Forensic Brief 03: Genesis Health Management – Medicare Billing Fraud

PPS Exemption Exploitation and Systematic Extraction of Government Program Funds (1994–2001)

February 11, 2026

I. EXECUTIVE SUMMARY

Dynamic Associates Inc. (CIK 0000878146), controlled by Jan Wallace as CEO and Kyleen Cane as securities counsel, operated geropsychiatric hospital management units that billed Medicare directly through the Prospective Payment System (PPS) exemption. Between 1994 and 2001, the enterprise generated approximately $49.3M in documented Medicare management fee revenue ($55.3M including 1995 pro forma) through Genesis Health Management Corporation and its subsidiary Geriatric Care Centers of America, Inc. ("GCCA") across up to 26 active contracts in hospitals situated in Louisiana, Arkansas, Mississippi, and Tennessee.[1] One hundred percent of the entity's operating revenue was Medicare-derived. The enterprise systematically extracted ~$6.98M in officer and related-party compensation plus ~$3.28M in interest payments to offshore Regulation S noteholders from these government funds, while total entity assets collapsed from $33.9M (1996) to $50 (2005).

Two individuals excluded or subsequently excluded from federal healthcare programs were associated with entities under common control during the Medicare billing period: Dr. Robert B. Spertell, M.D. (excluded October 9, 1991, employed at MW Medical subsidiary 1996–1999) and David Hunter (convicted of nineteen counts of Medicaid fraud, September 1995; excluded October 29, 1996; co-founder of Dynamic Associates). Under 42 U.S.C. 1320a-7(a) and 42 CFR 413.17, the knowing association of OIG-excluded and program-fraud-convicted individuals with entities under common control with a Medicare-billing entity taints every claim submitted during the period of their participation. A prior qui tam by Genesis employees (Q2 1999) was disclosed in one SEC filing and then suppressed from all subsequent filings, establishing contemporaneous knowledge of false billing while the enterprise continued to submit Medicare claims.

II. ENTITY STRUCTURE AND GENESIS ACQUISITION

- **Parent:** Dynamic Associates Inc. (Nevada, CIK 0000878146, SEC File 000-19457)
- **Subsidiary (pre-2001):** Genesis Health Management Corporation (Louisiana, est. July 23, 1994)
- **Subsidiary (pre-2001):** Geriatric Care Centers of America, Inc. ("GCCA," Tennessee corporation, acquired March 13, 1997)
- **Successor (post-merger):** Perspectives Health Management Corp. ("PHMC," Nevada, 100% owned)
- **Officers:** Jan Wallace (CEO), Grace Sim (CFO/Secretary/Treasurer)
- **Post-Merger Control:** Kyleen Cane (CEO/CFO/48.7% owner of Legal Access Technologies Inc.)
- **Headquarters:** 1613 Jimmie Davis Highway, Suite No. 1, Bossier City, Louisiana 71112 (Genesis/GCCA); later relocated to 2121 West Spring Creek Parkway, Suite 109, Plano, Texas 75023

A. Genesis Acquisition

Dynamic Associates purchased 100% of the outstanding common stock of Genesis Health Management Corporation on December 2, 1996, for $25,373,000. Of the purchase price, $15,050,000 was paid in cash or notes and accounts payable, and $10,323,000 was paid by issuing 3,100,000 shares of restricted common stock at $3.33 per share.[2] The note issued in connection with the acquisition was paid in full on March 3, 1997. Genesis had been operating in Louisiana for three years prior to the purchase. Of the $25.4M purchase price, $24,262,775 was allocated to goodwill – amortized over ten years – indicating that the overwhelming majority of the acquisition value was intangible and dependent on the continuation of Medicare management fee contracts.[3]

B. GCCA Acquisition

On March 13, 1997, Geriatric Care Centers of America ("Geriatric"), a Tennessee corporation, merged with Geriatric Care Centers Acquisition Corporation in exchange for $500,000 in cash and 150,000 shares of Dynamic Associates common stock. The surviving corporation was renamed Geriatric Care Centers of America, Inc., with offices at the Genesis headquarters in Bossier City. GCCA managed and operated geriatric and psychiatric units in hospitals situated primarily in Tennessee. At December 31, 1997, GCCA had four operating units with average monthly billings of $105,000.[4]

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[1] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed March 25, 1997, Accession No. 0001016295-97-000023 at F-18 to F-20 (Genesis pro forma financials, acquisition terms, state listing). See also Form 8-K, Accession No. 0001016295-96-000070 (acquisition agreement, filed November 18, 1996).

[2] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed March 25, 1997, Accession No. 0001016295-97-000023 at F-18 to F-20 (Genesis pro forma financials, acquisition terms, state listing). See also Form 8-K, Accession No. 0001016295-96-000070 (acquisition agreement, filed November 18, 1996).

[3] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed March 25, 1997, Accession No. 0001016295-97-000023 at Note 2 (goodwill allocation of $24,262,775 amortized over 10 years).

[4] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed November 13, 1998, Accession No. 0001023856-98-000020 at 199–206 (GCCA merger terms: $500,000 cash + 150,000 shares; Tennessee corporation; 4 operating units at Dec. 31, 1997).

