November 4, 2015

The Honorable Jason Chaffetz  
Chairman  
Committee on Oversight and Government Reform  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

On September 28, 2015, all of the Democratic Members of the Oversight Committee joined together and wrote a letter to you requesting that the Committee begin examining the skyrocketing prices of certain prescription drugs. It has now been more than a month, but you have not given us the courtesy of a reply.

Specifically, we asked that the Committee hold a hearing with J. Michael Pearson, the CEO of Valeant Pharmaceuticals, and Martin Shkreli, the CEO of Turing Pharmaceuticals, both of whom have engaged in what many observers believe is blatant price gouging. We also requested that the Committee issue a subpoena compelling Mr. Pearson to produce documents that he has been withholding from Congress for months. Since our letter, Mr. Shkreli has also refused to provide requested documents regarding his company’s drastic price increase.

Your silence on this issue is troubling for several reasons. It creates the appearance that you do not take seriously a request from nearly half of the Members of this Committee. It also contradicts the Committee’s oversight plan, which was adopted unanimously earlier this year. But worst of all, it suggests that you believe this issue is not worth the Committee’s time.

We took the rare step of joining together to write to you because this critically important issue is affecting patients, hospitals, and healthcare providers in all of our districts. Just last week, the nonpartisan Kaiser Family Foundation reported that 77% of Americans identified the increasing prices of prescription drugs as their number one healthcare concern.¹

Over the past year, Democrats have asked you repeatedly to take action on this critical issue, but you have refused every request. You have not signed one letter seeking documents

from a drug company, and you have not held a single hearing to address this problem. In contrast, the Committee has held hearings on Planned Parenthood, credentials issued by the Government Publishing Office, threats to animal grazing, the National Park Service’s concession program, the effect of unmanned drones on commerce, international shipping competition, and bear hunting.

We are writing today to ask you to reconsider. Our Committee has broad jurisdiction and powerful tools to investigate abuses, and this is the most significant healthcare issue facing Americans today. In the month since we wrote to you, these problems have only worsened. Press reports have raised serious new questions about the business practices of both Mr. Pearson and Mr. Shkreli on an almost daily basis; some of these concerns are summarized below.

Of course, it is your prerogative as Chairman to set the Committee’s agenda, but even if you have no interest in investigating these abuses on behalf of your own constituents, we ask that you not block us from investigating them on behalf of ours. For these reasons, we request that you schedule a business meeting on November 17, 2015, to allow Committee Members on both sides of the aisle the opportunity to vote on subpoenas to compel Mr. Pearson and Mr. Shkreli to produce the documents they have been withholding from Congress.

**Valeant’s Abusive Business Practices**

According to multiple press reports, J. Michael Pearson, the CEO of Canada-based Valeant Pharmaceuticals, has become a billionaire by purchasing existing, reasonably-priced drugs that have little or no competition, increasing their prices exponentially overnight, and then reaping the financial gains for himself and his shareholders rather than reinvesting funds into research and development for safer and more effective medications. For example, in 2011, *Bloomberg Business* described Mr. Pearson’s strategy in this way:

As he has acquired companies, he has gained a reputation for cutting jobs and slashing research funding. He’s tripled Valeant’s stock price in the process. ... Pearson is growing Valeant through acquisitions and partnerships, said Timothy Chiang, an analyst with CRT Capital Group in Stamford, Connecticut. “His approach isn’t one that most executives in the drug business take,” Chiang said in telephone interview last week. “He’s even said in past presentations: ‘We’re not into high science R&D; we’re into making money.’”

