

**Introduction**  
**“A Conversation with John Carreyrou”**  
**Professor Anat Admati**  
**October 10, 2018**

Good evening. My name is Anat Admati, and I am a Professor of Finance and Economics and the Faculty Director of the new Corporations and Society Initiative at GSB. On behalf of the Initiative, and our co-sponsor, the Rock Center for Corporate Governance, I want to welcome and thank you all for joining us here in the auditorium and in the overflow rooms.

Both sponsoring organizations focus on key questions of corporate governance. How do we ensure that corporations, which control most economic activity, act to benefit their stakeholders – customers, employees, investors, and the rest of society – without mistreating, deceiving, and harming them? At a minimum, how do we ensure that corporations obey the law?

And in this governance endeavor, what is the role of investors, boards, governments, employees, customers, and the media?

Today’s discussion will touch on all these key issues in the context of a case that our guest, John Carreyrou, called “one of the most epic failures in corporate governance in the annals of American capitalism.”

In 2003, a 19-year-old named Elizabeth Holmes dropped out of Stanford University to found Theranos, a company meant to revolutionize blood testing.

Holmes cultivated a visionary Steve-Jobs-like image. Former Secretary of State Henry Kissinger marveled that he, and I quote, “can’t compare her to anyone else because I haven’t seen anyone with her special attributes.”

Theranos promised to make blood testing painless and easily accessible. Ms. Holmes said that Theranos will help bring about a world in which “no one ever has to say good bye too soon.”

She was adept at what Mr. Carreyrou has called “reputational laundering.”

And Stanford University played a key role.

Her mentor and original enabler is a Stanford Chemical Engineering professor.

She attracted powerful luminaries to her board, including former cabinet secretaries and lawmakers, many affiliated with the Hoover Institution at Stanford.

She was also invited to GSB's most prestigious speaker series A View from the Top, speaking right on this very stage in early 2015.

Meanwhile, as our guest describes in his book, she and Theranos president "Sunny" Balwani employed aggressive methods to maintain secrecy and intimidate anyone who might reveal the truth, which was that Theranos and its leaders were deceiving and defrauding customers, investors, regulators, and the public.

Theranos was not the first corporation to engage in fraud; we know that corporate fraud happens, and sometimes we even catch it.

Indeed, Theranos was founded about two years after the 2001 collapse of Enron, a much larger public corporation that started as an energy company and became a sprawling financial institution.

Like Theranos, Enron had been admired and hailed as one of the most innovative companies in the nation and its leaders gained rock star status in the business world. At Stanford GSB, former CEO Jeff Skilling gave an honorary lecture and spoke in risk management classes.

Eventually, Enron collapsed in bankruptcy and investigations revealed massive fraud and self-dealing. Jeff Skilling just finished serving a 17-year jail term.

Like Enron, Theranos kept attracting investors and support despite the warnings of some skeptics. The fraud was finally brought to light by our guest, a health reporter from the east coast, with the help of some ex-employees and

doctors who became alarmed when the fraud started endangering consumers' health and safety, not only investors and the government.

Mr. Carreyrou played a key role and then wrote the book on it, literally. In his book, Mr. Carreyrou describes in vivid and harrowing detail how he went from reporting on the story to becoming part of it, including the efforts of Theranos to stop his investigations and the publication of his findings. It is a compelling tale. I encourage you to read it if you haven't.

The case of Theranos raises many questions. Tonight, we hope to shed some light on what happened and what we can learn from this story.

John Carreyrou has been with the *Wall Street Journal* since 1999. In 2015, he won a Pulitzer Prize for Investigative Reporting with colleagues for articles exposing fraud and abuse in Medicare. Earlier he was also part of a team that won a Pulitzer Prize for Explanatory Reporting for coverage of corporate scandals. His writing on Theranos has won three highly prestigious awards for investigative reporting.

In the next 30 to 35 minutes, Mr. Carreyrou will engage in a conversation with Mike Callahan, Professor of the Practice of Law and the Executive Director of the Rock Center for Corporate Governance.

Following this conversation, we will continue the engagement by asking John questions we have been receiving from you, our diverse audience. Please continue to send your questions electronically using the links on the slides.

Now, please join me in welcoming John Carreyrou and Mike Callahan.

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