

# CHALLENGE 1

A STORY OF  
DECEPTION

“

First they think you're crazy, then they fight you, and then, all of a sudden, you change the world.

Elizabeth Holmes  
Founder, Theranos



# Theranos failed to deliver its proprietary analyzer that they claimed could perform a variety of diagnostics from just a few drops of blood

- Theranos Inc. ("Theranos", initially "Real-Time Cures") was founded in 2003 after 19-year old Holmes dropped out of Stanford University to "revolutionize the lab industry using a few drops of blood from a simple finger-prick to look for everything from diabetes to cancer, at a fraction of the cost of a traditional blood test"<sup>1</sup>
- Theranos had major investments from the Walton family (\$150m), Rupert Murdoch (\$121 million), Betsy DeVos (\$100m), and the Cox family (\$100m), among others<sup>1</sup>
- In 2014, Theranos was valued at \$9 billion, though the company remained private with Holmes' retaining 100x voting power "super-shares"<sup>2</sup>
- Theranos emphasized competition between internal teams and created a culture of secrecy, operating in "stealth mode" to protect its trade secrets
- For the entire duration of operations, Theranos had a questionable regulatory status with the U.S. Food and Drug Administration ("FDA"), operating within a regulated environment but acting beyond the regulatory environment

<sup>1</sup>"Caught in the Theranos wreckage, Betsy DeVos, Rupert Murdoch, and Walmart's Waltons" Abelson, R. and Thomas, K. *The New York Times*. 4 May 2018

<sup>2</sup>"Securities and Exchange Commission vs. Elizabeth Holmes and Theranos, Inc." U.S. Securities and Exchange Commission [SEC]. 14 March 2018

