$30 Million Kickback Case Settled

Ken Ritter, AP

A medical implants and surgery products company has agreed to pay $30 million to the federal government to settle whistleblower allegations that a subsidiary paid illegal kickbacks to spinal physicians to use its products, the U.S Justice Department announced Friday. Orthofix International NV agreed to resolve claims that Blackstone Medical, Inc. provided surgeons with travel, entertainment and benefits including sham consulting, royalty and research deals, according to a statement from the Justice Department civil division in Washington, D.C.

The publicly traded company made no admission of wrongdoing. It put the settlement amount at $32 million, including $2 million in legal fees for whistleblowers Susan Hutcheson and Philip Brown of Florida. The Justice Department said Hutcheson will receive $8 million from the settlement.

Orthofix president and chief executive Robert Vaters issued a statement saying he was pleased with the final settlement. It stemmed from a civil lawsuit filed in September 2006 in U.S. District Court in Massachusetts, and an agreement reached in February. The complaint alleged false claims for payments were submitted to Medicaid, Medicare and the TRICARE program for military service members, retirees and their families. It listed 67 doctors and medical firms and said most received stipends of up to $6,000 per month.

Kathryn Feeney, resident agent in charge for the Defense Criminal Investigative Service, said kickbacks like those alleged against Orthofix undermine the TRICARE system. Stuart F. Delery, acting assistant attorney general for the Justice Department Civil Division, warned that such illegal compensation can corrupt physicians' medical judgment and cause misallocation of vital health care resources.

Vaters was promoted from company chief financial officer to chief executive officer in June. He also cited the recent resolution of a federal Foreign Corrupt Practices action against the company. "Orthofix has made significant improvement to its compliance practices, and I look forward to a continued stronger focus on the company's operations," he said in the statement. The company also agreed to enter into a corporate integrity agreement with the Department of Health and Human Services Office of Inspector General.

Orthofix said it will fund the settlement with proceeds received from the escrow fund established in connection with the acquisition of Blackstone in 2006. Since then, it has moved Blackstone operations from New Jersey and Massachusetts to Texas. Orthofix specializes in minimally invasive surgical and non-surgical products for the spine, orthopedics and sports medicine markets.

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