

## **BAD BLOOD: THE FINAL CHAPTER**

### **EPISODE 11: INVESTORS**

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#### **COLD OPEN**

**Elizabeth Holmes:** Several years ago, we realized that we had created an infrastructure that could in fact make it possible to get rid of phlebotomy or the big tubes of blood that are drawn from the arm in its entirety. And we began this work to establish what has the opportunity to be ultimately the largest lab in the country and, most importantly, to change the reality in lab testing today, which is that it's very painful.

**It was a few days before Christmas in 2013. A group of investors was listening to Elizabeth Holmes speak on a hastily arranged conference call. The excitement was palpable. After operating under the radar for a decade, Theranos was having its coming-out party. The company had recently unveiled its plans to roll out its innovative fingerstick blood tests in Walgreens' vast network of drugstores. Sensing a big opportunity, the assembled listeners were rapt with attention.**

**Hosting the call was Chris Lucas, who headed a venture capital fund called Black Diamond Ventures. Lucas' fund had first invested in Theranos seven years earlier, in 2006. Since then, the startup's stock price had exploded, making Black Diamond and other early investors a lot of money—something Elizabeth wasn't shy about pointing out.**

**Elizabeth Holmes:** As you all know, we have recently issued shares at \$75 a share. For reference, the initial investment in Theranos that you all made was at 82 cents. Um.. so, we are already creating significant value.

**In other words, their investments had been multiplied by 91. That was an eye-popping return and it whetted everyone's appetite for more.**

**Over the years, Elizabeth had told Lucas very little about what was going on at Theranos, which had been the source of some frustration for him and for some of the people who'd invested in his fund. But he'd trusted her, mostly because his uncle, the legendary venture capitalist Don Lucas, had vouched for her. Don Lucas had championed Elizabeth and chaired Theranos' board before becoming incapacitated by Alzheimer's disease.**

**Still, even with the inside access provided by his uncle, Theranos had remained a black box to Chris Lucas because Elizabeth was so secretive. She'd given everyone just two weeks to decide whether they wanted to participate in a new round of funding. So, this call was a rare chance to find out more information.**

**Lucas was comforted by what he heard. It sounded like big banks were clamoring to get in on the action, which was the equivalent of a seal of approval from Wall Street.**

**Elizabeth Holmes:** We do have offers on the table right now from financial institutions that are in the several hundred-million-dollar range in terms of the amount of capital. And we're considering that.

**Elizabeth also seemed to be saying that the Walgreens partnership would give Theranos a national presence in no time, which meant a large increase in revenues.**

**Elizabeth Holmes:** It's really now a question of how fast do we scale. The fact that we will scale is a given. Our retail partners have invested hundreds of millions of dollars in building out this framework, and we too have been preparing for this for many years now. The goal is to be able to be national very, very quickly.

**Chris Lucas** liked what he was hearing. It still didn't amount to a ton of information, but it added to the bits and pieces he'd gleaned from the Theranos website and from an interview Elizabeth had given to *The Wall Street Journal's* editorial page. Theranos had provided links to both in an email it had sent to shareholders a few months earlier.

Lucas had been impressed by the *Wall Street Journal* piece. It stated that Theranos' processes were more accurate than conventional methods and required "only microscopic blood volumes," suggesting a significant technological advance.

After the call, Lucas caucused with his fund investors and quickly decided this was an opportunity he couldn't pass up. Within days, Black Diamond Ventures wired Theranos \$5.3 million, bringing its total investment in the company to more than \$7 million. It was the first trickle in what would become a gusher of money flowing into Theranos over the following months.

I'm John Carreyrou and this is *Bad Blood: The Final Chapter*. On today's episode, we're going to take a closer look at the sequence of events that led a small circle of investors to plow hundreds of millions of dollars into an unproven blood-testing startup.