More recently, on October 3, 2015, *Barron’s* reported:

Valeant’s M.O. is buying drug companies, slashing costs, especially research and development, and hiking drug prices substantially. ... [A]ll Valeant has to do is raise drug prices, without, as the company often points out, spending more on R&D. In a few cases,

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the hikes have been triple-digit percentages, usually with no improvement in the drug formulation.⁴

Similarly, the next day, the New York Times reported:

Valeant’s habit of buying up existing drugs and raising prices aggressively, rather than trying to develop new drugs, has also drawn the ire of lawmakers and helped stoke public outrage against the growing trend of higher and higher drug prices imposed by big drug companies. This year alone, Valeant raised prices on its brand-name drugs an average of 66 percent, according to a Deutsche Bank analysis, about five times as much as its closest industry peers.⁵

On October 27, 2015, an op-ed entitled Is Valeant Pharmaceuticals the Next Enron? included the following description of the company’s business practices:

Valeant Pharmaceuticals is a sleazy company. . . . Pearson had an unusual idea about how to grow a modern pharmaceutical company. The pharma business model has long called for a hefty percentage of revenue to be spent on company scientists who try to develop new drugs. The failure rate is high—but a successful new drug can generate over $1 billion in annual revenue, which makes up for a lot of failures.

Pearson didn’t have much patience for research and development. And while he certainly wanted moneymaking drugs, he didn’t really need blockbusters to make his business model work. His plan was to acquire pharmaceutical companies, fire most of their scientists and jack up the price of their drugs. . . .

And so he has done, to the delight of Valeant’s shareholders, and the dismay of most everyone else.

Before Pearson took control of Valeant, it spent 14 percent of its revenue developing new drugs. Last year, that number was under 3 percent. Meanwhile, Pearson has been ruthless about price hikes.⁵

Valeant’s public filings appear to substantiate these assessments. According to a 2014 proxy statement Valeant filed with the Securities and Exchange Commission, one of the “key elements of the Company’s operating philosophy” is: “Do not bet on science, bet on management.”⁶ When asked about its massive price increases, a Valeant spokeswoman responded: “Our duty is to our shareholders and to maximize the value” of the drugs.⁷

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Mr. Pearson has benefited richly from these tactics. In 2014 alone, his total compensation was more than $10 million. He also received a number of perquisites, including the use of the company’s private jet “for all travel, both business and personal.”

As lucrative as they are, Mr. Pearson’s abusive business practices have come under heightened scrutiny recently. On October 14, 2015, Valeant disclosed that it had received subpoenas from the United States Attorneys’ Offices for the District of Massachusetts and the Southern District of New York, relating to its drug distribution practices and price increases, among other issues.

In addition, serious new allegations were lodged this month claiming that Mr. Pearson’s company is utilizing “an entire network of phantom captive pharmacies” in order to engage in “channel stuffing”—a deceptive business practice used to inflate sales revenue by sending retailers more products than they are able to sell to consumers. Questions have also been raised about the company’s relationship with Philidor Rx Services, a mail-order “specialty pharmacy” that Valeant uses to mask its price increases and shift them to insurance companies. Valeant has purchased an option to acquire Philidor for $100 million and has begun consolidating Philidor’s financial reports into its own filings.

On October 20, 2015, Valeant’s stock price plummeted 38% in its largest one-day drop since 1994 as the company was accused of “an Enron-like strategy of recording fake sales by using phony customers.” This, in turn, has “hurt top shareholders including Ruane, Cunniff &


Goldfarb Inc., which manages the Sequoia Fund, along with T. Rowe Price Group Inc. and Bill Ackman’s Pershing Square Capital Management.”

On October 28, 2015, Mr. Pearson’s largest shareholder, Ruane, Cunniff & Goldfarb Inc., sent a letter attempting to calm its Sequoia Fund investors. The letter admitted that “Valeant initially made some effort to conceal its involvement with Philidor, which Pearson concedes was ‘stupid’.” The letter also addressed Valeant’s massive price increases for critical medications:

In our view, Valeant is an aggressively-managed business that may push boundaries, but operates within the law. When ethical concerns arise, management tends to address them forthrightly, but in the moment. We would stress the importance of taking a more systemic approach to managing business practices with an eye on the company’s long-term corporate reputation.

Press accounts about this letter reported that Mr. Pearson’s largest investors warned that his “lust for profit went too far” and that his “decision to test the bounds of the law to maximize profits wasn’t worth the risk.”

