SCRIP Reports

DOG DAYS IN HUNTINGDON:
Lessons from a corporate crisis

By

CHRISTOPHER CLIFFE

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ISBN 0 946864 20 9

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UK

Scrip Reports
18/20 Hill Rise
Richmond
Surrey
TW10 6UA, UK

Tel: (+44) 020 8948 3262
Fax: (+44) 020 8332 8991
(+44) 020 8948 6866

US

PharmaBooks Ltd
1775 Broadway
Suite 511
New York
NY 10019, US

Tel: (+1) 212 262 8230
Fax: (+1) 212 262 8234

JAPAN

T Hirata
Engineering Information
Service Co Ltd
(Shiryo Kenkyujo Co Ltd)
3-5-20-405 Sotokanda
Chiyoda-ku
Tokyo 101-0021, Japan
Tel: (+81) 3 3258 9207
Fax: (+81) 3 3258 9209

KOREA

Pharma Koreana Ltd
Hyecheon Building
831 Yeoksam-dong
Kangnam-ku
Seoul 135-792
Korea

Tel: (+82) 2 554 9591
Fax: (+82) 2 557 1290

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FOREWORD

In 1997, an organised international assault by lobbyists on a multinational company began for the first time in Europe and, in 1998, almost succeeded in the company's destruction.

The near success of the campaign was made easier by the company having been weakened by strategy misjudgements, having defined its relationships with its customers too narrowly and having based its public relations on secrecy, thus failing to explain its business fully and consistently to the general public.

This report chronicles the key events leading up to and during this period, which at its height was characterised by an emotive mix of criticism from politicians and lobby organisations, attempts at economic sabotage perpetrated by activists believing in direct action; and universal condemnation from the media.

The company was Huntingdon Life Sciences Group plc, one of the world's leading contract research organisations and, on any measure, the largest of its kind in Europe.

However, this report is not solely about that Company, because what happened could conceivably strike almost any business operating in a heavily-regulated industry or one that attracts much public attention, such as financial services, healthcare, medicine, defence, public services, utilities, food and consumer products.

Although the Company is the declared case study, because the author is its former CEO, this report is about major contemporary issues. Those highlighted include: the influence of activists and lobbyists on politicians; the role of the media in reporting controversial matters; the exercise of the highest standards of corporate governance; the design and implementation of corporate strategy; the importance of customer orientation compared with an excessive concentration on costs and technical services; preparation for, and management of, major corporate crises; the responsibility of a company towards its employees over and above those normally addressed in employment contracts; and the management of both public and government relations.

Within the corporate world this report should prove a valuable reference tool for financiers, particularly non-executive or independent directors, chief executives, chief operating officers and the heads of various operating divisions, such as R&D, human relations and PR/government relations.

Undoubtedly, politicians, lobbyists, animal welfare campaigners and those involved in direct action will be intrigued to read how the sum of their activities had a profound and damaging impact on the behaviour of management and employees, and the reactions of customers, bankers and shareholders.

Management students and professionals involved in teaching and executive development programmes should find this report valuable. It can be broken down into several case studies from which many lessons can be drawn.

Finally, I hope all readers will find this report a compelling and enjoyable read.

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GLOSSARY

ABPI	Association of the British Pharmaceutical Industry – a trade association formed by pharmaceutical companies and subsidiaries to represent their interests in the UK
AGM	Annual general meeting – meeting of company shareholders required by law for the approval of accounts, appointment of directors and auditors, and authorisation of certain business matters according to the company's constitution
ALF	Animal Liberation Front – a group of direct action campaigners with no publicly admitted affiliation to any animal activist groups, It is suspected of having fewer than 1,000 committed activists
APBI	Applied Bioscience International Inc – on 21 November 1995, Huntingdon Life Sciences Group plc (formerly Huntingdon International Holdings plc) purchased the businesses and assets of APBI's laboratories in the UK (Newcastle and Eye) and in the US (Princeton)
APC	Animal Procedures Committee – comprises Home Office appointees from academia, industry and animal welfare organisations to include scientists, ethics and veterinary skills and independently review the 1986 Act
ARC	Animal Rights Coalition – an umbrella group for small animal activist groups to pool their resources
BUAV	British Union for the Abolition of Vivisection – founded in 1898, the BUAV has about 8,000 members and an annual budget of about £1.5 million
CCTV	Closed-circuit television
CEO	Chief Executive Officer – responsible to the Chairman and Board of Directors of Huntingdon Life Sciences Group plc for all activities including the operations of the research centres
Company	Used throughout in reference to Huntingdon International Holdings plc or Huntingdon Life Sciences Group plc
COO	Chief Operating Officer – a senior executive in Huntingdon Life Sciences Group plc based in the US responsible for the Princeton Research Centre
DrKB	Dresdner Kleinwort Benson, Kleinwort Benson Limited and/or Kleinwort Benson Securities, the Company's financial adviser and stockbroker. Dresdner took over Kleinwort Benson in 1997
EGM	Extraordinary general meeting

EPA	Environmental Protection Agency – an agency of the US Government responsible for enforcement of clean water, air and noise pollution regulations
ERC	Eye Research Centre – the laboratory located at Eye in Suffolk, UK, and part of Huntingdon Life Sciences' UK operations
FDA	Food and Drug Administration – an agency of the US Government responsible for inter alia reviewing new chemical entities before their use in humans
FNBM	First National Bank of Maryland
GCP	Good Clinical Practice
GLP	Good Laboratory Practice – the rules and regulations relating to research laboratories adopted by the US Food and Drug Administration in the 1970s
GMP	Good Manufacturing Practice
HIH	Huntingdon International Holdings plc – the parent company of HRC listed on the London Stock Exchange and re-named Huntingdon Life Sciences Group plc in April 1997
HLS	Huntingdon Life Sciences – the operating division of Huntingdon Life Sciences Group plc comprising Huntingdon, Eye, Princeton and Wilmslow Research Centres
HLSG	Huntingdon Life Sciences Group plc
HRC	Huntingdon Research Centre – the largest laboratory in the UK operations of Huntingdon Life Sciences located at Huntingdon in Cambridgeshire
HRCPLC	Huntingdon Research Centre plc – the first publicly quoted contract research organisation
IFAW	International Fund for Animal Welfare – founded in 1969 in Canada, the IFAW has about 1.5 million supporters worldwide and a budget of £20 million of which £2.5 million is in the UK (www.ifaw.org)
Inspectorate	The Animals (Scientific Procedures) Inspectorate responsible to the Community and Community Policy Directorate in the Animals, By-laws and Coroners Unit of the Home Office in the UK Government for monitoring compliance with the Animals (Scientific Procedures) Act 1986
LIBOR	London Inter-Bank Offer Rate (of interest)
LSE	London Stock Exchange Ltd – based in the City of London, UK, on which Huntingdon Life Sciences Group's (formerly Huntingdon International Holdings) ordinary shares are listed

MP	Member of Parliament
NASDAQ	National Association of Securities Dealers Automated Quotation System – over-the-counter share trading system based in New York, US
NAVS	National Anti-Vivisection Society – founded in 1929, it has about 12,000 members and an annual budget of £1.1 million (www.navs.org)
NYSE	New York Stock Exchange – based in New York, US, on which Huntingdon Life Sciences Group's ordinary shares are traded in the form of American Depositary Receipts
OECD	Organisation for Economic Co-operation and Development
PETA	People for the Ethical Treatment of Animals – started in the US in 1979, it entered Europe in 1993. It publishes the *Animal Times* and is thought to have an annual budget of $15 million
PRC	Princeton Research Centre – the Company's only laboratory in the US and part of Huntingdon Life Sciences Inc
RDS	Research Defence Society – it was formed by a group of doctors and medical scientists in 1908 to represent their interests in the public and political debate about animal experiments. Council members are mainly from academia or other associations
RSPCA	Royal Society for the Prevention of Cruelty to Animals
UKGLPMA	Good Laboratory Practice Monitoring Authority – an agency within the UK Government's Medicines Control Agency for monitoring compliance with Good Laboratory Practice
USDA	United States Department of Agriculture – US Government agency responsible for supervising and monitoring laboratories using animals in research
WHO	World Health Organization
WRC	Wilmslow Research Centre – a laboratory purchased from Ciba Ltd in March 1997 at Wilmslow, near Manchester, UK, and thereafter part of Huntingdon Life Sciences

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INTRODUCTION

The certain thing about the future is that it will surprise even those who have seen furthest into it

E J Hobsbawm, 1994
The Age of Empire 1875–1914

This is the story of how in early 1997 a re-emergent political party's desire for success resulted in it providing unexpected and presumably unwitting support to an ambitious lobbyist group in its short-term goal to inflict severe economic hardship on one of the UK's leading scientific companies, Huntingdon Life Sciences Group plc (HLSG).

From being a pioneer in scientific research in 1951 through to becoming a renowned member of the worldwide science community, HLSG was in 1997 an acknowledged world leader. But early in that year, it faced an onslaught from powerful interest groups determined to eradicate the use of any animal species in research, the very science on which the Company depended for half its sales.

Allegations of malpractice specifically relating to the use of dogs in scientific research surfaced in an expertly orchestrated transatlantic campaign that was fuelled by political backing and attracted enormous public interest. As any pressure group knows, it can promote its particular cause with great success if public passions can be aroused, as they will be if there is a human or animal element involved.

On Friday 24 January 1997, I was in London to meet a shareholder representative, Bill Gedale, and later that afternoon, Jonathan Roe, a director of the Company's stockbroker, Dresdner Kleinwort Benson (DrKB). As Chairman and CEO of General American Investors, Bill Gedale had been one of the staunchest supporters of Huntingdon Research Centre (HRC), holding at one time nearly 10% of HLSG's shares.

Bill and I reflected on the recovery of the Company since I was appointed CEO in February 1995 and I allowed myself to bask a little in the reflective afterglow of the success of 1996. Promises made to shareholders in November 1995 had been handsomely fulfilled and the share price had reached 88p from its low point of 16p in December 1994.

During my meeting later that afternoon with Jonathan Roe, who had been associated with the Company since late 1993, there was an air of relief. The acquisition made in November 1995 had been successfully integrated, results announcements throughout 1996 had been well received and there was a demand for more of the Company's shares from both existing institutional shareholders and prospective investors.

The course of the year-end audit being undertaken by Arthur Andersen was reviewed and we agreed that, in the absence of any technical issues, it could be completed early. This would tie in neatly with a placing of new shares to raise nearly £6 million, thus taking advantage of a rising share price. Timetables were prepared to ensure that the Company could achieve a historically fast publication of its full-year results and congratulations were echoed all round.

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After business was done, I reflected that it had been a good week. Major strides had been made in completing the Report and Accounts for 1996, Ciba Ltd had indicated their enthusiasm in principle to sell us one of their research centres, the UK Government's Home Office had indicated their delight at the Company's intention to buy a dog breeding colony from Consort Ltd and lastly, it seemed that any offer of new shares would attract considerably more buyers than anticipated.

At about 4pm I took a telephone call from my secretary in which it was explained that a company, at that time unknown to me, named Small World Productions Ltd had sent me a fax containing certain allegations. Its contents sounded worthy of investigation but not alarming because, as she explained, it appeared to be a 'try on'. Nevertheless, I had it copied to Dr David Christopher, the Company's Research Laboratories Director, who in turn confidentially advised a limited number of regulatory and institutional bodies of its existence.

I called Charles Barker Ltd, a media consultancy, but it was not until Sunday 26 January 1997, when I made contact with the Managing Director, that I began to realise that this might be a significant issue to deal with. Hindsight is a wonderful thing. The approach to the Company from Small World Productions seemed so amateurish, and no evidence being forthcoming, that veteran managers assumed it was another pressure group stunt without solid foundation. Certain key managers did investigate what flimsy information the accuser provided, however, in their hurry to get back to work and because they believed that the allegations had nuisance value only, the investigation was not thorough.

Following the broadcast of 'It's A Dog's Life' by Channel 4 Television on Wednesday 26 March 1997, and subsequent unforeseen events, I realised the gravity of the allegations in that facsimile message. I found myself struggling to turn round the Company, which was reeling from the consequences of damaging allegations of cruelty to dogs and falsification of data. My normal routine had been completely and utterly turned upside down, and I was focused 100% on damage limitation.

A tidal wave engulfed both myself and the whole Company, despite the fact that fewer than 10 employees out of over 1,600 worldwide were accused of being involved in malpractice. The media's need for human interest stories to sell their newspapers or to attract viewers and the new UK Government's behaviour, which I saw as pandering to part of its constituency, had the effect of forming a formidable opposition. I was characterised as knowingly condoning widespread cruelty, authorising the unnecessary suffering and use of animals and as being prepared to tolerate illegal activity. Add to this volatile mix highly-professional pressure groups and you can begin to imagine how a small company was easily outgunned. I was nearly overwhelmed and the Company's management felt it was fighting on many fronts simultaneously. We didn't know where the next attack would come from.

Each of the Company's laboratories is located in a fairly remote and rural community, which in England includes Eye in Suffolk, Huntingdon in Cambridgeshire and in the US, outside Princeton, New Jersey. In England, most employees have specialist knowledge, experience and skills that are not easily transferable; they are not particularly mobile individuals. Being either the largest or one of the largest employers in the community, the dependency of the local economy on the strength of the Company far exceeds only the well-being of employees. Furthermore, the Company was dominant within its industrial sector and consequently was a very important customer for many suppliers.

The Company's accumulated knowledge, experience and data built up over nearly 50 years, and the provision of much needed employment and career opportunities for science graduates, would be impossible to replace. Access to this rich pool of science was sought from all over the world with 80% of sales being exported; in 1991 the Company won the Queen's Export Award to Industry. Indeed, certain programmes at the frontier of scientific research were only being conducted outside the US at the Company, and numerous existing medicines and medical breakthroughs had been reliant on research undertaken at the Company.

Institutions and fund managers in England controlled approximately 70% of the Company's shares, with about 40% being in the hands of three major institutions. This meant that most shareholders were readily accessible to the Company's directors but, alarmingly, they were also easily identified by the pressure groups behind the allegations against the Company. The UK's legal requirements demand disclosure of names and addresses in a register of shareholders, which must be open to public inspection.

Directors are generally considered, first and foremost, to look after the Company's shareholders. Possibly, at the first whiff of controversy the shareholders' best interests would have been better served if all my efforts and the energies of the other directors had been focused on finding a strategic partner, whatever the price. Alternatively, we could have decided to simply reduce the size of the Company through ring-fencing and exorcising those parts of the business targeted in the allegations. Taking a much broader view of our responsibilities to all stakeholders in the Company, we believed it was our duty to confront the allegations, protect the Company's reputation and to defend its world leadership role.

However, the ferocity of the battle, its unexpected twists and turns, the personal turmoil caused to so many employees and their families and the devastation of the Company's finances were all underestimated at the outset. Being the first case of this kind in the EU, no one could have forecast that the struggle would go on for 20 months, culminating in an unruly, sometimes violent and always noisy, extraordinary general meeting (EGM) of shareholders in September 1998.

The most well publicised corporate crises typically involve a major multinational and disappear from the public's consciousness within a matter of days or, at worst, a few weeks. Recent examples include Royal Dutch Shell and the controversy over disposal of the Brent Spar floating oil terminal, which erupted in 1995; and Johnson & Johnson's decision in 1986 to remove from every warehouse and shop across North America overnight their pain killer, Tylenol, following threats from a blackmailer that certain package types had been poisoned. Another well-known case is Perrier's decision in 1990 to destroy its whole stock of carbonated mineral water and to recover all products in the distribution chain because of the discovery of minute traces of benzene. In each of these situations the corporations turned adversity into a marketing and public relations asset.

These cases involved corporations with enormous resources of professional staff and cash as well as the wherewithal to retain the services of the best marketing and public relations advisers in the world. With a little difficulty that caused these corporations no more than minor discomfort, they were able to quash the source of their problems. Certainly in none of these cases did the underlying issues threaten the lasting prosperity or survival of the corporation.

HLSG was confronted by a crisis of such immense proportions and duration that its very survival was threatened, and with it 1,600 jobs including my own. Throughout my career I have benefited from spells of concentrated management training funded by two of the world's largest corporations, Merck & Co Inc and Royal Dutch Shell, and I have been privileged to occupy senior positions, sometimes in fairly hostile environments. One particular programme of training included a simulated crisis based around the concept of the withdrawal from sale of a prescription drug because patients had been dying. However, neither the rich embroidery of a manager's life nor management role-playing games are adequate preparation for a battle for company survival.

Nor do personal crises, which tend to involve high emotional outbursts, prepare you particularly when the livelihood of so many employees depends on your skills. Personal crises, for example, when a close relative dies, you become seriously ill, a relationship ends bitterly, or you lose your job, arise fairly irregularly throughout our lives. Most people deal with these issues with an outpouring of grief or an outburst of anger and then get on with life.

What happened to the Company was a major corporate crisis, effectively the sum of 1,600 personal crises, but in this case an outpouring of grief, a show of anger or any other human emotion would not resolve it and allow life to move on. Furthermore, without decisive action by the directors, myself as the CEO, the management team and the determination of all other employees, whether junior or senior, it was not going to resolve itself.

Although operating in a heavily regulated industry and in areas that have great political and public sensitivity, the Company was not a member of any trade association and did not retain a public relations adviser. As a small company, the directors had some years previously decided that retention of either an investor relations or public relations adviser was not cost effective. This would later prove to be false economy and damaging to the Company.

When the allegations surfaced, the lack of an established corporate relationship with an effective communications organisation meant that there was no knowledgeable independent spokesperson to manage enquiries from the media, the general public or pressure groups. Neither did the Company have any managers or scientists experienced in dealing with ill-informed questions.

In order to minimise possible variations from the Company's preferred message, and because I dealt with all announcements of trading results, I decided that all responses and initiatives should come from me. This could be arranged logistically because while my office's communications and computer systems were integrated with those of the Company, I also had a separate telephone network controlled by staff who reported directly to me.

However, the volume of enquiries and the extended time period over which they poured in threatened at times to overwhelm the office and most certainly reduced the time I had available to direct and manage the Company. As each month passed and one crisis rolled into another, I involved more of the senior management team and, as a consequence, increasingly less of their time was available to manage their divisions.

Directors and management were not regularly informed of the trends and objectives of pressure groups or political parties, as might have been the case if public relations advisors had been retained. Thus when the initial controversy developed into a full blown crisis, the directors had no strategy guiding its tactical responses and as a result were constantly surprised and outmanoeuvred.

Further, without the wider perspective that a knowledgeable outsider can provide, it took the Company several months to realise that there were alliances between the pressure groups and the government. Also, whereas the main target of the pressure groups was not to punish individuals or the Company for cruelty to animals but to attack the necessity to use animals in research, the government's primary target was to establish its political credibility and to inflict damage on the Company. If this had been understood sooner, the early messages from the Company would have been more forthright in identifying the government's connections with the Company, in promoting the value to society of the research it undertook and less defensive.

The presumption that the government regulator would rush to the defence of the Company when faced with a determined attack on its business, having enjoyed for many years a mutually dependent relationship, proved to be naive. In order for the newly elected Labour Government to appease a particularly vocal support group, who commanded widespread public sympathy, they chose to condemn the Company with no indication of any sense of proportion. It was an inevitable consequence that the Company would be damaged.