**During her first 10 years at the helm of Theranos, Elizabeth Holmes raised \$115 million, a respectable sum but nothing exceptional by Silicon Valley standards. Then, in the space of just 15 months between December 2013 and March 2015, she raised seven times that much. How she did it is both a study in how to take advantage of gullible investors and a window into the clubby world of the rich, where relationships and connections are leveraged to gain access to investment opportunities not available to most people.**

**More on that, after the break.**

## **SEG A**

**One of the people who invested in Theranos early on through Chris Lucas' venture capital fund was a Dallas real estate entrepreneur by the name of Craig Hall. Hall first heard of Theranos from a friend in the fall of 2006 and dispatched one of his employees, Bryan Tolbert, to California to find out more.**

**Tolbert flew to Palo Alto in November 2006 and met Elizabeth Holmes, Don Lucas and Chris Lucas for dinner. As Elizabeth laid out her vision of replacing painful needle draws with tests performed on tiny samples of blood pricked from fingertips, Don Lucas entertained everyone with colorful stories about his long career in venture capital.**

**Tolbert returned to Texas with a favorable report, and Hall decided to invest \$2 million through Chris Lucas' Black Diamond Ventures.**

**Tolbert's notes at the time show that Elizabeth told him that Theranos was in the process of negotiating pharmaceutical contracts worth up to \$50 million and that it would be cash flow-positive by the fourth quarter of 2007. Tolbert's notes also show that Elizabeth claimed Theranos would go public in an IPO in 2008 at a valuation of around \$1 billion.**

**The IPO never materialized. Years went by and Tolbert heard very little from Theranos. He kept in regular contact with Chris Lucas, but Lucas too was starved of information. At trial, Tolbert testified that he and Lucas had numerous conversations during this period about "wanting more financial information" from the company and "more visibility as to what was going on." But Elizabeth told shareholders that Theranos needed to remain in what she liked to call "stealth mode" to protect its innovations and catch its competitors by surprise.**

**Theranos finally broke its radio silence seven years after Hall's initial investment. In September 2013, it emailed its shareholders to announce the commercial launch of its blood-testing services in Walgreens stores, providing links to its new website and to Elizabeth's *Wall Street Journal* interview.**

Two months later, Black Diamond Ventures forwarded a Theranos slide deck to the Hall Group and its other limited partners titled “Overview and Update.” The slides highlighted high-profile appointments Theranos had made to its board, including former Secretaries of State George Shultz and Henry Kissinger, former Secretary of Defense William Perry and former Wells Fargo CEO Richard Kovacevich. One slide showed a picture of Theranos’ tiny blood tube, the nanotainer. “At Theranos, we can perform our lab tests on samples as small as 1/1,000 the size of a typical blood draw,” the slide read.

It looked to Tolbert like Elizabeth had brought the vision she’d outlined to him over dinner seven years earlier to fruition.

The last slide was titled “Theranos articles” and included a link to the *Wall Street Journal* editorial, which stated that Theranos’ devices successfully automated and miniaturized more than 1,000 laboratory tests. Tolbert testified that he took the claims made in the linked articles at face value.

A couple weeks later, another email from Black Diamond arrived alerting him to a conference call Elizabeth was going to hold with investors. Theranos was conducting a new fundraising round to “accelerate their growth,” the email said.

On the day of the call, December 20, 2013, Craig Hall was traveling. Tolbert knew his boss was frustrated with the little information they’d

**gotten from Theranos over the years, so he wanted to capture everything Elizabeth would say as best he could. Since he wasn't a fast typist, he decided to record the call from his office in Frisco, Texas.**

**This would prove to be an incredibly lucky break for the prosecution. In a case where they needed to prove beyond a reasonable doubt that Elizabeth had lied to investors, here she was speaking unguardedly on tape, unaware that she was being recorded.**

**Chris Lucas opened the call with a few introductory remarks. Then, Elizabeth came on the line.**

**Elizabeth Holmes:** Well, it's wonderful to speak with you all. And it's wonderful to be in a place in which we can begin to talk about this. As you all know, we have been working very hard for a long time to build out this infrastructure. And we have thus built the business around our partnerships with pharmaceutical companies and our contracts with the military, wherein we could deploy our framework, in the one case, for helping to accelerate clinical trials and, in the other, for extreme use-case situations in trauma and other areas where there was a very compelling value proposition.

**Pharmaceutical companies and the military. Those were the two planks of Theranos' business up to this point, as Tolbert understood it—the two planks that had enabled Theranos to generate revenues while it was perfecting its technology. Elizabeth came back to them a little later in the call.**

**Elizabeth Holmes:** The retail infrastructure is the foundation for being able to reactivate a lot of the pharmaceutical programs that we did that allowed us to build the business from cash from operations since we did our Series C round in 2006.

