

AUG 31 2017

U.S. DISTRICT COURT  
W. DIST. OF N.C.

UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF NORTH CAROLINA  
ASHEVILLE DIVISION

UNITED STATES OF AMERICA )  
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v. )  
)  
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)  
KAREN ANN TURNER )  
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DOCKET NO. : 1:17cr109

**BILL OF INFORMATION**

Violations:  
18 U.S.C. § 371  
18 U.S.C. § 1957

**THE UNITED STATES ATTORNEY CHARGES**

1. From in or about September 2011 to in or about June 2014, KAREN ANN TURNER engaged in a conspiracy to defraud drug distributors and manufacturers by falsely representing that she operated closed-door pharmacies that purchased discounted prescription drugs only for patient prescriptions, when, in reality, TURNER sold the majority of the discounted drugs to wholesalers for higher prices.

**Individuals and Entities**

2. TURNER operated J&A Pharmaceutical Services, Inc. (herein referred to as "J&A"), and North, Inc. (herein referred to as "North"), both in Burnsville, North Carolina, from in or about September 2011 to in or about March 2012. TURNER represented J&A to be a closed-door pharmacy. J&A was approved by North Carolina to operate as a pharmacy. TURNER represented North to be a drug wholesaler. J&A and North were co-located in the same building in Burnsville.

3. After J&A and North ceased operations, TURNER owned and operated Rite-Way Pharmaceuticals, LLC (herein referred to as "Rite-Way"), and Liberty Wholesale LLC (herein referred to as "Liberty Wholesale"), both in Travelers Rest, South Carolina, from in or about October 2012 to in or about June 2014. TURNER represented Rite-Way to be a closed-door pharmacy. Rite-Way was approved by South Carolina to operate as a pharmacy. TURNER represented Liberty Wholesale to be a drug wholesaler. Rite-Way and Liberty Wholesale were co-located in the same building in Travelers Rest.

4. From in or about September 2011 to in or about June 2014, Managed Health Care Associates, Inc. (herein referred to as "MHA"), was a group purchasing organization (hereinafter referred to as "GPO") that negotiated for its members discount prices for various prescription drugs with the manufacturers of those drugs.

5. From in or about September 2011 to in or about June 2014, McKesson Corporation with its affiliated companies (herein collectively referred to as “McKesson”), was an authorized prescription drug wholesaler that sold drugs to MHA members at the low contract prices negotiated by MHA for its members.

### **Prescription Drug Diversion**

6. The wholesale distribution of prescription drugs in the United States was controlled by law and agreements between companies. These controls were intended to ensure that drugs given to patients were authentic (that is, not counterfeit, under-strength or contaminated), properly labeled, had been handled and maintained according to Food and Drug Administration (herein referred to as “FDA”) requirements and industry standards, had been in the possession of state-licensed entities, and had a chain of custody, also known as a pedigree. Once a prescription drug was diverted outside of its controlled distribution channel, it became difficult, if not impossible, for drug companies, hospitals, patients or the FDA to know whether a prescription drug package actually contained the correct drug at the correct dose or whether the drug was altered, stored in improper conditions, or had its potency affected adversely.

7. Many prescription drugs were “shortage drugs” in that the need for those drugs was greater than their supply. Prescription drug controls were also intended to ensure that non-profit medical facilities, such as hospitals, nursing homes, and prisons, had access to shortage prescription drugs at reasonable prices. Diversion of shortage prescription drugs outside of their controlled distribution made it more difficult and expensive, if not impossible, for non-profit medical facilities to get shortage prescription drugs.

8. The aim of “closed-door” pharmacy prescription drug diversion was to make money by buying prescription drugs at the steep discounts available only to certain kinds of pharmacies and then selling the drugs without authorization at higher prices into the wholesale market.

9. Prescription drug manufacturers sold prescription drugs, either directly or through authorized prescription drug wholesalers, to the members of prescription drug GPOs at substantially reduced prices, called “contract prices.” The GPOs negotiated the low contract prices for their GPO members with the respective prescription drug manufacturers and their authorized wholesalers.

10. Closed-door pharmacies joined GPOs so that they could buy drugs at the GPOs’ low contract prices. A closed-door pharmacy was not open to the public and only filled prescriptions for a particular group of patients, such as inmates at certain prisons or patients at certain long-term-care treatment centers.

11. To become a member of a GPO, a closed-door pharmacy had to certify to the GPO that the closed-door pharmacy would use all of the drugs bought at the low contract prices for its “own use,” that is, to fill prescriptions for the particular group of patients served by that pharmacy. These certifications were called “own-use” certifications.

12. The low contract prices available to closed-door pharmacies as GPO members were generally not available to retail pharmacies or unauthorized wholesalers.

13. Prescription drug diverters used closed-door pharmacies to join GPOs so the diverters could buy drugs at the GPOs' low contract prices. After buying drugs at the low contract prices, the diverters sold the drugs without authorization at higher prices to unauthorized wholesalers instead of using the drugs to fill patient prescriptions as they certified they would do.