The Company was slowly beginning to recover from this attack when the high-profile American organisation, People for the Ethical Treatment of Animals (PETA) led by Ingrid Newkirk, intervened. However, even the campaign that Newkirk was driving against the Company, both directly and through surrogate organisations, was faltering until the unexpected intervention of Rt Hon Jack Straw MP, Secretary of State at the Home Office. As if to be seen to be fulfilling a pre-election pledge of 'a new life for animals', which had secured substantial donations for the Labour Party's campaign as well as garnering the animal lobbyists' votes, he authorised a statement to be released to the Houses of Parliament. The Company was condemned and, in language that was widely perceived as emotive, he went as far as to jeopardise its very existence by threatening to revoke its Certificate of Designation. Without this certificate, animal research can not be conducted.

Whether Jack Straw anticipated the severity of the economic damage that would result from the government's intervention or not, the tone and content of his threats towards the Company were undoubtedly designed and timed to win political credibility. It is also possible that he was influenced by recent and ongoing discussions with certain well-financed groups lobbying for a complete ban on the use of animals in research, even that for potential medicines and medical practice.

Despite persistent lobbying from the Rt Hon John Major MP, the constituency MP for Huntingdon, and Lady Blatch, the Minister in the last Conservative Government responsible for the operation of the Animals (Scientific Procedures) Act, Jack Straw refused to take any measures to ameliorate the crisis caused by the government's statement. He refused to publish the Home Office's report on their investigation of the allegations against the Company even though much, if not most, of what was in the report originated at the Company. There were approximately 1,400 jobs in the UK on the line but the government was not prepared to take any steps, either privately or publicly, to repair the damage.

Subsequent media reporting pandered to the public's sentimental attachment to animals. Without exception the media chose not to publish balanced comments with references to the enormous benefits to society of the Company's scientific research, nor to explain that the allegations related to one small section of the Company's work and involved only a handful of employees.

Fears of media intrusion, a desire to avoid criticism from animal activists – particularly the PETA organisation – concern that patients might reject their products and above all else, the unpredictable behaviour of the government, led many of the Company's pharmaceutical customers to abandon their collaborations with the Company.

Furthermore, over several months discussions had been taking place with various competitors tentatively exploring possible business alliances of some form. However, the damage to the Company's reputation caused by the original allegations and the subsequent statement from the government caused considerable anxiety among those companies. They were fearful that any leakage that there had been discussions or that there were ongoing discussions could damage their stock market rating and that possible initiatives by the government could make the cost of undertaking animal research in the UK uncompetitive. With their projections for the Company's foreseeable future not showing a return to previous levels of profitability and cash flow, any business alliance would probably result in a dilution of their performance. Thus any prospects of a deal were extremely remote; in other words, this exit route out of the Company's crisis was closed.

Neither the Company's stockbroker nor corporate finance adviser seemed able or willing to rally the shareholders to use their influence, collectively or individually, either privately or publicly. The Company's advisers appeared to be more concerned about their eminent position within the City of London's inner circle and their own vulnerability since key people in the London Stock Exchange (LSE) had expressed more faith in the animal lobbyists and media than Company management. Also, in a new development, City business people had begun to receive threatening mail, causing acute nervousness.

Without customers there are no orders and cash is used without being replaced. Isolation from many customers and the heavy costs associated with fighting back against the campaign of disruption being waged in each of the Company's territories precipitated a desperate need for more cash. The Company's syndicate of three banks was reluctant to help, except National Westminster Bank plc (NatWest), who were indebted to the Company for having ensured it did not suffer any loss or adverse publicity during the Company's actions in 1994 and 1995 to dispose of its engineering divisions, particularly Travers Morgan, which had accumulated an overdraft of over £6 million that the Company repaid in full.

At the eleventh and a half hour, the syndicate of banks stepped forward to help, but still remembered to charge a fee and punitive interest rates. The art of gouging did not give way to sentimentality. The Company's stockbroker and corporate finance adviser were actively putting barriers in the way of the Company's directors to discourage any initiative to seek cash through an issue of shares. Until, that is, when it was beyond doubt that a syndicate of new investors was prepared to inject substantial cash. Advisers were quick from their starting blocks to demand significant fees in return for providing their sponsorship to existing shareholders of a request for cash in return for shares. Under the listing rules of the private club, the LSE, they oblige any company wishing to have its shares listed so that they can be bought or sold, to have a sponsor from one of their member firms.

In the end the Company survived but only after the directors resorted to financial opportunists, or 'bottom dippers' as they are called in the US, which is very costly for existing shareholders. Moreover, the adverse publicity and the actions of the UK Government have probably changed the enthusiasm for, and increased the cost of, preclinical contract research in the UK.

Throughout this period of turmoil I was the CEO of HLSG and at the very epicentre of the storm that engulfed the Company. In the words that follow, I will guide you through my experiences and the impact on the Company and its employees of the events that unfolded.

I will trace back to the failed diversification strategy of the 1980s and 1990s, and the beginnings of the Company's eventual fall from having built excellent brand recognition through to the collapse of its reputation. An extensive programme of diversification was financed mainly from the high profits and strong cash flow of HLSG, the core and original business. I believe there is sufficient circumstantial evidence to prove that the Company lacked the necessary leadership to create a mini-conglomerate multinational, and that the collective management team of the core business was too weak on its own to manage decisively when demand for its services grew unexpectedly.

I will describe how at times it seemed the crisis had subsided only to flare up again, as best illustrated with the intervention of the Secretary of State at the Home Office in the UK Government. Problems escalated when the UK Government, newly elected on 1 May 1997, adopted a high-profile threatening stance several months after the controversy became public knowledge. Publicity for the pressure groups had waned when, at the end of July 1997, the government gave their campaign a high-octane injection. Customers who had weathered the initial storm were frightened by their announcement. New orders had recovered remarkably well in July 1997, but after the government intervention they dropped off dramatically and precipitated a major cash crisis.

The challenge to find a corporate solution to the need for more cash was initially almost solely dependent on increasing the number of studies started each month and restoring new orders per month to their former levels. Customer confidence is key to orders and, shocked by the government's statement, that rapidly drained away. Not surprisingly, the deteriorating cash position accelerated and the solution became increasingly contingent on shareholders, the introduction of new owners and the Company's banks increasing and extending the due date on their loans.

In these circumstances, the directors expected the Company's financial advisers to show imagination and to devise a strategy for survival. However they seemed to be adopting a 'let's hope something turns up' tactic and we suspected that they were fearful of being associated with controversy that might in turn tarnish their reputations. Eventually when the chips were down and negotiations with the potential providers of new cash were at their most complex and tense, the Company's corporate lawyer more or less took on the role of corporate finance adviser as well.

During the run-up to the EGM, at which the directors' refinancing proposals were to be approved, the pressure groups stepped up their harassment of shareholders. This showed they had not understood that, without having canvassed opinions and concluding there was strong support, the directors would not have issued a Prospectus and called the EGM. The Company's lawyers again showed their mettle and professionalism. Not only did they school the Chairman extremely well, but a senior partner sat at the head table throughout the EGM with the directors and clearly presented himself to a largely hostile audience. The advice and guidance from the lawyer proved decisive in outmanoeuvring the activists.

Despite frequent chaotic scenes, we won sufficient support for all our proposals. The Company narrowly survived its most grave crisis. A few truly key employees had begun to

leave but management could now concentrate on winning back customers and returning the Company to profit and positive cash flow.

This story is a salutary reminder that no matter how successful you are, it can be a fleeting experience, and anyone would be well advised to regularly review the key elements that brought them success. From time to time it would be wise to undertake a risk assessment to determine the vulnerabilities of each element and to ensure you have in place adequate monitoring mechanisms that will provide early warning of failings that, without prompt correction, could indelibly tarnish your reputation.

It should not be forgotten that none of this would have happened without the opportunity for a junior member of staff to access and record various sensitive commercial operations and to steal certain information that could be sensationally presented. Thus, I have learned that employers should be particularly careful to increase their surveillance powers of search and scrutiny of all employees both before and during their employment.

Finally, I will explain the unsettling and disturbing impact of the persistent intimidation on the Company's employees and, in particular, the 1,400 people working in the Company's laboratories in England. Most employees lived within a few miles of their workplace and many suffered abuse and physical intimidation from both neighbours and outsiders. From being proud to work at the Company, it became necessary to take advice on their personal security from police and security personnel.

Throughout the crisis staff suffered incalculable stress at home, on their way to work, while at work and then again on their way home. Sometimes departure from work had to be delayed for several hours. Threatening telephone calls, including abusive messages on answering machines, were not uncommon. Death threats and other unwelcome mail were a regular occurrence. In the north west of England at the Wilmslow Research Centre (WRC) several employees were followed, their homes and other property attacked, and although more selectively targeted, this also happened in Cambridgeshire.

PETA and their main surrogate organisation, the British Union for the Abolition of Vivisection (BUAV), helped to organise and finance leafleting campaigns in the locality of each of the Company's laboratories and were probably involved, in some form, in the demonstrations outside the laboratories.

The Company tried to relieve some of the harassment being suffered by staff by seeking an innovative injunction under the Protection from Harassment Act of 1997. It helped and gave the police a legal basis for more stringent action to protect staff. However, the cumulative stress weighed on employees both physically and mentally; the most vulnerable were the more junior personnel, who often lived the closest to a laboratory.

2

METAMORPHOSIS AND DEVELOPMENT

Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning

Sir Winston Churchill, 1874–1965
Speech at the Mansion House, London, 10 November 1942

Professor Alistair Worden and a group of scientists commenced business in 1951, based in a substantial 18th century house in the centre of Huntingdon, 20 miles north west of Cambridge. They advised the government and the emerging food industry on nutritional matters and, specifically, the toxicity of ingredients and foods. During the 1960s, the business expanded rapidly based on research into the effects of smoking undertaken on behalf of the tobacco industry and, increasingly, toxicity research on potential medicines for the pharmaceutical industry. Demand from the latter grew dramatically, partly as a consequence of regulatory review bodies being set up and strengthened around the world, and also because of the public's insistence on more extensive testing of potential medicines before use in humans. Larger and more extensive tests were required and these were to be conducted on various species of animals.

The expertise and proprietary knowledge accumulated by the scientists at what had come to be known as the Huntingdon Research Centre (HRC) was highly sought after. From 1964 through to 1982, HRC was a wholly-owned subsidiary of Becton Dickinson, the world's leading company in the manufacture and distribution of medical devices and laboratory equipment to the healthcare industry, research-based pharmaceutical companies and laboratories generally.

During the late 1960s, HRC acquired a 73-acre site outside Huntingdon and began to establish animal breeding and holding areas as well as extensive research facilities and administration offices. Over the following 20 years, it developed into the largest research site in the world in what became known as the contract research industry, employing over 1,000 scientists, animal technologists and support staff.

Contract research involves the undertaking of biological safety evaluations to identify risks to humans, animals or the environment resulting from the process of manufacturing, or the use of, a wide range of compounds that may become essential to a product. The most demanding regulations are generally associated with the determination of the safety and effectiveness of compounds that have potential as medicines. HRC provides these research and assessment services to leading companies in the pharmaceutical, biotechnology, agrochemical and chemical industries and to various government agencies.

Companies buy-in these services for many reasons. A company may have few compounds undergoing development and may not have the necessary animal and science expertise in-house to undertake a complex multi-year research programme. Substantial investment in buildings, equipment and support staff is required to undertake these programmes. They are costly to maintain and expensive to continually update. By outsourcing, a company can turn potentially heavy fixed costs into variable costs and only incur expenditure when there is a

specific demand. Big, global industry has a reputation for over-engineering its capital programmes, being administratively inefficient and paying salaries well above the market rates; thus it is relatively easy for their in-house costs to be undercut by a contract research organisation.

Other companies, often in the biotechnology sector, have decided to concentrate their efforts on fundamental research and everything thereafter in terms of compound development, marketing and distribution is to be outsourced. HRC has undertaken much broader, and sometimes more complex, research than many sponsoring companies and in doing so established a global reputation for thoroughness, scientific expertise and information reliability with the regulatory authorities that would be difficult for some sponsoring companies to win and maintain.

Another important reason for outsourcing seldom mentioned is that many companies wish to minimise the chance of being caught up in the public debate about the use of animals in research. Public interest in the practice has been growing over many years, especially when, from time to time, there is political controversy over a particular study or the treatment of animals.

In 1983, HRC became the world's first publicly quoted contract research company under the name Huntingdon Research Centre plc (HRCPLC). Sponsored by its parent company headquartered in the US, its ordinary shares, in groups of five, were quoted as American Depositary Shares on the National Association of Securities Dealers Automated Quotation System (NASDAQ), the over-the-counter share trading organisation based in New York. The backing of its highly regarded parent company and, although without a lengthy record of independent operations, the established reputation and world renown of its leading scientists, ensured this initial public offering was extremely successful.

In 1987, the ordinary shares of HRCPLC, under the name Huntingdon International Holdings plc (HIH), were listed on the LSE and subsequently, in 1989, these ordinary shares in groups of five were listed as American Depositary Shares on the New York Stock Exchange (NYSE). The shares were simultaneously withdrawn from the NASDAQ. The original contract research company business, assets and staff were consolidated into HRC, which continued to be the world leader in its field.

In 1985, the directors of HIH began an aggressive strategy of expansion. From 1985 through to December 1991, HIH completed 20 acquisitions: 18 companies were purchased in the US and two in the UK. All these acquisitions were in the engineering, materials testing and environment services business sector. Directors assumed that the political determination to establish high standards of clean air and water, reduce noise pollution, restore government, commercial, and domestic landfill sites and other desirable environment improvements, all backed by legislation, would generate substantial and growing demand for laboratory-based field activities.

HRC generated substantial profits and surplus cash and typically its capital expenditure was funded entirely from its own resources. Gross margins on multi-year packages of studies involving toxicology and pathology were commonly about 35% and rose to over 40% if the sponsoring company also required biochemistry support and analysis. Marketing, sales and administration were operated under tight budgets consuming only about 11% of revenues; thus HRC's profits before tax were normally about 25%. Tax costs were considerably lower than the standard rate because of allowances against revenue in relation to capital

expenditure. Skilfully, HRC had established payment terms which meant customers largely funded their own research programmes through cash upfront and sizeable stage payments.

However, from 1985 onwards, within HIH there were other cash needs because the diversification programme was largely financed with bank debt and small issues of equity backed by the assets, profits and cash generated by HRC. In August 1991, bonds of $50 million were issued to replace some of the bank debt and to finance further acquisitions. Nevertheless, HRC continued to expand its scientific expertise and several scientists were frequently a source of expert opinion for various regulatory organisations, for example: the World Health Organization (WHO); the US Food and Drug Administration (FDA); the UK's Department of Health and Ministry of Agriculture, Fisheries and Food, and several ministries and departments of the Japanese Government, for example the Ministry of Health and Welfare and the Ministry of Agriculture, Fisheries and Food.

Despite significant barriers to entry, competitors began to emerge in the 1960s, mainly in the US; but HRC's principal competitor, Hazelton, expanded from the US and began operations in the UK in the 1970s. Contract research offered lucrative employment for scientists who could also continue to undertake their own research. With the significant growth in R&D in pharmaceutical companies and their need for outsourcing in order to efficiently process the large numbers of potential medicines being discovered, other competitors began to establish themselves in the late 1970s and 1980s. Initially they concentrated on the 'recipe' or repetitive science, that is, animal-based toxicology studies particularly required by pharmaceutical companies in order to satisfy data requirements established by the major regulatory bodies.

Within HIH, competing demands for cash and with the directors focused firmly on the acquisition programme, their collective 'eye was taken off the ball'. The management of HRC, the jewel in the crown, went astray and their indecision resulted in insufficient investment in buildings, systems and scientists to keep ahead of demand. Competitors stepped in enthusiastically to grow on the back of this burgeoning demand. Customer support for HRC became increasingly attached to one or more individual scientist, and these scientists became accomplished at outmanoeuvring their colleagues to achieve a share of the available cash cake. Their main technique was to cultivate customer loyalty to their science capabilities and to individual members of staff in their department. Specialist scientific expertise was emphasised rather than overall project management. Senior scientists saw virtue in selling independently of other HRC areas of expertise and thus reinforced customers' narrow perception of HRC's service offerings. HRC became known as a seller of technical science skills rather than a development partner.

Although HRC's dominant competitive advantage began to erode in the late 1970s and early 1980s, it remained the leader because of two important factors.

Firstly, in 1979 the FDA promulgated the good laboratory practice (GLP) regulations defining the standards under which research was to be conducted. The UK followed in the early 1980s by introducing voluntary compliance under the stewardship of the Department of Health. These regulations outline the procedures and processes under which research is undertaken and data recorded. Above all, the FDA laid down requirements that needed to be fully implemented in order to demonstrate acceptable levels of management and control of laboratory practices, procedures, data collection and recording. Unless data submitted to the FDA in application for a marketing licence for a potential medicine were based on research completed in a GLP approved laboratory, the application would not even be considered.

HRC had been operating for nearly 30 years and many of its scientists had a world-renowned reputation. It had undertaken complex projects at the frontier of scientific research, thus accreditation under GLP was almost a formality. At a stroke HRC's reputation was enhanced and another barrier to entry into the contract research industry was erected. Biannual audits resulted in confirmation of accreditation as did numerous other visits to examine in-depth a specific research programme on behalf of a foreign government agency. The acceptability of HRC's research by regulatory bodies became widely known.

Secondly, an outstanding scientist with pre-eminence in the application of biochemistry had shown himself to be astute at winning sizeable cash allocations in HRC's internal annual bidding process. Companies were increasingly reliant on biochemistry in their understanding of the potential of chemical molecules, particularly pharmaceutical and agrochemical companies. Biochemistry techniques were being used to design animal toxicology research and to analyse and understand samples taken from that research. The science involved was much less tightly defined than that in toxicology and required the determination of hypotheses and methodologies through iterative discussion between HRC's scientists and those leading development in the sponsoring company. This 'high' science was extended into other areas, such as veterinary products and general environment applications. HRC charged a premium price for these services and the managing scientist was able to win sufficient funds to refurbish old laboratories and open new ones.

Other barriers to entry facing potential competitors relate to the welfare and care of animals to be used in scientific procedures. In the UK, the Home Office administers the Animals (Scientific Procedures) Act 1986, which provides for the control of scientific procedures carried out on living vertebrate animals and their environment. Laboratories in the US undertaking such research are subject to the US Government's Department of Agriculture (USDA) Animal Welfare Regulations. Furthermore, laboratories in the US should be certified by the Association for Assessment and Accreditation of Laboratory Care.

Typically, HRC receives about 18 surprise visits per year from the Home Office's Inspectorate and in the US there is an annual inspection by the USDA and a biannual appraisal by the Association for Assessment and Accreditation of Laboratory Care. Prior to the introduction of these regulations, HRC was consulted and due to its experience of breeding certain species, undertaking extensive research on living animals and operating the largest facilities in the world, HRC was considered a centre of excellence.

HIH's acquisition spree peaked with the December 1991 purchase of an engineering consultancy in the UK that on detailed scrutiny, post acquisition, was dependent on civil engineering and major infrastructure projects for approximately 80% of its revenues. This company was Travers Morgan Ltd, which was virtually insolvent and entirely reliant on Hambros Bank's goodwill in relation to its burgeoning overdraft. HIH paid almost entirely in cash. There were no obvious synergies with the engineering, material testing and environmental service acquisitions made in the US since 1985. Furthermore, the different business culture, location of the respective head offices and the IT infrastructure of HRC meant that there were no synergies with the business in the UK.

In 1992, political uncertainty in the US brought about by the election of a Democratic Party President occurred just as the economy was pulling itself out of recession. Businesses were deferring expenditure on environmental related matters, it having been realised that customers resisted these additional costs; government budgets were being slashed and hundreds of political appointee positions in the Environmental Protection Agency (EPA)

were deliberately left vacant. Thus enforcement of regulations was undermined and consequently company compliance fell away dramatically. The Company's US-based businesses began to experience a gradual decline in orders that in late 1992, early 1993, became dramatic drops in demand month on month.

