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KOBI RICHTER: BOSTON SCIENTIFIC'S CEO ADMITTED TO ME THAT THE COMPANY TRIED TO STEAL MEDINOL'S INTELLECTUAL PROPERTY

By Moran Bar-Kochva

"Medinol's story will have a happy ending, one in which we will regain the largest market segment in the world, even if in the meantime the business doesn't look that good." This was promised today (Sunday) by Kobi Richter, the controlling shareholder in Medinol. For the first time in years, Richter touched on the dispute between Medinol and Boston Scientific.

Medinol, the Israeli stent producer which in 1995 signed an exclusive marketing agreement with Boston Scientific, found itself, according to Richter, coping with an attempted theft of its intellectual property since 1997. Richter claims that Boston's CEO, Jim Tubin, admitted to him in April 2000, that Boston attempted to steal Medinol's intellectual property by copying its stents and production line.

According to Richter, Boston wished to put its hands on Medinol's impressive profit rates. *"We produce with 150 employees, while our competitors produce with 4,000 employees. We have 80% net profit rates, thanks to the unique production process, and Boston was after that."*

Richter denied the claim that his activity in Medinol constantly involved disputes with the various partners in the company. *"Anyone who sold shares did it at their own discretion only,"* he says. For example, claims Richter, the Shrem Group sold its holdings in view of its wish to show a realization to the investors.

Richter further contends that from the onset Boston was stalling the introduction of Medinol's products to the market, during a period ranging from several months to years, thereby causing significant financial damage to both companies. According to him, Boston's management rejected an agreed conclusion respecting the company sale on two different occasions: the first time at a company value of 1.2 billion dollars, and the second time - at an estimated value of 2.5 billion dollars. According to Richter, Medinol is at present acting to attain independent operational capability, namely – the development of a delivery balloon on its own.

THE DISPUTE AT MEDINOL: KOBI RICHTER BREAKS SILENCE AND RESPONDS TO THE SERIOUS ALLEGATIONS OF BOSTON'S DIRECTORS

[Photograph - The Richters at the company plant in Jerusalem -]

"THROUGHOUT MY ENTIRE CAREER IN THE INDUSTRY I HAVE NOT ALWAYS MANAGED TO SELECT THE APPROPRIATE PARTNERS, I DID NOT CHOOSE THE RIGHT PEOPLE AS I WAS IN A HURRY TO DEVELOP AND PRODUCE. I AM GUILTY OF NAVITE."

[Photograph - Taking off the gloves. Kobi and Judith Richter -]

Richter admits that Boston dries out Medinol in sales, but promises to bring the company back to the front of the stage

(Moran Bar-Kochva, p. 38-39)

WE WILL BE BACK BIG TIME

Medinol's revenues dropped from 250 million dollar in 1999, with a profit rate of approximately 90%, to approximately 75 million dollars only this year. According to Richter, Boston has dried Medinol up and currently there are no orders for next year * Richter: *"Self-marketing is no easy task for Medinol, but if we have to, we'll do this as well. Medinol's story will have a happy ending, one in which we will regain the largest market segment in the world, even if in the meantime the business doesn't look that good."*

By Moran Bar-Kochva

Kobi Richter agreed at a special press conference today, to admit one thing: *"I am sure I am naive. Throughout my entire career in the industry I have not always managed to select the appropriate partners, I did not choose the right people as I was in a hurry to develop and produce. I am guilty of naivete."* Richter, holding with his wife about 64% of Medinol's shares, denies the allegations that he caused his partners to sell their share in Medinol: *"I did not push them to sell. It was their wish."*

But the roots of the biggest dispute of all started already in 1995, with the signature of the agreement with Boston. Medinol brought in advanced technology - according to Richter - the leading technology in the stents field - while Boston was to develop the delivery systems, a requisite for it to obtain the FDA approval, and become the exclusive marketers of the stents worldwide. In consideration, it was concluded that Boston Scientific would receive 77% of the revenues, and Medinol only 23%. To Boston, which primarily grew through external acquisitions, this was the first transaction under which it was not purchasing the full ownership in the company, but only the exclusive right to use the technology.

