

BAD BLOOD: THE DOWNFALL OF THERANOS



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Fellow Girlbosses,

Welcome to GBSMUN VIII! My name is Hannah (she/her) and I am so excited to be your chair for Bad Blood. Outside of MUN, you might find me in a Congress debate chamber, listening to my music “too loud,” or recording myself while trying different flavors of overpriced Starbucks double shot espressos from the school cafeteria for my private story (and coming to the conclusion that none of the flavors are worth the almost three dollars it costs to buy one). Joining me on the Dias are juniors Marlene Lee, Nicky Ladan, and Mikhail Filippov, all of whom this committee wouldn’t be possible without.

You may have heard about Elizabeth Holmes (pictured on cover page), or you may have heard her voice, which she deepened to be “taken more seriously” as a female entrepreneur. There is also an HBO show called “The Dropout,” which is a fictitious retelling of Theranos and its eventual downfall.

For your position papers, I want you to get creative with both the content and the format. Although I still want you to address the problem and tell me your solutions, I encourage everyone to think outside the box with how it is written. Write a sonnet, a monologue, a college supplemental essay from the perspective of your position- if you didn’t have a fun time writing them, I won’t have a fun time reading them! This being said, please have the hard copy of your background guide with you at the beginning of committee to be eligible for an award.

This background guide is not meant to serve as the basis of your preparation, instead, it is meant to establish a helpful starting point for your research. I encourage you to reach out to me with your questions. These questions can be about anything- roadblocks in your research, inquiries about your positions or position papers, and clarification on parliamentary procedures.

Good luck and have fun!

Hannah Lee (236674@glenbrook225.org)

Committee Positions

1. *Steven Burd: Safeway Executive, ‘Very Impressed’ After Meeting Holmes.*

Steven Burd is an accomplished businessman. He sits on the board of directors for Kohl’s, founded Burd Health LLC, a company that helps lower the cost of healthcare for companies, and as the CEO of Safeway for 20 years, was the mastermind behind an internal project called “T-Rex,” a \$350 million dollar investment into Theranos with the mission of creating wellness centers in 800 of their stores. As a business executive, Burd is heavily involved in the insurance and healthcare worlds and is no stranger to criticism from the Washington Post- in fact, in 2010, the Post reported on Safeway’s lack of incentives for its employees.

2. *Gregory Wasson: Walgreens CEO Who Started His Career as a Pharmacy Intern in the ‘80. Climbing the Corporate Ladder is Possible!*

Gregory Wasson (Greg, according to LinkedIn) is the CEO of Walgreens. He, much like Steven Burd, wanted to revolutionize healthcare in Walgreens. He partnered with Theranos to establish 41 wellness centers. Despite missing key deadlines, Wasson invested heavily into Theranos. As the CEO of Walgreens, Wasson has a lot of access and a lot to lose.

3. *Walton Family: A Family of Multifaceted People*

If Alice and Rob Walton aren’t a household name, their namesake Walmart definitely is. Alice Walton is a woman of many talents- she is the heiress of the Walton family fortune (consequently, she has a net worth of \$63.1 billion and is the tenth richest person in America), is a sitting board member for the Amon Carter Museum, and spent a night in prison for a DWI on her birthday. Walmart’s risky investment of \$150 billion made Walmart **the** biggest investor in Theranos.

4. *Betsy DeVos: Has \$100 Million to Spare*

DeVos was the wealthiest member of former President Trump’s cabinet, where she served as the Secretary of Education. She has many connections, the most obvious being the DeVos family. Other than her political stints, DeVos is also the chairwoman of the Windquest Group, a private company that invests in clean technology, which she founded with her husband, Dick DeVos in 1989. DeVos was one of the largest investors in Theranos, investing upwards of \$100 million.

5. *Tim Draper: High Risk, High Reward*

Tim Draper is a man of many. He is the father of Jesse, Adam, Eleanor, and Billy. He is the founder of Draper Fisher Jurvetson, Draper University, Draper Venture Network, Draper Associates, and Draper Goren Holm- luckily for his entrepreneurial spirit, his last name makes for a great company name. In fact, he's had a string of luck with this entrepreneurial spirit- according to Forbes, Draper is worth up to \$1.5 billion.