The economy in the UK in 1992 was also in recession, although not yet having reached its nadir. The UK Government substantially reduced its road building programme through elimination of schemes and the cancellation and deferral of others. Travers Morgan, acquired in December 1991, had heavy commitments and large receivables on many of these schemes, which now came under challenge from government departments and agencies. Additionally, the Government announced significantly tougher regulations in relation to the proposed development of out-of-town infrastructure projects.

HIH profits and cash balances declined in 1993. Cash became 'king', more important than profits and expansion, because HIH had become sucked into a fight for survival. This dramatic decline in performance was the root cause of the Company's first boardroom crisis.

Despite several attempts to reduce the cost base of the US businesses through laboratory and office closures and rationalisation of regional and head offices, the deterioration in financial performance continued throughout 1994. Rather than establish an integrated management structure and shared infrastructure, each acquisition had been encouraged to stay more or less autonomous, making closure without destroying the underlying business almost impossible. The cost base had actually been increased in some respects as a result of an overlay of central marketing staff whose knowledge of regional matters directly affecting operations was negligible. Thus it was concluded that further closure programmes would require more cash than the Company had.

The cash being generated by HRC was sustaining HIH, but could not also support the level of capital expenditure HRC required in order to satisfy demand through adding new services and facilities and increased recruitment. Being quoted on the NYSE meant that HIH was obliged to publish a quarterly trading report and, with approximately 80% of ordinary shares at that time controlled from the US, shareholders demanded a profit and loss account, balance sheet and directors' comments on the results. Announcements of bad news either preceded or accompanied those reports.

Although HRC continued to trade profitably and to generate significant amounts of cash, its performance was overwhelmed by the deterioration in the other two divisions. Customers of HRC increasingly questioned the commitment of the parent company, HIH, and openly sought reassurance that HRC could fulfil its obligations over a three-year research programme. It was also becoming apparent that demand in certain animal toxicology areas had fallen behind expectations, despite estimates that total demand from industry in those areas had increased.

Enquiries revealed that companies had chosen to place their research with HRC's competitors because HRC's facilities and IT were no longer considered to be state-of-the-art. The decision to go elsewhere was taken despite those companies' loyalty to HRC's scientific excellence. The growth in orders in scientific areas other than toxicology was over 20% per annum. However, the growth could have been much greater if HRC had brought on-stream additional facilities and more qualified and experienced scientists. Instead, this additional growth went to competitors whose management was more focused and not distracted by the need to survive.

After a lengthy and intensive examination of its strategic direction, much of it conducted in public under the overall direction of DrKB, HIH managed to dispose of its engineering businesses by mid-1995. The balance sheet was ravaged. This process involved a write-off of about £110 million in shareholder value, which included approximately £32 million in cash spent on the acquisition and ownership of Travers Morgan since December 1991.

The disposals were achieved in two very different ways and attracted considerable publicity. However, before progress was made, there was more upheaval in the boardroom.

Headlines in the *Independent* on 17 May 1994 announced: 'Huntingdon chief resigns after new profit warning.' They pointed out that three profit warnings had been issued since March 1993. This theme was picked up on by both the *Financial Times* and the *Daily Telegraph*; the *Financial Times* added: 'The review concluded that neither of these divisions had the earnings prospects originally envisaged.' They were referring to the DrKB strategic review of the US engineering services business and Travers Morgan.

In September 1994, the sole potential purchaser of the US engineering business abruptly terminated its interest on the grounds that its environmental liability profile, poor order book, weak management and financial liabilities were such serious matters that they believed the purchase could wreck their existing business.

By October 1994, the last of the three parties interested in Travers Morgan had either declined to offer or only wanted an option to buy in the event of the business improving. In the UK, the property commitments of Travers Morgan were by far the largest liability. These included a lease for 25 years with no break clause that would allow Travers Morgan to vacate without severe financial penalties. Furthermore, the rent was to be reviewed and increased every five years and there was no option to sublet the property.

However, of major concern to directors was Travers Morgan's ever-increasing need for cash for it to stay afloat. There were only two sources, to increase bank borrowings guaranteed by HRC and HRC itself.

The UK engineering business employed approximately 800 professionals who were considered some of the best in their field. To secure their employment future through their acquisition as a whole by another company, the liabilities of the business would have to be reorganised. There was only one way to do this without destroying the business – to put Travers Morgan into Administration using the UK's insolvency laws. Administration is a scheme of arrangement under which appointed managers continue to operate the business while they try to maximise the value of the business assets, usually though sale as a going concern.

Such a step by a public company was unprecedented. A listed public company had never withdrawn financial support from a principal subsidiary, so forcing it into Administration. In order to achieve this John Talbot, the managing partner in Arthur Andersen's insolvency practice, had to be persuaded that it was not a ploy by directors to avoid creditors. After making some enquiries and reviewing Company documentation, Arthur Andersen agreed to take on the assignment with the proviso that the Company financed the initial period of Administration to ensure that all creditors were treated equally and so they could establish their own cash flow. They reviewed Travers Morgan's recent and current trading, the failure to find a buyer, prospects in the near term and its liability profile. Arthur Andersen predicted

a successful outcome of six months for the Administration; in the event, the administrators did not make their first payment to creditors until three and a half years later.

Simmons & Simmons's, the Company's corporate lawyer, together with a barrister (where appropriate) reviewed the same papers seen by Arthur Andersen and concluded that an effective Administration could succeed.

During November 1994, the directors were advised that the Trustee for the Bondholders would agree the action did not prejudice the interests of the Bondholders. If it did, they could demand repayment of their Bonds (issued in August 1991), which stood at $50 million in total. DrKB were reluctant with their support, so the authoritative intervention of Schroder Wagg, the Company's former corporate finance adviser, was sought. They responded magnificently despite their disappointment at not having led the strategic review. They reviewed the Company's projections, evaluated the impact of the Administration and provided the Trustee with a convincing, persuasively argued opinion that unless it was done, it was probable the whole Company would fail. The final push for the Trustee was probably the involvement of NatWest Bank in support of Schroder Wagg's opinion.

Ian Campbell, the Chairman of HIH absented himself from discussions and suddenly brought forward his resignation to 15 December 1994. This was the day on which Travers Morgan was placed in Administration and joint administrators were appointed. The share price fell to 16p, having been nearly 210p at the end of 1992.

David Anslow signed the Report and Accounts for 1994 on 16 December 1994 in his capacity as CEO. The Nominations Committee had accepted that the Company needed a new Chairman who was well known in the City of London, had extensive experience of recovery situations and was an industrialist by background. On 19 December 1994, Roger Pinnington was appointed Chairman.

During January 1995, it became clear that the restructuring of the US business was not going to be sufficiently successful in the near term and had now begun to need cash injections from HRC via HIH.

A strategy of disposal was again adopted but this time Roger and I were to look for a regional buyer in the US who had national aspirations. David Anslow chose to resign in February 1995 and I was appointed CEO. Almost simultaneously a regional-based buyer was found for the US engineering business.

By mid-1995, HIH's revenues and employees were reduced by three-quarters. Annualised revenues dropped from £174 million to approximately £42 million and the average number of employees fell to 1,050 from 3,789; dramatic and sudden changes.

Early in 1995, HIH began to concentrate its energy on returning its core business, HRC, to its former position of leadership and dominance in contract research. The priorities were to establish a laboratory in the largest market, the US, and to add quality facilities and scientists to its operations in the UK in order to replace those facilities no longer considered to be state-of-the-art and to broaden HRC's service offerings.

An acquisition from Applied Bioscience International Inc (APBI) was completed in November 1995. The Company acquired a laboratory in New Jersey, US, and in the UK, a

specialist laboratory near Newcastle and another large multi-purpose site near Eye, Suffolk, approximately 80 miles from HRC.

The overall size of HIH measured in revenues and staff almost doubled. However, the acquired laboratories were not profitable and their added value per employee was considerably lower than HRC, which was still considered the benchmark for the industry. Further, the service additions were all in toxicology, confirming the misconception among industry watchers and customers that HRC was entirely dependent on animal-based contract research. Customers had a narrow perception of the Company's service offerings and this would prove to be a major 'Achilles heel' when the crisis erupted in 1997. However, there were enormous opportunities for growth as there was little overlap in the customer base between HRC and the newly acquired laboratories.

Business objectives in 1996 in the UK were to reduce the cost base, establish a unified management structure, create centres of excellence in services offered to customers, and to eliminate inefficiencies and duplication in support services and administration. Despite a reputation for relatively unreliable quality and unsatisfactory facilities compared with pharmaceutical industry standards, the laboratory in the US had a small group of loyal customers, mainly in the agrochemical and chemical industries. Thus, in the US the business emphasis was on the introduction of HRC standards.

Customer feedback in response to the acquisition announcement was ambivalent. They were concerned that, having relatively recently freed HRC from the deadweight of the underperforming engineering divisions, directors were again distracting management and financial resources from the development of HRC. Further, customers stated they expected to see best practice being adopted, whether originally that of HRC or from the acquisition. Unfortunately, customers often wanted to continue with the practice with which they were familiar and protested when we proposed change, as in their view, familiarity conveyed 'best practice'.

New orders obtained in 1996 were 15% higher than achieved in 1995. This increase in demand was greater than the estimated growth in spending on R&D among customers of approximately 10%. The growth in outsourcing was greater than anticipated considering that it occurred during a year in which HRC was integrating a major acquisition, involving the implementation of a substantial restructuring programme to eliminate jobs at senior and middle management levels while recruiting aggressively.

Approximately 120 employees were made redundant from the combination of businesses in the UK and a single management structure covering the two major research centres was established. However, the Chief Operating Officer (COO) who had joined HRC in 1992 as Deputy Managing Director succumbed to the stress and strain of the staff consultative process and left abruptly in May 1996. The Company had lost an accomplished manager and scientist at a critical stage in its recovery.

HRC typically performs a number of contracts simultaneously for each of its major customers, among which are the world's leading pharmaceutical, biotechnology, agrochemical and chemical companies.

Orders are received from over 20 countries. The geographic split of orders is approximately 50% from Europe, 25% from the Far East and 25% from the US. HRC has been particularly successful within the pharmaceutical industry. Certain customers also have a significant

presence in the consumer products industry segment, for example, household-cleaning agents, non-prescription medicines and personal care products.

For most customers the contract value, albeit sizeable to HRC, is a relatively small portion of the expected total expenditure on R&D of a single candidate compound or product. However, for customers not familiar with regulatory bodies' research and data requirements, the choice of contract research organisation is a major strategic issue and in those cases the final decision is taken out of the hands of the commissioning scientist. Further, for small or medium-size companies who may have few compounds in research, the choice of contract research organisation can mean the difference between success and failure of the company.

Having decided on a contract research company, the commissioning scientists within the sponsoring company are reluctant to consider changing and the relationship normally becomes long term; many customers have used HRC for over 20 years. Most of HRC's customers are global, household names and the compounds or products on which HRC has worked on are similarly well known. Once established, loyalty is a prized asset, but being based on reputation, it is fragile and easily lost if the underlying trust is broken as happened to the Company in 1997 as a consequence of the allegations made against it.

With an accounting year end of 31 December, the period from the end of January through to March involves the additional burdens of statutory audit, reporting on corporate governance matters, publishing results and presentation of those results to shareholders and financial analysts in both London and New York. It so happens that most HRC customers follow a calendrical budget cycle, which means sizeable contracts are under discussion in the last quarter of each year resulting in awards in the first quarter.

In the first quarter of 1997, unusual activity underway involved intense negotiations to purchase from Ciba Ltd their laboratory and marmoset breeding colony at Wilmslow, near Manchester (WRC), which the new company, Novartis (formed out of the merger of Ciba-Geigy and Sandoz) considered surplus to requirements. Also, encouraged by the Home Office, the Company was in complex negotiations with Consort Ltd to purchase their breeding colony of beagle dogs and young animals either recently weaned or not yet weaned. The Company's share price had risen from 67p to 110p at the time of the November 1995 acquisition so new equity up to 5% of the Company's shares issued was being placed with certain institutions and fund managers to raise, after costs and expenses, £5.7 million.

Hence during the beginning of 1997, the Company's directors and key managers were fully engaged on strategic matters as well as endeavouring to drive the business forward. The Chairman and I were additionally having early exploratory discussions with potential acquirers or merger partners.

The Board believed that the Company was not understood in the UK, being the only contract research organisation quoted on the LSE. The small companies sector was beginning to find it difficult to establish a following among investors in the UK and the Company was vulnerable to a shift in public and political opinion against the use of animals in research. In short, the company needed a 'safe haven'.

3

COURTIERS EJECT BOARDROOM DESPOT

Power tends to corrupt and absolute power corrupts absolutely

Lord Acton, 1834–1902
Letter to Bishop Mandell Creighton, 3 April 1887

Throughout my career in major multinational companies, colleagues and more senior management had always encouraged review and challenge. This procedure operated at almost every level and there was always available a considerable number of professional and experienced staff from whom advice was freely dispensed. Responsibility was exercised collectively and, through this management process, any apparent failure was either turned into or presented as a success, albeit sometimes modest. Collective responsibility and loyalty should not necessarily result in subservience, but when this becomes the culture bonding a team, failure is inevitable.

In order to obtain an appointment in a public company I was advised by a headhunter that I would have to demonstrate that I could operate at the highest level in a major subsidiary of a multinational at some distance from the comfort and support of head office.

I joined the Company in 1993 after a recruitment process that lasted almost five months, during which time I thoroughly digested the 1991 Annual Report and Accounts and the corporate marketing brochure. Unfortunately, it wouldn't strike me until much later that I was given outdated documents for a reason. Behind me were many years of employment with stable organisations in which personnel changes were usually the consequence of effective succession or career planning managed by the Human Resources division. Not surprisingly, I was comforted by the Company's blurb drawing attention to the majority of directors' long service. I failed to attach any significance to the recent appointment of a President, Jack Falcon, to the US division, which was in fact a loose confederation of about 18 small businesses built up over seven years from 1985.

It is generally accepted by organisational management consultants and management trainers that an odd-numbered team of individuals normally works more effectively than an even-numbered team, if only because group dynamics operate so that subgroups of like-minded persons form within the team with one subgroup ultimately becoming more dominant. To reduce the tendency for outright conflict, formal teams are typically limited to five or seven individuals depending on the ability of the leader to manage good relations with each individual as well as leading the team. However, I foolishly overlooked this golden rule and joined a Board of eight directors, one of whom occupied the two most powerful roles, Chairman and CEO. This was Bennie Woolley, who had been in this dominant position for over 10 years. I assumed, naively as it transpired shortly after I joined, that the other directors had been and would continue to be a powerful counter-balance and to serve to moderate his more aggressive behaviour. However, this was not the case.

Company law refers only to directors, so it came as a surprise to me to witness the efforts being made by certain directors to narrowly define their role as being non-executive and concerned with shareholder relations only. Although there was no evidence of any of these directors having regular contact with institutions or fund manager shareholders, they

appeared to indicate they had satisfied the objectives of their role. For example, the Company's share price had risen from about 53p in 1985 to a peak of 357p in June 1990. Over the five-year period up to 30 September 1991, earnings per share had generally increased with there being only one year of decline, 1991. The directors seemed determined not to be held either responsible or accountable for performance. Signs of this passivity first appeared during my recruitment, but I was so flattered at being approached by a public company operating in an area that I knew, that I was blind to any warning signals suggesting all was not well.

Having worked in multinational companies for over 20 years before joining the Company, I had participated in several management development programmes in which the greatest importance was attached to effective leadership, positive communication and project management of multidisciplinary teams. I believed I was ready for my first step into managing at Board level in a publicly-owned company that had its shares listed on the LSE. I was looking for the experience of both managing in a customer-orientated company and dealing with shareholders.

In June 1993, about three months after joining the Company as Finance Director, I began to appreciate the significance of several troubling signs seen during my recruitment. On each occasion that I met Bennie Woolley, it was at the offices of the search agency, MSL International rather than at the Company's headquarters. It was explained to me that it would be too awkward to meet there.

Although there were four non-executive directors with a collective 43 years of experience of the Company, it was proving virtually impossible to meet any two together in order for them to complete the formalities expected of the Nominations Committee. This was dismissed as being unimportant by MSL since I had Bennie's seal of approval, but I did eventually meet the senior independent non-executive director.

Ladislas Rice has a distinguished business career, which included Urwick Orr management consultants and the Burton Group plc, where he had been Chairman and CEO. However, he was most interested in my knowledge of the then UK Government's recently introduced restructuring of the National Health Service because of his involvement with a newly formed Hospital Trust, and my position within a leading pharmaceutical company. Being interested in this area of government policy, I happily allowed myself to be distracted from thoroughly exploring the workings of the Board.

My start at the Company was not auspicious. When I walked through the door for the first time as Finance Director on 15 March 1993, I was handed an announcement about reduced profits and cost reduction measures that had been issued via the LSE several days previously but not communicated to me.

In the beginning the Board meetings were strange affairs. Normally, 72 hours beforehand an agenda and supporting papers would be distributed to all directors including lengthy commentaries on operations. Nevertheless, in the meeting it was traditional for the author of each report to subject the gathered throng to a monologue that was virtually read out from the paper. Such time-consuming actions prevented proper challenge and the discussion of more interesting items, for example strategy, getting onto the agenda and perhaps embarrassing Bennie by revealing ignorance among the executive directors.

Divide and rule emerged as Bennie's leadership style, and without his presence or instructions, the executive directors did not meet to discuss the overall business or challenge colleagues. It was accountability without responsibility.

Those present would begin to assemble, led by Bennie striding into the boardroom and occupying the head of the long boardroom table, laying out his papers, pipe and cigarettes. At the opposite end sat Ian Campbell who had been persuaded by Bennie to remain as a non-executive director after retiring in June 1990. He had served as a senior executive and later a director since 1974.

Peter Dawes, the Group Company Secretary, who was extremely professional and effective, chose not to position himself close to Bennie. Peter had been with the Company for over 10 years.

David Anslow, the Managing Director of HRC, had joined the Company from Shell in 1985, and rumour had it that he had never commanded the full support or respect of Bennie, who had been CEO of HRC prior to the initial public offering and both Chairman and CEO since 1983. I was to learn later that David had to frequently endure the intimidating physical presence of Bennie and to participate in lengthy telephone calls during which Bennie would demand even higher profits and cash flow from HRC. These became more frequent as the trading performance of both the US business and UK engineering business deteriorated.

Jack Falcon, who hunted and fished with Bennie, took a seat close to him. During his comments about the US business he could rely upon fulsome backing and often supportive clarification from Bennie. Jack had been recruited by Bennie from General Motors for whom he had worked since graduation from college over 23 years previously.

Of the remaining two non-executives one, Peter Wodtke, a retired banker and international consultant, was the most obviously disillusioned with the Company management. He always seemed to be awaiting a telephone call from one of his other business interests and seemed to spend an equal amount of time outside the meetings as in them, but he was a free agent and sat anywhere.

The other non-executive, Richard Slater, was a partner in the Company's corporate law firm, Simmons & Simmons. In the first few meetings he mostly kept his own counsel, but during the subsequent boardroom changes and the disposal of the engineering businesses, he proved to be decisive and a source of strength. It was clear that Ladislas Rice respected Richard's advice and opinion; when the Company faced possible insolvency they made a formidable duo.

