

## Valeant: Could this be the Pharmaceutical Enron?

### **Citron Publishes the Smoking Gun!! Price Target lowered to \$50**

Just four days ago in the world of Valeant, no one had ever heard of Philidor RX. Recent concerns about the company focused on its unsavory business practice of massive price raises on pharmaceuticals acquired in a rapid succession of acquisitions, while slashing research and development. But no one had discussed how these drugs were distributed....until this week.

On Monday morning before earnings, a report came out of [SIRF, uncovering undisclosed relationships with specialty pharmas](#), namely Philidor RX. **Most importantly, the article introduced Wall Street to a court filing made by a company called R&O Pharmacy, [filed with the California District Court in September](#), in which this small regional pharmacy claims it had received an improper demand for payment from Valeant to the tune of \$69 million.**

Just yesterday, the New York Times increased its scrutiny on Philidor by questioning [if its operation was the target of subpoenas](#) recently served on Valeant over [its pricing strategy, covered the prior week](#).

### **This is Not Where the Story Ends; it is Where the Story Begins**

With its quarterly earnings report scheduled for first thing Monday morning, Valeant was well aware of the scrutiny that was about to come down on Philidor and the R&O lawsuit, as both SIRF and the NY Times had contacted management. Valeant came prepared for the conference call with pre-written questions and answers -- [one about Philidor](#), and one about R&O (below) -- in its slide deck. This is where the cover up begins.

We will let the New York Times start:

“Valeant had said little about Philidor until Monday, when J. Michael Pearson, Valeant’s chief executive, revealed on his company’s quarterly earnings call that Valeant had purchased an option to acquire Philidor late last year. He said that Valeant consolidated Philidor’s results in its own financial reports.”

An **option**? To acquire a company to which you are the only customer? **Why** would Valeant, a major **big cap pharma**, a **darling** of the hedge fund crowd, a **suitor** of Allergan and an aggressive acquirer of **pharmas** like Salix, Bausch & Lomb, etc., etc., be secretly maneuvering to buy a little known pharmacy with a concealed ownership structure? And then consolidate its financials? Why was this entity NEVER disclosed in any prior company disclosure? ([See Valeant Slides on Philidor here.](#))

## What is being covered up??

In the same slide presentation we read Valeant's explanation of a mysterious court document. R&O Pharmacy filed for [pre-emptive relief in California District Court for having received a demand for \\$69 million from Valeant](#), stating it had no invoices from Valeant. Valeant's explanation was this one slide:

**Why did Valeant Send a Letter to R&O Pharmacy?**

- R&O is in one of the specialty pharmacies in our network
- Valeant shipped approximately \$69 million at WAC, approximately \$25 million in net revenue to Valeant
- R&O sold a substantial amount of Valeant product. Any products R&O dispensed to patients were recognized as our revenues and are reflected in our receivables. Any products still held by R&O are reflected in our inventory
- R&O is improperly holding significant amounts it received from payers

37

VALEANT  
Pharmaceuticals International, Inc.

38 of 44

So we are to believe that Valeant putatively owns Philidor and is acting as its "protector" in sending the demand letter to R&O for payment? The story seemed

a bit far-fetched, but it was somewhat plausible if you wanted to suspend all disbelief.

