texas and are expected to appear today and tomorrow in federal courts in those states. The remaining defendants charged are at large.

Manhattan U.S. Attorney Preet Bharara said: "As alleged, these defendants ran a black market in prescription pills involving a double-dip fraud of gigantic proportions. It worked a fraud on Medicaid – in some cases, two times over – a fraud on pharmaceutical companies, a

fraud on legitimate pharmacies, a fraud on patients who unwittingly bought second-hand drugs, and ultimately, a fraud on the entire health care system. With the dozens of arrests we made today, we have taken a significant step toward exposing and shutting down the black market for second-hand drugs, and our investigation is very much ongoing.”

FBI Assistant Director-in-Charge Janice K. Fedarcyk said: “The scheme to collect, aggregate and resell costly prescription drugs was bad medicine in three ways: Profiting so obscenely by breaking the law is the very definition of unjust enrichment. The scheme was theft, plain and simple, from a program funded by taxpayers. And the scheme posed serious health risks at both the collection and distribution ends. People with real ailments were induced to sell their medications on the cheap rather than take them as prescribed, while end-users of the diverted drugs were getting second-hand medicine that may have been mishandled, adulterated, improperly stored, repackaged and expired.”

NYPD Commissioner Raymond W. Kelly said: “It’s one thing when people sell their blood for money; it’s another when they sell their drugs, especially when the diversion compromises the pharmaceutical supply with tainted and outdated drugs.”

HRA Commissioner Robert Doar said: “This case is an egregious example of individuals preying on our most vulnerable population. The diversion, repackaging and reselling of HIV/AIDS medications, in some cases expired, is a danger to our public health. The integrity of the Medicaid Program has been threatened by these criminals who have used taxpayer dollars for the opposite reasons for which they are intended. But make no mistake, together with our law enforcement partners, we will continue to pursue these types of criminals and prosecute them to the fullest extent of the law.”

The following allegations are based on the Superseding Indictment, the Complaint, and other documents unsealed today in Manhattan federal court:

The prescription drugs involved in this scheme were drugs designed to treat various illnesses, including HIV, schizophrenia, and asthma, among others, and were non-controlled substances that did not lend themselves to abuse. These second-hand drugs were originally dispensed to Medicaid recipients in the New York City area who then sold them into collection and distribution channels that ultimately ended at pharmacies, for resale to unsuspecting consumers. The defendants and their co-conspirators profited by exploiting the difference between the cost to the patient of obtaining the prescription drugs through Medicaid, which was usually nothing, and the hundreds of dollars per bottle that pharmacies paid to purchase those drugs to sell to their customers. In order to maximize their profits, the defendants and their co-conspirators targeted the most expensive drugs, which often cost more than \$1000 per bottle.

The Fraudulent Distribution and Trafficking Scheme

The lowest level participants in the scheme (the Medicaid Beneficiaries) were typically AIDS patients or individuals who suffered from other illnesses that required expensive drug therapies. Using their Medicaid benefits to cover the cost, the Medicaid Beneficiaries filled prescriptions for month-long supplies of drugs at pharmacies throughout the New York City area and then sold them to “Collectors” for cash instead of using them for treatment. These transactions occurred at street corners and bodegas in and around New York City, including in the Washington Heights neighborhood of Manhattan and in the Bronx. Collectors then sold the second-hand bottles to higher level participants in the scheme (Aggregators), who typically bought large quantities of second-hand drugs from multiple Collectors. These transactions repeated themselves at increasingly higher levels of Aggregators who purchased the drugs from

multiple, lower level Aggregators. The pills were ultimately sold to wholesale prescription drug distribution companies (Corrupt Distribution Companies), which then sold them to pharmacies and to other wholesale prescription distribution drug companies across the United States. Ultimately, these pharmacies then dispensed the second-hand drugs to unsuspecting customers, some of whom likely were Medicaid beneficiaries. Therefore, in some cases, Medicaid would have reimbursed patients for the same drugs twice – the second time for drugs that were misbranded, adulterated and possibly expired – and would thereby have been defrauded twice.

The defendants charged in the Superseding Indictment and the Complaint include Collectors, Aggregators, and owners and operators of the Corrupt Distribution Companies who were carrying out this scheme in states including New York, New Jersey, Pennsylvania, Florida, Texas, Massachusetts, Utah, Nevada, Louisiana, and Alabama.

In addition, several defendants were also charged with narcotics trafficking offenses for buying and reselling drugs including Oxycodone and Oxymorphone.

The Fraudulent Labeling Scheme

Because the prescription drugs involved in the scheme were not drugs of abuse and were ultimately going to be resold in the legal drug distribution chain, it was essential that they be packaged in bottles that appeared to contain new drugs that came directly from the manufacturer, via authorized and licensed wholesale distributors. Therefore, the defendants and their co-conspirators had to restore the previously dispensed bottles to their original appearance, with the manufacturer's label still intact, but without the patient labels that pharmacies affix when dispensing drugs to a patient. After purchasing the second-hand bottles originally dispensed to Medicaid Beneficiaries, the defendants and their co-conspirators used lighter fluid and other means to dissolve the adhesive on the patient labels so that they could be removed. During the process, the manufacturers' labels sometimes became damaged, and/or the second-hand drugs were close to their expiration dates or had already expired. When the bottles were not re-saleable because of damaged manufacturers' labels or expiration date problems, some of the defendants replaced the original manufacturers' labels with counterfeit labels and/or altered the labels to backdate their expiration dates. Some of these counterfeit prescription drug manufacturers' labels were obtained by two of the defendants from the Dominican Republic. In other instances, the defendants and their co-conspirators removed the drugs from the bottles and trafficked in loose pills, which were then completely untraceable.