**Tolbert testified that this dovetailed with what he'd heard via Chris Lucas—that Theranos had generated significant cash from its contracts with pharmaceutical companies. We now know from the evidence presented at trial that this wasn't true. Theranos' contract with Pfizer, for instance, had earned it only \$900,000. Its contract with Schering-Plough had generated just \$279,000. Theranos had lost money every single year of its existence. By the end of 2013 when this call took place, the company had accumulated losses of \$253 million.**

**Elizabeth Holmes:** So, the focus on the pharmaceutical business is still a significant focus for us and will continue effectively as a business unit as we now grow and will be very synergistic with what we've established in retail.

**This was another misleading statement. Theranos was no longer doing any business with pharmaceutical companies. The work had petered out years earlier. Dr. Shane Webber, a former Pfizer scientist, testified that Pfizer had discontinued its relationship with Theranos in 2009. Dr. Constance Cullen, a former Schering-Plough scientist, testified that Schering-Plough had stopped working with Theranos that same year.**

**Then, one of the investors on the call asked about the military.**

**Elizabeth Holmes:** Military is a big deal for us and I can tell you confidentially a couple of the areas in which we've been focused there. One, in the context of work in the Middle East and specifically in Afghanistan, the survival rate of our men and women in field when they're hit is 98 percent if they get through the doors of an emergency room within 60 minutes from the point of injury. And if we miss that window, that's where all of our fatalities occur. And so, the ability to take a technology like this and put it in place, specifically on a medevac, has the

potential to change survival rates. And what it does is it makes it possible to begin transfusions and stabilization in flight. And so, we've... we've been doing a lot of work there.

**We now know from trial testimony that Theranos' devices were never placed on Medevac helicopters in the Middle East or Afghanistan and that Theranos never did any work for the military beyond a small burn study years earlier. But Tolbert didn't know that at the time. He testified that he took Elizabeth's claims at face value and that they really resonated with him because he had a brother in the Marines who did a tour of duty in Afghanistan. Theranos was helping save lives in the battlefield, he thought.**

**Elizabeth Holmes:** We've also been doing a lot of work for Special Operations Command in the context of missions in remote areas where not only is there no capability to do testing for certain things that need to be measured, but if situations arise in which those tests are warranted, the mission is aborted and people are evacuated generally out of continent. And so, we have created a distributed system that can be used in remote areas. And that is... That is another big area of focus for us. And it's also very symbolic because it's our way of being able to help make a difference in whatever small way we can.

**When Tolbert was asked by prosecutors whether these statements influenced him, he said they definitely did. He testified that he saw Theranos as an opportunity to make money while doing good for "lots and lots of people." Tolbert was also impressed with Elizabeth's claims of greater testing accuracy.**

**Elizabeth Holmes:** Today, if you go to a lab in San Francisco and you go to a lab in L.A., on the same day for the same value, one could report a result that is, for example, on a test like HDL cholesterol plus or minus 30 percent. Which means, on the same day for a single test, based on the fact that each lab is centralized, has its own lab director, has its own reference range, uses its own

equipment, which is different from what other labs use, you could see a 60 percent variance in data.

**Theranos, by contrast, had...**

**Elizabeth Holmes:** A less than five percent variance.

**Elizabeth said the difference had to do with the fact that Theranos' "analytical infrastructure" was standardized, which implied that the company was using one type of proprietary machine for all its testing. As we've seen in previous episodes, that wasn't true. Elizabeth also cited another factor for Theranos' superior accuracy:**

**Elizabeth Holmes:** Because the sample is fresh and it's not, you know, a big series of tubes of blood that are sitting on a counter and exposed to temperature, we don't suffer the rates of decay of key analytes that happen when you ship samples off to a central lab.