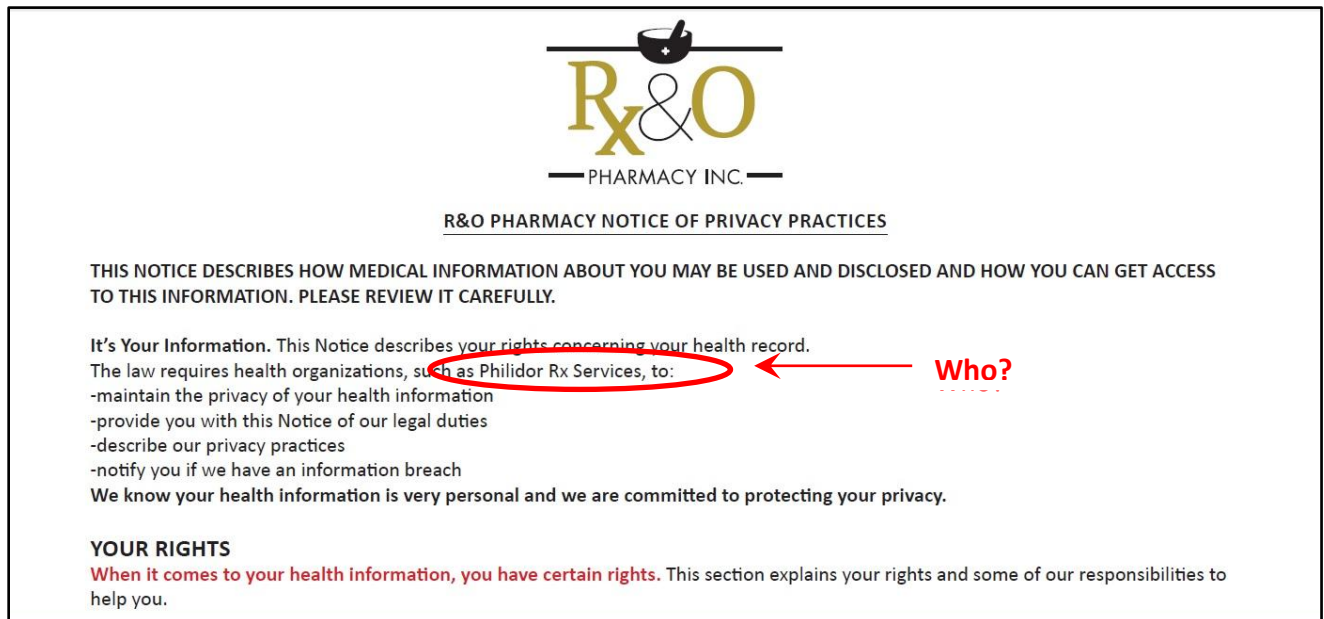
But after a fair amount of due diligence Citron is about to post the line that should send alarm through all Valeant shareholders:

## Philidor Owns R&O Pharmacy.

Citron believes the whole thing is a fraud to create invoices to deceive the auditors and book revenue. PHANTOM ACCOUNTS. Here is the reasoning.

## The Smoking Gun!!

From the links below, it is obvious that Philidor and R&O are **ARE THE SAME COMPANY AND SHARE MANAGEMENT**. The two companies have the same patient privacy disclosure, in fact formatted identically, on both companies' websites. Note the R&O website refers to themselves as Philidor.



The image is a screenshot of a document titled "R&O PHARMACY NOTICE OF PRIVACY PRACTICES". At the top center is the logo for R&O Pharmacy Inc., which features a mortar and pestle above the letters "Rx & O" in a stylized font, with "PHARMACY INC." written below it. Below the logo, the title "R&O PHARMACY NOTICE OF PRIVACY PRACTICES" is underlined. The main text of the notice begins with "THIS NOTICE DESCRIBES HOW MEDICAL INFORMATION ABOUT YOU MAY BE USED AND DISCLOSED AND HOW YOU CAN GET ACCESS TO THIS INFORMATION. PLEASE REVIEW IT CAREFULLY." This is followed by a section titled "It's Your Information." which states: "This Notice describes your rights concerning your health record. The law requires health organizations, such as Philidor Rx Services, to:" The phrase "such as Philidor Rx Services, to:" is circled in red. A red arrow points from the word "Who?" in red text to this circled phrase. Below this are several bullet points: "-maintain the privacy of your health information", "-provide you with this Notice of our legal duties", "-describe our privacy practices", and "-notify you if we have an information breach". The notice concludes with "We know your health information is very personal and we are committed to protecting your privacy." and a section titled "YOUR RIGHTS" which states: "When it comes to your health information, you have certain rights. This section explains your rights and some of our responsibilities to help you."