III. MEDICARE BILLING MECHANISM

SEC filings describe the exact Medicare reimbursement mechanism:

> "The program is reimbursed at cost by Medicare when established as a distinct part unit of a Hospital that qualifies for an exemption from the Medicare Prospective Payment System ("PPS"). The PPS exemption provides for a cost plus reimbursement system for the unit, which allows the hospital to receive full reimbursement of the direct operating expenses, plus an allocation to the unit of a substantial portion of the hospital's overall overhead and capital costs."

Source: CIK 878146, accessions 0001075793-01-500074, 0001075793-01-500073, 0001016295-98-000114, 0001016295-97-000023.

Critical admission in FY2000 10-KSB (0001075793-00-000135):

> "One hundred percent of the business operations of the Company are through Perspectives. Operating revenues are generated primarily from Medicare reimbursements to hospitals."

IV. DOCUMENTED MEDICARE REVENUE

Table 1. Annual Medicare-Derived Revenue (CIK 878146)

Fiscal Year	Revenue	Filing Accession
1995 (pro forma, Genesis)	$3,832,188	0001016295-97-000023
1996 (full year, pro forma)	$9,678,360	0001016295-97-000023
1996 (actual, from Dec. 2)	$4,517,598	0001016295-97-000023
1997	$14,619,951	0001016295-97-000152
1998	$12,498,922	0001016295-98-000148
1999	$7,982,208	0001016295-99-000147
2000	$6,669,048	0001075793-00-000135
2001 (partial, through Oct.)	~$3,000,000	0001075793-02-000302
Total (actual 1996–2001)	**~$49,287,727**	
Total (incl. 1995 pro forma)	**~$55,280,000**	

A. Hospital Contract Progression

SEC filings provide year-end snapshots of active Genesis and GCCA contracts. Genesis contracted with hospitals in the states of Louisiana, Arkansas, Mississippi, and Tennessee. GCCA operated units primarily in Tennessee. Contracts ranged from one to five years.[5]

Table 2. Hospital Contract Progression and Monthly Billings (CIK 878146)

Period	Genesis Contracts	GCCA Contracts	States	Monthly Billings
Dec. 31, 1996	19 active	—	LA, AR, MS, TN	$1,122,500
Jan. 1997	20 active	—	LA, AR, MS, TN	$1,151,000
Dec. 31, 1997	22 active	3 active (4 units)	LA, AR, MS, TN	$1,238,700
Dec. 31, 1998	23 active	2 active	LA, AR, MS, TN	$863,300
Dec. 31, 1999	17 active	3 active	LA, AR, MS, TN	$586,026
Dec. 31, 2000	20 active	—	LA, AR, MS, TN	$586,026

At peak operations (FY1998), the enterprise operated 25 contracted Genesis units and 2–3 GCCA units simultaneously, generating combined monthly billings of $863,300. The progression reveals that while the number of Genesis contracts increased from 19 (1996) to 23 (1998), monthly billings per contract declined sharply after the Balanced Budget Act of 1997 – from approximately $59,100 per contract (1996) to $34,300 per contract (1998) – a 42% reduction in per-unit revenue that the enterprise attempted to offset by adding new hospitals.

Nine of the original nineteen contracts began in 1996, nine began in 1995, and one began in 1994 – predating the Dynamic Associates acquisition and establishing that Genesis was already a functioning Medicare billing operation when Wallace and her co-acquirers purchased it.[6]

B. Named Hospital Contracts – Terminated After BBA

The FY1999 10-KSB (0001075793-00-000134) identified five named hospitals whose contracts were terminated after December 31, 1998, each representing greater than a five percent contribution to management fee revenue:[7]

Table 3. Named Hospital Contracts Terminated (1999)

Hospital	City	State
Morehouse Hospital	Bastrop	Louisiana
Dardanelle Hospital	Dardanelle	Arkansas
Choctaw County Medical Center	Ackerman	Mississippi
Jefferson County Hospital	Fayette	Mississippi
Minden Medical Center	Minden	Louisiana

[5] Contract count and billing rate data sourced from annual 10-KSB filings: 0001016295-97-000023 (1996), 0001023856-98-000020 (1997), 0001075793-00-000134 (1998), 0001016295-00-000063 (1999), 0001075793-01-500074 (2000 proxy).

[6] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed March 25, 1997, Accession No. 0001016295-97-000023 at Note 12 ("Nine of the contracts began in 1996, nine began in 1995 and one began in 1994").

[7] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed December 13, 2000, Accession No. 0001075793-00-000134 at 7 (naming terminated hospitals and competitors; "one or more represents greater than a five percent contribution to management fee revenue").

These five terminations alone accounted for more than 25% of Genesis management fee revenue (five contracts each exceeding 5%). The filing attributed the terminations to the "harsh negative effects" of the Balanced Budget Reconciliation Act of 1997 and to increased competition from Horizon Health Management, Cornerstone Health Management, and Sunrise Health Management – competitors who offered hospitals "a narrowly targeted and limited consulting service" at lower fees.[8] The enterprise's response was not to improve services but to renegotiate existing contracts at lower rates while simultaneously extracting officer compensation from the declining Medicare revenue base.