**Tolbert took that to mean that the Theranos devices would be in Walgreens stores and the testing would be done "on-site." That wasn't the case. Theranos was shipping the blood samples it collected in Walgreens stores back to its lab in Palo Alto, just like other lab companies did. The notion of a "fresher" blood sample was a fantasy Elizabeth had invented.**

**Even though he was on the road, Craig Hall had managed to join the call. He too was impressed by what he heard. After they hung up, he and Tolbert regrouped and decided to join the offering. Eleven days later, on Dec. 31, 2013, the Hall Group invested another \$4.9 million in**

**Theranos, this time directly. Tolbert testified that the investor call was “central” to their investment decision.**

**Other investors who’d listened to the call also invested, including two venture funds managed by Don Lucas’ son. They wired a total of \$41.8 million to Theranos’ account at Comerica Bank.**

**It was a decent haul, but it would prove to be small change compared with the giant wave of money that was coming. Because soon Elizabeth would give an interview that would help open the floodgates.**

**More, after the break.**

## **SEG B**

**A few months later, in March of 2014, Roger Parloff, *Fortune* magazine’s legal correspondent, was sitting in his office in the Time & Life building in midtown Manhattan when an article in the online newsletter *Litigation Daily* caught his attention.**

**The article was about a patent case involving the famous lawyer, David Boies. Parloff had never heard of the company Boies was representing in the case, Theranos, but he knew Boies well. He’d covered some of his courtroom exploits in the past, like his victory on**

behalf of the Justice Department in the late 1990s antitrust case against Microsoft.

Parloff was intrigued and called Boies' public relations representative Dawn Schneider to see if Boies would talk to him about the case. Schneider told him the real story wasn't so much the patent case; it was Theranos' extraordinary founder, Elizabeth Holmes. When Parloff met with Boies, Boies conveyed the same message: Elizabeth Holmes and Theranos were what he should focus on.

So, Parloff followed their advice and, on April 7, 2014, he flew out to San Francisco to meet with Elizabeth. When he landed, he took a cab straight to Theranos' headquarters on California Avenue in Palo Alto.

That evening, Parloff conducted the first of several taped interviews with Elizabeth over dinner at a local restaurant. These tapes would become another boon for prosecutors. So much so, in fact, that they would make them the finale of their case-in-chief.

Parloff had noticed that former Defense Secretary Bill Perry, retired General Jim Mattis and retired Admiral Gary Roughead were on Theranos' board, so he broached the topic of the military. Elizabeth told him the Theranos technology had...

**Elizabeth Holmes:** ...military-specific applications that are quite promising when you think about what it means to be on a mission or in the middle of nowhere and need, you know, access to technology. And that's something that I'm personally very passionate about because I see it as our way to serve in whatever small way we can.

**Roger Parloff:** Is that something that you can put out in the field, you know, when we're fighting in Iraq? Or is that too... too large?

**Elizabeth Holmes:** No, we can.

**Roger Parloff:** So, that's the sort of thing we're talking about.

**Roger Parloff:** Yep... exactly.

**Parloff testified at trial that Elizabeth later implied to him that the Theranos devices were used in the battlefield in Afghanistan but that it was very sensitive information he couldn't use in his article.**

**As their dinner conversation continued, Parloff changed topics. Earlier, Elizabeth had told him that she slept four hours a night, worked seven days a week and never took a vacation. That made Parloff wonder what kind of a personal life someone with that schedule could have. He asked her if she had a significant other. Elizabeth replied that no, Theranos took up all her time and that was "a good thing."**

**This should have been a red flag: Parloff knew that Elizabeth was living with Sunny; the researchers at *Fortune* had found that they were using the same address. But he decided not to confront her because he didn't want to jeopardize the good access he was getting.**

**The next day, he and Elizabeth met again at Theranos' offices. Elizabeth gave him a little tour. One of the areas she showed him was the company's research lab. Stacked on shelves were a dozen black-and-white boxes that looked like computer towers topped by digital touchscreens. These were Theranos' proprietary Edison analyzers.**

**Parloff's visit lasted four days. On one of those days, he visited Theranos' blood-draw site at the Walgreens in downtown Palo Alto and got his blood tested by fingerstick. He also went to see the company's big manufacturing facility across San Francisco Bay.**

**On the last day of his visit, Parloff and Elizabeth sat down for another taped interview. Elizabeth was very controlling with information, and she didn't want Parloff to give too many details in his article about what he'd seen.**

**Elizabeth Holmes:** I think we don't want to get into how many devices we have or, you know, any that kind of stuff, but... meaning, you know, types of devices or any of those types of things. But yes, it's... it's probably... we call it an analytical system, which um... analytical system, which is... which is basically, you know, a piece of hardware that's used for... for processing the samples.

