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Whistle-Blower Accuses Wyeth of Tax Dodges

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A former international executive for Wyeth, the big drug company, uncovered a worldwide practice of cheating foreign governments out of taxes, only to be demoted after notifying senior executives, according to documents in a state lawsuit he filed against the company.

The executive, Dr. Peter Rost, said that in 2000, as he worked to get the company to correct the first tax problem he learned about, in Sweden, he learned that the practices were common in Wyeth's operations worldwide.

As early as 1995, Ernst & Young, the big accounting firm, which was advising Wyeth on foreign executive compensation, warned the company that the required taxes on bonuses were not being paid by it or by its executives, according to a document included in Dr. Rost's lawsuit. But the practices continued, including the sending of bonus checks from the United States that executives deposited in foreign bank accounts without notifying local governments, according to documents in the case.

A Wyeth spokesman, Lowell B. Weiner, quoted Eileen Lach, Wyeth's ethics officer, as saying, "We investigated and took immediate action."

Wyeth is "comfortable and confident with its international tax compliance," Mr. Weiner said, but he said he could not comment further on the lawsuit.

It is not clear how much Wyeth or its executives may owe for the practices described in Dr. Rost's lawsuit, but the company paid \$465,000 to reimburse eight executives who had to settle tax debts in Sweden for six years, 1994 through 1999. The Swedish subsidiary is one of Wyeth's smallest.

Dr. Rost said that an earlier case involving a single executive in India cost Wyeth \$2 million in back taxes. If the practice was worldwide, as Dr. Rost has claimed, that suggests that worldwide the taxes Wyeth and its executives owe for the procedures Dr. Rost has described could be substantial.

The Swedish tax issues are described in a corporate memo, included in the lawsuit, that was signed by executives in Wyeth's corporate headquarters in Madison, N.J. The practices do not appear to involve underpayment of United States taxes.

But Wyeth is known to have taken aggressive steps to lower its United States income taxes. Last week a federal court of appeals denied the company a \$226 million refund from the Internal Revenue Service, saying the tax shelter it used to justify the tax saving was a sham. Wyeth, then called American Home Products, bought the tax shelter from Merrill Lynch.

Dr. Rost is suing Wyeth for removing him from his job in Sweden as head of Wyeth-Lederle Nordiska, the company's Scandinavian subsidiary. He said the company violated a pledge in its ethics policy that it would not retaliate against whistle-blowers.

Mr. Weiner said that Dr. Rost was promoted, not demoted, and that his suit was baseless.

Wyeth's policy states that the company "assures protection against any form of reprisal for reporting actual or suspected violations" of its code of ethics, which prohibits fraud.

Dr. Rost said that in 1999, seven years after he joined Wyeth, he was put in charge of Nordiska, and in two years doubled sales. The company gave him an award for ranking first among 50 executives at his level in improving market share, he said.

At about the time Dr. Rost began uncovering the tax problems, the company had found a series of ethics violations by directors of its foreign subsidiaries and by American executives. In a speech to foreign executives in 1998, a copy of which was included in the lawsuit, Robert B. Blount, the company's chief financial officer, detailed some of the thefts and misuse of company funds that he had reported to the audit committee of the company's board. These included abuses of marketing funds, sales of excessive inventory to distributors to create the appearance of higher sales, and deals that were improperly steered to businesses owned by relatives of the executives.

"They are embarrassing instances because they just violate good business practice," Mr. Blount said in the speech.

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Dr. Rost said in an interview and in papers in his lawsuit that soon after arriving in Stockholm, he learned about executive expense account abuses. He reported them to his superior, Robert Power, who at the time headed the company's European, African and Middle East operations.

A company investigation concluded that Wyeth's expense account policies were ambiguous and that some executives had taken liberties with their expense accounts.

Then, in 2000, Mikael Olsson, the chief financial officer of the Swedish subsidiary, resigned. During his exit interview Mr. Olsson confided to Dr. Rost that he had "been lying to our auditors, Arthur Andersen, about payouts" to Swedish executives that were arranged to escape taxes, according to the court papers.

Mr. Olsson told of "a general agreement" to keep bonuses and some other payments to the Swedish executives secret, Dr. Rost wrote in a memo. The payments were mailed from the United States and the executives deposited them in bank accounts in tax havens, including Switzerland, Liechtenstein and the Isle of Mann.

Dr. Rost wrote that he found the report credible because his immediate superior had "instructed me not to keep any financial data related to the MIP in the office in case we would get a tax audit." MIP was the company term for bonuses.

Dr. Rost said he immediately contacted the Stockholm office of Baker & McKenzie, the company's outside lawyers. They told him to contact Wyeth's ethics officer, Eileen Lach.

"The lawyers told me I could go to jail" for signing any tax documents or certifications while aware of the tax fraud, Dr. Rost said.

Two months later, Wyeth's primary auditors, Arthur Andersen, told Wyeth that corrected tax returns needed to be filed immediately and added that even with such action "the risk for indictment for tax fraud is not set aside."

Days later, according to documents in the lawsuit, the manager of regulation for Wyeth's subsidiary in Sweden, Gunilla Engblom, told the company that she felt "strong pressure" from her superiors in Sweden to hide from Swedish tax authorities the bonuses paid from Wyeth's New Jersey headquarters. She also said that a Nordiska human resources manager had advised her on how to set up a foreign bank account to hide her bonus money.

Later that month, John R. Stafford, Wyeth's chairman, approved a plan to reimburse the Swedish executives for taxes that they owed, according to an internal document he signed that was filed with the lawsuit. Mr. Stafford retired on Dec. 31.

In December 2000, Dr. Rost was summoned to London, where he said he was told he was being transferred to the United States. He was given a windowless office in suburban Philadelphia with a staff of 8, he said, compared with the 175 people he oversaw in Sweden.

Dr. Rost resigned and later filed suit in New Jersey Superior Court in Morristown, claiming that he was forced out of his job because he blew the whistle on tax fraud.

Dr. Rost, in an interview and in the documents, said that to clear up the Swedish tax problem Wyeth sent Ray Mann, a senior tax executive, to Stockholm. He said that Mr. Mann told him that the Wyeth tax department "tried to stop the MIP system, but Mr. Stafford refused."

Once it became clear that his Wyeth career had been destroyed by his whistle-blowing, Dr. Rost said, he called the ethics officer, Ms. Lach, to ask what she would do to enforce that policy and protect his job.

"She told me it was out of her hands," Dr. Rost said. ◇