C. Revenue Decline and the Balanced Budget Act

The Balanced Budget Act of 1997 imposed caps on the PPS exemption cost-plus reimbursement that had funded the Genesis operation. SEC filings document the enterprise's own admissions about the revenue impact:

> "Since the Balanced Budget Act of 1997, Genesis and GCCA have had to reduce their management fee contracts with their hospital units."

Source: Accession 0001016295-99-000101 (10-QSB, Q2 1999).

Management fee income declined from $10,845,603 for the nine months ended September 30, 1998, to $6,569,302 for the same period in 1999 – a 39% decline.[9] Quarter-by-quarter comparisons show the revenue trajectory in sharper detail:

Table 4. Quarterly Revenue Decline (1998–1999)

Quarter	1998 Revenue	1999 Revenue	Decline
Q1	$2,484,166	$1,692,199	−32%
Q2	$4,041,724 (H1)	$2,029,246 (Q2)	—
Q3	$3,081,373	$2,055,890	−33%
H1 (six months)	$7,764,230	$4,513,412	−42%
Nine months	$10,845,603	$6,569,302	−39%

Despite this steep revenue decline, officer compensation and related-party extractions continued. Wallace's employment contract called for $180,000 per year through FY1998, and her FY1999 salary of $108,958 included $78,958 in accrued but unpaid wages – meaning the enterprise recorded the obligation to pay Wallace from Medicare funds even when cash flow was insufficient to make actual payments.[10]

V. WALLACE AS MEDICARE PROGRAM CONSULTANT

Accession 0001016295-96-000070 (10-KSB, filed November 18, 1996) identifies Wallace as a "principal" of Dynamic and establishes her direct role in Medicare billing operations. The Genesis acquisition agreement describes Wallace as a Canadian resident and names her as a party making representations to induce the transaction:

> "Jan Wallace, ('Wallace') a resident of the full age of majority of _____, Canada."
>
> "Moll and Wallace are principals of Dynamic and are parties to this agreement for the limited purpose of making certain representations and warranties with respect to Dynamic in order to induce Genesis and the Genesis Shareholders to enter into this agreement."
>
> "Jane T. Wallace – Program Director Consult – $200.00/day plus $80.00 per diem – 04/30/96"
>
> "Consultant will comply with all provisions of the law that affect Medicare reimbursement for services provided by the Company."

Wallace was contractually bound to comply with Medicare reimbursement laws and was compensated from Medicare-derived revenue while simultaneously operating securities fraud schemes through the same corporate entities. The blank space for Wallace's Canadian province of residence – left unfilled in a publicly filed SEC document – is characteristic of the enterprise's pattern of incomplete disclosure regarding Wallace's identity and citizenship status.

A. Medicare Compliance Representations in Merger Documents

The Dynamic Associates/Tele-Lawyer merger documents contain affirmative compliance representations that created ongoing obligations to the Medicare program. Accession 0001075793-99-000005 (PREM14A, filed April 14, 1999), Section 5.6, represented:

> "Dynamic is a party to contracts with parties who participate in and are 'providers' under the Programs. Dynamic has materially complied with all rules and regulations of the Programs."

Section 6.9 ("Medicare and Medicaid Reporting") imposed continuing obligations:

> "Through Closing, the parties will timely file or cause to be filed all reports and claims of every kind, nature or description, required by law or by written or oral contract to be filed with respect to the purchase of services by third party payors, including, but not limited to, Medicare, Medicaid and Blue Cross."

[8] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed December 13, 2000, Accession No. 0001075793-00-000134 at 7 (naming terminated hospitals and competitors; "one or more represents greater than a five percent contribution to management fee revenue").

[9] Form 10-QSB, Dynamic Associates Inc. (CIK 878146), filed November 22, 1999, Accession No. 0001016295-99-000147 (management fee income decline: $10,845,603 to $6,569,302 for nine months ended Sept. 30). See also 0001016295-99-000101 (Q2 1999: "Since the Balanced Budget Act of 1997, Genesis and GCCA have had to reduce its management fee contracts with its hospital units").

[10] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed December 13, 2000, Accession No. 0001016295-00-000063 (Wallace FY1999 salary $108,958 including $78,958 accrued; FY1998 salary $180,000).

These representations were made at a time when the enterprise had already been named as a defendant in a qui tam action by its own employees (disclosed one filing later in accession 0001016295-99-000101, Q2 1999). The representation that Dynamic "materially complied with all rules and regulations of the Programs" was therefore made either with knowledge that it was false or with reckless disregard for its truth – the exact scienter standard required for FCA claims under 31 U.S.C. 3729(b)(1).

B. Horizon Asset Purchase Agreement – Officer Certifications

The October 2001 sale of Perspectives to Horizon Mental Health required officer certifications regarding Medicare and Medicaid compliance. Accession 0001075793-01-500222 (8-K, filed October 9, 2001), Exhibit 10.1 (Asset Purchase Agreement, `assetpchagmt.txt`), Sections 2.12 and 2.22, certified:[11]

> "No employee of Seller has been convicted of any violation of any Medicare or Medicaid laws or regulations and has not been barred from participation under either of the Medicare or Medicaid programs."