6. *Larry Ellison: Owns an Island in Hawai'i, Among Other Things*

Larry Ellison is an American businessman most notable for being the former CEO of the Oracle Corporation. He is known for his risky investments, including his bet on Elon Musk. Oracle was the world's "first commercially viable software database." Outside of her own company, Ellison was a confidante of Holmes, and she would frequently contact him to complain.

7. *Richard 'I Did Not Have Relations With Theranos' Kovacevich:*

Richard Kovacevich is the former CEO of Wells Fargo and a Board member of Theranos. He likes to think that he is a man of very good morals. Kovacevich is very good at crisis fallout damage control, but he will always put himself first. Kovacevich is very intentional with his actions. Kovacevich has a Stanford business degree and, obviously, powerful Wells Fargo and banking connections.

8. *Rupert Murdoch: Everyone Knows His Name, No One Knows What He Does*

Rupert Murdoch is an Australian-American billionaire, media tycoon, and possesses an extensive media empire that includes Fox News, Fox Sports, the Fox Network, The Wall Street Journal, and HarperCollins. His high profile and serious acquisitions are some of the ways he was able to grow his empire. He was an early investor in Theranos and invested heavily into the startup. Despite this, he has a uniquely hands-off policy- when Carreyrou became a threat to Holmes, she approached Murdoch and asked him (as the owner of the Wall Street Journal) to "do something about it." Murdoch has prolific connections to the journalism industry.

9. *George Shultz: A Family Man*

George Shultz idolizes Holmes, but he is nothing short of his own accolades as well. An economist, diplomat, and (most notably) former Secretary of State, Shultz believes that he knows a good idea when he sees one. Shultz does not understand why his grandson,

Tyler, is so intent on taking down Theranos. It has become a big source of division within the Shultz family. Shultz is also on the Board of Trustees for Theranos. At the helm of both Theranos and the US Government, Shultz is a prominent player in advocating for Theranos and finding loopholes.

10. Dr. Phyllis Gardner

Dr. Gardner has a unique experience with Theranos in that she's been there for all of it. In fact, Dr. Gardner is who Holmes first approached to get advice for her company when she was a freshman at Stanford. Holmes had an idea for a patch that would release antibodies into the skin using microneedles on the surface of the patch. If that doesn't make sense, Dr. Gardner agreed- and she was not surprised when Holmes was finally charged with fraud.

11. David Boies: Was Born in Sycamore, Illinois! (Among Other Things)

David Boies has represented defendants in big-name cases including Al Gore in Bush V.S Gore, Microsoft in US VS Microsoft, and now, Holmes. As a graduate of both Northwestern University and Yale Law School, Boies is both well-connected and well-read. Although he is dyslexic, his aptitude for understanding text makes him excel as an attorney- many credit his dyslexia and photographic memory to his success as an attorney. He founded the firm Boies Schiller Flexner LLC. Additionally, Boies agreed to be paid legal fees in Theranos stock and is a board member of Theranos' board of directors.

12. Rochelle Gibbons

Rochelle Gibbons is the widowed wife of Ian Gibbons, British biochemist and ex-chief scientist of Theranos. As a scholar herself, she seeks compensation for the death of her husband, whose death was largely contributed to the stress he had experienced during his work at Theranos, burdened by the fact that the Edison did not work. Gibbons is disgusted with the way that her husband's death was dismissed and wants to make sure that his work at Theranos is acknowledged. Although she is willing to speak out, she speaks out for the legacy of her husband and wants reparations for Ian Gibbons' work.

13. Dr. Richard Fuisz: Biotech Karen

As a family friend of the Holmes', Dr. Richard Fuisz's family and the Holmeses had a complex relationship during Elizabeth's childhood. Fuisz was a friend of Holmes' father, and the Holmes' always felt indebted to the Fuisz, always benefitting from their graces. When Theranos began truly taking off, jealousy got the best of Dr. Fuisz. Fuisz and his

son patented Elizabeth's technology as Fuisz's son's own medical analyzer. Furious, Holmes sued Fuisz and his son.

14. Christian Holmes V: Product Manager of Theranos by day, Duke frat boy by night.

Silicon Valley runs on Dunkin, recent Stanford graduates, and nepotism- surprisingly, Christian Holmes only checks off one of those. As the younger brother of Elizabeth Holmes, it's clear why he and six of his close friends are given a place to work at the biotech company. As the product manager, Holmes and his friends trained Walgreens employees to teach them about Theranos and give tours of Theranos headquarters to possible investors and business partners. He is the life of the party at Theranos- you can take Christian out of Duke Sigma Chi, but you can never take the brotherhood out of Christian, or something like that.

