

Federal Appeals Court Rules Healthcare Company Can't Be Punished Under FCA for Maximizing Profits

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The Sixth Circuit Court of Appeals recently ruled that a healthcare company couldn't be punished under the [False Claims Act](#) (FCA) for seeking to maximize its profits. Prosecutors had maintained that a dialysis equipment supplier should face FCA liability for attempting to boost profits under the [Medicare](#) program by forming a legal subsidiary.

In [United States ex rel. Williams v. Renal Care Group, Inc.](#), Renal Care Group formed a subsidiary company to take advantage of a Medicare reimbursement method that provided substantially higher reimbursement and resulted in less overhead. The lawsuit began as a *qui tam* action based on allegations by former employees that the subsidiary was a sham corporation and was submitting false [claims](#).

The Sixth Circuit ultimately concluded that Renal Care Group's business decision did not amount to a violation of the FCA. "Why a business ought to be punished solely for seeking to maximize profits escapes us," the panel ruled.

The Sixth Circuit acknowledged that the lower court had found that "RCG's creation, operation and control of RCGSC was to receive the higher Method II payments," but found no explanation of why this was *improper* under Medicare: "The United States focuses, somewhat obsessively, on evidence demonstrating that RCG sought Method II reimbursements for the sole purpose of increasing its profit margins," without establishing that the conduct was illegal.

The appellate judges also placed great emphasis on RCG's efforts to seek clarification on the legality of its subsidiary, writing, "[T]he defendants were not in reckless disregard of the truth or falsity of their claims. Rather, they consistently sought clarification on the issue, followed industry practice in trying to sort through ambiguous regulations, and were forthright with government officials over RCGSC's structure. To deem such behavior 'reckless disregard' of controlling statutes and regulations imposes a burden on government contractors far higher than what Congress intended."

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