E-mails obtained by search warrant revealed that a certain subset of the defendants bought and sold more than \$62 million worth of second-hand prescription drugs during an approximately 12 month time period during the conspiracy, which they meticulously documented in a businesslike manner through purchase orders and receipts scanned onto their computers and uploaded into email accounts.

The Second-Hand Pills

The second-hand pills that found their way back into the legal drug distribution stream were potentially dangerous to the unwitting consumers who purchased them for several reasons. For example, the defendants and their co-conspirators stored the drugs in uncontrolled conditions, such as car trunks, residences, and rented storage facilities, which would have compromised the medical efficacy of the drugs over time.

During the investigation, the FBI seized more than \$16 million worth of second-hand prescription drugs, comprised of more than 33,000 bottles and more than 250,000 loose pills,

kept in uncontrolled and sometimes egregious conditions by various defendants and their co-conspirators.

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Charts identifying each defendant, the charges, and the maximum penalties, are attached to this release. The indicted case is assigned to U.S. District Judge Denise L. Cote.

Mr. Bharara praised the efforts of the FBI's Health Care Fraud Task Force and thanked FBI, NYPD and HRA for their work on the case. The New York FBI Health Care Fraud Task Force was formed in 2007 in an effort to combat health care fraud in the greater New York City area. The task force is comprised of agents, officers, and investigators from the FBI, NYPD, the New York State Insurance Fraud Bureau, U.S. Department of Labor, U.S. Office of Personnel Management Inspector General, U.S. Food and Drug Administration, New York State Attorney General's Office, **New York State Office of Medicaid Inspector General**, New York State Health and Hospitals Inspector General, and the National Insurance Crime Bureau.

Mr. Bharara thanked the Drug Enforcement Administration, Immigration and Customs Enforcement's Homeland Security Investigations, and the New York State Office of the Medicaid Inspector General for their assistance. He also thanked the FBI's Boston, Houston, Miami, Newark, Philadelphia, and Salt Lake City field offices, as well as the U.S. Attorney's offices in New Jersey, Massachusetts, Texas (Southern), Florida (Southern), Pennsylvania (Eastern), and Utah for their assistance in the investigation.

If you think you may have purchased second-hand prescription drugs or were otherwise victimized by this scheme, you can call the FBI Hotline at 212-384-3555.

The case is being prosecuted by the Office's Organized Crime Unit. Assistant U.S. Attorneys Jason A. Masimore and Russell Capone are in charge of the prosecution. Assistant U.S. Attorney Alexander Wilson of the Office's Asset Forfeiture Unit is responsible for the forfeiture of assets.

The charges contained in the Indictment and the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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U.S. v. Viera, et al.

COUNT	CHARGE	DEFENDANTS	MAXIMUM PENALTIES
1	Conspiracy to Commit Wire Fraud, Mail Fraud, and Healthcare Fraud	JUAN CARLOS VIERA JOSE MANUEL DOMINGUEZ JULIO DOMINGUEZ CARLOS ALBERTO PADRON JUAN MANUEL TAVAREZ PADILLA JUAN TAVAREZ AURA CATALINA TAVAREZ EDWIN M. TAVAREZ ISRAEL TACHER ROBERTO TACHER VANESSA ROSARIO ELIGIO ARMAS EDUARDO DIAZ	20 years in prison

		CARLOS PERALTA JOSELITO PERALTA JUAN CARLOS PERALTA HANSER OLIVO LIRANZO KELVIN MANUEL MARTINEZ TAVERAS GLENN LUIS CABRERA FARY R. CABA PADILLA MIGUEL PADILLA AMERICO LUIS GARCIA DOMINGUEZ WILFRED RODRIGUEZ JOSE RAMON GONZALEZ ALEX JUSTO YOEL FERNANDEZ RIVERO AMAUROS A. ROSARIO JACQUELINE JIMENEZ LUIS SANTANA BAYOHAN DIAZ PAULINO CAYETANO ARMANDO GARCIA SERGIO NOVO LAZARO OSPINA	
2	Conspiracy to Commit Adulteration and Misbranding Offenses and the Unlawful Wholesale Distribution of Prescription Drugs	JUAN CARLOS VIERA JOSE MANUEL DOMINGUEZ JULIO DOMINGUEZ CARLOS ALBERTO PADRON JUAN MANUEL TAVAREZ PADILLA JUAN TAVAREZ AURA CATALINA TAVAREZ EDWIN M. TAVAREZ ISRAEL TACHER ROBERTO TACHER VANESSA ROSARIO ELIGIO ARMAS EDUARDO DIAZ CARLOS PERA JOSELITO PERALTA JUAN CARLOS PERALTA HANSER OLIVO LIRANZO KELVIN MANUEL MARTINEZ TAVERAS GLENN LUIS CABRERA FARY R. CABA PADILLA MIGUEL PADILLA AMERICO LUIS GARCIA DOMINGUEZ WILFRED RODRIGUEZ JOSE RAMON GONZALEZ ALEX JUSTO YOEL FERNANDEZ RIVERO AMAUROS A. ROSARIO JACQUELINE JIMENEZ LUIS SANTANA BAYOHAN DIAZ PAULINO CAYETANO ARMANDO GARCIA SERGIO NOVO LAZARO OSPINA	Five years in prison
3	Conspiracy to Commit Trafficking in Counterfeit Goods	VANESSA ROSARIO JOSELITO PERALTA	10 years in prison
4	Narcotics Conspiracy	JUAN MANUEL TAVAREZ PADILLA JUAN TAVAREZ AURA CATALINA TAVAREZ	20 years in prison