According to Richter, from the beginning something was not working in this partnership. Richter presents a table showing a particularly lengthy delay in obtaining FDA approvals starting on the date that Medinol introduced its products to the market. *"We finished the NIR experiments in 1996, but the delivery system was only ready in 1997, one year of delay which as far as Boston is concerned, was a 20 million dollar loss"*

Richter compared Medinol's profit rates with those of the competitors, saying that in stent production Medinol's profit rate is about 80%, while with competitors the marginal rate is about 35% only, and should Medinol be required to develop and manufacture delivery balloons on its own, the marginal profit will drop down to about 60%, which will still leave Medinol way above the competitors

According to Richter, right from the beginning something was not working in this partnership. Richter presents a table showing a particularly lengthy delay in obtaining

FDA approvals starting on the date that Medinol introduced its products to the market. *"We finished the NIR (Medinol's basic stent named after the late captain Nir Poraz - M.B.) experiments in 1996, but the delivery system was only ready in 1997, one year of delay which as far as Boston is concerned, was a 20 million dollar loss". The NIR conformer completed the medical tests in mid-1997, and the beginning of marketing was only in mid-2000, three years later, costing hundreds of millions of dollars to Boston."*

When Richter was asked whether these delays did not make him wonder or led to a deterioration in the relationship he says: *"As far as I was concerned, the relationship did not deteriorate. Throughout the entire time, we regarded the problem not as a deliberate attempt to stall us, not as something criminal, but as inefficiency in the development process, because they didn't succeed in setting up a focused group for the issue of stent development. Despite the huge financial damage that we also suffered, we thought that the bureaucracy damaged everything."*

In April 1997, says Richter, Medinol planned to launch an IPO in order to raise capital for other developments. *"We launched an IPO process, but in the summer of 1997 Boston requested to cease the process and begin discussions with them on sale. Up to December 1997 we were in intensive negotiations and signed a detailed agreement for the sale of the company in consideration for 1.2 billion dollars, which agreement was signed by Judith and Kobi Richter on behalf of Medinol and Pit Nicholas and Larry Best on behalf of Boston. But two weeks later Pit Nicholas, the company CEO at the time, and Larry Best, the CFO, came to us, saying that they had decided to give up the acquisition without offering any reasons."*

KOBI RICHTER AGAINST THE REST OF THE WORLD

The childhood in Kibbutz Ramat Yohanan, the service in the airforce, the Orbot entrepreneurship, the transition in Marathon, the chance meeting with Gregory Pinhasik, the disputes with Benad Goldwasser, Yizhak Shrem and now with Boston Scientific * Kobi Richter likes to win. Only winning

By Moran Bar-Kochva

Kobi Richter did today what he dislikes the most: talking with reporters. Richter realized, probably, that a la guerre comme a la guerre, you cannot leave the media battlefield to your opponent only. And these opponents, Boston Scientific's directors, took full advantage of the available battlefield in recent weeks to attack Medinol and the Richters with pungent words. (See box).

In his last interview at "Globes", Richter was cited describing himself as *"a marketing animal, whose advantage is its ability to connect between the human need and existing technology"*. Today the "marketing animal" was required to market itself, primarily, as well as its story.

Richter's long silence cast, on the one hand, a heavy shadow on his business activity, and on the other, intensified the myth surrounding him. True, in many cases throughout his long career, Richter was the one who laughed last. However, he is yet far from the loudest laugh of all in Medinol's case.

Richter grew up in Kibbutz Ramat Yohanan, as the son of parents of German origin, who were among the Kibbutz founders. In his childhood the renowned child psychologist, Dr. Bruno Batleheim, arrived in the Kibbutz, seeking to examine the

impact of collective lodging on the kibbutz children. His conclusions, which were published in the book "Dream Children", were unequivocal. These children, he said, will not grow up to be creative and non-conformists. He foresaw for them a future of group obedience above all. If Richter's resume and that of his brother, Yohai, Orbotech CEO, teach anything, it is how wrong Batleheim was in his diagnosis.

Richter, 56 year old, completed a flying course and served 22 years in the airforce. He stood out as one who does not hesitate to speak his mind and managed to create many opponents. An example of his far seeing viewpoint, was when in his last position as Chief of Weapons Division, he became the most prominent spokesman against the Lavi project, which opinion pushed him into a conflict with the Airforce Commander, Amos Lapidot, and with David Ivri, who supported the project.

In the course of his service he completed a Ph.D. in Biology at the Tel-Aviv University in the brain research field. In 1977 he took a leave from the army for the purpose of post-doctoral studies in the United States, and worked at the brain-research and artificial intelligence department at MIT University. At that time he met Zvi Lapidot and Shimon Ulman, with whom he founded the Orbot Company, producer of computerized optic systems for reading printed circuits. After his discharge in 1986, he was appointed the company marketing director.