# Who are the key players in the Theranos scandal?

## Theranos



Elizabeth Holmes  
CEO & Founder



Ramesh "Sunny" Balwani  
President & COO



Ian Gibbons  
Chief Scientist



Tyler Schultz  
Whistleblower



Erika Cheung  
Whistleblower

## Board of Directors



James Mattis  
Former U.S. Secretary of Defense



William Perry  
Former U.S. Secretary of Defense



Sam Nunn  
Former U.S. Senator



Richard Kovacevich  
Former CEO, Wells Fargo



Riley Bechtel  
CEO, Bechtel Group



David Boies  
Partner, Boies Schiller Flexner



Henry Kissinger  
Former U.S. Secretary of State



William H. Foege  
Former Director, CDC



George Schultz  
Former U.S. Secretary of State



Gary Roughead  
Retired U.S. Navy admiral

## Board of Directors

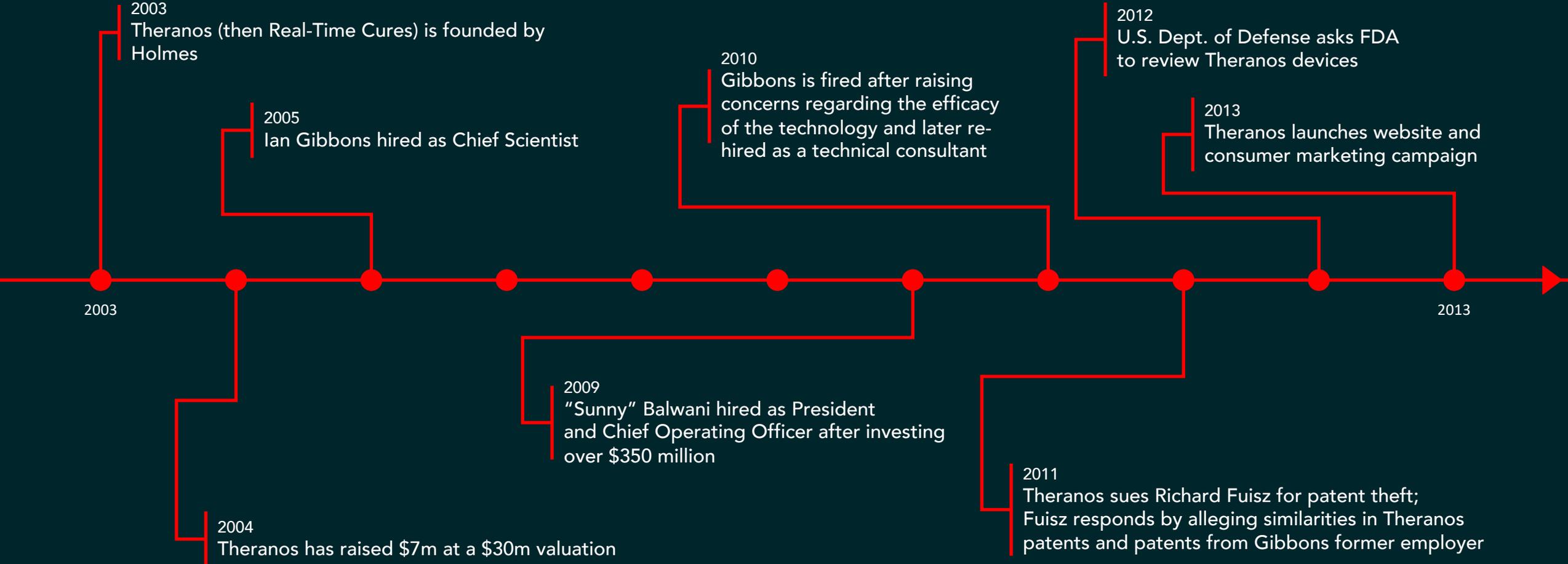


John Carreyrou  
Journalist, Wall Street Journal

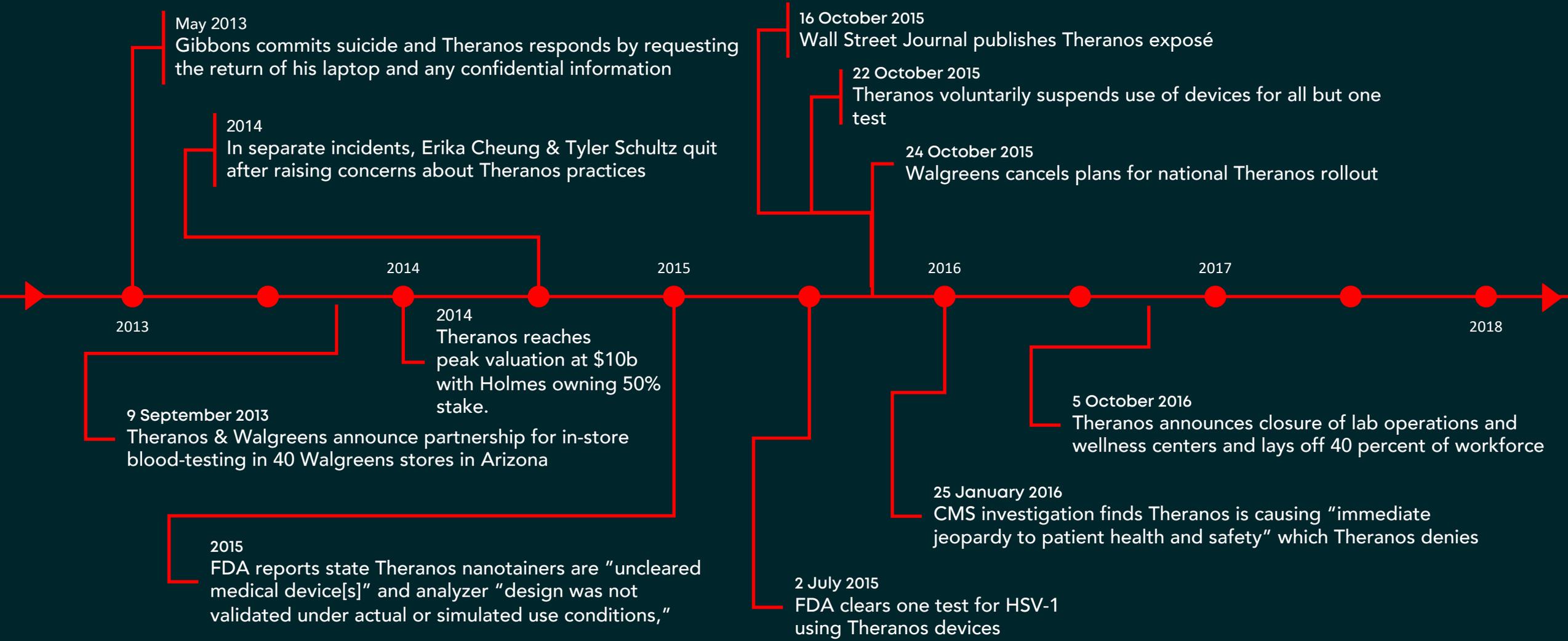
## Regulatory Bodies

U.S. Food and Drug Administration  
U.S. Securities and Exchange Commission  
Centers for Medicare & Medicaid Services

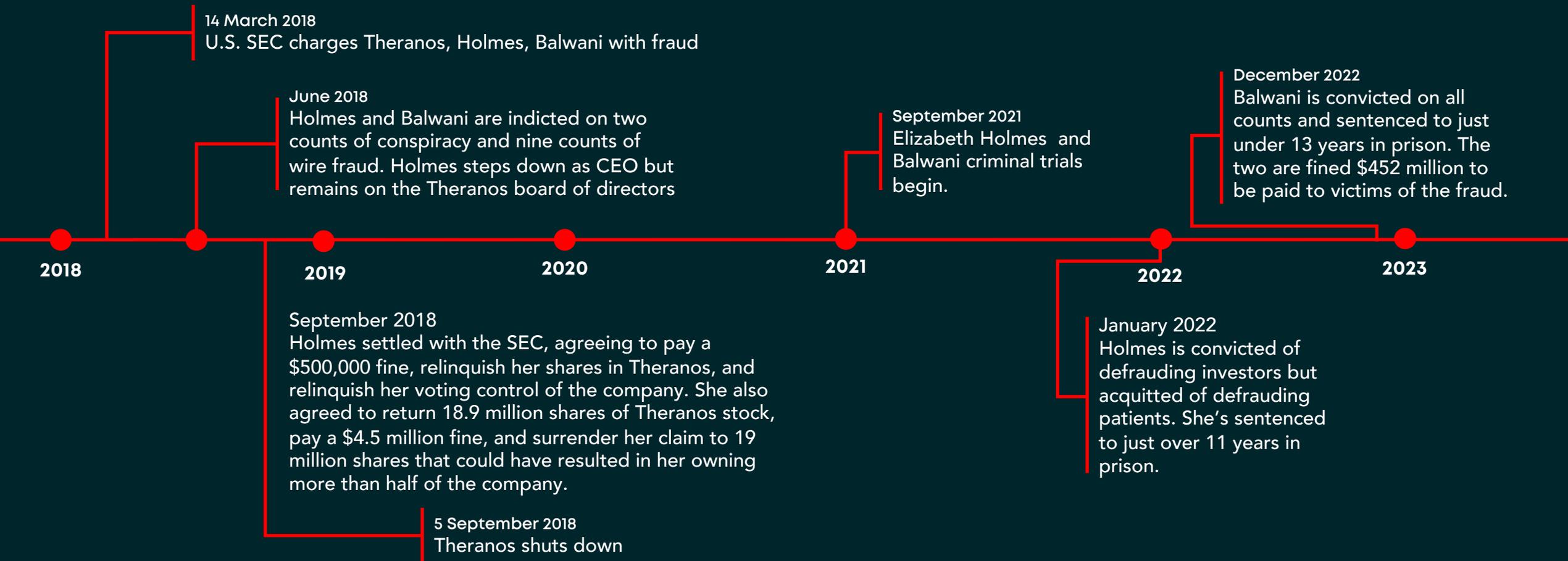
# 10 years after Holmes started Theranos, the company launched a consumer marketing campaign and partnered with Walgreens to offer patient testing