Conversations were freer now that I was under contract and it was admitted that as the underlying trading results worsened throughout 1991, tension had grown among and between the directors. Nevertheless, it was not acknowledged that they had a collective responsibility and duty to unravel the misleading picture of performance resulting from the regularity of acquisitions and the aggressive accounting practice of fully consolidating each acquisition in the year of purchase, as well as writing off against reserves any excess in the purchase price over the value of assets bought.

Shortly before I joined the Company at the beginning of 1993, the Board had been reduced to seven directors; three executive and four non-executive, because Bennie had forced the Finance Director to resign on the grounds of poor health. It became clear that although he had

taken over from Ian Campbell in 1989, he had never commanded Bennie's loyalty or support. His popularity with Bennie had collapsed because he had apparently begun to caution the Board about unrealistic projections, low profitability and declining cash.

Bennie Woolley had requested financial aid from the Company in 1985 to return to the US and set up an office in Middleport, New York State (about 450 miles from New York City). There he established the headquarters of the US engineering, materials testing and environmental services business. The Company effectively had two headquarters, which created a high financial burden that a small company could ill-afford.

The Group Finance Director and Company Secretarial functions had been located in a headquarters just outside Huntingdon in the UK since 1988. Board meetings were usually held here with three directors flying in from the US: Bennie, Jack Falcon and Peter Wodtke.

Ian Campbell, together with Bennie, had driven forward the Company's expansion in the US and through his polite and studious approach, Ian had exercised considerable influence. However, following his retirement from an executive capacity his influence had waned, and regrettably Bennie had reputedly sought counsel from no one else. Bennie was a complex individual with a razor sharp analytical brain; he was extremely difficult to get to know. He was an outstanding doctorate in biochemistry and for several years had worked on the NASA space programme before joining Becton Dickinson, the parent company of HRC.

Lately, rather than looking at business structural weaknesses, competitiveness, staff losses or market conditions as an explanation for poor performance, Bennie increasingly used excuses such as flu causing staff absences, snow in Michigan and floods along the Mississippi river. He was under considerable strain and it showed.

Although not having been discussed by the Board or Remuneration Committee, and apparently not mentioned to the individuals concerned, the Finance Controller (formerly the Finance Director) had been instructed by Bennie to provide for termination payments for both Jack Falcon and David Anslow. On discovery, when reviewing the trading report for the three months ended 31 March 1993 and asking Bennie for guidance, I was told that he had changed his mind. I was surprised, but for me it was early days.

While this was going on, Bennie was secretly preparing a recovery plan. Without any input from the other executive directors or myself, he circulated a strategy paper to the non-executive directors in mid-April 1993 that praised David Anslow for HRC's results. It explained the poor US results as factors outside the division's control, blamed the profits crash and heavy consumption of cash by Travers Morgan on poor leadership, and basically concluded that the Board needed to show more patience. The existence of this strategy paper only became known to the executive directors in a Board meeting at the end of April 1993. While we were patiently listening to recitals from operations reports, Peter Wodtke showed the first sign of overt disharmony when he challenged a remark made by Jack Falcon and quoted from the strategy paper. Despite repeated requests from the executive directors, Bennie's paper was not received until a full month after its issue and three weeks after the Board meeting.

The mist began to lift in June 1993, when my secretary brought in the facsimile draft of an announcement revealing Bennie's resignation and early retirement. A quick telephone call to Bennie revealed the draft was not for my eyes but for consideration by the Group Company Secretary, Peter Dawes, and the non-executive directors. Apparently at the end of March,

Bennie had hatched a secret plot for him to retire early on health grounds; David Anslow was to be appointed CEO and Ian Campbell to become Chairman. It later transpired that David Anslow had even reached the stage of having accepted a contract. None of this had been discussed with the two other executive directors or submitted to the Board as proposals for discussion.

There seemed to be more than one Board in operation. Firstly, a one-man Board, Bennie, who wilfully exercised his power and hence his plan to fire both Anslow and Falcon. Secondly, the non-executive directors who had instructed Bennie in a Remuneration Committee meeting at the end of March to prepare and submit a recovery plan. Thirdly, the full Board, which largely confined itself to discussion of historical facts and events.

These informal arrangements and meetings within meetings all began to unravel with recriminations when Bennie privately decided that he no longer wished to resign. Matters came to a head as the company approached the planned release of its trading report for the three months ended 30 June 1993. An announcement was scheduled for early August.

The July Board meeting proceeded along in its usual fashion with the only absentee being Peter Wodtke, leaving the non-executives in a minority. A threatening air descended when Bennie announced he wished to make a statement shortly after the Meeting commenced. He fiercely lashed out at the Remuneration Committee, who he accused of having acted beyond their authority and having bounced him into acceptance of a management succession plan which involved his retirement. He unilaterally withdrew his support for their proposals. The surprise on the faces of the non-executive directors revealed their outrage and showed they had absolutely no premonition that this was about to happen.

The Chairman of the Remuneration Committee, Ladislas Rice, supported by the other member of that Committee present, Richard Slater, indignantly rejected the accusations. They made it absolutely clear that they believed they had been betrayed. Nevertheless, they accepted that without the Chairman of the Board, Bennie, sponsoring the proposals, it would be inappropriate to proceed. In an electrified atmosphere, the Board meeting completed its business agenda but it was obvious that the non-executive directors no longer supported Bennie in his dual role of Chairman and CEO.

The next Board meeting was scheduled for Minneapolis in September 1993. As if in an act of revenge, the meeting began with a statement by Ladislas Rice recounting the discussions and evolution of the management succession plan developed at Bennie's initiative since March. Now, in view of Bennie's withdrawal of his support, the non-executive directors proposed to separate the roles of Chairman and CEO, to appoint Ian Campbell as Chairman and to appoint David Anslow as Chief Operating Officer (COO) reporting to Bennie. All directors were present and, although not unanimous on each proposal, the proposals submitted were all passed on a show of hands.

The decisions had been reached by the non-executive directors without reference to shareholders, the Company's stockbrokers or corporate finance adviser. Furthermore, unless certain executive directors were playing a devious game, none of us had been consulted. In other words, the non-executive directors had staged a coup d'état, but they had presented both an unworkable and fragile solution, as events in the next nine months were to demonstrate.

Bennie handled the presentation of results and trading reports, and although my arrival had been properly announced, I had not had a solo public outing. This 'closeted' approach applied

to all other executive directors and the promotion of David Anslow was expected to lead to bemused enquiries from both inside and outside the Company. Enquiries did arise and were directed to Head Office but Bennie declined to respond, and instead delegated to me.

Among the executive directors and senior management of the Company there was little support for the changes. It was generally believed that Bennie bullied David Anslow into doing whatever he wanted and wouldn't allow him under any circumstances to involve himself in either the US or UK engineering businesses.

Two months later, the Board approved further changes based on the Chairman's inspired management structure that recognised Bennie's obduracy and made David Anslow COO International responsible for all operations outside the US but reporting to Bennie. At the same time, Jack Falcon was appointed COO US, also reporting to Bennie. In reality, operations management continued to oversee their sphere of authority that existed before the September Board meeting and to report direct to Bennie.

During the sniping and internecine warfare in the Boardroom, profits in both engineering businesses continued to fall and the UK engineering business was consuming cash at an alarming rate. Projections submitted by those divisions in October 1993 in relation to 1994 were unrealistic and it was more than likely that the Company would breach its banking covenants and fall deeper into the debt. During discussions among the Board about realistic projections, ill feeling and the lack of unanimity in relation to the purchase of Travers Morgan in December 1991 came into the open.

Further, simmering fury about the rapid rate at which the former owner employees of the companies bought in the US were resigning and establishing new competitors led to unpleasant exchanges between Bennie and Jack on one hand and the non-executive directors on the other.

Nevertheless, most directors implied they were surprised to learn that both engineering businesses were apparently in terminal decline and claimed they had been misled by operations reports. The danger emerging was that the underperformance in the two engineering divisions, the UK in particular, would undermine the stock market value of the whole Company and it would either become insolvent or be acquired at a substantial discount to its underlying asset value.

At that time, Richard Lazarus of Schroder Wagg was the Company's principal corporate finance adviser and DrKB was the sole stockbroker. However, Ian Campbell insisted that Bennie and I select either Schroder Wagg or the corporate finance division of DrKB to lead a strategic review of the Company's businesses. For no strong reason other than personalities, Peter Button of DrKB was appointed. It emerged that there was lingering resentment towards Schroder Wagg who were suspected of not selling any Bonds in the issue of August 1991, the success of which was believed by Bennie to be entirely due to the efforts of the co-sponsor, Merrill Lynch.

DrKB found themselves on a steep learning curve, which was extremely demanding on me. However, when a strategic review was announced as part of the Company's trading report for the three months ended 31 March 1994, it was understood by most observers to mean that businesses were to be sold.

Contrary to management advice, DrKB were adamant that one buyer could be found for the engineering businesses, so a single Sale Memorandum of 66 pages was prepared backed by detailed historical analyses and three-year projections. Directors were sceptical of finding one buyer for what were very different engineering businesses but DrKB identified possible targets. As each week went by while the businesses were up for sale, the increased losses and the desperate need for cash in Travers Morgan, the UK business, undermined the projections in the documents.

Chairman Ian Campbell came under pressure from DrKB, both from Jonathon Roe and Christopher Joll, a director responsible for investor relations, and eventually accepted that further boardroom changes were necessary. It so happened that Bennie had come to accept the writing on the wall and, in a confrontation in the Plaza Hotel in New York with the Chairman and myself, he offered to resign providing the Company honoured the proposed termination package that he had negotiated in April 1993. This package had not been discussed, reviewed or approved by the Board and as the Finance Director, its existence came as a complete surprise to me.

The Company's announcement about Bennie included notification of the promotion of David Anslow to CEO and my appointment as deputy CEO and Finance Director. Operations were split so that David became largely responsible for the US business and I was given charge of Travers Morgan and HRC. Yet another managerial fudge, which begrudgingly received the support of the Board but thoroughly bemused the managers of the businesses. Peter Wodtke resigned in April 1994, reducing the Board to three executive and three non-executive directors.

In September 1994, the sole prospective purchaser of the US engineering business, a private equity firm, abruptly terminated their interest on the grounds that they believed purchase could wreck their existing business.

About a month later in October 1994, the last of the three parties interested in Travers Morgan had either declined to offer or only wanted an option to buy in the event of the business improving. To avoid the destruction of the whole Company, Travers Morgan was put into Administration.

Ian Campbell, the Company's Chairman, was not prepared to support withdrawal of financial support to Travers Morgan, but neither did he have any constructive suggestions or alternative remedies. He simply absented himself from discussions. Richard Slater assumed leadership of the Board and galvanised the wavering directors. Jack Falcon had resigned on 31 October 1994.

Ian Campbell had made it known some months previously that he would like to resign as soon as the Company found a replacement non-executive director to accept the Chairmanship. Although a Nominations Committee was formed and a headhunter instructed, he did not participate and brought forward his resignation to 15 December 1994. This was also the day that Travers Morgan was placed in Administration. The share price fell to 16p, an all time low.

The Report and Accounts for 1994 were signed on 16 December 1994 by David Anslow and on 19 December 1994, Roger Pinnington was appointed Chairman. He was well known in the City, had behind him a successful managerial career, had successfully completed recovery situations and had been operating as a non-executive chairman in various companies.

The interim manager brought into the US operations to give leadership and take control of day-to-day operations was proving quietly effective. He was experienced in 'turn-around' situations and quickly devised plans to consolidate operations and to reduce costs. Unfortunately, the presence of David, who had relocated from the UK, added a decision layer and progress towards stemming losses and reducing the cash burn was slow. During January 1995, it became clear that the restructuring of the US business was not being driven through with sufficient speed and it had now begun to need cash injections from HRC via the parent company. David Anslow resigned in February 1995 and the dubious honour of CEO was handed to me, although Roger Pinnington undertook to operate as an executive chairman for a short while.

Almost simultaneously, I found a regional-based buyer in Texas for the US engineering business through a marketing contact and identified a potential add-on to HRC within the US-based company, APBI, which was suffering a rapid decline in its share price because of deteriorating profits and a lack of cash.

The recovery of the Company had begun under a smaller Board, although continuity was provided by Ladislas Rice and Richard Slater agreeing to carry on for at least another year. The challenge was enormous; disillusionment among the senior management of HRC was obvious and their alienation had been cemented because their recent good performance had been overlooked by the Board, who had declined to increase salaries for two years in order to conserve cash.

Perhaps among the directors there was sufficient financial and city awareness, experience and skills to reassure institutional and fund manager shareholders, but most obviously lacking was a thriving network of associates within the Company's major customer base, the pharmaceutical industry. This deficiency would prove to be a major shortcoming when the next major crisis hit the Company. During 1997, when the collapse in customer confidence was at its height due to allegations of malpractice, the non-executive directors were unable to positively affect the company's response because they apparently had no relationships with any directors or managers in the key customer companies.

More disturbingly, during that crisis the Company's major shareholders did not turn to the non-executive directors for information, advice or guidance. For that matter, the non-executive directors did not propose any initiatives. This burden of communication fell mainly to the executive directors who were desperately trying to give priority to running the business and fighting off the threat of licences being revoked.

The definition of a non-executive director's role, duties and responsibilities and who they represent is unclear. In a small to medium-size business, this lack of clarity encourages the perception that there is a luxury value to non-executives which most small to medium-size businesses cannot afford. During an operations crisis it is particularly important that all directors are involved, otherwise the non-executives become marginalised while the executive directors are consumed.

Non-executive directors have a key role to play in risk management and through effective review and challenge of reports, audits of operations that do not rely solely on the company's external statutory auditors, access to operations sites and staff, and regular interaction with customers, they can influence the Company's performance more directly and control the power of executive directors more overtly.

It is quite possible that the loss in shareholder value suffered since 1990 could largely have been avoided through effective review and challenge and the exercise of the highest standards of corporate governance.

4

PUBLIC SENTIMENT AROUSED

The reputation of a thousand years may be determined by the conduct of one hour

Japanese proverb

Shortly before the close of business on Friday 24 January 1997, my secretary received a letter by fax from Small World Productions Ltd. The letter appeared rather suspicious but referred to a Channel 4 Television documentary – 'It's A Dog's Life' – and the first paragraph explained: 'We have been commissioned by Channel 4 to produce a documentary investigating allegations of cruelty to dogs used in the testing of pharmaceutical and agricultural chemicals.'

In two more short paragraphs, Small World went on to claim they had evidence of acts of cruelty, which they described briefly, and secondly to allege that dogs had been used unnecessarily to test a product that had previously been tested on humans. Lastly, Small World demanded a response no later than Wednesday 29 January, three working days from the date of receipt.

An urgent telephone call to Angela Heylin, the Managing Director of Charles Barker, a media consultancy that I knew reasonably well, and a followed-up call on Sunday resulted in confirmation that Small World Productions were a small independent production company that specialised in exposés. They were contracted to Channel 4 to produce a programme for the 'Countryside Undercover' series. After a brief exchange of correspondence, Small World extended their deadline to 31 January; they declined to release their evidence, but they did provide a description of the product that they claimed had been unnecessarily tested on dogs. They also reproduced extracts from both the 1986 Act and the Home Office Code of Practice for Housing and Care of Animals Used in Scientific Procedures, neither of which are documents designed for easy reading, indicating that they must have received advice and guidance from a well-informed source. Also, as these documents are heavy on principles and procedures but give little practical instruction, it was difficult to be sure about the specific nature of the allegations. The particular programme – 'It's A Dog's Life' – was projected to be 30 minutes in duration but, according to verbal assurances from Small World, it would be difficult, if not impossible, to identify HRC or any members of staff, and that the programme was not based on HRC alone.

Armed with the knowledge that Small World existed, I instructed the most senior operations manager, David Christopher, who was HRC's Certificate Holder (holder of its Certificate of Designation) and a member of the Home Office's Animal Procedures Committee (APC), to conduct an investigation. Without this Certificate, awarded and administered by the Home Office, research in animals cannot be conducted. The Director of Toxicology, who managed the division responsible for the vast majority of research using animals, supervised the investigation.

The limited details provided by Small World enabled HRC to identify the research project, the team of animal technicians who undertook the research and the company sponsoring the research on the product that Small World claimed was unnecessary. This team had included a

trainee whose attendance and competence had been considered unacceptable such that she had been dismissed after three months. Interviews with staff at various levels did not unearth evidence of cruelty or inadequate supervision but produced many anecdotal references about the trainee who was described as naive, inexperienced and attractive.

It was decided that the basis for the allegations was a discontented former employee seeking revenge. Maybe she had taken a few photographs that would be unpleasant to look at by a non-scientist but would not reveal cruelty. In any case, HRC had an excellent relationship with the Home Office Inspector, who frequently sprang visits without giving prior notice. Thus, the chances of anything unacceptable happening without being discovered was considered to be extremely remote.

HRC sent a statement to Small World denying in broad terms their allegations and extolling the attitude and behaviour of its animal technicians towards animal welfare and safety.

Directors and management returned their attention to communicating the outstanding results for 1996 to shareholders and analysts, and to scheduling new studies into the laboratories. As a courtesy, I sent notification of the remote threat from Small World to HRC's constituency MP (at that time John Major, who was also Prime Minister), the Home Office, the APC (who advise the Home Office on the operation of the 1986 Act) the Association of the British Pharmaceutical Industry (ABPI) and the Research Defence Society (RDS) of which HRC was a long-serving member. Nothing more was heard from Small World.

On Wednesday 26 March 1997, nearly eight weeks after the exchange with Small World, the *Guardian* newspaper published an article titled: 'Where blood runs cold' (see Figure 1). The subtitle was: 'Zoe Broughton spent ten weeks secretly filming experiments in an animal testing laboratory. She was shocked by what she discovered.'

Figure 1: Zoe Broughton's emotive article is published in the Guardian

The Guardian Wednesday March 26 1997



ENVIRONMENT

Zoe Broughton spent 10 weeks secretly filming experiments in an animal testing laboratory. She was shocked by what she discovered

Where blood runs cold

EVER since I was young I used to wonder what went on behind the high barbed wire of the huge animal testing laboratory down the road. I'm not opposed to animal testing if it's done to advance medical science, and if in the process the animals are kept well and treated compassionately. I decided to apply for one of the lab's many vacancies advertised in the local paper, to see for myself.

A few days later I got an interview for a job as an animal technician. The pay was about £120 for a five-and-a-half-day week. I made myself sound keen and stressed that I had experience of working with animals. They checked my name to see if it appeared on any animal campaign lists. Before I'd come to terms with what I was about to involve myself in I was working in one of Britain's largest animal testing laboratories.

Day 1 I don't know what to expect, not even which department I will get sent to or how I will respond to seeing animals in pain. To fit in, I make up a false past. I can hardly reveal I am a film-maker. But I am worried that I may say something that might blow my cover.

I am assigned to the dog toxicology unit. I've always had pet dogs, but as we enter the building the noise and smell hits me. I cannot stop my face showing the shock. I notice immediately that the little puppies are keen to play, whereas the older dogs are wary of human touch. Some stay at the back of their cages and don't even move when I give them their food. My job is to look after a room of 32 puppies. On the first afternoon I am asked to check the health of my dogs. I am shown how to do it, but trying to check teeth and paws on a wriggling little beagle puppy seems almost impossible. Later I read the Home Office Guidelines and it states that it has to be done by a competent person — how can I be competent on my first day at work? All the dogs had their own distinctive characters and I was shocked to find out that they would all be put down. By the end of the day I was mentally and physically exhausted.