**Roger Parloff:** And... I take it, though, that it takes up a lot less space than what an ordinary lab test would entail?

**Elizabeth Holmes:** It's a small... much smaller footprint, yeah.

**Roger Parloff:** OK.

**Elizabeth Holmes:** Yeah.

**That might have been an accurate description of the Edisons Parloff had seen in Theranos' research lab, but the company was only using them for a handful of tests. As we've covered in previous episodes, Theranos was using the same big, third-party machines as other labs for most of its testing.**

**Roger Parloff:** Do you know currently... do most labs have some sort of large machine? Or is it more a matter of, you know, squirting it into various...

**Elizabeth Holmes:** There's many machines and they're very big...

**Roger Parloff:** I see.

**Elizabeth Holmes:** And they take up a huge...

**Roger Parloff:** I see.

**Elizabeth Holmes:** ...footprint. So, there's a very significant amount of overhead that's associated with that.

**Left unsaid was the fact that Theranos had to shoulder the same overheard costs because it was using those very same machines.**

**After Parloff returned to New York, he had several more phone interviews with Elizabeth in which he asked follow-up questions. During one of these calls on May 12, 2014, Parloff asked if he could see Theranos' clinical laboratory where it tested patient samples.**

**Roger Parloff:** Interested in if it would be possible, to... a Phoenix lab visit.

**Elizabeth Holmes:** Yes. So, Phoenix's lab is not yet operational. All those samples are still being processed here in Palo Alto.

**Roger Parloff:** Oh. Mm hmm.

**Elizabeth Holmes:** And... I mean, what the lab looks like... Remember, you saw that bank of devices that we sort of went up to in the lab upstairs?

**Roger Parloff:** Yeah.

**Elizabeth Holmes:** Black and white. It's literally... they were on sort of a stack of shelves?

**Roger Parloff:** Mm hmm.

**Elizabeth Holmes:** So, the lab is basically probably four of those stacks with devices on both sides. So you're... If you'd like to see it... And I was trying to remember whether I walked you through it or not, it was downstairs.. Umm... You're welcome to come back out here and see it.

**Roger Parloff:** I see, but I've basically seen it.

**Elizabeth Holmes:** You've seen it.

**Roger Parloff:** I see.

**Elizabeth Holmes:** And it's basically just a bank of those devices.

**This was a lie. Theranos' clinical lab in Palo Alto contained some Edisons, but it also contained numerous third-party machines.**

**Roger Parloff:** OK, so would it be about...um... how many of those devices in all?

**Elizabeth Holmes:** Um, there's probably... I mean, so we have actually several labs here. Our biggest one probably has, um, like 50 of 'em. And I would put that off the record because we don't want to publish that, and then we have another bank of about 200 of them, but that is sort of split up across multiple facilities that we're starting. We're going to be moving the lab here to Newark. So, some of them are going to go to 200... I'm sorry, the 200 are going to go to Newark and then some of the ones here are going to go to Phoenix.

**Roger Parloff:** I see.

**This was another lie. No Edisons were being sent to Phoenix. That lab only ever contained third-party machines.**

**During another call, two days later, Parloff asked if Theranos ever used third-party analyzers to do tests it couldn't do on its proprietary platform. At trial, he testified that Elizabeth replied, "Uh uh," which he took to mean, "No, we don't do that."**

**A week later, during another call, Parloff homed in on the number of tests Theranos could do with its technology. Elizabeth had told him Theranos could perform tests that corresponded to more than 1,000 diagnostic billing codes. But Parloff had counted only about 200 tests on the menu the company had posted on its website.**

**Roger Parloff:** What is the difference then between the 200 that are listed and the 1,000 you feel comfortable you can do?

**Elizabeth Holmes:** Those ones on the website are the ones that are most commonly done.

**Roger Parloff:** I see, OK.

**Elizabeth Holmes:** And so those are the ones that... that we've brought up first, but we are adding to it. And in fact, if someone sends a test to the lab, we can run it even if the test is not on the website.

