

# Valeant Ex-CEO, Ex-CFO Are a Focus of U.S. Criminal Probe

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- DOJ seen building accounting fraud case against company
  - Former executives Pearson, Schiller also under scrutiny
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U.S. prosecutors are focusing on Valeant Pharmaceuticals International Inc.'s former CEO and CFO as they build a fraud case against the company that could yield charges within weeks, according to people familiar with the matter.

Authorities are looking into potential accounting fraud charges related to the company's hidden ties to Philidor Rx Services LLC, a specialty pharmacy company that Valeant secretly controlled, the people said. Federal prosecutors in Manhattan and agents at the Federal Bureau of Investigation in New York have been investigating the company for at least a year.



Prosecutors are examining the actions of J. Michael Pearson, Valeant's former chief executive officer, and Howard Schiller, the



J. Michael Pearson Photographer: Scott Eells/Bloomberg

ex-chief financial officer who became interim CEO during a medical leave by Pearson, according to the people, who discussed the confidential proceedings on the condition of anonymity. Prosecution of individual executives could go beyond just those two, one person said, adding that Philidor executives could also be charged.

“We are in frequent contact and continue to cooperate” with U.S. authorities, Valeant said in a written statement. “We do not comment on rumors about investigations, and cannot comment on or speculate about the possible course of any ongoing investigation. Valeant takes these matters seriously and intends to uphold the highest standards of ethical conduct.”

A Pearson lawyer, Bruce Yannett, declined to comment. Dan K. Webb, a lawyer for Schiller, didn’t immediately comment. Spokesmen for the FBI and Preet Bharara, the U.S. attorney in Manhattan, declined to comment. Jonathan Rosen, a lawyer for Philidor, didn’t respond to requests for comment.



Howard Schiller Photographer: Andrew Harrer/Bloomberg

No charging decisions have been made and the case remains fluid, the people said. Among the possibilities, the U.S. Justice Department could settle with the company and later take action against individuals, one person said.

Valeant shares dropped more than 12 percent to \$17.84 in New

York, the lowest closing pricing since June 2010. The company's most actively traded debt, \$3.25 billion of 6.125 percent notes due in 2025, dropped 2 cents to 77 cents at 4:09 p.m. in New York according to Trace, the bond price reporting system of the Financial Industry Regulatory Authority.

For a Bloomberg Intelligence primer on Valeant Pharmaceuticals, [click here](#).

Prosecution of top corporate executives over accounting fraud allegations is a rare step, and the complexity of such cases can make them hard to bring. In the early and mid-2000s, the U.S. won a series of accounting-related convictions against chief executives at companies including Enron Corp., Cendant Corp. and WorldCom Inc.

More recently, enforcement efforts shifted toward Wall Street in the wake of the financial crisis. Top officials at the U.S. Securities and Exchange Commission, where many accounting fraud investigations begin, have called for a renewed focus on corporate accounting improprieties over the past few years, but so far few cases involving companies as large as Valeant have emerged.

## **Scrutiny of Valeant**

Laval, Quebec-based Valeant, once a darling of Wall Street, has drawn scrutiny in recent years for its practice of acquiring drugs and dramatically increasing their prices. While the precise contours of the government's case against Valeant aren't clear, allegations of questionable company practices have emerged in the last year as lawsuits and government investigations mounted.

Pearson, the former CEO, was a key architect of Valeant's growth over the years. He stepped down from his role last spring and continues to work as a consultant to the company from a Valeant office near his home, according to the people familiar with the matter. A person close to the company said that Pearson no longer makes business decisions on behalf of Valeant.

Schiller was blamed by Valeant for "improper conduct" that led the company to restate its earnings for 2014 and 2015, an assertion disputed by Schiller. He stepped down as CFO in 2015 and left the company board this year.

U.S. prosecutors in Boston and Philadelphia are also said to be conducting separate inquiries of Valeant. Boston's investigation, according to a person familiar with the matter, focuses on Valeant's payments to charities that then helped patients make co-payments for the soaring cost of Valeant drugs, some of the most expensive on the market. The Philadelphia case is examining Valeant's billing of government health care programs for the company's drugs, another person said.

The U.S. attorney's office in Boston didn't respond to a request for comment. Michele Mucellin, a spokeswoman for the U.S. attorney in Philadelphia, declined to comment.

Valeant said in October 2015 that federal prosecutors in New York had issued subpoenas seeking information on the company's drug distribution and pricing decisions. It later disclosed an investigation by the SEC. Judy Burns, an SEC spokeswoman, declined to comment.

## **Sales Incentives**

Short-sellers first raised questions about Valeant's accounting practices and relationship with Philidor a year ago. As it turned out, Valeant had offered

Philidor executives tens of millions of dollars in incentives to sell its products at a time when the relationship between the companies was still secret, according to hundreds of pages of evidence released by U.S. Senate investigators this year.

Though they were nominally separate companies, Valeant was Philidor's only client, a class-action lawsuit in New Jersey alleges. Valeant ultimately acknowledged its financial control of Philidor. In February, Valeant restated its results for 2014 and 2015, disclosing it recorded \$58 million in revenue from Philidor earlier than it should have.

Valeant's restatement dealt with its booking of revenue at the time its products were delivered to Philidor, even though the products had not yet been sold -- a practice known as channel stuffing. The restatement acknowledged that because Valeant was in the process of taking control of Philidor, the movement of product amounted to shifting inventory from one arm of the company to another and therefore wasn't revenue.

Philidor, founded in 2013, used tactics to increase insurance reimbursements for Valeant medicines, including submitting claims using other pharmacies' identification numbers and altering codes on some doctors' prescriptions, Bloomberg News [reported](#) last fall.

## **Philidor Deal**

In late 2014 Valeant paid \$100 million for an option to acquire Philidor, in a transaction that required no further payments to take control of the company. After the relationship between the two [became known](#), Valeant acknowledged that it had incorrectly recorded shipments to Philidor as revenue. Valeant said last year that it would shutter Philidor after benefits managers questioned its practices and refused to continue doing business with it.

The ties between the companies were particularly close. Valeant executives worked at Philidor, the asset manager T. Rowe Price Group Inc. alleges in a lawsuit against the company filed in August. Also, senior Valeant management and board members -- including the entire audit committee on one occasion -- went on site visits to Philidor, the suit alleges. E-mails and transcripts of conference calls show that senior company management and board members knew of the accounting treatment of Valeant's relationship with Philidor, according to the suit. Valeant hasn't filed a response in the case.