Day 4 The hardest job is putting the young puppies away after their one hour of exercise in the small concrete corridor between the two rows of cages. They paw at me with their shitty feet; I pick one up, read the number tattooed in its ear and walk the length of the room to find its cage; all the while trying not to tread on paws and slip in the fresh shit. It's repulsive and by the end of each day my lab clothes have turned from white to brown.

'I spent last weekend deciding whether to smuggle out my favourite puppy'

Day 8 I have to help take blood samples. They call it "doing a bleed". I bring the first dog out and sit her on a chair beside me, holding both front paws in one hand and holding the chin up with the other. The animal technician shaves the dog's neck and then plunges the needle in. She continues bleeding afterwards — I get blood on my arm and I see the other dogs look and know what is was coming. Some grip the floor cringing and a couple try to dart past me and escape. Often the technicians can't find a vein. I count one needle being put in three times and once under the skin prod in different directions 15 times before finding a vein. I feel pretty queasy.

Day 10 I am told not to use so much sawdust — "One shovelful is enough and it needn't be piled up." There is no bedding and this is all the dogs have on the concrete floors. The Home Office inspectors turn up. I don't see them look in any of the units I deal with — they just stand outside the dog rooms and chat with the technicians.

Day 15 Another visit from the Home Officers inspectors. This time I see them outside in the corridor — a technician tells me to sweep the floor — I sweep it, but they don't enter my side of the laboratory. I've now seen them arrive twice, but I haven't seen them look at a dog yet.

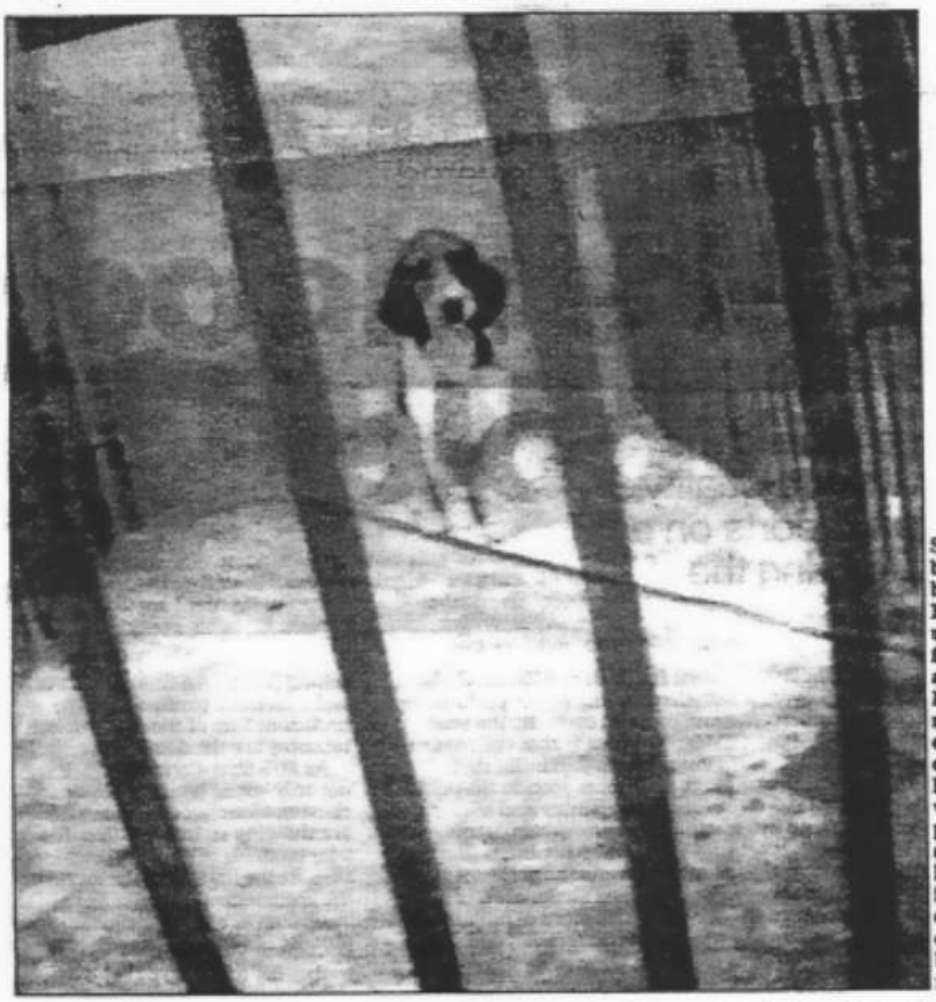
Day 18 I still feel physically sick with nerves. The Independent Television Commission (ITC) has granted me permission to film what is going on. The camera equipment is strapped to my body. It is very bulky and I am worried because it is visible every time I bend over.

Day 29 The worst day yet, as the experiments started on my 32 puppies. The test involves putting each dog in a sling and injecting a chemical used in the scanning of human livers. Two are sick as they are being injected, some of their legs swell up and on top of this the puppies have 10 blood tests each through the day. The technicians keep saying that "these dogs are too young for this type of experiment as their veins are too small" — so why have they got them so young? If the puppies wriggle, they are hit or shaken by the scruff of their necks. I feel like a torturer. I hold them and soon get their blood on my hands.

Day 30 I help prepare the doses for another experiment — it is an agrochemical toxicity test for a Japanese company. A lot of the tests in my department were testing for the toxicity of herbicides and fungicides. The man I am working with measures out the compound and I put it into capsules. He is meant to print out the weight of each dose on a computer so it can be checked. What he actually does is measure out one dose correctly, print this out seven times and then make the next six doses for the week far more quickly and with less accuracy. This means the dogs are not getting the right dose: these experiments may be invalid.

Day 32 Walk into my unit and one of my puppies, number 1619, has

The Guardian Wednesday March 26 1997



Short life behind bars . . . Zoe Broughton's undercover filming at an animal testing laboratory was mentally exhausting; one of the hardest jobs was putting the puppies away after their hour's exercise in the small concrete corridors between the rows of cages

half a pint of congealed bloody faeces around his cage. The vet looks at him and says it is all right to continue with the daily doses.

Day 33 I'm finding it hard to watch these needles being repeatedly put into the dogs' legs, over and over. One technician gets so angry when he can't find a vein that he shouts, and quickly jabs the needle in repeatedly, often going right through the vein. Twice I have seen him give up and squirt the rest of the liquid into the bin.

Day 40 I have had plenty of opportunities to read the files. I have been writing notes on scraps of paper and have now established which experiments are in which rooms, who's sponsoring which companies, the compounds being tested and how each is being administered.

Day 45 Today I film the pictures of the animal technicians' pets on the wall — many of them talk non-stop about their lovely pets and then go back to work.

Day 56 We have now finished the experiment with my puppies and today we have to go through the whole blood-testing rigmarole again. I cannot believe the animal technicians' attitudes — they are messing around while trying to take blood. One technician pokes, tickles and fools around with the man he is working with. This makes the process of finding a vein take even longer.

Day 57 They've started the post-mortems on my dogs. Today I carry my favourite puppy along the corridor to what are known as the Death Row cages. I spent last weekend deciding whether to blow this whole project and smuggle her out — but I must think of the future of the other animals here and hope that my film will help all of them.

Day 64 I have just walked out of the laboratory for the last time. I wanted to say goodbye and pet the dogs, but I've found it so hard loving those about to be put down that I kept my distance at the end. I don't think anybody suspects me.

I have followed the whole process with my puppies, from the settling-in weeks, through experiments to the postmortem. As I was leaving, they told me my chores for the next morning — nobody knew I would not be there, but in the edit suite, assembling the evidence of their cruelty.'

Countryside Undercover: It's A Dog's Life will be shown on C4 tonight, 9pm.

Source: © Zoe Broughton, first printed in the Guardian, 26 March 1997

In the article she chronicled certain features of events from her diary record of 15 specific days. Throughout the full range of human emotions was exposed. From her innocence ('ever since I was young I used to wonder what went on behind the high barbed wire of the huge animal testing laboratory . . .') to sympathy with the animal technicians ('the technicians kept saying that these dogs are too young for this type of experiment') and suggested that pursuit of profit had led to the subordination of more laudable human values by mentioning in critical terms an agrochemical toxicity test for a Japanese company.

That evening, at the prime time of 9.00–9.30pm, Channel 4 Television broadcast 'It's A Dog's Life'. The opening scene showed Zoe Broughton leading five beagles and included a series of sweeping pictures that would enable anyone familiar with HRC to readily identify it.

During the broadcast more than one animal technician was seen to behave unprofessionally and some to maltreat dogs by either violent shaking or an aggressive slap on the dog's chest. Allegations were voiced that procedures were not properly recorded and that data had been fabricated either through wastage of dose materials or incorrect preparation of capsule doses. Other allegations were voiced, including allowing an untrained person to conduct the health check of animals and the unnecessary use of animals in research into a product that had been previously evaluated in humans.

The efficacy of the supervisory and enforcement role of the Home Office Inspectors was also ridiculed. The broadcast claimed that they visited, they chatted, but they did not check animals or watch procedures.

In scenes that the producers of the programme considered as being professionally acceptable, the animal technicians' faces were obscured; but in those scenes that the producers thought showed unequivocally unacceptable behaviour, the animal technicians were shown without their faces obscured.

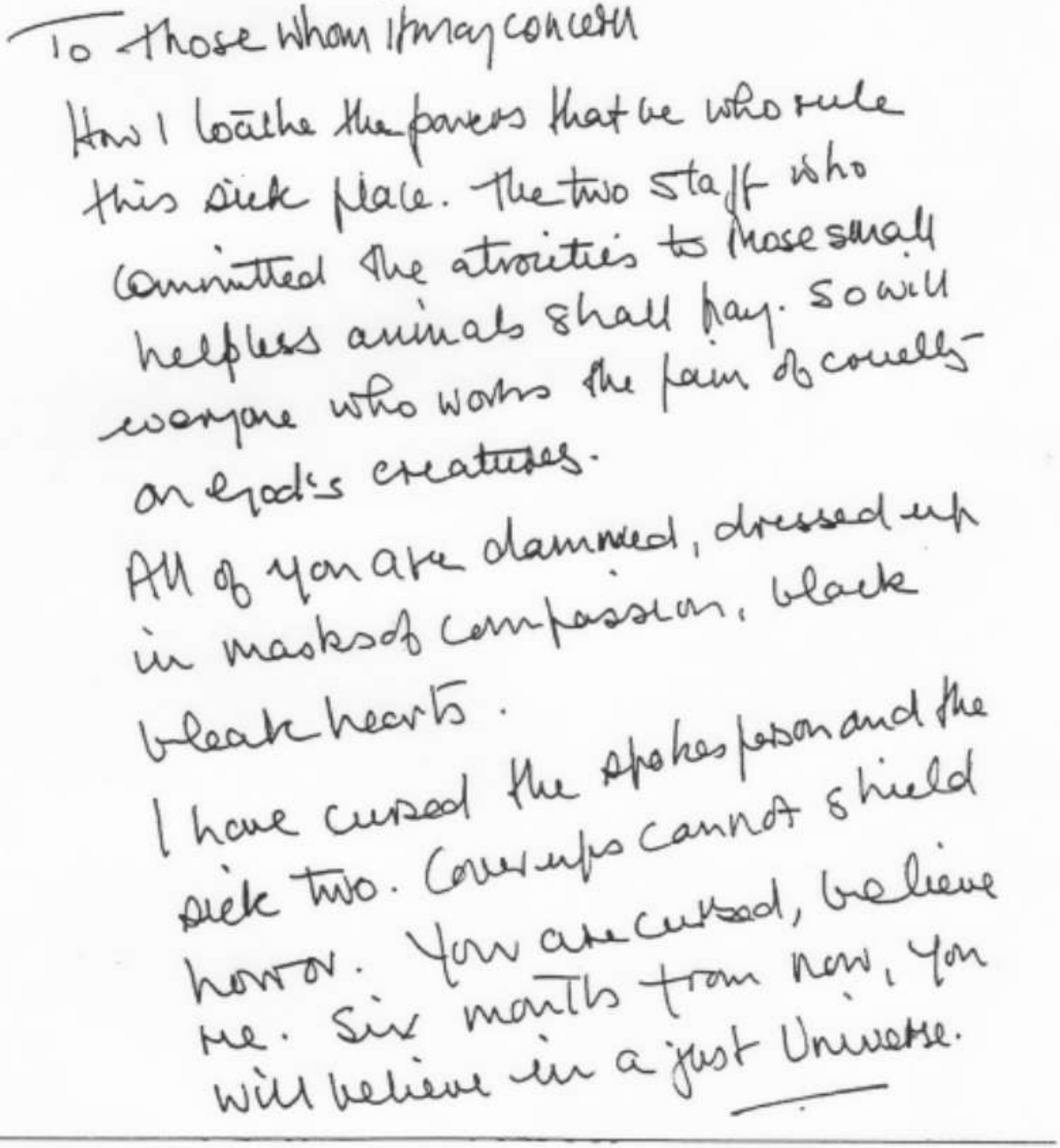
Apart from myself, the operations management team each had over 20 years' experience in research and for most of them, HRC had been their only employer. Generally, they concluded the broadcast was inspired by long-time foes of HRC (animal activists) and they believed the allegations in relation to the animals would soon 'blow over'. The managers thought that the scenes broadcast were tricks of the camera and that mitigating circumstances, such as the 'agent provocateur' behaviour of the infiltrator, would influence the outcome of any investigation. Indeed, the Certificate Holder went on holiday 36 hours later, on Friday 28 March 1997, for one week. However, the allegations concerning fabrication of data were considered serious because they could potentially damage customer and global regulatory bodies' confidence in HRC.

An Investigating Panel, chaired by the Toxicology Sciences Director, was formed to re-examine the material discovered by the January investigation and to make use of the new information revealed in the broadcast. The chairman was a project licence holder under the 1986 Act but had no responsibility for the administration of research; he was to be assisted by the Veterinary Services Director. A project licence holder supervises research and, among other matters, must determine the severity of the research in terms of animal suffering and must also ensure that the minimum number of animals are used. The Veterinary Services Director had no responsibility for the training of animal technicians or their professionalism in undertaking procedures, but he did have onerous duties and responsibilities under the 1986 Act. The Panel was instructed to report directly to me no later than Wednesday 2 April 1997.

Enquiries from the public and local media began early in the morning of 27 March 1997, the day after the broadcast. Many telephone calls were from well-informed members of the public, for example, animal aid organisations located near the Company's laboratories. The local media reported the allegations against HRC either prominently in their news broadcasts or on the front page of local newspapers. Hundreds of written or telephoned requests were being directed to my office. Some were from groups airing their views, others asked for a statement from the Company and some suggested operating procedures that could be used to alleviate any animal suffering. However, the vast majority of correspondents commented solely on the mistreatment of animals; in most abusive terms they blamed the management for knowing about and covering up repeated acts of cruelty and usually included a denunciation of the use of animals in research. Few made any reference to the allegations of the falsification of data.

Death threats began to arrive and within a couple of days of the broadcast (see Figures 2 and 3); a poster was being circulated in nearby towns and shops showing under a 'wanted' headline a picture of one of the animal technicians shown in the broadcast. Under the photograph in bold letters it read 'for murder' (see Figure 4). An emerging feature of the harassment was neighbours turning on employees of HRC as if they were personally guilty of the allegations made in the broadcast.

Figure 2: One of the many hostile letters sent to Huntingdon Life Sciences following the broadcast of 'It's A Dog's Life'



To those whom it may concern

How I loathe the powers that be who rule this sick place. The two staff who committed the atrocities to those small helpless animals shall pay. So will everyone who wants the pain & cruelty on God's creatures.

All of you are damned, dressed up in masks of compassion, black bleak hearts.

I have cursed the spokesperson and the sick two. Cover ups cannot shield horror. You are cursed, believe me. Six months from now, you will believe in a just Universe.

Figure 3: A bizarre threatening letter received in May 1997

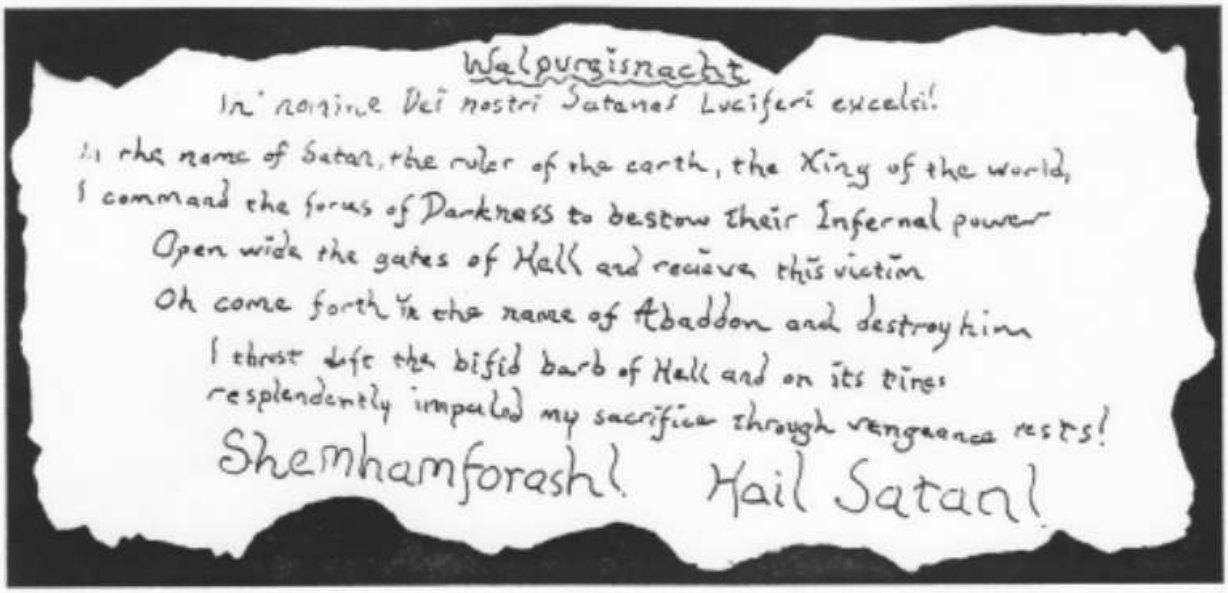


Figure 4: The 'wanted' poster being circulated in towns in Cambridgeshire



Remarkably, less than 24 hours after the broadcast, the Home Office was able to identify the two animal technicians who were seen to mistreat dogs (HRC employs over 300 animal technicians and there are 5,000 in total across all the different business sectors in the country). They were couriered a letter via HRC's Certificate Holder to inform them that their personal licences had been suspended. They were suspended from the Company according to established disciplinary procedures and after an interview were dismissed the next week. The Home Office also informed the police and the Home Office Inspectorate that offences, as defined by the Prevention of Cruelty to Animals Act 1911 and the 1986 Act, might have been committed.

Several days later the Certificate Holder received a written request from the Home Office for his comments on the allegations made in the broadcast and for an explanation of how compliance was ensured with the general conditions which attach to every Certificate.

Without stating a timetable or deadline, this request concluded with the ominous statement that following consideration of HRC's reply, a formal investigation would be undertaken.

During the weekend immediately after the broadcast and the following two days, there was a gradual escalation in telephoned and written enquiries and threats made to the Company and staff. There then followed a major attempt at direct physical action by the animal activists against staff and HRC's laboratory. Although intelligence sources proved reliable in predicting the attacks, the additional security measures taken and police presence were insufficient to prevent staff being blockaded inside the laboratory all day, cars trying to enter or leave being damaged, windows being broken and the perimeter fence breached.