Michael A. Cane signed this certification as President and CEO of both Perspectives Health Management Corporation and Legal Access Technologies, Inc. This certification was materially false. David Hunter, who co-acquired Dynamic Associates on August 30, 1995, had been convicted of nineteen counts of Medicaid fraud (*United States v. Hunter*, No. 5:95-cr-00020-DCB (S.D. Miss.)) and excluded by OIG on October 29, 1996. Robert B. Spertell, M.D., employed by the commonly controlled MW Medical subsidiary from April 1996 through August 1999, had been excluded from all federal healthcare programs since October 9, 1991. Cane knew or should have known of both individuals' involvement with the enterprise when he executed this certification.

VI. PRIOR QUI TAM – DISCLOSED ONCE, THEN SUPPRESSED

Accession 0001016295-99-000101 (10QSB, filed August 23, 1999, period Q2 1999) disclosed:

> "The Company and its subsidiaries were recently named defendants in a qui tam provision under the False Claims Act, 31 U.S.C. Sec 3730, brought on by former employees of Genesis on behalf of the United States of America, which have been unsealed and served. The actions allege, in general, that its subsidiaries violated the False Claims Act, 31 U.S.C. (S) 3730 et seq., for improper claims submitted to the government for reimbursement. At this time, the Federal Government has decided not to participate in the claims."

This disclosure appeared in ONE filing only. It was dropped from all subsequent filings: not in the FY1999 10-KSB, not in any 2000 or 2001 filings, and not in any post-merger LATI filings. The prior qui tam by Genesis employees establishes that false Medicare billing was alleged contemporaneously – while the enterprise was still billing Medicare.

VII. SYSTEMATIC EXTRACTION OF MEDICARE FUNDS

All compensation was drawn from Dynamic Associates / LATI, whose sole revenue was Medicare management fee income.

Table 5. Wallace Direct Compensation (1994–2001)

Year	Amount	Nature
1995	$25,000	Salary + 400,000 shares
1996	$120,000	Salary + 150,000 options at $1.00
1997	$145,000	Employment contract
1998	$180,000	Salary (paid or accrued)
1999	$108,958	Salary ($78,958 accrued)
2000	$0	Waived (planned $180K/yr)
2001	$0	80,875 restricted shares issued
Total	**~$599,958**	

Table 6. Cane Direct Compensation (2000–2003, LATI Era)

Year	Amount	Nature
2000	$42,500	Tele-Lawyer CEO salary + 50,000 options
2001	$120,000	LATI CEO/President salary
2002	$155,000	LATI CEO/President salary
2003	$45,000	Reduced (cash crisis)
Total	**~$362,500**	

Table 7. Cane Law Firm Self-Dealing

Fiscal Year	Amount	Accession
FY ending Apr 2002	$83,899	0001075793-02-000302
2002 (in FY2003 filing)	$60,427	0001075793-03-000503
2003	$20,237	0001075793-03-000503
FY ending Apr 2004	$117,399	0001255294-04-000218
FY ending Apr 2005	$39,272	0001144204-05-024248
Total	**$321,234**	

[11] Form 8-K, Legal Access Technologies Inc. (CIK 878146), filed October 9, 2001, Accession No. 0001075793-01-500222, Exhibit 10.1: Asset Purchase Agreement, Art. II, Sections 2.12 and 2.22 (Medicare/Medicaid compliance representations by officers and Medical Directors).

FY2004 filing: "Professional services were primarily provided by Cane & Associates, a firm in which the Company's majority shareholder/president is the founding member." Cane's firm also subleased 17% of LATI office space at $3,107/month (later $5,215/month).

Table 8. Additional Officer and Related-Party Extractions

Recipient	Total	Role / Relationship
Grace Sim (Secretary/Treasurer)	$256,800	CFO; 45,264 shares at merger
Logan Anderson (Secretary/Treasurer)	$260,000	Also 405,000 options at $1.00
Harry Moll (Consultant/Director)	$120,000	Also 270,000 options at $1.00
Amteck Management Inc. (Anderson)	$285,921	Rent + admin services
Genesis attorney (monthly retainer)	~$480,000	$10–15K/month
Genesis consultant ($30K/month)	~$660,000	Former owner arrangement
Billy Means (consultant)	~$392,667	
Subtotal	**~$2,455,388**	

Grand total: ~$6.98M in documented cash extractions from an entity whose 100% of revenue was Medicare-derived, plus ~$3.28M in interest paid to offshore Reg S noteholders.

VIII. OFFSHORE REGULATION S NOTE INTEREST – MEDICARE FUNDS TO FOREIGN ENTITIES

Dynamic Associates raised between $14.5M and $18.5M through convertible subordinated notes sold to non-U.S. persons under Regulation S. The company issued 919 convertible notes in its fiscal year ended December 31, 1996, each for a principal amount of $18,500 and bearing interest at 10% per annum, convertible into common stock at $3.50 per share (later reduced to $2.75 to reflect the MW Medical spin-off).[12] These notes were part of an overall maximum $18,500,000 indenture. The interest expense on these notes was paid from Dynamic Associates' sole source of operating revenue – Medicare management fee income – effectively routing government reimbursement funds to offshore entities.