Richter withdrew from this capacity in 1992, after Orbot's merger with Optrotech, which created the company currently known as Orbotech (which his brother, Yohai, currently manages). Richter retired in favor of entrepreneurships in the field of hi-tech, and, amongst other things, was a partner in the founding of a venture capital fund, Marathon, whose shares are traded on the stock exchange.

Correspondingly with Medinol, Richter initiated at the beginning of the nineties, the founding of Medicon, which is active in the field of medical communication. In contrast to Medinol, which Richter refrained from issuing, he had no problem sharing Medicon with the public. The company raised capital two years ago on the stock exchange, and is presently traded at a company value of 15 million dollars only.

However, Medinol is the biggest story of them all. The story of founding the company also appears to be taken from fairytales. Richter met Gregory Pinhasik, the immigrant scientist, when the latter went by Richter's home and asked him for the nearest way leading to the beach. Pinhasik told him how hard his absorption in Israel was, to the extent that he had trouble finding a roof over his head. At the same time, he told Richter of various developments which he had invented. Richter told his wife, Dr. Judith Richter, and she told him that he had to find Pinhasik. Medinol grew from that meeting.

The invention was of a stent (flexible spring inserted into the artery leading to the heart on a catheterization balloon, absorbed into the artery wall and protecting it from collapse, in order to enable the flow of blood into the heart), with a capacity for growth which protects blood flow. However, the precise implementation of the invention, to which blood vessels it was suitable, was unclear at first. Hence, after setting up the company, Richter enlisted Prof. Benad Goldwasser, urology and nose specialist, and even gave him a high percentage in the company, about 13%. Goldwasser's biggest contribution was that he kept Medinol away from the urology field and proposed that they focus on the cardiology field, Namely blood vessels in the heart region.

In 1995, following press releases reporting that the gigantic American company Johnson & Johnson was conducting negotiations to purchase Medinol for 360 million dollars, a record amount at that time, a dispute arose between the Richters, the controlling shareholders in the company, and Prof. Goldwasser. In the lawsuit he filed

against the two, Goldwasser claimed that *"as of that time the couple started behaving in a deviant manner, keeping the other partners away from the negotiations."*

The negotiation with Johnson collapsed, and in October the same year a transaction was signed under which its biggest competitor, Boston Scientific, acquired 13% of Medinol for 40 million dollars. *"Around the same time,"* contended Goldwasser in the lawsuit, *"the couple finally realized that the company had a highly significant potential."* From that time, according to him, matters deteriorated to a web of pressures and threats against the other shareholders.

Later on, one by one, most of the old investors separated from Medinol: Ira Yaron, Goldwasser (who sold his shares to Boston Scientific for 23 million dollars, at a company value of 200 million dollars) and two years ago the Polaris Fund of the Shrem-Podim-Klaner Group, as well. A dispute with the Richters also preceded the sale of the shares by Polaris, which only ended after they agreed to pay it 32 million dollars for 8.6% of Medinol shares. In this transaction Medinol was valued at 370 million dollars, almost double that at Goldwasser's sale, and apparently a lot less than its economic value.

The next and biggest of all disputes is presently taking place with Boston Scientific. From a turbid relationship between both companies, it went into a negotiation on acquisition which failed, and from then slid down to the court. Both parties are currently leading juicy and emotion-filled communication battles. Where will it end? Who knows? But judging by history, it would be difficult and quite surprising to see Richter on the losing side.

Richter explains that from information disclosed to him by Jim Tubin, the CEO who replaced Nicholas in 1999, it emerges that Nicholas was proud at having purchased Medinol's technology "for a stew of lentils". *"But"*, says Richter, *"thanks to efficiency we managed to keep 20% of the 23% we received of each sale (namely, fantastic profit rates of about 87%), while Boston were left with 7%-8% profit of their share (77% per sale). That is to say, they received a technology but did not know how to maximize it. They wanted to put their hands on our high profit rates"*.

And these profit rates were indeed fantastic: Medinol's revenues in 1999 totaled approximately 250 million dollars, over 200 million dollars net profit. The revenues in 2000 dropped down to 150 million dollars due to the problems which started arising between both parties. According to Richter, this year the sales went down by half, namely some 75 million dollars only. Richter says that Boston seeks to dry Medinol up, and that is why there are no orders from Boston for Medinol's products.

According to Richter, he found no fault in Boston's acts, up to April 2000, when he was summoned with his wife Judith, who at the time served as the company CEO, to Jim Tubin's offices. According to Richter, Tubin admitted to him that Boston Scientific had set up a shell company designed to steal Medinol's intellectual property, the production machinery, the unique patent-protected production process, and the stents themselves.

