

UNCATEGORIZED

The King's Gambit: Valeant's Big Secret

By Roddy Boyd October 19, 2015

If the name Valeant Pharmaceuticals International doesn't ring a bell, its business practices should. The Quebec-based drug manufacturer's policy of implementing regular price increases (<http://www.zerohedge.com/news/2015-09-28/dear-martin-shkreli-how-you-hike-drug-prices>) that often run north of 100% has generated plenty of anger, a congressional investigation (<http://www.mccaskill.senate.gov/imo/media/doc/20150923McCaskilllettertoValeant.pdf>), constant press coverage (http://www.nytimes.com/2015/10/05/business/valeants-drug-price-strategy-enriches-it-but-infuriates-patients-and-lawmakers.html?_r=0) and a subpoena (<http://ir.valeant.com/investor-relations/news-releases/news-release-details/2015/Valeant-Provides-Update-Regarding-Government-Inquiries/default.aspx>) from the U.S. Attorneys offices in both the Southern District of New York and the District of Massachusetts.

But as strange as it may seem, a slim legal filing in California federal court is poised to make Valeant's world rockier still.

The story starts 50 miles northwest of Los Angeles in Camarillo, Ca. with R&O Pharmacy, a modestly-sized operation co-owned by veteran compounding pharmacists Russell Reitz and Robert Osbakken.

According to a lawsuit filed by R&O, Russell Reitz got a letter (<http://98zo02bh3v9r369dtffl01cj.wpengine.netdna-cdn.com/wp-content/uploads/2015/10/1-1-Exhibit-A.pdf>) from Robert Chai-Onn (<http://dl1ge852tjqow.cloudfront.net/CIK-0000885590/731bf529-b534-4425-83ce-23fb994868ec.pdf?noexit=true>), Valeant's general counsel and director of business development, requesting repayment of \$69.8 million for "invoiced amounts." This apparently struck Reitz as odd since R&O had done no business, at least in any direct fashion, with Valeant. Moreover, he had never received a single invoice from Valeant or its subsidiaries.

Reitz forwarded the letter to Gary Jay Kaufman, his lawyer down in Los Angeles, who sent a letter (<http://98zo02bh3v9r369dtffl01cj.wpengine.netdna-cdn.com/wp-content/uploads/2015/10/1-2-Exhibit-B.pdf>) to Chai-Onn on September 8 noting that the lack of invoices from Valeant indicated to him one of two things was happening: Valeant and R&O were being jointly defrauded by someone, or Valeant was defrauding R&O. He suggested they talk it over by phone.

Chai-Onn never responded and on October 6, Kaufman filed suit (<http://98zo02bh3v9r369dtffl01cj.wpengine.netdna-cdn.com/wp-content/uploads/2015/10/1-1-Complaint-1-1.pdf>), seeking a determination from the court that R&O owes Valeant nothing.

There is, however, a hook and as these things go, it's a big one: the Southern Investigative Reporting Foundation has confirmed that Reitz was indeed doing business of some sort through a company called Philidor Rx Services (<http://www.philidorrxservices.com/>) and a man named Andrew Davenport.

Which makes Valeant's demand letter very interesting.

To understand why, it's important to understand what Philidor is. To the public, it describes itself as a "pharmacy administrator" and, according to a call service operator last Thursday, Valeant is its only client. Located in Hatboro about 30 miles outside Philadelphia, its corporate filings indicate both companies are independent of the other.

Pharmacy administrator appears to be, in Philidor's case, a term of art.

A better description is a "specialty pharmacy, (<http://www.drugchannels.net/2013/02/defining-specialty-pharmacy.html>)" filling, shipping and getting insurance approval for prescriptions of the more complex drugs Valeant makes. In its third quarter conference call last year, the only instance where Philidor has been publicly mentioned by an analyst, Valeant chief executive Mike Pearson said that perhaps 40% of its business flows through specialty pharmacies. In July, he reiterated the company's guidance for up to \$11.1 billion in 2015 revenue, implying that as much as \$4.4 billion in product could move through this channel.

(Note that specialty pharmacies are exempt from reporting the drugs they sell to IMS Health, the tracking service used by companies and analysts to monitor drug sales and inventory channels.)

Like many private companies, Philidor's financials are hard to come by but it is unmistakably an operation of some mass, with around 900 employees and its own legal (<https://www.linkedin.com/pub/gretchen-sprigg-wiseshart/12/341/139>) unit (<https://www.linkedin.com/pub/kevin-schmidt/8/8ba/228>). A Pennsylvania State Senator poste

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6 interview (<https://www.facebook.com/senatorgreenleaf/posts/807822615960322>) with company CEO Andy Dave

EXHIBIT 1544(2)

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Gottesman from the Philidor ownership group and R&O Pharmacy's lawyer, Gary Jay Kaufman—both of whom declined comment—every other person did not return our calls.

Robert Chai-Onn did not reply to a call to his office; a call to a mobile phone registered to his name was answered by his wife, who said she was on the West Coast and was unsure where her husband was at that moment.

[Meghan Gavigan](http://www.sardverb.com/people/meghan-gavigan/) (<http://www.sardverb.com/people/meghan-gavigan/>) of Sard Verbinnen & Co., an outside spokeswoman for Valeant Pharmaceuticals, was unable to secure a response from the company.