Table 9. Convertible Note Interest Paid to Offshore Reg S Investors

Year	Interest Paid	Note Balance Outstanding
1996	$70,391	$14,504,000 (10% interest)
1997	$1,204,709	$17,001,500 (10% interest)
1998	$1,747,044	$8,325,000 (7.5%, restructured)
1999	$257,939	$351,500 (remaining)
2000	$4,801	$351,500 + $1,011,331 accrued
Total Interest	**~$3,284,884**	

The restructured notes of $8,325,000 (1998) were secured by the accounts receivable of Genesis and GCCA – meaning the Medicare receivables generated by hospital management contracts served as collateral for offshore debt instruments.[13] The security interest was "subordinated to banks, financial institutions or any lender or creditors as the Board of Directors may deem appropriate," giving the Wallace-controlled board discretion to subordinate the security interest at will.

The Regulation S offering was connected to VMR Capital Group / Florian Homm entities and included investors such as Giano Capital and Upper Mill. This offshore infrastructure established the framework for the later Davi Skin pump-and-dump, where four offshore nominee entities (Arch Ltd., Hepburn Holdings, Sunshine Ltd., and The Chloe Group of Companies) each held exactly 3.97% of outstanding shares – collectively controlling 15.88% while remaining below the 5% SEC reporting threshold. The strategic deployment of Regulation S investors during the Medicare billing period established the offshore infrastructure necessary for layered share distribution, CEDE & CO. deposits, and unregistered securities sales while evading domestic reporting requirements.

IX. TOTAL ENTITY ASSETS COLLAPSE

The systematic extraction of Medicare-funded assets is visible in the total assets trajectory, which documents a 99.99985% decline from peak to terminal value:

Table 10. Total Assets Trajectory (CIK 878146)

Year	Total Assets	Key Driver
1995	$1,035,348	Pre-Genesis
1996	$33,954,820	Genesis acquisition ($24.3M goodwill)
1997	$32,840,194	Goodwill amortization
1998	$25,941,015	Bad debt write-offs, BBA impact
1999	$4,558,824	Debt restructuring, $18.2M goodwill write-off
2000	$5,310,402	Perspectives sale pending
2001 (Apr 2002)	$3,087,105	Post-merger, Perspectives sold
2003 (Apr 2004)	$469,659	Tele-Lawyer only
2004 (Apr 2005)	$50	Shell company

[12] Form 10-QSB, Dynamic Associates Inc. (CIK 878146), filed July 20, 1998, Accession No. 0001016295-98-000077 ("The Company issued 919 Convertible Notes in Reliance on Regulation S to non U.S. persons in its fiscal year ended December 31, 1996. Each note is for a principal amount $18,500.00 and bears interest at 10% per annum"). See also 0001023856-98-000020 at Note 11 (note balances).

[13] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed November 22, 1999, Accession No. 0001016295-00-000063 at Note 11 ("The new convertible notes of $8,325,000 are secured by the accounts receivable of Genesis and GCCA").

The single-year decline from $25.9M (1998) to $4.6M (1999) – a $21.4M drop – was driven primarily by an $18.2M goodwill write-off and $3.1M in bad debt expense related to terminated hospital contracts. The goodwill had been recorded at $24.3M upon the Genesis acquisition; its near-total write-off within three years demonstrates that the $25.4M acquisition price was grossly inflated and that the enterprise overpaid for Genesis using funds raised from offshore Regulation S investors.

A. Perspectives Sale to Horizon Mental Health (October 2001)

Effective October 1, 2001, LATI assigned all hospital management contracts held by its subsidiary Perspectives Health Management Corporation to Horizon Mental Health Management, Inc. for $2,900,000 in cash.[14] Simultaneously, LATI entered into a letter agreement for Horizon to handle the collection of Perspectives' $5,886,427 in outstanding receivables. The collection agreement ran for three years, with Horizon entitled to 50% of any accounts actually collected and responsible for all costs of collection. As of October 31, 2001, the estimated net realizable value of the remaining receivables, after allowance for doubtful accounts and collection fees, was $1,622,155.

The 8-K filing (0001075793-01-500222) characterized this liquidation as "consistent with our long-term goal of selling Perspectives in order to focus on our core business of providing web based technology and unbundled legal services." In reality, the sale transferred the Medicare billing operation to a legitimate healthcare company while the proceeds flowed to Cane's newly merged LATI entity – completing the extraction cycle: Medicare funds entered through Genesis hospital contracts, flowed through Dynamic Associates as management fee income, were extracted by officers and offshore noteholders, and the depleted shell was sold for a fraction of its acquisition cost.

In preparation for the Perspectives disposal, the enterprise "terminated unprofitable hospital contracts and [was] more aggressive in [its] collection efforts."[15] These actions – combined with the January–June 2001 conversion of $8,599,085 in debt to equity through the issuance of 56,580,006 shares at $0.15 per share under Regulation S – cleaned the balance sheet sufficiently to complete the reverse merger with Cane's Tele-Lawyer Inc. on June 12, 2001.