15. Chelsea Burkett: Best Friends Who Help Each Other Commit Fraud Stay Friends

Chelsea Burkett and Elizabeth Holmes were best friends at Stanford. Together, they even contemplated rushing a sorority, mainly for the bigger housing options. Thus, it was almost inevitable that Chelsea got recruited to work for Theranos. Unlike her relationship with her brother, Elizabeth has many more personal conversations with Chelsea. She frequently talked about her rocky relationship with Sunny Balwani. Chelsea stayed in Theranos, despite the fact that the ethical qualms made her uncomfortable. Best friends who help each other commit wire fraud *stay* best friends, right?

16. Tommy Titan: Wannabe Corporate Sellout

Tommy Titan is an intern at Theranos. As a competitive student at Stanford University studying biochemistry, Tommy is hoping to make important connections and receive invaluable experience at Theranos. Tommy doesn't mind Theranos- the pay is good, and he gets health insurance (which is all an undergraduate student can wish for). However, Tommy won't hesitate to work with other people if it means he gets the opportunity to expand his connections and receive valuable information about the biotech industry.

A Brief History of Theranos

Elizabeth Holmes and Theranos

Theranos was a biotechnology company founded in 2003 by Stanford dropout Elizabeth Holmes and was officially dissolved in 2018 after it was revealed that Holmes was deceiving investors and customers by claiming the technology worked when it was faulty. Initially, the company was called ‘Real-Time Cures,’ but the name was changed to Theranos, which is a portmanteau of the words ‘therapy’ and ‘diagnosis.’ Despite the rebranding, her goal stayed the same: to “revolutionize” the future of blood testing. Although the company started small (funded by her unspent college fund), Holmes' ability to charm wealthy investors and the general appeal of biotech companies with revolutionary goals led to a peak valuation of \$10 billion in 2015. As the company grew, Holmes' goal was to invent a machine that, from a prick of your finger, could provide fast and accurate test results, something no other testing lab could provide. Her vision led to the creation of the Edison MiniLab (pictured below)- a sleek machine that claimed to be able to run hundreds of tests from a single drop of blood.



The Edison functioned by performing “immunoassays,” which look at drug and hormone levels and markers for certain cancers. As we have come to understand, Theranos was unable to deliver on its promises. Even from the beginning, the Edison was an unrealistic product. It was unable to deliver the consistently accurate results expected from a highly invested biotech company.

Engineers dubbed it the “gluebot” because it would constantly fall apart, get jammed, and key parts wouldn’t function properly, having to be held together with glue when Holmes displayed it for investors.

The People Behind Theranos

Although Holmes was the face of Theranos, many people were involved in the day-to-day operations:

Ramesh “Sunny” Balwani: Balwani, or “Sunny” to those who worked with him, was the COO and president of Theranos and Holmes’ then-boyfriend. In addition to flaunting his wealth, many ex-Theranos employees say that Balwani created a hostile work environment.

Theranos’ Board of Directors: Part of Theranos’ appeal was its highly connected Board of Directors, which consisted of reputable government and business leaders. Some notable figures included former Secretaries of State George Shultz and Henry Kissinger, former CEO of Wells Fargo Richard Kovacevich, and former Director of the Center for Disease Control and Prevention William Foege.

Theranos’ Investors: Theranos could largely attribute its success to top investors. Theranos had some prominent investors including Rupert Murdoch (who owns the Fox Network, Wall Street

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Journal, and Harper Collins), the Walton family (heirs to the founder of Walmart and Sam's Club), Tim Draper (venture capitalist), and Walgreens.

Theranos' Employees: Theranos had an arsenal of skilled engineers, designers, and professionals at its disposal. Graduates of top institutions and ex-employees of successful Silicon Valley companies all flocked to work at Theranos. Additionally, the "legal shark" and successful attorney David Boies agreed to represent Theranos in legal proceedings and therefore accepted a seat as an investor on the Board of Directors.