**Roger Parloff:** Mhmm.

**Elizabeth Holmes:** However, we're not actively, um um... publishing that we have that test because we have focused on the core set that are on the website for how we've operationalized the laboratory today. But we do have the ability to do tests that are not on the website, and we do do that. I mean, there are patients who come into our collection centers and they have orders for tests that are not on the website and we do handle it.

**This again was misleading. Theranos outsourced many of the tests that weren't on its menu to outside labs, like the lab at the University of California, San Francisco or a big reference lab in Utah called ARUP. And of the 200 or so tests that were on its menu, only 12 or fewer were run on its Edison devices.**

**As part of his research for his article, Parloff had gone to visit a Quest lab in New Jersey. He wanted to know if Theranos could match Quest's vast testing capabilities.**

**Roger Parloff:** As I walked around the Quest Diagnostics lab, you know, there were these... There was automated chemistry, there was hematology, there was microbiology that was like petri dishes.

**Elizabeth Holmes:** Yup.

**Roger Parloff:** ...T.B. parasites, mycology, bacteriology. Then there was vitamin D. Then there was anatomic pathology, which I think was tissues. They had slides. There were pre-cancerous lesions from, uh, you know, I guess, pap smears.

**Elizabeth Holmes:** Mhm.

**Roger Parloff:** Uh, testing for STD, HPV. Then there was a histology lab. All of this is stuff you can do?

**Elizabeth Holmes:** Yes.

**Roger Parloff:** OK. [laughs]

**Elizabeth Holmes:** Yes.

**Roger Parloff:** It's... It's so incredible. [laughs] I mean...

**Elizabeth Holmes:** It's um...

**Roger Parloff:** OK.

**Elizabeth Holmes:** I mean, it's... it's one of those... those special things when you apply technology and software towards solving problems...

**This was simply untrue. The Edison could only do one class of blood tests known as immunoassays. Theranos' next-generation device, the miniLab, was designed to do more but, as we've covered in previous episodes, it was still a malfunctioning prototype and was never used to test patient samples.**

**Parloff's story came out in the June 2014 issue of *Fortune* magazine. And, sure enough, it contained several inaccuracies, like this sentence: Theranos "currently offers more than 200—and is ramping up to offer more than 1,000—of the most commonly ordered blood diagnostic tests, all without the need for a syringe."**

**And this passage: "Importantly, it's not just the blood draws that are tiny. It's also the analytical systems Theranos uses to perform the tests. They take up a small fraction of the footprint required by a conventional lab today... That makes it possible to imagine one day placing Holmes' labs right by the operating rooms in hospitals or in military evacuation helicopters or on ships and submarines or in refugee camps or in tents in the African bush."**

**At then, there was this whopper: “Theranos, which does not buy any analyzers from third parties, is therefore in a unique position.”**

**Elizabeth never sought to correct these falsehoods. In fact, she loved the story. Parloff testified that she “praised it effusively” to him after it was published and featured a link to it on Theranos’ website.**

**Soon, she would be using it to woo more investors.**

**That’s after the break.**

## **SEG C**

**A month after Roger Parloff’s cover story was published in *Fortune* magazine, Theranos board member Henry Kissinger asked his longtime estate attorney Dan Mosley to take a look at the company. Theranos was raising money again and Kissinger was thinking about investing. He wanted Mosley to give him a second opinion.**

**As Kissinger later told the writer Ken Auletta, he’d gained a lot of admiration for Elizabeth from his seat on the board:**

**Henry Kissinger:** In my observation, she is like a member of a monastic order. She's dedicated to this enterprise and so she works on it 18 hours a day. I've never seen her do anything else. I've never seen a situation where somebody asks a question and she has to say, “Well, I have to check this out.” She's always amazingly prepared.