There seemed to be a core of up to 20 protesters who quickly resorted to verbal and physical abuse, but shielded themselves behind the much larger numbers of animal welfare campaigners whenever the police were present. Accordingly, the police policy of minimum presence and force played directly into their hands. After a period of calm the police would withdraw and, no longer observed, the intimidation started again. This created difficulties in managing the safe passage of staff, customers and supplies.

5

COMPANY COMES UNDER SCRUTINY

If you see a bandwagon, it's too late

Sir James Goldsmith, 1933–1997
Risk Takers, by Jeffrey Robinson, 1985

Surprisingly few customers had seen the broadcast but some contacted me direct to determine how management were proposing to respond, and to learn how the UK Government's Home Office and the Medicines Control Agency's Good Laboratory Practice Monitoring Authority (UKGLPMA) were dealing with the issues raised.

Increasingly, communications since late 1995 between the customer's monitoring scientist and the scientists within HRC undertaking a specific research project on their behalf, were conducted through e-mail. Hence, in the two weeks following the broadcast, although there were few official contacts at a senior level and so not many customers at the most senior level were aware of the allegations, there were, however, numerous informal e-mail discussions circulating within their organisations.

The broadcast presented HRC as an organisation seemingly lacking in discipline, flouting Home Office rules and regulations and compromising basic scientific controls. During conversation with their 'partners' in customer companies, many of HRC's staff presumed guilt on behalf of those shown in the broadcast and defended standards in their own area with the simple statement: 'It couldn't happen here.' Overseas customers felt disadvantaged because they learnt of the allegations many days after the broadcast from meeting UK-based scientists at conferences, through press cuttings, from conversations with companies with whom they were collaborating on research, and from some of HRC's competitors who were seeking an advantage.

Sales and marketing staff at HRC, all of whom have been practising scientists, were increasingly being questioned by their contacts in customer companies about the broadcast and, more importantly, a credible scientific explanation was demanded. Because of their background they were expected to be knowledgeable. It became difficult to fulfil targets for sales contacts due to customers, who were aware of the broadcast, being reluctant to honour pre-arranged meetings because they had been called upon by senior management within their companies to explain the relationship with HRC. Most of these discussions occurred via e-mail and without face-to-face contact or telephone conversations, it was virtually impossible to persuade contacts to adhere to original arrangements. On the other hand, audit and project reviews by sponsoring companies in relation to ongoing research continued and intensified.

The contract research industry is renowned for its secrecy. Strict confidentiality is imposed, as pharmaceutical and biotechnology companies are hypersensitive. If a pharmaceutical company learns of the research being undertaken by a competitor, it can assess the stage reached in the compound development cycle and draw early conclusions on its success rating as determined by that competitor. This is valuable and sensitive commercial information and in certain cases, if discovered by a financial analyst it can impact on the value placed on a company's R&D pipeline and the overall stock market rating of its shares.

Unless one or more companies are collaborating on research, it is highly unusual for a company to acknowledge to a competitor that it is working with a particular contact research company. However, within weeks of the broadcast it was apparent that customers were discussing HRC and that the issues raised had become hot topics in the Science and Technology Committee of the ABPI. In Japan, the Pharmaceutical Manufacturers' Association had created a forum for companies to share views. In the US – the source of about 25% of HRC's total revenues – the response was more muted and tended to come from those companies who were stimulated into action by uncompromising e-mail from relatively junior members of staff, usually in their quality assurance audit team in the UK.

The overriding message coming through was disbelief that HRC, with its emphasis on good science, outstanding facilities and a strong control environment, could be vulnerable to the sort of allegations broadcast.

In the week following the broadcast, the IT Infrastructure Manager at HRC observed a massive increase in the volume of e-mail traffic. Analysis showed a certain amount was due to external messages, however the volume passing between laboratories, and between staff located at the same laboratory, had grown dramatically. Part of this growth included messages directed at me. Most proclaimed their disgust and disclosed their shame in working for an organisation that tolerated the sort of things that had been seen on television. Many messages from staff brought into the Company with the acquisition in 1995 exclaimed that they'd always suspected HRC tolerated low standards of animal welfare and safety, under-invested in facilities and allowed short cuts in order to complete research programmes on time. Throughout April 1997, e-mails to me were demanding a public response and increasingly tales emerged of physical and verbal abuse from previously supportive neighbours as well as known activists.

National media coverage in the week following the broadcast was negligible, except for *Our Dogs* (a weekly publication in existence since 1895) which published on 4 April 1997, and included a report and comment on the broadcast in the previous week.

The Board was able to concentrate on final preparations for its Annual General Meeting (AGM). The AGM had been held in the US since the initial public offering in 1983, mainly because until 1995 the majority of shares were controlled from there; in recent years, the reason was for security, in order to avoid confrontations with animal activists. The activists had for some years a presence at the AGMs of other companies through small shareholdings, for example Glaxo Wellcome and SmithKline Beecham. Those companies typically enjoyed high shareholder and financial analysts' attendance so the activists were heavily outnumbered and the companies could afford expensive and prominent venues with good security.

For some years, animal activist groups had not achieved any notable successes against the users of animals in research and this had led to a perception that in the UK there had been a decline in public support. Pharmaceutical companies were in the ascendancy and the excellent relationship between HRC and the various UK-based regulatory bodies influenced the Board to hold the 1997 AGM in the UK for the first time and to propose to shareholders to include 'Life Sciences' in the public company name. However, the recent adverse publicity led to a substantial increase in security measures. The AGM took place on 3 April 1997 in a Cambridge hotel near the river Cam; but the additional security staff present were not needed, as there were no protesters and attendance only amounted to the directors and a representative of the Company's auditors.

The distraction of the General Election to be held on 1 May 1997 was consuming considerable media time and space; consequently the allegations against HRC were given little coverage. This situation changed little prior to the election result, except for certain notable events.

The tabloid newspapers got involved. On Sunday 6 April 1997, the *News of the World*, known for sensationalising its reports, ran a story under the headline: 'Lab staff "stabbed" terrified beagles.' The report commented on the broadcast, included a quote from Zoe Broughton and showed a photograph of an alarmed beagle wearing a collar and lead and looking out from under a wooden structure; clearly not a beagle from HRC. The picture caption read: 'Beagle: Pups abused.' During the next week, nearly two weeks after the broadcast, letters and telephone calls from readers of the *News of the World* poured into my office and many made threats against the Company and staff.

The findings and conclusions of the Investigating Panel were reported. Apart from collecting corroborative evidence that Zoe Broughton had responded poorly to training and supervision and had a deplorable attendance record, they also found that she was nevertheless allowed to work as part of a team on eleven different studies.

Intensive interviews and examination of records revealed that staff had promptly reported to management in November 1996 that they had observed unprofessional behaviour and, in particular, had witnessed the unacceptable treatment of dogs shown subsequently in the broadcast. The responsible supervisors and managers with, on average, more than 20 years' experience each did not follow the Company's disciplinary procedures, instead they merely chastised the identified culprits, with whom they had worked for approximately 15 years. During interviews with the Investigators, individuals recalled the details clearly as well as when the alleged incidents occurred. The incidents had occurred six months previously in November 1996. It also emerged that Zoe Broughton's incompetence had caused extra pressure on the rest of the team, frequently resulting in outbursts of temper and childish behaviour.

Allegations in the broadcast in relation to breaches of the Home Office Code of Practice were repudiated. A solid scientific and regulatory reason for the research on the product that had previously been through clinical trials was documented and available. A controlled simulation was carried out to demonstrate that the allegations were malicious in relation to the improper preparation of capsule doses.

Management action was swift. Three staff were dismissed, two managers were demoted and reassigned, a senior head of department was removed and shortly thereafter made redundant, and the director of a division relocated to another laboratory. Fundamental changes in organisational structure were introduced; there was to be an increased emphasis on workplace audits of competency, greater vigilance in relation to compliance and a cascade information system was formally introduced. The findings and conclusions of the Investigating Panel and the major changes introduced were notified to the Home Office at the beginning of April.

A short time thereafter, the proposed immediate resignation of the Certificate Holder was also formally notified to the Home Office. Their response seemed unusual. The Home Office requested that the changes should not be made public and they requested that the Certificate Holder stay in position. However, there was an unexpected external development. Based on a presumption of guilt and accountability, the Certificate Holder was asked to step down from the APC by the Chairperson.

A Home Office official informed the Certificate Holder on 7 April that Channel 4 were to give the Home Office access to 'lots more video'. This was alarming because it was unclear how the Home Office knew of its existence and since Small World were the production company, it was presumed they held the original clandestine recordings made by Zoe Broughton.

The slow pace of investigation was undoubtedly a major commercial threat, however the Home Office set the rules. On 8 April the Chief Inspector from the Home Office announced to the Certificate Holder that he proposed to commence his investigation with a visit to HRC on 22 April, almost four weeks after the broadcast. He was unknown to staff, having never visited what was unquestionably the largest centre for research using animals in the UK.

The police swung into action unexpectedly on 10 April and two officers arrived at HRC to begin their enquiries. It was obvious that they had little experience of prosecutions under the 1911 Act; they had absolutely no knowledge of research establishments and were visibly fearful of what they might find and have to examine. During the next few days they were given unrestricted access to the findings and conclusions of the Company's Investigating Panel, including records of interviews as well as access to the staff interviewed. However, they needed considerable assistance and 'handholding' to help them through the experience from staff at all levels. The police charged two former employees under the 1911 Act, and they were bailed to appear in court in June.

Surprisingly, the police turned their attention to possible offences under the 1986 Act (although the Home Office advised the Company that the police had no jurisdiction) and in the next four weeks they retained two veterinary surgeons to undertake separate inspections. One was a world-renowned expert in animal behaviour and a professor at a leading university, the other was a partner in a sizeable animal surgery that dealt mainly in small animals. It emerged that the police were acting on complaints from the Royal Society for the Prevention of Cruelty to Animals (RSPCA). They had no experience of HRC but were under pressure to take a lead from direct action animal activists who had apparently infiltrated the RSPCA in order to obtain public acceptability.

The RSPCA understand the 1986 Act, are represented on the APC and knew that the police had no jurisdiction. The continued presence of the police caused considerable disruption to HRC.

The veterinary surgeon visits ended in mid-May without their providing any evidence for the police, who nevertheless declined to release the resultant visit reports to HRC. The Company assured the police that any observations and advice from their two experts would be appreciated by the nine veterinary staff employed by HRC, but to no avail.

The contract research industry has no representation on the RDS Council although it is an important source of subscriptions for the RDS. A member of that Council, representing the pharmaceutical industry and who worked for Pfizer at Sandwich in Kent, visited HRC together with a sponsoring scientist from Pfizer's subsidiary in France. After a lengthy inspection in mid-April, they left apparently content with their findings. Pfizer had been a customer of HRC for many years and dependent on it for certain highly-specialised services, and often claimed its decision making was independent of the rest of the pharmaceutical industry. However, in relation to the allegations it demanded to be informed in detail how other customers were responding and what action they were taking. Further, Pfizer was anxious to learn of the progress of the Home Office investigation. The follow-up to this

meeting and subsequent discussions were the earliest indications of adverse customer reaction to the allegations.

As a precursor to a complex research programme using dogs, HRC had some weeks previously received from Pfizer a compound on which to determine dose ranges. Although during their visit Pfizer's representatives had confirmed to their satisfaction that the science department responsible for Pfizer's research was quite separate and unaffected by the allegations, the authorisation to proceed to the next stage of the research programme was not forthcoming. Pfizer demanded the return of its test compound. Out of New York, Pfizer Manufacturing Division placed many programmes with HRC, but after becoming aware of the allegations through an internal e-mail distributed widely by the RDS Council member based in Sandwich, its decision makers had begun intensive interrogation of HRC's sales and marketing staff via e-mail.

6

INSTITUTIONAL COVER-UP

Justice should not only be done, but should manifestly and undoubtedly be seen to be done

Lord Hewart, 1870–1943
Rex v Sussex Justices, 9 November 1923

Without any prior warning, on 14 April 1997, I received a fax from the Medicines Control Agency – which is part of the Department of Health – that said tersely:

'The GLP Monitoring Authority has received a written report from a person associated with the programme which makes charges of serious violations of GLP principles, including falsification of records. The monitoring authority intends to investigate these allegations and a team of four inspectors, including myself, will arrive at Huntingdon on Tuesday, 15 April 1997 at 9.30am. Yours sincerely, D L Moore (Dr) Manager.'

Prior to this message, enquiries to HRC had only concerned animal welfare and safety; there had been no mention of the unsubstantiated allegations in the broadcast about misuse of dose materials or the improper preparation of capsule doses. Furthermore, this was the first indication that a dossier of allegations had been presented to the UK Government. Stress levels, anxieties and nervousness in general escalated perceptibly in HRC managers.

The UKGLPMA inspection team arrived promptly. They were received calmly as they were the same group who had undertaken the biannual audit of HRC from 10 January 1997 through to the perfectly amicable and satisfactory 'close-out' meeting on 29 January 1997, which I had chaired. Each of the inspectors was well known to HRC staff since they had conducted all, or been involved in several, of the biannual audits in the 15 years since adoption of the responsibility for monitoring compliance with GLP by the Department of Health in April 1983.

Within minutes of the start of the meeting, feelings of comfort evaporated. The manager explained that from 1 April 1997, the UKGLPMA was a free-standing agency within the Medicines Control Agency ('it had to pay its way'), and was now backed by statutory powers of enforcement analogous to the US FDA. Furthermore, from that date a Head of Inspections Division had been appointed from the pharmaceutical industry and GLP, Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP) were now combined into one compliance unit. Each inspector sported prominently a silver law enforcement badge backed by black leather. They announced that they were to conduct an 'audit for cause'.

Their presence was not based on the broadcast, which they had scrutinised and dismissed. They were basing their investigation on a dossier submitted by Dr Gillian Langley, who was connected with the production of the programme and widely known as being a scientific adviser to various animal activist groups including the BUAV. The manager announced they would be present until they had finished their investigation, no matter how long it took. However, their approach 'would be different'; they could not accept hospitality, in other words they would not accept lunch in the canteen or even sandwiches in their room.

During the next 10 working days the inspectors reviewed thousands of pages of computer records, hundreds of day books recording the detail of procedures on each research programme, examined and re-examined data reports, analysed management reports, and interrogated – under threat of enforcement action – senior scientific staff responsible for the conduct of each research programme and accountable for its compliance with GLP. Many staff were unable to withstand this additional emotional pressure resulting in breakdowns (albeit temporary) and increased absences. However, on a regular basis at the end of each working day, the manager briefed me as CEO – responsible under the statutory regulations for overall compliance with GLP – and the Quality Director on the inspectors' findings in order to validate or amend their interpretation before recording a conclusion.

Meanwhile customer interest had been growing and on 16 April 1997, the senior research representative of Astra in the UK requested unescorted access to their research programmes (four ongoing) and to HRC facilities and staff. Surprisingly, he proposed also that there should be a joint round table discussion with representatives of Glaxo Wellcome, SmithKline Beecham and Roche; apparently Pfizer had declined to be present.

The presence of Roche was significant as they hadn't worked with HRC for about three years since they signed an exclusivity contract with a competitor, Quintiles Transnational Corporation, who had purchased the Syntex research facilities in Scotland. Recent discussions had indicated that Roche were proposing to re-establish their relationship with HRC after completion of that exclusivity period in three months.

Glaxo Wellcome and Astra were both particularly sensitive to allegations in relation to animal welfare and safety. It transpired that Glaxo Wellcome had opened an enlarged dog breeding facility and had near its headquarters a particularly active animal welfare group who included some shareholders. Glaxo Wellcome's AGM was due in London in about four weeks' time. In 1993, Astra had been held accountable for the death in transit of dogs being transported across the North Sea to Sweden, and their AGM was to be held in four days in Stockholm.

There was a frank but amiable exchange of views in the meeting. HRC management undertook to keep the companies informed on the progress and outcome of investigations and, in turn, the companies agreed to ensure there were no public statements but that they would await those reports before taking any action in relation to ongoing research or new projects. The most worrying news to emerge in the meeting was that the public relations department in each company had taken a strong interest; nevertheless it was being handled 'low-key'.

Several enquiries from the public indicated that information had reached them about the Home Office's actions and intentions that could only have been obtained from communication with the Home Office. Indeed, a member of the public sent me a letter dated 11 April 1997 that they had received from a Home Office official, who was also secretary to the APC. The original recipients were informed that the police had been instructed to investigate possible offences. The letter also revealed that the Home Office was investigating the management and control of animal work and that they believed the incidents shown in the broadcast occurred between October and December 1996. The official concluded by claiming the 1986 Act 'prohibits me from identifying the establishment or the individuals concerned'.

This selective leaking of information into the public arena added to the Company's disorientation because I was being asked to comment on matters the Company believed were

confidential. It was noticeable that the Home Office official neither acknowledged nor commented on the criticisms in the broadcast relating to the Home Office Inspectorate, the emphasis was on the guilt of the Company. However, it was also apparent the Home Office had access to material that was not broadcast or known to HRC.

On Sunday 20 April 1997, a news bulletin on Swedish television carried a short excerpt from the Channel 4 broadcast. This was not followed up in Monday's newspapers in Sweden. However, on Tuesday 22 April 1997, tabloids in Sweden gave the story double-page exposure including lurid photographs. It is believed the stimulus for this heightened coverage was Astra's tumultuous AGM on Monday 21 April 1997. Apparently, the results report for 1996 and explanations of Astra's R&D pipeline were not well received in the auditorium, which included over 2,000 shareholders, financial analysts and journalists. During the subsequent question and answer session, more than one shareholder held aloft a videotape of the programme broadcast in the UK and asked Dr Hakan Mogren (CEO, Astra) whether Astra worked with HRC, the 'well-known torturer of animals'. Mogren, according to Astra's Executive Vice-President for Research and Development, Claes Wilhelmsson, digressed from the pre-drafted reply which was: 'Yes, but we are in close consultation and examining their practices and procedures,' to say unequivocally: 'We have in the past but we don't now and never will again!'

The next day the media attacked Astra and implied that they condoned both the suffering of animals and their unnecessary use in scientific research.

A clear example of a CEO making public policy 'on the hoof' was to result in an upsurge in enquiries at the Company because of the interest now shown in the story by the financial press, institutional shareholders and fund managers. Astra executives had to implement this policy initiative promptly. Without consultation with HRC, they issued a press release on 23 April 1997 that was carried by Reuters and picked up in the US by Bloomberg financial news service, thus ensuring its wide availability to the financial community. Bloomberg's headline read: 'Astra ends research pact with Huntingdon Life Sciences.' The next day, 24 April 1997, the *Daily Mail* (one of the UK's leading national newspapers) carried a report in its financial section under the headline: 'Drug group bitten in cruelty row.'

The press release from Astra stated the Company was guilty of the allegations against it and despite a collaboration of over 30 years, declared Huntingdon Life Sciences a research pariah. Obviously, in the corporate politics of Astra, the complimentary comments of their senior research representative responsible for watching over ongoing studies at HRC in the UK were valueless.

Numerous calls from shareholders in the UK and US came into my office demanding to know the significance of contracts with Astra (1.5% of projected annual group revenues) and the probable impact on profit and cash flow. Other customers, particularly those in Scandinavia and mainland Europe, increased their pressure for information. They were concerned that they might have underestimated the seriousness of the allegations against HRC and that Astra had discovered new material. In Northern Europe, Astra has a strong ethical reputation and, as journalists suggested, any expression of outrage by them meant there was probably substance to the allegations.