		VANESSA ROSARIO JOSELITO PERALTA HANSER OLIVO LIRANZO AMAUROS A. ROSARIO BRENDA SANTOS IRA KARP JOEL GABRIEL CASADO	
5	Narcotics Conspiracy	LUIS SANTANA BAYOHAN DIAZ LUIS ABREU PAULINO CAYETANO JOSE FELIPE BENITO DURAN ARELIS LEE MILAGROS ACEVEDO	20 years in prison

U.S. v. Oria, et al.

COUNT	CHARGE	DEFENDANTS	MAXIMUM PENALTIES
1	Conspiracy to Commit Mail Fraud and Healthcare Fraud	ALEX ORIA JOE H. NELSON KENNETH NELSON CONRADO VAZQUEZ EFREN RUIZ ABEL GONZALEZ	20 years in prison
2	Conspiracy to Commit Money Laundering	ALEX ORIA JOE H. NELSON KENNETH NELSON	20 years in prison

Defendants' Ages and Residencies

DEFENDANT	RESIDENCE	AGE
JUAN CARLOS VIERA	Hialeah, Florida	49
JOSE MANUEL DOMINGUEZ	Miami, Florida	62
JULIO DOMINGUEZ	Miami, Florida	60
CARLOS ALBERTO PADRON	Miami, Florida	54
JUAN MANUEL TAVAREZ PADILLA	Cliffside Park, NJ	30
JUAN TAVAREZ	New York, New York	58
AURA CATALINA TAVAREZ	New York, New York	36
EDWIN M. TAVAREZ	Cliffside Park, New Jersey	26
ISRAEL TACHER	Miami, Florida	62
ROBERTO TACHER	Miami, Florida	37
VANESSA ROSARIO	Cutler Bay, Florida	28
ELIGIO ARMAS	North Bergen, New Jersey	54
EDUARDO DIAZ	Cliffside Park, New Jersey	58
CARLOS PERALTA	West New York, New Jersey	49

JOSELITO PERALTA	Ridgefield Park, New Jersey	37
JUAN CARLOS PERALTA	Ridgefield Park, New Jersey	24
HANSER OLIVO LIRANZO	Fairview, New Jersey	32
KELVIN MANUEL MARTINEZ TAVERAS	Bronx, New York	33
GLENN LUIS CABRERA	Ridgefield Park, New Jersey	22
FARY R. CABA PADILLA	Bronx, New York	21
MIGUEL PADILLA	Bronx, New York	62
AMERICO LUIS GARCIA DOMINGUEZ	Miami, Florida	29
WILFRED RODRIGUEZ	Brooklyn, New York	49
JOSE RAMON GONZALEZ	New York, New York	48
ALEX JUSTO	New York, New York	37
YOEL FERNANDEZ RIVERO	Miami, Florida	32
AMAUROS A. ROSARIO	Bronx, New York	31
JACQUELINE JIMENEZ	New York, New York	37
LUIS SANTANA	Richmond Hill, New York	39
BAYOHAN DIAZ	Richmond Hill, New York	27
PAULINO CAYETANO	Bronx, New York	36
ARMANDO GARCIA	Guttenberg, New Jersey	40
SERGIO NOVO	North Arlington, New Jersey	74
LAZARO OSPINA	Bloomfield, New Jersey	71
BRENDA SANTOS	Philadelphia, Pennsylvania	34
IRA KARP	New York, New York	77
LUIS ABREU	Worcester, Massachusetts	32
JOEL GABRIEL CASADO	Bronx, New York	27
JOSE FELIPE	Brooklyn, New York	47
BENITO DURAN	Philadelphia, Pennsylvania	38
ARELIS LEE	Brooklyn, New York	56
MILAGROS ACEVEDO	Brooklyn, New York	48
ALEX ORIA	Missouri City, Texas	55
JOSEPH NELSON	Sugar Land, Texas	75
KENNETH NELSON	Sugar Land, Texas	52
CONRADO VAZQUEZ	Miami, Florida	40
EFREN RUIZ	Hialeah, Florida	42
ABEL GONZALEZ	Miami, Florida	36