**Mosley, who worked at the white shoe law firm Cravath, Swaine & Moore and had looked after Kissinger's estate for more than 15 years, called Elizabeth and asked if she could send him the investment materials.**

**During the call, Elizabeth mentioned to Mosley that she was looking for "high-quality families" to invest in Theranos—families that owned businesses in the U.S. and were willing to be patient and make a long-term investment.**

**Mosley, it turned out, was just the right person to make such introductions. In addition to Kissinger, he advised wealthy families like the Waltons of Walmart fame and Atlanta's Cox family, owners of the conglomerate Cox Enterprises. After he hung up with Elizabeth, he reached out to Greg Penner, Walmart's vice chairman who was Rob Walton's son-in-law, to relay Elizabeth's message. Penner immediately expressed interest.**

**A few weeks later, Elizabeth sent Mosley a thick investment packet. It included the *Fortune* story, which Mosley read with interest. It also included financial projections. One of them was that Theranos would earn revenues of \$140 million in 2014. Since it was August and eight months of the year had already elapsed, Mosley testified that he gave that number credence. Little did he know Theranos was actually on track to earn little more than \$100,000 in revenues for the year.**

Besides the *Fortune* story and the revenue projections, there was something else in the packet that caught Mosley's attention: a report with the logo of the pharmaceutical giant Pfizer that appeared to endorse Theranos' technology. In a memo he drew up for Kissinger, Mosley wrote that "the most extensive evidence supplied regarding the reliability of the Theranos technology... is a Study Report prepared by Pfizer." The Pfizer report's conclusions, Mosley added, were "extraordinarily complimentary."

This made an impression on Kissinger, as he later told Auletta.

**Henry Kissinger:** It has undergone tests by, I think, a major drug company—Pfizer, I believe—that have confirmed its scientific validity. And so, it's becoming one of these Silicon ideas where some unlikely person, by the power of her imagination and her dedication, is creating enormous benefits. In a way, this could happen only in America.

What neither Mosley nor Kissinger realized was that the so-called Pfizer report hadn't been written by Pfizer. It had been written by Theranos. The Pfizer logo printed on the top left side of each of its 26 pages had been added by Elizabeth without Pfizer's knowledge. As Dr. Webber, the former Pfizer scientist, testified, Pfizer had never endorsed or validated Theranos' technology—quite the contrary. When she took the stand, Elizabeth said that she hadn't intended to mislead anyone by adding the logo, but that she now wished she had "done it differently."

Not knowing that Mosley's memo was based on a forged pharmaceutical report, a misleading magazine cover story and

fictional revenue projections, Kissinger decided to invest \$3 million in Theranos. And Mosley *himself* was now thinking about investing.

In September, Mosley went to a conference for family-owned companies organized by BDT Capital in Chicago. He knew Elizabeth would be there to speak on a panel. So, he arranged for her to meet several of his clients in attendance, including Walmart's Greg Penner and Sam Walton and Cox Enterprises' Alex Taylor. He also introduced her to Jerry Tubergen, the CEO of RDV Corporation. RDV managed the money of the DeVos family, which derived most of its fortune from the multi-level marketing company Amway.

Tubergen came out of his meeting with Elizabeth deeply impressed. He dashed off an email to four DeVos family members attaching the *Fortune* magazine story, which Mosley had sent him the night before. He encouraged them to read it and asked them to carve out 15 minutes to discuss what he termed "a very unique investment opportunity" at a meeting the next day. On the plane ride back to RDV's headquarters in Grand Rapids, Michigan, Tubergen talked excitedly about Theranos to his colleague Lisa Peterson, an RDV investment manager.

Peterson was intrigued. Her husband had Type 1 diabetes, a disease that has to be monitored with frequent blood draws. She volunteered to work on the investment and later put together a memo for the family.

**One passage of her memo read, “Theranos uses their own analyzer equipment... Unlike most labs, Theranos does not buy analyzer equipment from a 3<sup>rd</sup> party.” Another passage read, “A Theranos analyzer station is a small fraction of the size of a current lab, making it possible to place a Theranos lab in the operating room or in a military evacuation helicopter, on ships, in refugee camps, virtually anywhere.”**

**When Peterson was asked on the stand where she got this information, she said it came from Elizabeth, which Elizabeth didn’t exactly deny when she was questioned by the SEC.**

**Jessica Chan:** Did you tell RDV Corporation in late 2014 that Theranos uses its own analyzer equipment?

**Elizabeth Holmes:** I don't know if I did. I'm not sure.

**Jessica Chan:** Did you ever hear Mr. Balwani make that statement?

**Elizabeth Holmes:** Again, I can't remember the specifics of these conversations. I don't... I don't know.

**Elizabeth Holmes:** Did you ever tell RDV Corporation in late 2014 that the Theranos analyzer is a small fraction of the size of the current lab?