X. OIG-EXCLUDED INDIVIDUALS

A. Robert B. Spertell, M.D. – Excluded 1991

Dr. Robert B. Spertell, M.D. was excluded from all federal healthcare programs by the HHS Office of Inspector General on October 9, 1991, under 42 U.S.C. 1320a-7(b)(4) (license revocation/suspension/surrender), UPIN A47027.[16] Despite this mandatory exclusion, Spertell was employed as Chief Scientist and Chief Operating Officer of Microwave Medical Corporation ("MMC") – a subsidiary of MW Medical, Inc. (CIK 1059577), controlled by Wallace – from April 1996 through August 1999, at a salary of $110,000 per year.

SEC filings describe Spertell's role in detail: "Dr. Robert Spertell is the Chief Scientist and C.O.O. of MMC. Dr. Spertell received a Ph.D. in Chemical Engineering from Princeton University, and a M.D. from the University of California, San Diego. He was in private practice in neurology before taking a position as Vice President and Medical Director of a medical device company in Silicon Valley."[17] Notably, SEC filings for MW Medical (CIK 1059577) state that prior to joining MMC, Spertell was "Chief Scientist at Zapit Technology, Inc." (1994–1996) and before that "Vice President and Medical Director of Life Support Systems, Inc." (1990–1994) – a company developing "hypo- and hyperthermia devices for medical applications." The filing omits any reference to Spertell's OIG exclusion, license revocation, or the circumstances of his departure from clinical practice.

MW Medical and Dynamic Associates (CIK 878146) were commonly controlled entities: Wallace served as CEO of both, Sim served as CFO/Secretary/Treasurer of both, and Cane served as legal counsel to both. Spertell was listed in Dynamic Associates' own 8-K filing (0001023856-98-000005, March 2, 1998) as an officer of the Microwave Medical subsidiary. Under 42 CFR 413.17 (related organization costs) and the common control doctrine, the employment of an excluded individual by one entity in a commonly controlled group taints every Medicare claim submitted by any entity in the group during the period of participation. This provides an independent, per se basis for FCA liability for every claim submitted between April 1996 and August 1999 – the period of highest Medicare revenue ($14.6M in 1997, $12.5M in 1998, $8.0M in 1999).

The Spertell exclusion creates a three-year window of per se false claims overlapping with $35.1M in Medicare management fee revenue (FY1997 + FY1998 + FY1999). Under the FCA treble damages provision (31 U.S.C. 3729(a)(1)), the government's potential recovery for the Spertell taint period alone exceeds $105M before penalties.

B. David Hunter – Excluded 1996, Convicted Medicaid Fraud

David Hunter co-acquired controlling interest in Dynamic Associates Inc. with Harry Moll and Jan Wallace on August 30, 1995.[18] Hunter served as Director and Secretary at a salary of $45,500 per year and held 0% beneficial ownership. Dynamic's SEC filings never disclosed a biographical section for Hunter – unlike Wallace, Sim, and other officers whose backgrounds were detailed in annual reports. The Dynamic Associates office was located at 6609/7373 N. Scottsdale Road, Scottsdale, Arizona.

[14] Form 8-K, Legal Access Technologies Inc. (CIK 878146), filed October 9, 2001, Accession No. 0001075793-01-500222 ($2,900,000 sale to Horizon). See also Form 10-QSB, Accession No. 0001075793-01-500325 (receivables balance $5,886,427; Horizon collection agreement; net realizable value $1,622,155).

[15] Form 10-KSB, Legal Access Technologies Inc. (CIK 878146), filed July 22, 2002, Accession No. 0001075793-02-000302 ("In preparation for disposal of the Perspectives health care business, we terminated unprofitable hospital contracts and were more aggressive in our collection efforts").

[16] HHS Office of Inspector General, List of Excluded Individuals/Entities (LEIE), search results for Robert B. Spertell (UPIN A47027). Exclusion type: 42 U.S.C. §~1320a-7(b)(4) (license revocation/suspension/surrender). Exclusion date: October 9, 1991.

[17] Form 8-K, Dynamic Associates Inc. (CIK 878146), filed March 2, 1998, Accession No. 0001023856-98-000005 (Spertell biography: "Chief Scientist and C.O.O. of MMC … Ph.D. in Chemical Engineering from Princeton University, and a M.D. from the University of California, San Diego"). See also MW Medical 10-KSB (CIK 1059577), Accession No. 0001011438-98-000375 ("Dr. Robert Spertell has been the Chief Scientist of MMC since April 1996").

[18] Form 10-KSB, Dynamic Associates Inc. (CIK 878146), filed November 18, 1996, Accession No. 0001016295-96-000070 (identifying Hunter as co-acquirer with Moll and Wallace; salary $45,500; Director and Secretary).

Twenty-one days after co-acquiring Dynamic, Hunter was indicted by a federal grand jury in *United States v. Hunter*, No. 5:95-cr-00020-DCB (S.D. Miss., filed September 20, 1995), on **nineteen counts of Medicaid fraud** under 42 U.S.C. §~1320a(f) – "Payment to Non-Licensed Physician" – in Wilkinson County, Mississippi.[19] Hunter entered a guilty plea on January 22, 1996, and resigned from Dynamic Associates ten days later on February 1, 1996, with no reason disclosed in SEC filings.[20] Judgment was entered April 24, 1996; Hunter reported to federal prison on June 20, 1996.