A few days later in a lengthy meeting, Astra acknowledged that their decision to terminate the ongoing research programmes early had nothing to do with animal welfare and safety or HRC's science, but was driven by other matters. According to Wilhelmsson, these included:

patients returning their medicines to doctors; intrusive press attention in Sweden on top of that relating to the corruption and sexual harassment among and by their most senior managers in the US; and that Hakan Mogran had been embarrassed by the heckling he suffered during Astra's AGM. Furthermore, Astra was close to bringing a major new R&D facility into operation in Sweden, which would result in a significant increase in their use of animals, particularly dogs. He was obviously more concerned about Astra's reputation than HRC's survival.

The Chief Inspector, accompanied by the Cambridge-based Home Office's Inspector who had been responsible for inspections of HRC for over 10 years, began their investigation at HRC on 22 April 1997. After a full day of facility inspection, attendance while scientific procedures were being conducted and interviews of staff in the animal rooms, the Chief Inspector came to my office and presented a verbal report.

In the Chief Inspector's opinion: 'Operations should carry on because the technicians were as good as he had seen anywhere, they were performing within their licences and as far as the facilities were concerned there was no case to answer.' These conclusions would be reported to the Home Office management and he proposed to return to HRC for further enquiries in the next few weeks. Meanwhile he took away the detailed findings (including notes of interviews with staff) of HRC's Investigating Panel, copies of standard operating procedures, policy documents in relation to animal welfare and safety, and organisation charts showing key personnel and jobs.

The management needed to respond to customer enquiries and to report to them the Chief Inspector's findings and initial conclusions. These were supportive of HRC but the impact of reporting to customers was diminished by the considerable uncertainty attaching to when he would return and complete his investigation. He did return, however, on two occasions; once at the end of April and again in May. For many staff these visits meant being interrogated about issues and procedures that had already been reviewed extensively with the police and the UKGLPMA.

Unlike the UKGLPMA inspectors, the Chief Inspector did not discuss his findings in order to reach an appropriate conclusion, he chose merely to present his conclusions. However, during his visits it became apparent that the Home Office also had a dossier of allegations from Dr Langley, which was partly dictating the course of his investigation. Alarmingly, the Chief Inspector let it be known that he was wary of how Home Office management, who had political bosses, would use, interpret and present his report.

Competitors seemed ominously silent. Feedback on conversations with customers from sales and marketing staff and from HRC study directors' discussions with sponsoring scientists confirmed that a surprisingly large number of customers were learning of HRC's problems from competitors. In early May, evidence emerged of the marketing initiatives some were taking in order to extract a competitive advantage from HRC's troubles. LCG Bioscience targeted HRC's Japanese customers with an appraisal of the broadcast written by one of their senior scientists. This was directed to sponsoring scientists within customer organisations and accompanied by a Japanese language version. Most damagingly, not only did the appraisal comment on the broadcast allegations but added a highly critical interpretation. For example: 'Government inspectors were being misled into not doing their job properly . . . this case has revealed that it has been possible for one company to operate to a lower standard within this system [GLP] for a long time without detection.'

Another competitor openly sought advantage. Primarily targeted at the UK market, Inveresk Research International Ltd wrote to customers about 'blatant cruelty and mistreatment of beagle dogs . . . several breaches of GLP were evident'. It concluded with an invitation to visit their facility in Edinburgh, Scotland, to witness how they would 'deal with your safety evaluation programmes professionally and with all due care and attention'.

Institutional support, which had recently been strong for HRC, evaporated. During the past two years it had been proposed to the ABPI that since a considerable and growing amount of R&D was conducted in contract research organisations, they should be invited to join the ABPI. A category of research was designed and recent discussions in relation to proposed affiliation fees had resulted in a response from the Director General which concluded: 'I look forward to working closely with you in the future.'

It was widely expected that HRC would be the first to be admitted to membership but an ABPI management meeting in April resulted in a deferral. Later in the month, the Science and Technology Committee – most members of which had first hand knowledge and experience of HRC – proposed that the ABPI should issue a press release condemning HRC. Separately, in a meeting of the British Pharmaceutical Group in early May, at which the Director General of the ABPI was present together with the three most senior executives in the pharmaceutical industry in the UK, the largest portion of their time was allocated to discussion of HRC issues. They agreed to watch and wait, and to make no public comment.

The RDS represents scientists and clinicians whose work depends on animal experiments in the public and political debate about animal experiments. On 12 March 1997, the RDS wrote to HRC: 'We hope you will be able to continue supporting us in 1997. Without company membership subscriptions, we would be incapable of mounting a defence against the campaigning activities of the animal rights movement.' Within days of the broadcast HRC was asked not to pay its 1997 subscription because the Executive Committee had unilaterally decided to suspend HRC's membership. Furthermore, this information was released to the media.

At the beginning of May, the RDS monthly newsletter gave front-page prominence to its action and HRC's difficulties, stating: 'The Executive Committee took the view that, to mark the reaction of the UK animal research community, it was appropriate to send a very clear signal . . . HRC was suspended from membership.' It went on to state its view that 'there was no overt animal rights involvement in the programme' – a judgement that later proved to be naive and incorrect. The Chief Inspector's review assessed unbroadcast material made available by Channel 4 and Small World Productions. It showed extensive training and instruction being given by Sarah Kite of the BUAV to the HRC infiltrator Zoe Broughton prior to her filming.

Subsequently, despite the RDS Chairman, Sir Colin Berry, having opened HRC's new pharmacy building and a detailed and frank presentation to the RDS Council on 16 May 1997, the Council supported the Executive Committee and the suspension of HRC was confirmed. This outcome gave the allegations against HRC considerable credibility, even though the Council believed the incidents were probably isolated.

The vulnerability of HRC's business to the continuing public and customer reaction following the allegations escalated dramatically on 1 May 1997, when the UKGLPMA manager presented me with the agency's first ever Warning Notice. This gave HRC 28 days

to implement three corrective measures to systems and procedures found to be defective during the period October through December 1996 audited by the UKGLPMA inspectors.

In reaching their conclusions they had relied heavily on HRC's frank internal reports and monitoring systems that had revealed weaknesses to management, which the inspectors accepted had since led to substantial improvements.

They promised to submit a detailed report of findings and conclusions to HRC on 16 May 1997, which they believed would support the issue of the Warning Notice, but also demonstrate that up to eight studies were 'flawed'. The inspectors exonerated departments other than dog toxicology and the Company's other major research laboratory at Eye and concluded that there was absolutely no evidence of weaknesses either prior to the period audited or since.

Many staff involved in servicing requests from the Chief Inspector, whose investigation rumbled on into May, were responsible for the conduct of research and were dealing with escalating enquiries and audit visits from customers. Their workload increased dramatically on receipt of the detailed report on 16 May 1997, because they were also assisting the preparation of a dossier to satisfy the UKGLPMA in response to the Warning Notice.

Astonishingly, the most important conclusions in the report were that the systems and documents used for over 15 years to record scientific procedures did not provide a sufficiently robust audit trail to allow a study to be recreated. Consequently, certain studies were considered flawed and invalid. An appeal against the conclusions was permissible, which involved the collection of copious amounts of data and study results over several weeks into June in order to demonstrate the scientific validity of the suspect studies.

The work methods and procedures, being rejected by the same UKGLPMA inspectors, had been audited as recently as January 1997 when they went unchallenged, as they had done in every biannual audit since voluntary compliance with the principles of GLP began in the early 1980s. Nevertheless, HRC amended certain work methods and procedures to ensure clarity in the audit trail but continued to challenge the conclusion that certain studies were flawed.

Under 'mutuality rules', the enforcement agencies for GLP in each of the major countries in the Organisation for Economic Co-operation and Development (OECD) accept the validity of each other's compliance certificates without undertaking their own audits. As one of the most highly regarded agencies in the world, the UKGLPMA wished to assert their authority, especially since some of the broadcast allegations questioned the competency of UKGLPMA inspectors. It was their view that the outcome of their 'audit for cause' and the next steps could consolidate the 'mutuality rules' or lead to other agencies, for example the FDA, insisting on undertaking an audit to avoid undermining the status quo. The manager made it clear they didn't want the FDA on their patch. Thus, after much discussion and review, it was finally determined by the UKGLPMA that five dog studies were not compliant (they withdrew the term 'flawed'), and instructed me to write and inform the relevant sponsoring companies.

Four studies involved Japanese companies, to whom it was extremely difficult to explain and demonstrate to their satisfaction the basis of the UKGLPMA's decision. Two of the compounds being tested were considered potential pharmaceutical blockbusters and in each

sponsoring company's case, it was their only prospective medicine. Almost three years of research would have to be repeated.

At the beginning of June, the UKGLPMA investigation was complete and HRC's compliance with GLP was confirmed by the audit undertaken in January. However uncertainty in customers' minds would continue for several weeks because a new certificate would not be issued for some weeks because of a printing problem.

7

AN ESCALATING CONTROVERSY

If you can keep your head when all about you

Are losing theirs and blaming it on you

Rudyard Kipling, 1865–1936
'If –', 1910

Until May 1997 and the landslide victory of the Labour Party in the general election, I hadn't followed either their announcements or activities in relation to animal welfare. Further, little publicity had been given to various statements made by some of their key personalities, their policy document concerning animals used in research had not been reviewed and the Company had not paid attention to their close relationship with animal activist groups.

Elliott Morley, appointed a junior minister in the Ministry of Agriculture, Fisheries and Food, wrote in a letter in December 1996 to Robin Webb of the Animal Liberation Front (ALF) stating: 'We are proposing a Royal Commission to investigate the claims that animals need to be used, and to recommend on alternatives.' Under the photograph and signature of Tony Blair, appointed Prime Minister, the Labour Party's electioneering document 'New Life for Animals' was emphatic: 'We will support a Royal Commission to review the effectiveness and justification of animal experimentation and to examine alternatives.' These unequivocal public statements established the political agenda that was now the source of policy direction for officials in the Home Office. Furthermore, prior to the general election the Labour Party accepted a £1 million donation from the International Fund for Animal Welfare (IFAW), one of whose national officers is a member of the APC.

On 17 May 1997, nearly two months after the broadcast on Channel 4 and previously having shown no interest in the allegations against HRC, the *Independent*, one of the UK's daily national newspapers, published a story on its business page with the title: 'Glaxo to face ire of animal protesters,' and the subtitle: 'Pharmaceuticals giant announces end to business with controversial contract testers HLS.' In the article it was claimed that employees were 'kicking and hurling a beagle against a wall'. Henceforth, all media references to HRC were prefixed with 'controversial' and repeated the false claim about 'kicking and hurling'. Indeed, in an article some weeks later, HRC was referred to as 'the controversial group' and the BUAV as the 'respected animal rights campaigners'.

Beneath the headline in the issue of 17 May 1997 a picture stretching across four columns showed a protest march that probably took place in 1996 in Birmingham on the World Day for Laboratory Animals, arranged by the National Anti-Vivisection Society (NAVS). The caption to the picture read: 'Glaxo dealt a pre-emptive blow against protesters before next week's AGM by saying it will await a Home Office report before acting.' The journalist chose not to quantify the value of Glaxo's orders to HRC but by implication suggested it was huge.

In fact, in both 1996 and 1997 Glaxo Wellcome had been a relatively low user of contract preclinical development services – the services offered by HRC – for various reasons. These included capacity available in-house after the acquisition of Wellcome in 1995, the ongoing

process of rationalising their R&D pipeline, organisational changes and lastly, the product life cycle stage of their candidate compounds. Revenues from Glaxo Wellcome were about 1% of the Company's total and in January 1997, the Company had been notified to expect about the same.

The article was clearly intended to intimidate Glaxo Wellcome into expecting major disruption at their AGM and to coerce them into making a public comment, which it was hoped would lead to a snowball effect among HRC's other customers. Indeed, the reporter obtained comments from other high-profile companies such as SmithKline Beecham, Zeneca and Astra. Although not financially critical to HRC, Glaxo Wellcome carried major influence among Japanese customers and in the US through collaborations, as well as their sizeable presence in those countries. The source of the material in the article was believed to be a leading animal activist based in Glaxo Wellcome's hometown of Stevenage in the UK, who was also a shareholder. Without disruption and only 10–15 protesters among a total attendance of well over 1,000, Glaxo Wellcome's AGM was held on 19 May 1997.

The haste to prejudge HRC guilty as accused in the broadcast without an investigation was astonishing; within eight weeks the Company was publicly isolated from its customers, the government and the science community.

For several days following the *Independent*'s article – and in the case of Japan, for several weeks – shareholders, financial analysts and customers intensified their demand for information from the Company.

Six weeks after the broadcast there had been no recorded face-to-face meetings within the Company between divisional management and their staff. However there was sufficient anecdotal feedback to indicate that the press releases by the Company, written communications with customers and the Company's announcements of change were not being debated in department cascade meetings. To create forums in which there could be open discussion within the Company as well as to enable information to be passed out, I began a series of gruelling presentations spread over several days to staff in the UK in meetings of up to 100 personnel at a time. The COO, based in the US, led discussions with the 200 personnel there.

These meetings revealed a polarisation of opinions among staff. Firstly, almost unanimously, staff in the UK who had joined the Company in the past 18 months (because their employing company had been acquired by HRC) expressed the view that the allegations made in the broadcast reflected a minimalist culture in HRC that they suspected existed. Secondly, staff who had no regular exposure to animals believed that their standards of scientific excellence and high ethical norms in relation to science had been betrayed. Thirdly, long-serving staff at HRC, particularly those in the animal areas, believed the allegations were trumped up by an activist stooge who had acted as an 'agent provocateur'. The hostility between departments and divisions in the UK was becoming known to customers.

The response among staff in the US was intolerance of the maltreatment, disbelief in relation to the allegations of falsified data and a collective view that HRC had been the victim of a 'set up' orchestrated by animal activists.

Sensationally, it was discovered at the end of May 1997 that the Company's Princeton Research Centre (PRC) in the US had also been infiltrated in late 1996, and that the infiltrator had been present in the briefings held by the COO.

One of the world's best-financed animal lobby groups, the PETA – which claims to have about 600,000 members, with offices in the US in Norfolk and San Francisco, in the UK in London and in Europe in the Hague, Holland, and Stuttgart, Germany – had for many years targeted companies that use animals in research. In an article in *Newsweek* of 29 September 1997, under the title: 'Breaking the Cages,' and subtitle: 'Radical animal activists turn to violence,' PETA were described as being to the ALF what Sinn Fein is to the Irish Republican Army (IRA); they were paying the legal costs of an imprisoned ALF activist.

PETA claimed to have many high-profile celebrity supporters, two of whom – Alec Baldwin and Kim Basinger – lived in New Jersey, US, not far from PRC. To promote their aims, PETA concentrates on undercover operations to provide information around which they can mount a campaign of economic sabotage against a company. They typically target high-profile and successful companies that have a consumer products division and are therefore vulnerable to changes in consumers' attitudes.

On 22 May 1997, the Senior Vice President in Research of Colgate Palmolive contacted the Chief Scientist at PRC to explain that they had been having discussions with PETA following an approach made to their Chairman and CEO. Matters had 'gotten out of hand' because their Chairman and CEO had denied Colgate Palmolive used dogs in any of their research, which had led to allegations against Colgate Palmolive being released through the internet on PETA's website. Colgate Palmolive had subsequently accepted certain principles about the use of animals from PETA, as well as agreeing to spend $1 million annually to lobby the regulatory authorities to change animal use requirements. During their discussions with PETA they had concluded that some of the evidence presented had been gathered from within PRC.

Almost coincidentally with the removal of allegations against Colgate Palmolive, the PETA website attacked Procter & Gamble (P&G) in relation to their usage of primates. It transpired that P&G and PETA had been adversaries for 10 years and when contacted in mid-May by PETA, they had simply ignored the correspondence. However, the website attack stimulated an enquiry within P&G.

In late May, P&G contacted PRC as details of PETA's complaint indicated it concerned research that only PRC was undertaking, but at the same time refused to talk to PETA. On 3 June 1997, in P&G's head office city of Cincinnati, PETA held a press conference and in a graphic and lurid exposé, accused P&G of cruelty to primates. A video of nine minutes was released to the media. In a front-page report, the *Cincinnati Enquirer* drew attention to the attack on P&G and suggested the laboratory involved was PRC. This report was given national and international exposure when it was repeated on CNBC business television and carried by the *Wall Street Journal* on 5 June 1997.

On 6 June 1997, during an interview on a nationally syndicated radio talk show based in Washington DC, the President of PETA, Ingrid Newkirk, attacked Colgate Palmolive, P&G and an unnamed Japanese pharmaceutical company, which was to conduct research that PETA claimed included the breaking of a healthy dog's leg.

PRC contacted the USDA to explain it had been the target of an undercover operation mounted by PETA. Dr Ron deHaven, the deputy Administrator of the Animal Care Division, confirmed they had received a dossier of complaints and video of about 20 minutes from PETA. However, in his opinion PETA's reputation for misrepresenting evidence and their illegal methods of obtaining that evidence meant the USDA treated their complaints

cautiously and consequently the material was in a 'drawer'. Nevertheless, the upsurge in media interest meant that the USDA would inevitably be required to examine it closely because of the likely interest from the public and PETA's relationships with legislators, particularly in the US Senate.

Press cutting services, e-mail traffic and the availability of CNBC television meant that on 6 June 1997, most of HRC's multinational customers and shareholders were aware of the allegations in the US. Disastrously, on that day a senior scientist from HRC was attending an important planning committee meeting in the UK with Glaxo Wellcome, chaired by the Vice President for Medicines Safety and Evaluation. HRC expected to be reinstated on Glaxo Wellcome's preferred supplier list at that meeting, following various inspections by their expert staff and briefings from HRC in relation to the outcome of the UKGLPMA and Home Office investigations. Such a positive outcome was to be communicated by Glaxo Wellcome to the ABPI's Science and Technology Committee, who would have ensured its circulation. However, on arrival the HRC representative was presented with press cuttings and e-mails from the US and the agenda for the meeting altered spontaneously.

It was subsequently learned that within Glaxo Wellcome and other customers, the authority to decide on their relationship with HRC had been removed from the commissioning scientist and given to a committee that included a heavy public relations presence and reported to a senior director of the company. The revelations in the US and their global release by PETA as part of a well-informed attempt at economic sabotage had a significant negative impact on staff, customers, shareholders and financial analysts.

About four weeks after his final site investigation, the Chief Inspector returned on Wednesday 4 June 1997 to present me with his conclusions. He informed me that there had been two presentations to UK Government Ministers and they had received an executive summary that was being edited by a senior official prior to its circulation to the APC on 5 June 1997.

Reassuringly, the Chief Inspector explained that his investigation and corroborative evidence showed the problems were related to a short period of time in dogs at only one laboratory. Although his investigation was complete, his report would not be finally prepared until the end of June, but this could be delayed further because the Secretary of State was 'taking advice from others', and officials proposed to await the outcome of that process. However, HRC would most likely never see the report or its findings and conclusions, but instead possibly receive a three to four page letter summarising it and requesting that certain actions be taken. The Certificate Holder would be held accountable but not to blame and the Chief Inspector would recommend the improvements that HRC had already implemented.

Apparently, the report would comment on 30 videotapes from which the programme producers had extracted excerpts after liberal editing for television, and which in the presence of representatives of Small World Productions, Channel 4 and lawyers, he had been able to scrutinise. The violent shaking of the dog happened 28 days before the punching incident occurred, yet they had been edited together and the producers had sought to create the illusion that violent shaking was the norm. Furthermore, the scene in which the dog was punched was on the final videotape when the technician was clearly having 'a bad day'. Also, the Chief Inspector had conclusively proven that other staff had reported the incident on the day it happened.