**Elizabeth Holmes:** I can't remember the specifics of the conversation, but that's reflective of miniLab.

**But, as we’ve already discussed at length in this podcast, the miniLab was a malfunctioning prototype and Theranos never used it to test patient samples.**

**As it had with Mosley, Theranos had sent RDV a binder, which informed other parts of Peterson’s memo. Under the heading “Exemplary Reports From Pharmaceutical Partners,” it included the**

report with the doctored Pfizer logo. Peterson testified that, like Mosley, she thought Pfizer had written it. It seemed to validate everything Elizabeth had told her about the accuracy of Theranos' technology, she said.

In October 2014, Peterson and Tubergen flew out to Palo Alto with three members of the DeVos family. In what was now well-rehearsed theater, Elizabeth and Sunny demoed one of the Theranos devices for them. Petersen and Tubergen later asked to see the clinical lab, which had just moved to Newark, across San Francisco Bay from Palo Alto. But they were told they couldn't because it was "top secret."

After a long meeting with Elizabeth, the RDV contingent caucused in the parking lot. The DeVoses had originally been thinking of investing \$50 million, but Elizabeth said other families were coming in at \$100 million, so they decided to invest \$100 million too.

Elizabeth wasn't lying about *that*. The Coxes were about to invest \$100 million and the Waltons, \$150 million.

That wasn't all. There was another wealthy client Mosley had introduced Theranos to: Andreas Dracopoulos, the nephew of Greek shipping tycoon Stavros Niarchos. Dracopoulos presided over his late uncle's foundation.

A few days after the DeVoses' visit, Mosley accompanied three Niarchos foundation staffers to Theranos headquarters in Palo Alto,

but the visit didn't go as smoothly as Mosley had hoped. The foundation staffers asked a lot of questions. In an email he sent Elizabeth when he got back to New York, Mosley wrote that Dracopoulos had asked him to "apologize for not being there to cut through the nonsense." Instead of the foundation investing, Dracopoulos wanted to know if he could make a personal investment of \$25 million, Mosley wrote.

The lawyer added another request at the end of his email: "Personally, I would be delighted and honored to be part of your first closing. My hope would be to invest \$6 million."

In the ensuing weeks, Mosley, Dracopoulos, the DeVoses, the Coxes and the Waltons all invested in Theranos.

What had begun as a simple request for advice from Henry Kissinger to his estate lawyer had snowballed into a combined \$375 million in investments from four wealthy families. Adding Kissinger and Mosley's own smaller investments, the total came to \$384 million.

The great irony is that the man who'd put in motion the whole sequence of events—Kissinger—had, by his own account, initially been dubious of Elizabeth.

**Henry Kissinger:** I started because George Shultz was so enthusiastic and then there were Sam Nunn and Bill Perry and we were at one time called the "Gang of Four," so we exchanged ideas a lot... They were all very positive. I didn't start this way, so I'm not a groupie.

**But eventually, Kissinger did become a groupie. And thanks in part to Roger Parloff's Fortune cover story and that doctored Pfizer report, so did his estate lawyer, Dan Mosley.**

**And once Mosley became ensnared in Elizabeth's web, his gullible billionaire clients were ripe for the picking.**

## **CREDITS**

***Bad Blood: The Final Chapter* is a Three Uncanny Four production.**

**If you've been following Elizabeth Holmes' trial in the news or on our bonus episodes, you know it's expected to end soon. But we don't know when, exactly. For the last full episode of this show, we're planning to cover the verdict. So, our last episode might not come out at the exact same time as previous episodes, but we'll be working hard to get it to you as soon as we can.**

**And remember, if you don't want to wait for new full episodes, we put out a shorter bonus episode each week where we talk about what's happening in the trial day to day. If you want to hear those, subscribe to the show in Apple Podcasts.**

**The show is hosted by me, John Carreyrou.**

**Our show is produced by Lena Richards, Rahima Nasa and Jennifer Sigl. Emily Saul is our reporter. Jenny Kim is our production manager.**

**Laura Mayer is our executive producer.**

**Our engineer is Kevin Seaman. Casey Holford composed the theme music.**

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**For Three Uncanny Four, I'm John Carreyrou.**