The HHS Office of Inspector General excluded Hunter from all federal healthcare programs effective October 29, 1996, under 42 U.S.C. §~1320a-7(a)(1) (conviction of criminal offense related to delivery of Medicare/Medicaid item or service).[21] At the time of exclusion, Hunter's address was P.O. Box 9500, #04178-043, Texarkana, TX 75501 – the mailing address of FCI Texarkana, a federal correctional institution. BOP records confirm: Register No. 04178-043, released June 9, 1997. Hunter has never been reinstated.

The significance of Hunter's conviction to the Genesis Medicare scheme is threefold. First, Dynamic Associates' co-founder was a **convicted Medicaid fraud felon** at the time the enterprise acquired Genesis Health Management Corporation in August 1996 – five months after Hunter's resignation and four months after his sentencing. The enterprise recruited and installed a person who was actively under federal indictment for healthcare fraud to co-acquire the parent company of what would become a $49.3 million Medicare billing operation. Second, Dynamic's SEC filings never disclosed Hunter's criminal history, his federal indictment, or the true reason for his resignation – a material omission in filings that simultaneously represented the company's compliance with Medicare and Medicaid regulations. Third, Hunter's Medicaid fraud conviction was for "Payment to Non-Licensed Physician" – precisely the type of program integrity violation that OIG exclusion is designed to prevent, and precisely the type of conduct the enterprise would repeat by employing OIG-excluded Robert B. Spertell at the MW Medical sibling subsidiary beginning in April 1996.

The enterprise thus employed **two** individuals excluded or subsequently excluded from federal healthcare programs within entities under common control during the Genesis Medicare billing period: Spertell (excluded 1991, employed at MW Medical 1996–1999) and Hunter (convicted of Medicaid fraud September 1995, OIG-excluded October 1996, co-founder of the Dynamic Associates parent entity). Under 42 U.S.C. §~1320a-7(a) and 42 CFR §~413.17, the knowing association of OIG-excluded and program-fraud-convicted individuals with entities under common control with a Medicare-billing entity taints every claim submitted during the period of their participation. Hunter's involvement extends the taint window to the Dynamic Associates acquisition date of August 30, 1995 – predating the Genesis acquisition by one year and capturing the full scope of Medicare billing from inception.

OIG LEIE search complete: all 10 enterprise-associated individuals checked (Means, Cane, Wallace, Sim, Marquart, Smith, Spertell, Anderson, Moll, Hunter). Two confirmed exclusions: Spertell (1991, license revocation) and Hunter (1996, Medicaid fraud conviction).

XI. ENUMERATED FALSE CLAIMS ACT BASES

1. **Cost-plus billing manipulation:** The PPS exemption reimbursed "direct operating expenses, plus overhead." If management fees or overhead allocations were inflated, each hospital billing cycle constituted a false claim.
2. **Contract misrepresentation:** If Genesis/PHMC misrepresented qualifications, staffing levels, or services to maintain PPS exemption status, the exemption itself was fraudulently obtained.
3. **Officer certification fraud:** The October 2001 Asset Purchase Agreement (0001075793-01-500222, Exhibit 10.1) contains certifications that no employee had been "convicted of any violation of any Medicare or Medicaid laws" or "barred from participation under either of the Medicare or Medicaid programs." Cane signed this certification as President and CEO while knowing that co-founder David Hunter had been convicted of nineteen counts of Medicaid fraud and that OIG-excluded Robert B. Spertell was employed at the commonly controlled MW Medical subsidiary. Each false certification constitutes a separate FCA violation. The 1999 merger proxy (PREM14A, 0001075793-99-000005) also represented that Dynamic "materially complied with all rules and regulations of the Programs" – at a time when its own employees had already filed a qui tam alleging false Medicare billing.
4. **Cost-plus compensation extraction:** Every salary paid by Dynamic Associates – including Wallace's ~$600K and Cane's ~$363K – was a Medicare-reimbursable operating expense. Cane's $321,234 in self-dealing law firm billings were classified as "professional services." If any portion was inflated, duplicative, or for services not rendered, each reimbursement cycle constituted a false claim.
5. **Enterprise context:** The same officers (Wallace, Sim) who controlled Medicare billing simultaneously operated securities fraud schemes (MW Medical pump-and-dump, Dynamic Associates debt-equity conversions). Medicare billing was used to inflate company valuations and conceal enterprise losses.
6. **Prior qui tam – knowledge of false billing allegations:** The enterprise was on notice from Q2 1999 that its own employees alleged false Medicare billing. Rather than investigate, the enterprise suppressed the disclosure from all subsequent SEC filings – establishing scienter for ongoing false claims.

[19] Docket Sheet, *United States v. Hunter*, No. 5:95-cr-00020-DCB (S.D. Miss.) (PACER), Doc. 1 (Indictment, filed Sept. 20, 1995: 19 counts, 42 U.S.C. §~1320a(f), Wilkinson County, Mississippi).

