Theranos Fraud

Theranos: How False Claims, Weak Governance and Failed Technology Led to Criminal Convictions

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Key Facts

Cost: $700M

Date: 2026-07-06

Category: Corporate Disasters

Executive Summary

Theranos raised hundreds of millions of dollars while its blood-testing technology failed to perform as publicly represented. This investigation reveals how a governance structure designed to impress rather than oversee allowed one of the largest frauds in Silicon Valley history to unfold.

Executive Lessons

- Board Composition Must Include Technical Validators

Theranos's board included Henry Kissinger, George Shultz, and Jim Mattis - eminent statesmen with zero medical expertise. When a board lacks domain-specific technical knowledge, it cannot validate claims or spot fraud. Reputation is not a substitute for expertise.

- Due Diligence Must Include Independent Testing

Major investors including Walgreens and Safeway conducted limited due diligence that did not include independent verification of the core technology claim. When you invest in a technology company, test the technology independently before you invest.

- Whistleblowers Need Protected Channels

Tyler Shultz, grandson of board member George Shultz, became a whistleblower because internal channels were blocked. When employees cannot raise concerns internally, they raise them publicly - or not at all. Protected whistleblower channels are governance infrastructure.

Timeline

- 2003: Elizabeth Holmes founds Theranos (initially 'Real-Time Cures') after dropping out of Stanford.
- 2010: Theranos begins partnership negotiations with Walgreens for in-store blood-testing 'wellness centers'.
- 2013-09: Theranos begins rolling out Walgreens wellness centers (Palo Alto pilot, then ~40 Arizona stores) without independent validation of its proprietary devices.
- 2015-10-16: Wall Street Journal publishes John Carreyrou's exposé reporting that Theranos ran most tests on conventional machines and diluted samples, not its Edison devices.
- 2016-01-25: CMS letter to Theranos declares the Newark lab's deficient practices pose 'immediate jeopardy to patient health and safety' after a CLIA survey.
- 2016-03-18: CMS notifies Theranos of proposed sanctions including revocation of its CLIA certificate and a two-year ban on Holmes, Balwani and the lab director.
- 2016-05-18: Theranos voids two years of Edison test results, issuing tens of thousands of corrected reports to doctors and patients.
- 2016-06-12: Walgreens terminates its Theranos partnership for cause and closes all wellness centers.
- 2016-07-07: CMS imposes final sanctions: revocation of the Newark lab's CLIA certificate, civil money penalty, and Medicare payment cancellation.
- 2018-03-14: SEC charges Theranos, Holmes and Balwani with raising over $700 million through an 'elaborate, years-long fraud'; Holmes settles with a $500,000 penalty and 10-year officer/director bar.
- 2018-06-15: Federal grand jury indictment of Holmes and Balwani is unsealed (two conspiracy counts, nine wire fraud counts); Holmes steps down as CEO.
- 2018-09: Theranos announces it will dissolve, ending the company.

- 2022-01-03: Holmes is convicted by a jury on four counts of investor fraud and conspiracy.
- 2022-07: Balwani is convicted on twelve counts of wire fraud and conspiracy, including patient-facing fraud; Holmes is later sentenced to 135 months (Nov 2022) and Balwani to nearly 13 years (Dec 2022).

Sources

- SEC Press Release 2018-41: 'Theranos, CEO Holmes, and Former President Balwani Charged With Massive Fraud' (U.S. Securities and Exchange Commission, 2018-03-14)
- SEC complaint: SEC v. Elizabeth Holmes and Theranos, Inc. (litigation complaint) (U.S. Securities and Exchange Commission, 2018-03-14)
- House Energy & Commerce Committee Democratic staff oversight letter to CMS Acting Administrator Slavitt re Theranos CLIA failures (U.S. House of Representatives, Energy and Commerce Committee, 2016-07-26)
- DOJ press release: 'Former Theranos CEO Elizabeth Holmes Sentenced to More Than 11 Years in Prison for Fraud' (U.S. Department of Justice, U.S. Attorney's Office, N.D. California, 2022-11-18)
- DOJ press release: 'Former Theranos COO Sentenced to Nearly 13 Years in Prison for Blood-Testing Fraud' (U.S. Department of Justice, U.S. Attorney's Office, N.D. California, 2022-12-07)
- 'Theranos founder Elizabeth Holmes settles with SEC in alleged elaborate, years-long fraud' (ABC News / Associated Press, 2018-03-15)
- 'Indictment of Theranos executives offers lessons for journalists' (on the June 2018 DOJ indictment) (Association of Health Care Journalists (HealthJournalism.org), 2018-06)