Written by **Bob Adelmann** on August 8, 2016

CEO Resigns From Obama's Entrepreneur Board

When Elizabeth Holmes (shown), the 32-year-old CEO of medical technology startup Theranos, was named as one of President Obama's presidential ambassadors for global entrepreneurship (PAGE) last year, she sounded like the winner of a beauty contest, telling her audience how she was going to save the world:

> As a new PAGE member, I will work to help develop the next generation of entrepreneurs and entrepreneurial impact around the world, with a special focus on women and healthcare. My PAGE initiative focuses on two central tenets core to my own life's mission: empowering women in science, technology, mathematics and business, particularly healthcare, and working on breakthroughs in global health.

Last week, Holmes resigned (and her name and photo were removed from the PAGE website), saying that she is "stepping down from the program to spend all her time focused on one thing, and that is Theranos and its needs."

Theranos, the company she began at age 19, just flamed out, and its rescue is problematic, with its very survival at stake. But just last year, it seemed that Holmes could do no wrong. For her success in turning her tiny medical technology firm that developed a pin-prick tool called Edison into a $9-billion company, she was named one of *Time* magazine's "Most Influential People in the World in 2015," she received the "Under 30 Doers" award from *Forbes* magazine, and she was named "Woman of the Year" by *Glamour* magazine. In 2015 she became the youngest person to ever receive the Horatio Alger Award. To top it off, Holmes' picture was featured on the October 2015 cover in *Inc.* magazine.

Inc. essentially apologized last month, noting that "following severe federal sanctions … she's being held up by her peers as the ultimate cautionary tale."

Holmes had never liked needles, and so, at the urging of one of her professors at Stanford, she dropped out before getting a degree in chemical engineering to start a company she called Real-Time Cures in Palo Alto, California. It targeted the $75-billion blood testing industry populated by massive billion-dollar competitors Quest and LabCorp by offering her alternative: cheap quick blood tests without the needle. She changed the name to Theranos, an amalgam of "therapy" and "diagnosis," and started work on Edison, the pin-prick tool that would run a complete panoply of blood tests. It would result in nearly-instant prognosis by medical professionals and would undercut Quest's and LabCorp's costs substantially. It would save lives as more people, put off by needles, would be likely to submit to the test.

She attracted the attention of insiders such as former Secretary of State George Schultz; Riley Bechtel, chairman of the Bechtel Group; Richard Kovacevich, former Wells Fargo Bank chairman; former Senators Bill Frist and Sam Nunn; former Secretary of Defense William Perry; and last but definitely not least, former Secretary of State Henry Kissinger. She named them to her board, giving her company instant credibility with Silicon Valley investors looking for the next big thing.

They poured $724 million into her tiny company, which boosted the paper value of it, based upon what they paid for their shares, to more than $9 billion. Since Holmes owned half the company, her personal net worth skyrocketed as well, to more than $4 billion.

The only trouble was, Edison didn't work very well. It gave inconsistent readings, and when proficiency testing results were manipulated by top officials to keep the company compliant with state and federal rules, the *Wall Street Journal* blew the whistle.

That ended the company's relationships with Safeway and Walgreens, both of which had been busy investing in the company and installing its Edison tools into drop-in health centers across the country. It also ended the company's ability to bill Medicare and Medicaid for those services, and resulted in the Centers for Medicare and Medicaid Services (CMS) sanctioning Holmes, fining her company an undisclosed amount, and prohibiting her from operating any health labs for two years.

In its own apology, *Forbes* magazine's Matthew Herper announced in June that *Forbes* had reduced Holmes' net worth from $4.5 billion "to nothing" and explained why. Herper's conclusions are summarized:

> Too much is unknown — Theranos has presented no data proving that Edison works;
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> Theranos has not delivered on its promises to publish data that shows that Edison does work; and
>
> The target market about which investors were all excited might not exist after all.

The industry's heavyweights already had their infrastructure built out while Theranos was just getting started. Theranos would have had to increase its market penetration massively, and increase its margins dramatically, to come close to what her company may now be worth even after the devaluation: $800 million (mostly due to the $700 million investors have poured into it). In the event of a liquidation, her shares would be worth exactly nothing.

Even the post on Theranos' website exudes a sense of desperation:

> We accept full responsibility for the issues at our laboratory in Newark, California, and have already worked to undertake comprehensive remedial actions. Those actions include shutting down and subsequently rebuilding the Newark lab from the ground up, rebuilding quality systems, adding highly experienced leadership, personnel and experts, and implementing enhanced quality and training procedures….
>
> While we are disappointed by CMS' decision, we take these matters very seriously and are committed to fully resolving all outstanding issues with CMS and to demonstrating our dedication to the highest standards of quality and compliance.

Holmes is scheduled to make a presentation for her investors later this month, which may provide clues as to both the company's future and her own. Those investors, no matter how that meeting goes, have come face to face with Rule Number One: If something looks too good to be true, it probably is.

Photo: AP Images

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