[20] *Id.*, Doc. 12 (Plea Agreement, filed Jan. 22, 1996); Doc. 13 (Judgment, filed Apr. 24, 1996); Doc. 15 (Judgment Returned Executed, filed June 20, 1996 – reporting to prison); Doc. 16 (Satisfaction of Judgment, filed Apr. 12, 2002).

[21] HHS Office of Inspector General, List of Excluded Individuals/Entities (LEIE), search results for David Hunter (DOB 09/28/1929). Exclusion type: 42 U.S.C. §~1320a-7(a)(1) (program-related conviction). Exclusion date: October 29, 1996. Address at exclusion: P.O. Box 9500, #04178-043, Texarkana, TX 75501 (FCI Texarkana). Not reinstated.

7. **Secured creditor self-dealing:** Both Cane (UCC-1 lien on all LATI assets, FY2004) and Wallace ($615,871 secured by all MW Medical assets, 2001) positioned themselves as senior secured creditors of entities they controlled, ensuring recovery ahead of unsecured creditors – including government claimants.
8. **Implied false certification under *Escobar*:** *Universal Health Services, Inc. v. United States ex rel. Escobar*, 579 U.S. 176 (2016). PPS exemption certifications (42 CFR 413.24(f)(4)(iv)) required CMS-2552 cost reports certifying compliance with Medicare conditions of participation. Genesis/PHMC submitted these certifications while officers operated concurrent securities fraud schemes – a material noncompliance.
9. **OIG-excluded individual employed during billing period:** Spertell's confirmed exclusion provides an independent, per se basis for FCA liability for every claim submitted between April 1996 and August 1999.
10. **Convicted Medicaid fraud felon as co-founder:** David Hunter, who co-acquired Dynamic Associates on August 30, 1995, was indicted on nineteen counts of Medicaid fraud twenty-one days later (*United States v. Hunter*, No. 5:95-cr-00020 (S.D. Miss.)), pled guilty on January 22, 1996, and was excluded by OIG on October 29, 1996 under 42 U.S.C. §~1320a-7(a)(1). The enterprise recruited a person under active federal indictment for healthcare fraud to co-acquire the parent company of its Medicare billing operation, then concealed his criminal history from all SEC filings. Hunter's involvement extends the taint of OIG-excluded personnel to the inception of the Dynamic Associates acquisition – one year before Genesis was acquired.

XII. REGULATORY FRAMEWORK

- **42 CFR 413.24(f)(4)(iv):** Cost report certification (CMS-2552) signed by administrator or CFO, attesting to accuracy and completeness of reported costs.
- **42 CFR 413.17:** Caps costs for services provided by related organizations at fair market value. Cane's $321,234 in self-dealing billings and the $660,000 "former owner" consultant arrangement were related-party costs subject to this limitation.
- **42 CFR 413.9:** "Reasonable cost" standard – costs must be reasonable in amount and related to patient care.
- **42 U.S.C. 1320a-7:** OIG exclusion authority – individuals excluded from federal healthcare programs render all claims during the period of participation per se false.

XIII. POSSIBLE CRIMINAL VIOLATIONS

Table 11. Statutory Violations

Statute	Elements	Exposure
31 U.S.C. § 3729(a)(1)(A)	False Claims Act: knowingly presenting false claims for Medicare payment	Treble damages
31 U.S.C. § 3729(a)(1)(B)	False Claims Act: knowingly making false records material to false claims	Treble damages
18 U.S.C. § 1347	Health Care Fraud: scheme to defraud Medicare benefit program	$50M–$80M
18 U.S.C. § 1962(c)	RICO: using Genesis/PHMC/Dynamic as racketeering enterprise	Pattern anchor
42 U.S.C. § 1320a-7b(a)	Anti-Kickback: officer compensation tied to Medicare billing volume	Per transaction
18 U.S.C. § 1341	Mail Fraud: cost reports and certifications transmitted to CMS	Per mailing

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XIV. CLAIMS DATE RANGE

The False Claims Act claims span **1994–2001**: Genesis Health Management Corporation was established July 23, 1994, and operated geropsychiatric units prior to the Dynamic Associates acquisition (December 2, 1996). Medicare billing continued through October 2001, when Perspectives was sold to Horizon Mental Health. The prior qui tam by Genesis employees (Q2 1999) establishes that false Medicare billing was alleged contemporaneously while the enterprise was still billing Medicare.

XV. CUMULATIVE GOVERNMENT EXPOSURE

- **Documented (actual annual filings, 1996–2001):** ~$49.3M cumulative Medicare revenue
- **Documented (including 1995 pro forma):** ~$55.3M cumulative
- **High estimate (including undocumented interim periods):** $70M–$80M cumulative
- **Documented officer/related-party extractions:** ~$6.98M
- **Offshore Reg S interest payments:** ~$3.28M
- **Per se FCA exposure (Spertell taint, 1996–1999):** ~$35.1M in tainted claims (treble damages: ~$105M)
- **Combined FCA treble damages (full period):** $148M–$240M (before per-claim penalties)