On October 29, 2015, the Wall Street Journal reported that, despite efforts by Ruane, Cunniff & Goldfarb Inc. to defend Mr. Pearson’s actions, two directors of its Sequoia Fund have now resigned:

The cloud over Valeant Pharmaceuticals International Inc. grew larger with the resignations of two of the five independent directors of Sequoia Fund Inc., one of the drug maker’s largest shareholders. Vinod Ahooja and Sharon Osberg quit the board after they had raised concerns in recent months about whether Sequoia should have such a large position in the company, which is now under fire for its business and accounting practices, according to a person familiar with the matter.

In addition, also on October 29, 2015, the New York Times reported:

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The nation’s three largest drug benefit managers said on Thursday that they would cease doing business with a mysterious pharmacy that has been bolstering sales of products made by Valeant Pharmaceuticals International. Express Scripts, CVS Health and OptumRx said they would stop paying for drugs dispensed by the pharmacy, Philidor Rx Services. Valeant stock dropped nearly 5 percent on Thursday; it has lost more than half its value since mid-September when it and other companies came under fire for the high cost of their drugs.\(^{17}\)

The next day, October 30, 2015, NBC News reported that Valeant decided to shut down this pharmacy entirely:

Valeant Pharmaceuticals, a company that has come under intense scrutiny for its drug prices, has cut ties with Philidor following accusations that it was a “phantom pharmacy” used solely to artificially boost sales. Valeant said Friday that the mail-order pharmacy has informed the company that it will shut down as soon as possible.\(^{18}\)

On October 31, 2015, the Los Angeles Times reported that Russell Reitz, an individual who sold his pharmacy to a Philidor holding company and continued on as manager, filed a civil suit alleging “massive fraud”:

[H]e agreed to sell his pharmacy, in a quiet suburban office park, to the group for $350,000. As he continued as manager, Reitz began finding his store’s name and his national pharmacy license number on an avalanche of prescriptions nationwide.

Then a torrent of insurers’ money started flowing to his small shop, R&O Pharmacy—on pace to equal $230 million a year, according to invoices.

Reitz now finds himself at the center of the national scandal enveloping Valeant Pharmaceuticals International, the once highflying Wall Street darling that in recent weeks had its stock price almost cut in half. The Canadian company said Oct. 14 that federal investigators were probing its operations, including how it prices and distributes drugs.

In the last two months, Reitz has filed papers in two Los Angeles courthouses laying out details of what he and his lawyer call “a massive fraud.”


"I saw personal risk to my future, so I had to take action," the 64-year-old pharmacist said in an interview last week at his office.¹⁹

This past Monday, November 2, 2015, Goldman Sachs downgraded Valeant stock, warning clients:

Given that so many questions about certain aspects of VRX’s business model have been raised (e.g., scrutiny on pricing, specialty pharmacies, M&A), we have less confidence that the market will reward the stock anytime soon without clarity as to the path forward. As these events have unfolded we underestimated the extent of the collateral damage to the perception of the company and the resulting confidence in the stock.²⁰

On August 14, 2015, Ranking Member Cummings sent a letter with Senator Bernie Sanders requesting that Mr. Pearson produce documents relating to his company’s price increases for Nitropress, which is used to treat congestive heart failure and hypertensive episodes, and Isuprel, which is used to treat heart block and abnormal heart rhythm.²¹ On the same day Valeant purchased the rights to sell these drugs, the company increased its prices to $805.61 and $1,346.62, respectively (increases of 212% and 525%).²²

On September 3, 2015, Valeant rejected Ranking Member Cummings’ request in a dismissive two-page letter that refused to provide any of the requested documents. The letter, which was signed by the company’s Senior Vice President for Investor Relations, argued that “the specific documents and information referenced in your letter are highly proprietary and confidential.”²³


²⁰ Goldman: We’re Downgrading Valeant—We Didn’t Think It Would Get This Bad, Business Insider (Nov. 2, 2015) (online at www.businessinsider.com/goldman-downgrades-valeant-2015-11) (emphasis in original).


²³ Letter from Laurie Little, Senior Vice President, Investor Relations, Valeant Pharmaceuticals International, Inc., to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform, and Ranking Member Bernard Sanders, Subcommittee on Primary Health and Retirement Security, Senate Committee on Health, Education, Labor and Pensions (Sept. 3, 2015).
Turing’s Abusive Business Practices

Martin Shkreli, a 32-year-old former hedge fund manager who is now the CEO of Turing Pharmaceuticals, is following exactly the same business model as Mr. Pearson, and he has even offered his public support for Valeant’s abusive business practices.