# Things start to unravel in 2015...



# The lies and deception are fully revealed



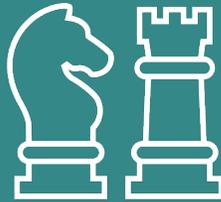
# Examining the consequences and aftermath of Theranos' lies



FINANCIAL

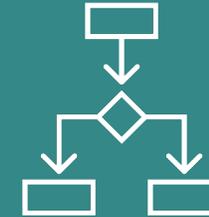
Theranos value went from \$10B at its peak in 2014 to <\$0 approximately 4 years later

STRATEGIC



Theranos' overall mission was to democratize access to medical testing to enable people to take a more proactive approach to their health. Holmes' lies and the extent of measures taken by her and Balwani to conceal the lies ultimately prevented the company from ever having a chance to achieve its altruistic goals.

OPERATIONAL



- The deception led to misallocation of resources to a technology that was ultimately proven to not work
- The financial mismanagement coupled with strategic partner Walgreens terminating its relationship with Theranos, ultimately prevented the company's ability to sustain and continue operations

# Examining the consequences and aftermath of Theranos' lies



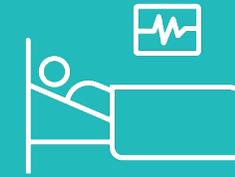
## LEGAL & REGULATORY

- FDA scrutiny regarding its Edison efficacy
- CMS sanctions of labs
- Revocation of the CLIA lab certificate
- Led to regulatory reform and oversight in health and biotech sector



## EMPLOYEE

- Low employee morale
- Job insecurity
- Whistleblowers were threatened and intimidated
- Former Theranos Chief Scientist committed suicide
- Emotional and mental stress



## CUSTOMER

- Misdiagnosis and false health test results
- Financial hardships
- Delayed or disrupted medical treatments
- Illness and potentially untimely deaths
- Emotional and mental anguish

# Examining the consequences and aftermath of Theranos' lies



- Complete erosion of trust in Theranos
- Reputational damage in the broader biotech eco-system



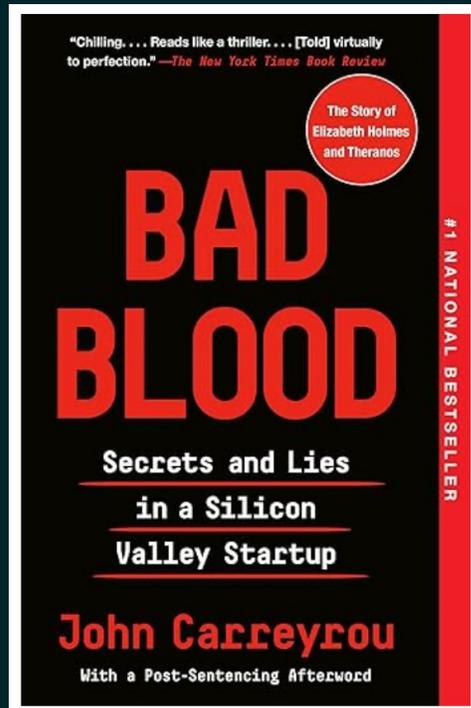
- Local unemployment from Theranos layoffs led to other economic issues
- Loss of trust in healthcare providers
- Tarnished public perception of innovation



- Fallout on the broader biotech industry – reduced funding and loss of trust
- Tarnished public perception of innovation
- Increased expectations for transparency around ethics in innovation

# Resources

There are a number of articles books, documentaries, and biopics that follow the rise and fall of Theranos, which you can look to for additional information on this story. Check them out, if you haven't already. They will be helpful in completing your exercises over the next 6 weeks.



Written by John Carreyrou



Documentary by Alex Gibney



HBO Miniseries