[http://randopharmacy.com/downloads/ro\\_npp.pdf](http://randopharmacy.com/downloads/ro_npp.pdf)



**PHILIDOR RX SERVICES, LLC NOTICE OF PRIVACY PRACTICES**

THIS NOTICE DESCRIBES HOW MEDICAL INFORMATION ABOUT YOU MAY BE USED AND DISCLOSED AND HOW YOU CAN GET ACCESS TO THIS INFORMATION. PLEASE REVIEW IT CAREFULLY.

**It's Your Information.** This Notice describes your rights concerning your health record.

The law requires health organizations, such as Philidor Rx Services, LLC, to:

- maintain the privacy of your health information
- provide you with this Notice of our legal duties
- describe our privacy practices
- notify you if we have an information breach

We know your health information is very personal and we are committed to protecting your privacy.

**YOUR RIGHTS**

When it comes to your health information, you have certain rights. This section explains your rights and some of our responsibilities to help you.

[http://www.philidorrxservices.com/downloads/philidor\\_npp.pdf](http://www.philidorrxservices.com/downloads/philidor_npp.pdf)

(Yes we've archived these pages and will republish them in case the links are down by the time you click on them.)

And look! The pharmacies -- **R&O, in Camarillo California**, and **Philidor RX in Horsham PA**, have **the identical toll free number to reach their Privacy Officer** (at the bottom.) Now that's some service!

**CONTACT**

We have designated the Privacy Officer as our contact person for all issues regarding patient privacy and exercising your rights under the Federal privacy standards. You may contact this person at: Privacy Officer, R&O Pharmacy, 651 Via Alondra, Suite 708, Camarillo, CA 93012, [privacy@randopharmacy.com](mailto:privacy@randopharmacy.com) or toll free at (855) 815-7688.

Effective Date June 1, 2015

[http://randopharmacy.com/downloads/ro\\_npp.pdf](http://randopharmacy.com/downloads/ro_npp.pdf)

**CONTACT**

We have designated the Privacy Officer as our contact person for all issues regarding patient privacy and exercising your rights under the Federal privacy standards. You may contact this person at: Philidor Rx Services, LLC, 330 S. Warminster Rd., Suite 350, Hatboro, PA 19040, [privacy@philidorrxservices.com](mailto:privacy@philidorrxservices.com) or toll free at (855) 815-7688.

Effective Date June 1, 2015

[http://www.philidorrxservices.com/downloads/philidor\\_npp.pdf](http://www.philidorrxservices.com/downloads/philidor_npp.pdf)

**If you dial the fax # on the R&O website and press 1, you will get Philidor RX. It does not stop at an R&O phone.**

And as if this isn't enough, it appears to Citron that Valeant/Philidor have created an entire network of phantom captive pharmacies ... the same privacy notice appears on several other "ghost ship" putative pharmacy websites.

[http://westwilshirepharma.com/downloads/ww\\_npp.pdf](http://westwilshirepharma.com/downloads/ww_npp.pdf)

[http://saferxpharma.com/downloads/saferx\\_npp.pdf](http://saferxpharma.com/downloads/saferx_npp.pdf)

[http://orbitpharmacy.com/downloads/orbit\\_npp.pdf](http://orbitpharmacy.com/downloads/orbit_npp.pdf)

Oh, and as by mere coincidence, these all have the same Privacy Officer contact phone number: **(855) 815-7688**. And these domains were all registered on the same day! [[Click Here to See them all](#) ]

It is apparent to Citron that Valeant has created a network of “pharmacies” as clones of Philidor. Why do these exist? Citron believes it is merely for the purpose of phantom sales or stuff the channel, and avoid scrutiny from the auditors.

## **How Can This Be, Citron ? Doesn't the Head of the Audit Committee have Any Responsibility Here?**

Let us not forget that the head of the Valeant audit committee is Norma Provencio. Mrs. Provencio herself was a director of Signalife which was run by now convicted stock fraudster Mitchell Stein. She was in fact his close associate for years -- information now conveniently omitted from her biography. Mrs. Provencio's integrity was first challenged by [Bronte Capital in this posting you should read for yourself](#). Now the relevance of its full context becomes clear.