In August, Mr. Shkreli’s company bought the rights to Daraprim—an anti-parasitic drug used to treat life-threatening infections in patients with suppressed immune systems, such as pregnant women and patients with HIV/AIDS and cancer. He then increased the price from $13.50 per tablet to $750 per tablet “overnight.”24

Mr. Shkreli initially attempted to defend this drastic price increase. He tweeted that it was “a great thing for society,”25 and he berated a reporter as a “moron” for requesting an explanation for his indefensible price increase.26 When asked about the effects of his price increase on middle class Americans, Mr. Shkreli tweeted, “ain’t my fault.”27 And when asked how he could sleep at night, Mr. Shkreli tweeted, “you know, Ambien.”28

After receiving significant criticism from Ranking Member Cummings and many others, Mr. Shkreli agreed to lower the price of his drug.29 It has now been over a month, however, and he still has not lowered his price. Instead, he has stated: “In essence, we do think it is possible that we’ll lower the price. … Until we figure out demand, we won’t lower the price.” He has also indicated that any price decrease would be small, stating: “I think we will bring it down, but I don’t know by how much. I’d be surprised if we didn’t bring it down a little bit just to do that.”30

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30 We Called Martin Shkreli and Asked Him Point Blank About the Drug-Price Scandal—Here’s What he Said, Business Insider (Oct. 13, 2015) (online at
Mr. Shkreli has also come to Mr. Pearson’s defense in the face of mounting criticism of Valeant’s business practices. On October 21, 2015, he tweeted that Valeant “is not overreporting revenue. Give me a break.” 31 On the same day, Mr. Shkreli took a “long” position on Valeant stock. 32 One week later, however, Mr. Shkreli apparently changed his mind and exited the transaction, calling it a “bad idea.” 33

On September 21, 2015, Ranking Member Cummings sent a letter with Senator Bernie Sanders requesting that Mr. Shkreli produce a range of documents relating to his price increase for Daraprim. 34

On September 23, 2015, Ranking Member Cummings sent a second letter to Mr. Shkreli requesting documents relating to serious new allegations that his company is “harming AIDS patients by delaying the provision of Daraprim in direct violation of federal anti-discrimination regulations.” Ranking Member Cummings made the request after obtaining a letter from the National Alliance of State and Territorial AIDS Directors explaining that the actions of Mr. Shkreli’s company violate federal regulations that prohibit “discouraging entities from participating in the discount program.” 35

On October 30, 2015, Mr. Shkreli’s company sent a letter responding to both inquiries, but declining to provide any of the requested documents. Instead, the letter, sent by the company’s Chief Commercial Officer, stated: “under the advice of counsel we are unable to provide certain numbers and data related to proprietary information.” 36


36 Letter from Nancy Retzlaff, Chief Commercial Officer, Turing Pharmaceuticals, to
Conclusion

When corporate executives like Mr. Pearson and Mr. Shkreli engage in abusive business practices to enrich themselves and their shareholders at the expense of patients, hospitals, and other healthcare providers, they should be held accountable for their actions. We have made clear for the past year that we want to work with you in a bipartisan manner to combat these outrageous price increases that affect all of our constituents and prevent other drug companies from following suit. That is why we do not understand how you can stand by and allow these abusive business practices to continue without conducting any investigation whatsoever.

We continue to believe that a hearing with Mr. Pearson and Mr. Shkreli is critical to investigating their abusive business practices. However, even if you do not share our goals, we request that you at least schedule a business meeting on November 17, 2015, so Committee Members may vote on subpoenas to compel Mr. Pearson and Mr. Shkreli to finally produce the documents they have been withholding from Congress.

Thank you for your consideration of this request.

Sincerely,

[Signatures]

Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform, and Ranking Member Bernard Sanders, Subcommittee on Primary Health and Retirement Security, Senate Committee on Health, Education, Labor and Pensions (Oct. 30, 2015).