[-Photograph-]

Richter claims that even the stent developed by Boston, the Express, is but a copy of Medinol's most advanced stent, the NIRflex. *"A drawing of the NIRflex was delivered in 1998 to Boston, and in 1999 4,500 stents were sold to Boston, in order for them to prepare a delivery system for this purpose, and this stopped upon the*

discovery of the fraud. They claim that they started developing the Express in May or June 2000, but if these two stents are not identical, then I must have lost my eyesight"

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Richter claims that the company was founded already in 1997 to enable Boston to transfer to it the high profit rates produced by Medinol. The stolen production line was set up in Ireland, out of everyone's sight, including the FDA authorities, but following a resolution of Boston's auditors they were forced to reveal the scheme. Presently the parallel production line issue is at the center of Medinol's lawsuit and under investigation of the Boston District Attorney. According to Richter, the first person called for investigation from Boston, Dr. Arthur Rozenthal, chose the Fifth Amendment, fearing that he would implicate himself.

Richter does not know why Tubin revealed the scheme to them in the first place, but says that Tubin's next moves were an attempt to put the relationship back to normal by appointing new people to work *vis-a-vis* Medinol. The second step was entering into intensive negotiations concerning Medinol's acquisition. Richter states that in this case Boston withdrew its consent at the last minute. According to him, at the end of negotiations between bankers on both sides, they reached a conclusion on an amount which he is unwilling to indicate, but which is somewhere around 2.5 billion dollars. Boston's management eventually cancelled the agreement and started talking of much lesser amounts, which in his opinion are unfair.

At the same time, Richter carried on the negotiations up to its complete collapse after another offer on Boston's part, which his investment banker suggested he should refuse. The consequence was that Medinol was forced to file a lawsuit in the court for the purpose of dissolving the partnership and obtaining compensation for all the damages suffered by it. Later on Boston sued Medinol, demanding to appoint a director on its behalf and to carry out a BMBY in both parties' holdings.

Richter opposes the BMBY idea, claiming that he does not have the capital to purchase 22% of Medinol, and that the law cannot force him to do so. He says that at present Medinol is acting to attain a self-operational capacity, namely, self-development of a delivery balloon. He admits that independent marketing is no simple task for Medinol, but says that if necessary, he will do this as well. *"Medinol's story will have a happy ending, one in which we will regain the biggest market segment in the world, although in the meantime the business doesn't look too good."*

Richter compared Medinol's profit rates with those of competitors, and said that in stent production Medinol's marginal profit is about 80%, while competitors' marginal profit is about 35% only, and should Medinol be required to develop and produce delivery balloons by itself, the marginal profit will go down to about 60% - which still leaves Medinol way ahead of its competitors.

"KOBI IS INDESCRIBABLY DESTRUCTIVE; HE IS A GENIUS BUT CHILDISH"

Larry Best, Boston's CFO in an interview to "Yediot Ahronot" last week: *"Because of their ego and their greed, they lost billions of dollars" * Kobi understands one thing – war"*

The verbal fistfights between Medinol and Boston Scientific soared in recent weeks to peaks of mudslinging, after Boston invited reporters from "Yediot Ahronot" and "Ma'ariv" to hear its side of the story. Larry Best, Boston's CFO, severely criticized Kobi Richter, in an interview with "Yediot Ahronot" published last week.

"Kobi is indescribably destructive", said Best, "he would hurt himself just to get you. I don't know how to handle people like that. A relationship with Medinol is like cancer. It's a horrible thing, you don't know how you got it, but you know that you need to get rid of it. And this in fact was their strategy, to make us buy the company. To cause us enough damage, so that we'll have to buy them, which we almost did. But because of their ego and their greed, they blew it. They lost billions of dollars."

"...We offered a lot of money for Medinol, over 2 billion dollars. They refused this sum... They wanted more. It has always been like this: we offered a figure, and they wanted more. They are the only people that I could never get along with. I would have taken the money and run very fast. Kobi would never admit that he made a mistake."

"...Kobi understands one thing - war. He is a genius but childish. Leaving all contentions aside, he is a nice person, I enjoyed him very much, and I had good times with him. But the next day everything would have been ruined. Kobi just doesn't know how to compromise, and this is his problem".

"...If we look at the business relationships of these two people (Kobi and Judith Richter) with the people they worked with over the last ten years, we will see that they are full of disputes and conflicts. They fixed every shareholder they ever had. Even the people who invested in them."