## **Is this Enron part Deux??**

These similarities are too close to ignore. Does everyone remember during the Allergan takeover battle, when Allergan chose the words “house of cards” ? Look at the following similarities between statements by Valeant and those of Enron:

Enron CEO Jeff Skilling, phone call with *Fortune*, 2/14/2001: "It is unfair to us and unethical if you don't take the time to understand our business... we are doing it purely right... people who raise questions are people who have not gone through our business in detail..."

vs.

Valeant Chairman, CEO Michael Pearson, investor presentation, 5/28/2014: "So again, it is unfortunate that Allergan has not taken the time to understand our business... There is a number of inaccuracies in the report that was put out yesterday... They are just factually incorrect..."

Enron CEO Jeff Skilling, phone call with *Fortune*, 2/14/2001: "[Enron] is a very simple model... it is a logistics company, not a trading company."

vs.

Valeant Chairman, CEO Michael Pearson, Sanford Bernstein conference, 5/28/2014: "[Valeant] is more like a professional services firm than a sort of traditional pharmaceutical company."

Enron CFO Andy Fastow, meeting with *Fortune*, 2/15/2001: "[Enron's] disclosure is more complete than anyone's."

vs.

Bill Ackman, conference call hosted by Pershing Square, 7/17/2014: "I will also point out that Valeant gives massively more disclosure about its business and did so prior to this transaction than Allergan."

Enron Chairman, Ken Lay, email to employees August 2001: "I have never felt better about the prospects of the Company... our growth has never been more certain."

vs.

Valeant Chairman, CEO Michael Pearson, 2Q 2014 earnings press release, 7/31/2014: "As we look across the entire business, I have never been more confident about the growth trajectory across the entire company."

## This is just too much of an eerie coincidence

### Jeff Skilling Bio

Experience running a business before joining Enron in 1990: **0 years**

Job before joining Enron: **Head of the Global Energy Practice and Head of North American Chemical Practice of McKinsey & Company, 11 year tenure at McKinsey**

vs.

### Michael Pearson Bio

Experience running a business before joining Valeant in 2008: **0 years**

Job before joining Valeant: **Head of the Global Pharmaceutical Practice and Head of mid-Atlantic region of McKinsey & Company, 23 year tenure at McKinsey**

Citron has seen this movie before. In 2008, Arthrocare, a successful medical device company, was doing its dirty deeds through Discocare, an undisclosed captive "independent company". When Citron exposed the relationship, Arthrocare tried to make it all go away by **announcing it was buying Discocare**. At the time, virtually every investment banking house on the Street had a "buy" or "strong buy" on Arthrocare, and Goldman-Sachs had been engaged to "explore strategic alternatives". The entire thing began to unravel when [Citron discovered -- and published -- that Arthrocare and Discocare -- ostensibly separate companies, had the same fax number.](#)

The CEO of Arthrocare is now doing 20 years.

While it is impossible for Citron to state for certain at this point, this has the distinct aroma of product being jammed into a channel. It had to have started small, and now it's just too big. "We have an option to purchase Philidor" is simply ... **trying to put the genie back in the bottle.**

## **Conclusion**

***All truths are easy to understand once they are discovered; the point is to discover them.....Galileo Galilei***

Citron Research has delivered the proof that something really stinks at Valeant and it goes beyond their egregious price hikes

All of a sudden, one thread unravels this whole web of deception. From the moment of the first public mention of Philidor, within 72 hours, Valeant is now holding an option to acquire Philidor and investors find out only in retrospect that Valeant has been consolidating Philidor financials?

Let's get the explanation -- Certainly Mr. Lay and Skilling had one all the way down to the trial -- and in which they still blamed the short sellers.

### **Extremely Cautious Investing to All**