

WSJ  
PODCASTSSOUND IDEAS.  
Introducing WSJPodcasts

LISTEN NOW

THE WALL STREET JOURNAL.  
Read ambitiously**THE WALL STREET JOURNAL.**

WSJ.com

January 11, 2016, 1:07 PM ET

# Crisis of the Week: Can KaloBios Overcome Shkreli's Tarnished Reputation?

By Ben DiPietro



Martin Shkreli, former chief executive of KaloBios Pharmaceuticals Inc.

Reuters

*Our first crisis of 2016 takes us back into 2015, as the focus is on pharmaceutical company KaloBios Pharmaceuticals Inc. and its [decision to fire](#) Chief Executive Martin Shkreli and then to seek [bankruptcy protection](#). The decision to part ways with Mr. Shkreli came after he was [arrested on securities fraud charges](#), and follows a decision by Nasdaq to consider delisting KaloBios. The company is [appealing the decision to delist](#), and an appeal hearing is set for February.*

*The company said it filed for bankruptcy protection as an [emergency move](#) to guard the risk that any of the turmoil surrounding Mr. Shkreli—he also resigned as CEO of Turing Pharmaceuticals after his fraud arrest—could affect the company's liquidity. KaloBios [named Mr. Shkreli CEO](#) in November after he had acquired a 70% stake in the company, and just days after the company said it planned to wind down its operations.*

*Using only the comments made by KaloBios—we covered Mr. Shkreli in a [previous Crisis of the Week](#) for [his actions at Turing](#)—the crisis experts were asked to highlight where the company did well in its*

*actions and statements, and where it performed poorly. Did it say too much, too little, or strike just the right balance? What should it do next?*

**Andrew Hennigan, communications consultant:** “Since the Martin Shkreli crisis broke in December, KaloBios’ public announcements have been entirely limited to the necessary legal compliance, reflecting a far-from-unusual situation where communication is in the hands of the legal department. What are entirely absent are broader statements to add context to these facts and give some insight into where the company might be headed.

“While this is unfortunate it is also understandable given the turmoil in the executive team and the obviously interrupted corporate vision. At the moment the lack of public comments is probably just because the management team is still working the problem. This may be understandable but it compromises hope of recovery of the company and has a negative impact on stakeholders.

“What the new leadership needs to do quickly is to define and articulate its position, bringing on board either a seasoned PR pro or agency that can move to restore some confidence in the company. Leadership should be going beyond minimal compliance to be more transparent, even if that means simply admitting it doesn’t have the answers yet. What would also help is to issue statements attributed to individuals rather than just the company. An individual demonstrating personal leadership is worth more than an anonymous corporate statement.

“Without this effort investors and other stakeholders could fear that Mr. Shkreli’s arrival in November and departure in December have left the company without direction, compromising even further confidence.”

**Wendy Feldman, crisis and media manager:** “Seems as fast as KaloBios hired Martin Shkreli as chief executive they were forced to fire him and seek bankruptcy protection. This decision came of course after Mr. Shkreli was arrested on securities fraud charges. The decision also comes as Nasdaq is considering delisting KaloBios.

“To date, [the company] has said that it filed for bankruptcy protection as an ‘emergency measure’ to guard against the risk that Mr. Shkreli’s turmoil could [affect] the liquidity of the company. This seems an odd statement, as that alone is not usually grounds for bankruptcy protection—especially because Mr. Shkreli had resigned from the company. A hedge on a hedge? Well, it is Wall Street.

“The comments by KaloBios are unbalanced and misleading. A better scenario would be to say less or what was really going on. There is no doubt if there is any chance of survival, KaloBios must distance itself from Mr. Shkreli. But the company has an obligation to be upfront—especially now. Moving forward, the only thing KaloBios can do is be honest. At some point the company will need to decide if it sells parts off or simply folds. Much more value exists if there is a clear path and course of action.”

**Andrea Bonime-Blanc, chief executive, GEC Risk Advisory:** “This was a perfect risk storm for KaloBios: No one seemed to be clearly in charge, the company was in dire financial straits, the new investor/CEO, Mr. Shkreli, had the wrong kind of notoriety and, unbeknownst to all, the U.S. government was about to arrest Mr. Shkreli on unrelated fraud charges.

“KaloBios’ public statements during this crisis were bare bones and denote a lack of understanding of the purpose and nuances of crisis management public relations. While its statements may have been

factually accurate, they were short, uninformative and displayed naivete about the dimensions of the unfolding crisis.

“Because KaloBios was already in financial crisis it [may have] lacked the resources for effective and preventative risk and crisis management, especially concerning non-financial and reputational risk. Thus, in the face of Mr. Shkreli's takeover of the company, his own abysmal and deteriorating reputation and subsequent arrest, KaloBios' was unprepared to deal with the dimension of this unfolding crisis effectively.

“Good crisis management starts with good risk management—and that includes preparation for financial and non-financial risks. In addition to its own business and financial challenges, and as a small and relatively young company, KaloBios seemed unprepared from both a risk and crisis management standpoint and thus did not have a chance to conduct effective public relations once the crisis hit, becoming in the process the victim of a perfect risk storm.”

*Write to Ben DiPietro at [ben.dipietro@dowjones.com](mailto:ben.dipietro@dowjones.com), and follow him on Twitter @BenDiPietro1.*

Copyright 2016 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)