Holmes' Charm

Holmes idolized Apple founder Steve Jobs, and she made her admiration for him known. She would frequently hire ex-Apple employees to make Theranos the Apple of the biotech industry. Ana Arriola (they/them) was one of Theranos' ex-Apple employees. As the lead product designer behind the iPhone, Arriola was responsible for designing the Edison and gave it its sleek, Apple-esque finish. Not only did Arriola design the Edison, but they also suggested that Holmes begin wearing her iconic black turtleneck and black slacks, a wardrobe change that reflected Steve Jobs' style. So it thrilled Holmes when the press began to compare her to Jobs. This is also when employees noted that Holmes began speaking in her infamous baritone voice, which many believe she adopted to be taken more seriously in a male-dominated field. With the



publicity of well-connected investors and features from news outlets (she was named Forbes' youngest self-made billionaire in 2014), Holmes relied on her charm (and her infamous unblinking eyes) to manipulate investors. According to Stanford professor Phyllis Gardner, Holmes

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“aligned herself with very powerful older men who seemed to succumb to a certain charm...those powerful men could influence people in the government.”

Toxic Work Environment

Theranos’ work environment operated on distrust and fear, which Holmes and Balwani needed to continue misleading investors and customers without fear of retaliation. Asking questions was frowned upon, and Holmes refused to lend an ear to any criticism about Theranos or the operability of its services. Those who knew that the Edison didn’t work were faced with an ethical dilemma that eventually drove them to quit their jobs at Theranos. At the beginning of their employment, employees were required to sign NDAs restricting them from talking about Theranos outside of the workplace. Lawyers and spies hired by the company stalked higher-up ex-employees, scaring them into submission even after their resignation. This, in part, made it difficult to begin the investigation into Theranos as ex-employees were afraid to speak out in fear of legal repercussions from Theranos (and Boies), who threatened to sue them for large sums of money.

The Downfall of Theranos

After investigating claims that Theranos’ technology wasn’t able to deliver what it



claimed to do for months, John Carreyrou published a “scathing expose” in the Wall Street Journal in 2015.

Carreyrou’s piece prompted further federal investigations into the company, and in 2018, Holmes and Balwani were

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charged with two counts of conspiracy to commit wire fraud and nine counts of wire fraud.

These charges, if convicted, can lead to upwards of 20 years in prison. Both Holmes and Balwani pled not guilty of the charges. Additionally, Holmes was subject to criminal investigations by the U.S. Securities and Exchange Commission (SEC) but settled the charges out of court for \$500,000 without denying or admitting to the charges that were brought against her. Despite the gargantuan charges that Holmes was facing, she had been able to carve a life out for herself in California. She met and married Billy Evans, the wealthy heir of the Evans Hotel Group. She had even been seen walking her Siberian husky named Balto in the streets of San Francisco in the years leading up to her trial. Holmes was even able to evade her trial date twice, first because of the pandemic and next due to medical advice from a doctor after an unexpected pregnancy. In January, after 50 hours of deliberation, the jury convicted Holmes for four of the eleven federal charges for fraud.

Since 2015, Carreyrou has published a book (*Bad Blood: Secrets and Lies in a Silicon Valley Startup*) and continues to actively report on Holmes. There is a public appeal in the downfall of Theranos, with an HBO documentary (*The Inventor: Out for Blood in Silicon Valley*), a podcast from ABC (*The Dropout*), and a movie adapted from the aforementioned podcast in the makings.

Topic A: What To Do With The Investor's Money

Background Information: Theranos' Funds

Theranos raised \$1.3 billion in funding over its years of operation. Consequently, it was frequently referred to as a “unicorn”: a nickname given to a privately held startup company with a valuation of over \$1 billion, which is an incredibly challenging feat. In its eighteen years of operation, Theranos never traded publicly. As many startups do, Theranos started with a round of “seed funding,” where investments occur at the onset of the company’s founding. This round of funding was “led” by (had the most funding from) Draper Fisher Jurvetson, with an investment of \$500,000 in June of 2004. Next was a \$5.8 million “**Series A**” funding round in February of 2005, led by Rupert Murdoch, followed by a “**Series B**” round garnering \$9.1 million in 2006, led by ATA Ventures. A “**Series C**” round followed swiftly, also in 2006, and raised \$28.5 million. Finally, Theranos raised \$45 million of “venture funding” in July of 2010.

In 2006, Theranos was burning through upwards of \$1 million per month but expected to draw in \$30-50 million by 2007, making it a lucrative investment for venture capitalists. Additionally, Holmes led investors on, claiming that she anticipated going public in 2008. (Going public generally brings lots of economic benefits to both a company’s investors and the company itself.) Holmes had a 50% stake in Theranos, making her a billionaire. Holmes’ stake in the company means that she also had a lot of influence over the company.