#### **Turner's Conspiracy and Fraud Scheme at J&A and North**

14. In or about September 2011, TURNER maintained J&A's membership with MHA so that J&A could buy prescription drugs at the low contract prices available to MHA members. To keep J&A's membership with MHA, TURNER falsely stated to MHA that J&A was a closed-door pharmacy, and that the prescription drugs that J&A purchased through MHA were for J&A's own-use, that is, the drugs would be dispensed only to the patients served by J&A.

15. TURNER regularly bought prescription drugs through J&A from authorized wholesalers at the low contract prices available to MHA members. TURNER used money in J&A's bank account at First Citizens Bank in Burnsville, North Carolina to pay for the prescription drugs.

16. TURNER and J&A would not have been able to buy the prescription drugs from the authorized wholesalers if TURNER had truthfully disclosed that she did not intend to fill prescriptions with the purchased drugs but instead intended to resell the prescription drugs on the wholesale market.

17. TURNER regularly transferred to North the drugs that she bought through J&A at low contract prices.

18. After transferring J&A's drugs to North, TURNER sold them at a profit on the open wholesale market to unauthorized drug wholesalers, instead of dispensing them to patients as she told MHA that J&A would do.

19. The vast majority of drugs that TURNER purchased through J&A were immediately transferred to North for wholesale redistribution. In some instances, North re-sold the drugs within days of the drugs' arrival at J&A.

20. On or about September 26, 2011, in response to inquiries from MHA, TURNER falsely stated that the prescription drugs that J&A purchased through MHA were for J&A's own-use, that is, the drugs were dispensed only to the patients served by J&A. TURNER made these false statements to keep J&A's MHA membership and J&A's access to the low contract prices available to MHA members.

21. In contrast, on or about January 25, 2012, TURNER stated to a North Carolina Board of Pharmacy investigator that J&A transferred its drugs to North and that North then sold the drugs.

22. On or about March 28, 2012, after learning of North's existence and J&A's frequent transfer of drugs to North, J&A's pharmacist surrendered J&A's pharmacy license.

#### **Turner's Laundering of the Profits from Her Fraud Scheme at J&A and North**

23. TURNER collected the profits from her fraud scheme at J&A and North in North's bank account at First Citizens Bank in Burnsville, North Carolina. TURNER transferred these profits from North's bank account to other companies that she controlled so that she could use these profits to pay her personal expenses and make personal investments.

24. TURNER used the bank account for Six Kids North Carolina Limited Partnership to hold the profits from her fraud scheme before sending the profits to other companies. The bank account for Six Kids North Carolina Limited Partnership was at First Citizens Bank in Burnsville, North Carolina.

25. On or about January 9, 2012, TURNER transferred by check \$780,000 in proceeds from her fraud scheme from North's bank account to the bank account for Six Kids North Carolina Limited Partnership.

26. On or about March 29, 2012, TURNER transferred by wire \$244,600 in proceeds from her fraud scheme from the bank account for Six Kids North Carolina Limited Partnership to the bank account for Highest Star Investments, Inc. at Pacific Western Bank in Covina, California.

27. On or about March 29, 2012, TURNER transferred by wire \$560,530 in proceeds from her fraud scheme from the bank account for Six Kids North Carolina Limited Partnership to the bank account for Highest Star Investments, Inc. at Pacific Western Bank in Covina, California.

28. On or about January 7, 2014, TURNER transferred by wire \$250,000 in proceeds from her fraud scheme from the bank account for Highest Star Investments, Inc. at Pacific Western Bank in Covina, California, to the bank account for Rite-Way.

#### **Turner's Conspiracy and Fraud Scheme at Rite-way and Liberty Wholesale**

29. Shortly after J&A ceased operations due to the surrender of its pharmacy license, in or about October 2012, TURNER started Rite-Way and Liberty Wholesale in Travelers Rest, South Carolina.

30. In or about November 2013, TURNER applied for Rite-Way to become a member of MHA so that Rite-Way could buy prescription drugs at the low contract prices available to MHA members. To gain entry into MHA's GPO, TURNER again falsely stated in Rite-Way's

application and agreement with MHA that Rite-Way was a closed-door pharmacy, and that the prescription drugs that Rite-Way purchased through MHA were for Rite-Way's own-use, that is, the drugs would be dispensed only to the patients served by Rite-Way.

31. After Rite-Way became a member of MHA, TURNER regularly bought prescription drugs through Rite-Way from authorized wholesalers at the low contract prices available to MHA members. TURNER used interstate wire communications for Rite-Way's application to McKesson and to order the drugs that she purchased through Rite-Way. TURNER used interstate wire transfers of the money in Rite-Way's bank account at the Wells Fargo Bank in Burnsville, North Carolina to pay for the prescription drugs.

32. TURNER and Rite-Way would not have been able to buy the prescription drugs from the authorized wholesalers if TURNER had truthfully disclosed that she did not intend to fill prescriptions with the purchased drugs but instead intended to resell the prescription drugs on the wholesale market.

