

Martin Shkreli arrested for securities fraud

Tom Hall
18 December 2015

Martin Shkreli, the 32-year-old former hedge fund manager who became infamous earlier this year for price-gouging lifesaving medications, was arrested Thursday morning on charges of securities fraud stretching back several years. Shkreli is accused of lying to investors about the state of his now-defunct hedge funds, MSMB Capital and MSMB Healthcare, and then illegally using money and stock from biotechnology firm Retrophin, of which he was then CEO, to pay off his debts.

Shkreli provoked popular outrage in September after announcing that Turing Pharmaceuticals, another biotechnology firm founded by Shkreli, would raise the price of Daraprim, a 62-year-old drug used to treat toxoplasmosis, by 4,000 percent, from \$13.50 to \$750 per pill.

Although much of the popular outrage centered around Shkreli personally (ABC dubbed him “the most hated man in America”), the practice of buying up older drugs in order to jack up their prices is rampant across the pharmaceutical industry. Nevertheless, especially after his unrepentant statements to the press, Shkreli became something of a poster child for the antisocial and essentially criminal behavior of Wall Street in the pursuit of ever-higher profits (See: US pharmaceutical industry price-gouging and the case of Martin Shkreli)

It is noteworthy that Shkreli’s undoing has come not from swindling ordinary patients in need of lifesaving medicines, but from swindling his wealthy investors, leading them to believe that they stood to make millions off of financial speculation.

Shkreli is accused of defrauding millions from his investors by lying about the earnings and assets of his hedge funds beginning in 2009, while paying far more to himself than he was contractually entitled to. Shkreli’s funds lost millions from bad bets made on pharmaceutical stocks, which he then worked to

conceal from his investors.

“Shkreli essentially ran his company like a Ponzi scheme where he used each subsequent company to pay off defrauded investors from the prior company,” Brooklyn US Attorney Robert Capers told a press conference.

In 2010, for example, Shkreli told investors in MSMB Capital that the fund had made returns of 37.77 percent since its founding and had \$35 million in assets. In fact, the fund had lost 18 percent and had a balance of only a few hundred dollars. In 2011, Shkreli founded the pharmaceutical company Retrophin, whose business model also relied on buying up older medication and jacking up their prices. He then utilized sham consulting contracts to pay \$7.6 million of company money to his earlier investors, despite the fact that Retrophin was not liable for those debts.

Shkreli was allegedly aided in this scheme by corporate lawyer Evan Greebel, who was also arrested on Thursday. Retrophin’s board of directors forced Shkreli out as CEO in September 2014 and filed a \$65 million lawsuit alleging that Shkreli used the company as his own personal “piggy bank.”

Shkreli founded Turing Pharmaceuticals in February of this year, where he continued his speculative activities. In addition to jacking up the price of Daraprim, Shkreli also lobbied the Food and Drug Administration (FDA) not to approve drugs made by companies whose stock he was short-selling.

Shkreli’s activities became known to a wider public when a *New York Times* article in September on price gouging in the pharmaceuticals industry focused on Turing’s purchase of Daraprim. Despite popular outrage, and self-serving calls from politicians such as Hillary Clinton for him to cancel the price increase, Shkreli remained adamant. “There’s no doubt, I’m a capitalist,” Shkreli told CBS in an interview. “... I’m trying to create a big drug company, a successful drug

company, a profitable drug company. We're trying to flourish.”

Finally, bowing to public pressure, Shkreli announced that Turing would lower the drug's price “to a point that is more affordable and is able to allow the company to make a profit, but a very small profit.” However, he since reneged on this promise in November, instead offering lesser discounts to hospital purchasers of the drug.

Since coming to the public's attention three months ago, Shkreli, apparently fancying himself as a kind of celebrity, continually inserted himself into the news with provocative and at times bizarre behavior. In November, he purchased the only copy of the Wu Tang Clan's controversial latest album, intended by the rap group as a luxury item for the super-rich, for \$2 million and told *Bloomberg News* that he had no immediate plans to listen to the album. In a subsequent interview with a music web site, Shkreli announced plans to bail a local Brooklyn rapper out of jail in exchange for recording music for him.

Shkreli is the product of the domination of American society by a narrow layer of an ultra-wealthy financial aristocracy that seeks to engorge itself through speculative and essentially criminal transactions. More often than not, the result is the destruction of productive capacity and the restriction of access to essential commodities.

Shkreli's activities, moreover, are not only the norm, they are relatively modest in scale. By contrast, in November the pharmaceuticals giant Pfizer announced that it would buy Allergan for a record \$160 billion to create the world's largest drug company, which will be based in Ireland in order to avoid paying any income tax.



To contact the WSWWS and the
Socialist Equality Party visit:

wsws.org/contact