Status of the Topic

Currently, it is late 2014. Theranos is at its peak valuation of \$10 billion and has business deals with Safeway and Walgreens. However, investors are getting impatient and demanding a functional product, which Holmes is unable to deliver. Additionally, Holmes is made aware of an investigation into Theranos by Wall Street Journal's John Carreyrou and has been devoting a lot of funding to building a team of expensive lawyers (David Boies included) to make sure that Carreyrou's investigation fails. Holmes isn't the only one with access to these funds. It is up to this committee to determine what should be done with the recently accrued funds.

Questions To Consider:

- Who or what does your position prioritize? Does your position have a background in business or is your position more "laid back"?
- Does your position care about the impending investigations into Theranos?
- What would your position do if they acquired a large sum of money?
- Is your position altruistic? Do they have different motives (financial, personal) that might get in the way of the company's success?
- Does your position have a lot to lose if Theranos does not succeed, or is your position's stake in the company much less than what would personally impact your position's life?

Topic B: Evading Detection

Background Information: Investigations into Theranos

As touched upon in Topic A, John Carreyrou has begun poking his head in places where it doesn't belong. Primarily, he has been investigating the functionality of the Edison- or lack thereof. Holmes knows that the Edison is not functional, but the success of her fundraising means that she feels untouchable. Carreyrou had begun investigating Theranos for nine months before his expose was published to the Wall Street Journal in late 2015. Carreyrou began building his case against Theranos by investigating Theranos employees- this in of itself was incredibly difficult as all Theranos employees were required to sign NDAs when they joined the company and when they left for "privacy reasons" regarding their technology. Whistleblowers included Erika Cheung and board member George Shultz's grandson Tyler Schultz and were instrumental in Carreyrou's investigation of the company for his expose. Cheung and Shultz gave legitimacy to Carreyrou's questions about the company, which corroborated with the mounting evidence that he discovered once he began his research. For example, Carreyrou soon learned that Theranos did not conduct their tests (which they publicly claimed) but that they bought traditional blood testing devices from Siemens AG and claimed them as done by their device, the Edison. Carreyrou also called upon the secretive nature of Theranos- what was once dismissed as a company protecting its "trade secrets" was now called upon suspicion by Carreyrou. Finally, he mentioned Holmes' lack of education in biotechnology- although she was Stanford educated, she dropped out as a nineteen-year-old with no legitimate training or education in biology, engineering, or any other relevant coursework to back up Theranos. Along with the

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aforementioned “questionable ethics” that was cultivated in the workplace at Theranos, it was revealed by Carreyrou’s investigation that less than 10% of Theranos’ tests were run on the Edison machine (most running on the Siemens AG machines that Theranos purchased) and that Holmes was able to bypass the FDA regulations because they were not selling the Edison at the time of the investigation.

As it is the Wall Street Journal’s philosophy, Carreyrou gave Holmes and Balwani ample amount of time to respond to all the claims made against them in advance. Carreyrou’s lawyers met with attorneys Boies and King, representatives for Theranos, with little avail. Holmes effectively ignored Carreyrou’s requests to meet with her before the publication of the article.

When the article was published, Holmes denied all claims made against her. She made several public appearances to defend Theranos- she famously stated that "first they think you're crazy, then they fight you, then all of a sudden you change the world." Within the company, Holmes sued Carreyrou for false claims. Additionally, employees emphatically chanted “F*ck you Carreyrou,” with Carreyrou being the perceived enemy of the company.

Status of the Topic

Currently, it is September of 2015. Carreyrou has made multiple efforts to reach out to Holmes, and in a month, will publish a damning article that will effectively destroy Theranos. It is your responsibility, as a team, to make sure that Carreyrou does not succeed and that the story is not published, and/or to minimize the fallout from any attempts at exposing the company.

Questions To Consider:

- How much does your position have to lose? Would they be negatively impacted by the fallout of Theranos?

- What resources does your position have access to that you can use? What resources does the company use that you can utilize?

- What are some special ways your position would be able to prevent the downfall? How would you intervene with Carreyrou's investigation?

- What is your position's ethics? What would they believe in and what would they stay away from?

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