33. TURNER regularly transferred to Liberty Wholesale the drugs that she bought through Rite-Way at low contract prices.

34. After transferring Rite-Way's drugs to Liberty Wholesale, TURNER sold them at a profit on the open wholesale market to unauthorized drug wholesalers, instead of dispensing them to patients as she agreed to do in Rite-Way's application and agreement with MHA.

35. The vast majority of drugs that TURNER purchased through Rite-Way were immediately transferred to Liberty Wholesale for wholesale redistribution. In some instances, Liberty Wholesale re-sold the drugs within days of the drugs' arrival at Rite-Way.

**COUNT ONE**  
**Conspiracy – 18 U.S.C. § 371**

36. The United States Attorney re-alleges and incorporates by reference herein all of the allegations contained in paragraphs 1 through 35 of the Bill of Information, and further alleges that:

37. From in or about September 2011 through in or about June 2014, in Yancey County, within the Western District of North Carolina, and elsewhere, the defendant,

**KAREN ANN TURNER**

did willfully, that is, with the intent to further the object of the conspiracy, and knowingly combine, conspire, confederate and agree with others to commit certain offenses against the United States, that is, to knowingly and with intent to defraud devise, and intend to devise, a scheme and artifice to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, knowing that they were false and fraudulent when made, and transmit and cause to be transmitted certain wire communications in

interstate commerce, for the purpose of executing the scheme, in violation of Title 18, United States Code, Section 1343.

All in violation of Title 18, United States Code, Section 371.

**COUNT TWO**  
**Money Laundering – 18 U.S.C. § 1957**

38. The United States Attorney re-alleges and incorporates by reference herein all of the allegations contained in paragraphs 1 through 35 of the Bill of Information, and further alleges that:

39. On or about January 7, 2014, in Yancey County, within the Western District of North Carolina, and elsewhere, the defendant

**KAREN ANN TURNER**

did knowingly engage and attempt to engage in a monetary transaction by, through and to a financial institution, affecting interstate and foreign commerce, in criminally derived property of a value greater than \$10,000, that is the deposit, withdrawal, transfer and exchange of United States currency, funds and monetary instruments, such property having been derived from a specified unlawful activity, that is, wire fraud in violation of Title 18, United States Code, Section 1343.

All in violation of Title 18, United States Code, Section 1957.

**NOTICE OF FORFEITURE**

40. Notice is hereby given of 18 U.S.C. §§ 982, 981(a)(1)(C) and 28 U.S.C. § 2461(c). Under Section 2461(c), criminal forfeiture is applicable to any offenses for which forfeiture is authorized by any other statute. The following property is subject to forfeiture in accordance with Sections 982, 981(a)(1)(C), and 2461(c):

- a. All property which constitutes or is derived from proceeds of the violations set forth in this information;
- b. All property involved in such violations or traceable to property involved in such violations; and
- c. If, as set forth in 21 U.S.C. § 853(p), any property described in (a) or (b) cannot be located upon the exercise of due diligence, has been transferred or sold to, or deposited with, a third party, has been placed beyond the jurisdiction of the court, has been substantially diminished in value, or has been commingled with other property which cannot be divided without difficulty, all other property of the defendant to the extent of the value of the property described in (a) and (b).

41. The following property is subject to forfeiture on one or more of the grounds stated above:

- a. Approximately \$153,957.88 in funds, derived from seizure of funds from Wells Fargo Bank Account XXXXXX2137, such account held in the name of Rite-Way, and seizure of cashier's checks drawn on the same account;
- b. Approximately \$2,662.74 in funds seized from Wells Fargo Bank Account XXXXXX2145, such account held in the name of Liberty Wholesale;
- c. Approximately \$36,666.27 in funds seized from Pacific Western Bank Account XXXXXX0083, such account held in the name of Raven Paul and Company (CFA Six Kids North Carolina);
- d. Approximately \$183,514.00 in funds seized from Pacific Western Bank Account XXXXXX0075, such account held in the name of Raven Paul and Company (CFA Six Kids Holding);
- e. Approximately \$60,428.00 in funds seized from Pacific Western Bank Account XXXXXX3394, such account held in the name of Highest Star Investments, Inc.;
- f. One note receivable from Tree Top Industries, Incorporated (face value \$192,000) formerly held by Raven Paul and Company and now in the custody of the United States Marshals; and
- g. The real property at 1637 US HWY 19E, Spruce Pine, North Carolina, more particularly described in a Deed filed in Mitchell County on November 10, 2011 at Deed Book RE 518, Pages 24-25;
- h. Any and all interest of TURNER in J&A Pharmaceutical Services, Inc., North, Inc., Rite-Way Pharmaceuticals, LLC, Liberty Wholesale, Inc., Six Kids North Carolina Limited Partnership and Highest Star Investments, Inc.

Dated: August 30, 2017

Respectfully submitted,

JILL WESTMORELAND ROSE  
United States Attorney

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