Unbroadcast videotape showed Zoe Broughton signing off a dog's record card without having entered a single pen to examine the dogs, contrary to her instructions and training. Sarah Kite of the BUAV was filmed spending a considerable amount of time instructing Zoe Broughton on what questions to ask, what documents to search for and how to extract useful information. Another unbroadcast videotape showed Zoe Broughton walking through the primate department asking all the 'right questions' but revealed nothing sensational to broadcast.

The Chief Inspector was unsure whether all the Home Office audiences would wish to receive a balanced report and that he was uncertain of what would happen to his document once it reached Home Office officials.

Meanwhile PETA had bombarded major newspapers and television stations in the UK and Europe with a dossier of allegations. They also distributed a videotape, which PETA claimed was based on undercover recordings taken by one of their employees, Michelle Rokke, who posed as an experienced animal carer to join PRC in October 1996. She stayed for nearly eight months while she collected usable material.

Because of unprecedented growth, from August through December 1996, PRC in the US and HRC in the UK had been actively recruiting experienced and trainee animal technicians. The Company was probably the target for the first internationally co-ordinated undercover operation by a single issue direct action group: PETA worked with UK-based action groups and strove to get its agenda into the Labour Party's electioneering document. They also tapped into their celebrity supporters. The infiltrators joined the Company in the same month although they did not know the others existed; kept a detailed diary of their actions and sightings while working within the laboratory; photocopied and stole documents; wore a sophisticated concealed micro-camera and left abruptly after obtaining material that could be presented sensationally.

PETA, based on their confidence that freedom of speech would override legal entitlements, their track record, the celebrity status of their main backers and access to legislators, admitted that one of their employees simultaneously worked for PRC. However, despite Small World Productions admitting in their letter of 24 January 1997 that they had been commissioned by Channel 4 to investigate cruelty to animals, their reporter Zoe Broughton, did not publicly admit until April 1998, in an interview with *BBC Wildlife*, that she was their employee. In the US, professionalism wins support for exposé documentaries, compared with the UK where it is the pretence of innocence lost. It was now in the public domain that the Company was suffering a well financed, publicly and politically supported attack on its leading laboratories.

The *Mirror* published a double page report based on material from PETA on 9 June 1997. Prior to publication the *Mirror* had received a 13-minute video and a dossier of allegations; a journalist contacted me whereupon I explained that the Company knew of the existence of four other videos issued by PETA. I offered to give an interview provided that I could see the video and read the PETA dossier beforehand. The *Mirror* consulted with PETA's London representative, Andrew Butler. PETA confirmed their existence, refused to authorise the release of any to HRC and explained that the video was targeted to the US audience and concentrated on P&G and their use of primates because Americans were less sympathetic to dogs. The video for the UK and Europe concentrated mainly on Colgate Palmolive and dogs because of public opinion with regard to experimentation with dogs and in order to link up with the campaign in the UK.

PETA's and Newkirk's pivotal role in the transatlantic campaign against the Company was confirmed in her letter to me of 10 June 1997. This comprised a tirade of unsubstantiated allegations and abusive remarks but most interestingly said: 'As you know, in April 1997, a complaint regarding cruel handling practices was filed against the laboratory's UK headquarters.' This was a remarkable statement since the government had studiously avoided ever mentioning it had received a complaint and the protagonists, mainly the BUAV, were anxious not to be publicly associated with anything that may have had its origins in illegal activity.

Dealing with media enquiries, ensuring staff and customers were reasonably well informed and answering queries from shareholders involved a delicate balance between being candid, not causing embarrassment to the Home Office and not encouraging unreasonable optimism.

Of particular potential embarrassment to the Home Office was their recent authorisation of an expansion of HRC's Certificate on two separate occasions, to allow the breeding and supply of marmosets (a small primate) and beagle dogs. The first amendment to the Certificate was to accommodate the acquisition by HRC of the laboratory from Ciba and the second, to allow the Home Office to close down a dog breeder that had been unable and unwilling for many months to comply with Home Office guidelines. These additions to HRC's Certificate had become known to the media.

While the UKGLPMA manager understood the commercial imperative of regular communication with customers and the Chief Inspector expressed that he had no objection to customers being briefed, after all the Company was fighting for survival, Home Office officials wrote to object on the basis that: 'It is of extreme concern to the Home Office that you (HRC) should prejudge the outcome of the official investigation . . . The Chief Inspector has not yet completed that investigation.' This threatening letter was received on Monday 16 June 1997, 12 days after the Chief Inspector made it abundantly clear that his investigation was complete.

During discussion about his letter, the official author confessed it was uncertain that the Chief Inspector's report would be published, he was not sure HRC would receive anything and that there was no timetable in place. He commented: 'HRC might get the summary but this was uncertain because of what's in it!'

Their sensitivity was illustrated by the Home Office being forced to admit in a written answer in Parliament that in the three months to the end of November 1996, HRC had received six inspector visits, which included three to dogs, twice to view scientific procedures and one visit involved two inspectors. Further, the written answer claimed that reports on all visits were forwarded to the Chief Inspector, which surprised the Company because they are never shared with HRC. However, the Home Office chose not to mention that each visit is spontaneous and unannounced giving HRC no time to prepare and despite this, over the many years of visits to HRC, it had not been necessary to file a single report with HRC. Tensions were obviously running high in the Home Office and a rift between the officials and the Inspectorate was quite apparent.

Without any contact with the Home Office officials or the Chief Inspector for more than three weeks, on 8 July 1997, HRC was told in another letter: 'I can assure you that you will be informed, in writing, of the outcome of the investigation and what further action is to be taken, but only after Ministers have considered our recommendations; I am not going to be drawn at this stage.' This letter was received sometime after an upbeat explanation of the

outcome of all investigations was circulated to all customers and staff. HRC was again confronting uncertainty and the prospect loomed of having to communicate again with customers about the outcome of the Home Office investigation, which might lead to the interpretation that the previous HRC communication was misleading.

PETA's and BUAV's websites were frequently updated and vitriolic in the condemnation of the Company. Under the umbrella name of ARC News, the Animal Rights Coalition's (ARC's) considerably more aggressive and threatening website, reputedly constructed in the US, also attacked the Company. This website was used to announce planned demonstrations and the results of those recently undertaken; it maintained a running report on the allegations against the Company concentrating wholly on cruelty to animals. Although the views expressed were extreme, the authors of the website seemed to be well informed.

As a follow up to the Home Office's letter of 8 July 1997, I met two officials on 18 July, one of whom was a member of the APC and the other the secretary to the APC. They were unable or unwilling to provide a timetable in which the Company would be informed in writing about the outcome of the Chief Inspector's investigation. However, they did admit to feeling betrayed after having had 'confidential' meetings with 'representatives of the animal rights movement', which had resulted in details being published on the internet under ARC News as if they were agreed minutes from the meetings.

At the end of June, the Company was able to announce that P&G had completed its inspection of PRC and would continue its two primate studies, and the USDA (who had audited and inspected in February 1997) had completed phase one of their inspection resulting in no concerns about animal safety and welfare. This positive news had no measurable impact because PETA had escalated their attacks and Ingrid Newkirk had enlisted the film star Kim Basinger to spearhead claims of unnecessary suffering to be inflicted on beagle dogs in PRC on behalf of Yamanouchi, Japan's leading pharmaceutical company. Yamanouchi also had a major over-the-counter medicine operation in the US operating as Shaklee, and not surprisingly was highly sensitive to consumer attitudes in both the US and Japan, where it also had a sizeable consumer products business.

PETA mounted a 'stop PRC and save the beagle dogs' campaign. Despite the research study being essential for the development of a compound that was considered to be a breakthrough therapy for osteoporosis and similar research having previously been published by two US multinationals (Merck & Co and P&G), Yamanouchi received substantial media coverage in the US, UK and Europe. The popular press and magazines in most countries got involved. The story was introduced with references to Kim Basinger and linked to the Company that was under investigation for cruelty to animals. It received wide radio and television coverage and featured in serious news broadcasts, entertainment news and review programmes. Telephone calls and written protests to PRC and HRC increased dramatically and were coming from a wider cross section of the public, not just extremists and activists.

From the Company's viewpoint the most serious revelations were related to PETA being able to identify the monitoring scientist within the sponsoring company and to describe in detail, albeit selectively, the complexities of a proposed study. This meant PETA, through their undercover operation, had stolen commercially sensitive material and probably had also trade secrets and proprietary information belonging to PRC. Such a serious breach of security indicated that the Company had failed an essential security obligation of its contracts with sponsoring companies and lost control over those companies' highly sensitive research information, which was also commercially valuable. Customers were alarmed and several

pressed the Company to take decisive legal action against PETA to prevent the use or misrepresentation of stolen data and information (subsequent legal proceedings against PETA in the US were settled out-of-court). From the Company's perspective, having invested heavily during the ownership of PRC to establish an operating environment comparable with HRC, its loss of credibility could be fatal.

Anxieties increased in the US when, during July, customers of PRC in the US and in Japan received derogatory letters about PRC from PETA, addressed direct to their account executive responsible for outsourcing. Although having a high security status within PRC and a restricted circulation, PETA had a copy of PRC's full customer list.

8

GOVERNMENT CONDEMNATION

The fundamental principle is that a man may not be a judge in his own cause

Lord Browne-Wilkinson
Financial Times, 16 January 1999

When the Company purchased the APBI assets in November 1995 and financed the transaction largely with bank debt, it accepted the obligation to provide monthly performance information to the bank syndicate of NatWest and the First National Bank of Maryland (FNBM). This comprised a profit and loss account, balance sheet, cash flow and a statement of new orders booked. NatWest were the lead bank and responsible for the collection and dissemination of the information.

In 1996, NatWest transferred management of the debt from their investment banking arm to the UK branch network, reduced their share of the total loans to the Company and brought into the syndicate a bank unknown to the Company, Comerica Bank of Detroit, US. The senior manager within FNBM, who had recommended their investment in the syndicate and who had handled the Company's affairs for over 10 years, had been reassigned. Thus, at a critical time, the syndicate of banks was under the guidance of managers who had little knowledge of either the contract research industry or the Company.

Contact with the banks had been straightforward day-to-day matters concerning banking operations, except for the purchase of WRC and the use of proceeds from the new equity issued in February 1997. Seldom was a question raised in relation to the monthly performance reports and the Company's financial management followed the maxim of 'let sleeping dogs lie'. The Company's cash position was strong so the decline in the Company's monthly new order inflow and total order backlog was apparently of no significance. However, the fall in new orders in the second quarter of 1997 was dramatic and insufficient to maintain the healthy backlog the Company had at the beginning of the year.

Fixed costs amount to about 85% of the total costs, with the largest element being employment costs and expenses. Significant time is spent in winning an order and so the Company closely monitors the value and numbers of enquiries and their conversion to orders. Since the beginning of 1997, Novartis had been closing its own capacity but had failed to fulfil its promise (made in November 1996) to substantially increase its outsourcing to the Company. On the contrary, unexpected management changes in Novartis resulted in a significant reduction in orders as the new management adopted a strategy of increasing in-house development rather than outsourcing. This trading setback had been partially offset by growth elsewhere, although in two specialist areas demand from pharmaceutical companies was down. Overall, the volume and value of enquiries had increased compared with the previous year and PRC was slowly becoming accepted by the pharmaceutical industry; the biotechnology industry in the US was also increasing its commitment.

However, the delay between an enquiry being logged and its conversion to an order was becoming considerably greater than historical achievement. Furthermore, the larger the

package of studies, for example a multi-year carcinogenicity study including pathology, analysis and some drug metabolism and pharmacokinetics, the greater the delay and the increased uncertainty of conversion to an order. HRC had the capacity to manage 60–70 of these major studies simultaneously, but the number of study starts was considerably fewer than those being completed.

The payment terms associated with an order and a study start meant, particularly on the multi-year large packages of studies, a substantial portion of the total study price was paid up front. Profitability was also, in general, lower on the smaller, short-term packages of studies. Feedback from sales and marketing and HRC's supervising scientists, who were responsible for progressing an order, reported that delays were due to the decision maker no longer being the sponsoring scientist in the award process within the sponsoring company. These decision makers were unknown to HRC, who had concentrated on building a narrow relationship with each customer built around the sponsoring scientists.

From the end of March 1997, the drop in new orders per month compared with the same period in 1996 accelerated. The monthly average was running at £4 million in the UK and about $1 million in the US. To break even before tax, the Company needed £5 million and $1.2 million in the UK and US, respectively.

The Company had reported its results for the three months ended 31 March 1997, which showed a small pre-tax profit improvement compared with the same period in the prior year. Investigations into the allegations were acknowledged but the report conspicuously omitted any comments about current or future trading and merely noted uncertainty. Although it is generally considered that listing rules prevent directors from making a forecast, comments on current trading are eagerly anticipated and the absence of remarks is usually interpreted negatively. The closing price of the Company's ordinary shares on the LSE had begun to move down as shown in the table below.

Table 1: HLSG's share price on the London Stock Exchange, 26 March 1997 to 20 June 1997

Date	Share price	Corresponding event
26 March 1997	117.5p	'It's A Dog's Life' broadcast on Channel 4
24 April 1997	106.5p	Astra press release following their AGM on 23 April 1997 stating the end of their research pact with HLSG
30 April 1997	94.5p	First quarter 1997 results announced on 29 April 1997
19 May 1997	78.0p	Glaxo Wellcome's AGM
4 June 1997	71.5p	Day after PETA's Cincinnati press conference criticising P&G and implicating PRC
20 June 1997	63.5p	PETA launched campaign to stop PRC carrying out research on dogs, spearheaded by Kim Basinger

Volumes being traded on the LSE and NYSE were now on a daily average greater than the normally reported 100,000. With sellers outnumbering buyers, the share price continued to fall.

Directors have an obligation to ensure that investors can take informed decisions; an important way of achieving this is to release information that has the effect of disclosing that

profits of the Company will vary by 10% from the stock markets' expectations to all investors and potential investors. Late in June, the Company revised its internal forecasts of profits for 1997 and concluded that, in the absence of a sudden and significant uplift in new orders, the profits expected by the stock market were too optimistic. Thus, the Company announced on 1 July 1997 that orders were down, substantial costs were being incurred in responding to allegations against it but positive progress had been made with the investigating authorities. This profit warning was widely reported in the financial media. By 25 July 1997, the share price had fallen to 54p, from 65p on 30 June 1997.

The government began to reveal the background to its actions when in a letter to John Major dated 29 July 1997, Jack Straw wrote: 'Whilst strong action followed in the case of the individuals concerned, we also believe that appropriate action needs to be taken against the Company itself' (see Appendix III).

Unable to prosecute the Company under either the 1911 Act or the 1986 Act, partly because there was insufficient evidence and partly because those Acts relate to individuals, the government chose an option that was guaranteed to earn them maximum publicity and to confirm their credentials as the political party that improves and protects animal welfare. More importantly, the Labour Party chose to sacrifice the Company in their desire to favour one of their major financial backers. Unexpectedly, the Secretary of State presented to Parliament on Thursday 24 July 1997, a lengthy and emotively worded written answer in response to a bland question submitted by Ms Fiona Jones MP for Newark, 50 miles north of Huntingdon, part of the Labour Party's new intake and who, it was believed, may have had connections with animal activists.

The question: 'What action he has taken in response to the allegations broadcast on television on 26 March 1997?' drew a lengthy reply from the Secretary of State (see Appendix III). Historic precedent is that before tabling a written reply, the constituency MP is fully briefed to allow some time for reflection and commonly any organisation to be mentioned is asked to confirm details, facts and interpretations. Furthermore, the Minister responsible for the operation of the 1986 Act when the allegations were broadcast, Lady Blatch, would have expected to be informed. The Company had not had any communication about the Chief Inspector's conclusions since 4 June 1997, except for a fax received by the Certificate Holder at 5.41pm on the evening of 23 July 1997, which explained that letters would be sent the next day and a written answer would be available in Parliament between 3.30pm and 4pm.

Unfortunately, 24 July 1997 was the day on which the Company was providing a comprehensive trading report and revised forecast to bank representatives. Unaware of the disaster about to hit the Company, the lengthy and intensive discussion focused on the satisfactory outcome of the three investigations, the police, the UKGLPMA and the Home Office. The banks were encouraged and relieved to learn that shortly after the profit warning of 1 July 1997, new orders had been obtained at a faster rate than achieved for several months and July was forecast to be the best single month in the Company's history. Although cash flow forecasts indicated it would not be prudent for the Company to pay down the next tranche of the outstanding loan in November 1997, it appeared as though the Company would be in, or near, compliance with its financial covenants.

In the bank meeting it transpired that the agent bank, NatWest, had either not been distributing the Company's monthly reports to the American members of the syndicate or those that had been received were many months late. There was obviously some distrust among the syndicate. The next day, 25 July 1997, when the written answer from the Secretary

of State was widely reported in the press, radio and television, NatWest accused the Company of having deliberately withheld vital information.

At about 3pm on 24 July 1997, the Certificate Holder received a three-page letter stating that unless he or a replacement Certificate Holder satisfied 16 conditions by 30 November 1997, the Certificate would be revoked (see Appendix III). Particularly disturbing were statements of findings and facts that were new to the Company; the letter gave the unequivocal impression that there were failings throughout the animal area of HRC, which dramatically contradicted the Chief Inspector's report of 4 June 1997. Furthermore, the 16 conditions were drafted to appear as though HRC had to satisfy new and more stringent requirements, despite every single one having been addressed before the final visit on 4 June 1997.

It was abundantly clear several of these conditions were designed by the Home Office to result in guidelines that could be imposed on other Certificate Holders. Some of these were already a part of the Company's ongoing scheme to improve animal welfare; but by including them as part of the 16 conditions, it allowed the Chief Inspector to claim the credit for raising standards across the industry. The Company had been rather slow to become aware of the remarkable similarities between the Labour Party's electioneering document and the public demands of animal activists. The Company realised that the Labour Party's credentials would be further assisted by a professional and pragmatic solution to some of the 16 conditions.

A task force was assembled by the Company to present in one document the submissions previously made to the Chief Inspector and to prepare an application for a new Certificate in the name of the senior scientist named to the Home Office three months previously.

At about 4.30pm on 24 July 1997, the Managing Director responsible for foreign listings on the NYSE called the Company to advise that the executive of the NYSE had unilaterally suspended trading in the Company's American Depositary Receipts because of a report from Reuters.

Beneath a headline: 'UK to revoke Huntingdon Life Sciences licence, Move may shut firm down,' Reuters were reporting the written answer presented to Parliament before it had been seen by the Company (see Appendix I). The Company's stockbroker was immediately informed and the LSE obtained the Reuters report and sent it to the Company at 4.47pm. At that time of day the LSE is closed. However, because of time differences, trading continues in the Company's American Depositary Receipts in the US. LSE management monitor situations to protect all investors in the absence of information from the Company and in case not all investors have had a reasonable chance to review important information. Throughout the evening and overnight demands for information poured in from the US.

Before the commencement of trading in the LSE the next morning, directors requested the LSE to suspend its share from its listing in order to prevent trading while they clarified the position with the Home Office. At the time of its suspension, the share price had fallen to 54p.

Much later, in a letter to John Major dated 7 October 1997, Jack Straw said: 'I am very much aware of the financial losses suffered by Huntingdon Life Sciences both on the Stock Market and in lost orders. I would suggest, however, that these were primarily a consequence of the Channel 4 programme itself rather than the announcement of the outcome of the Home Office investigation' (see Appendix III).

The presentation of damaging remarks in a privileged environment, that is Parliament, was devastating, particularly coming from the Secretary of State who under the 1986 Act was prosecuting counsel, jury and judge and also carried the onerous duty of impartiality. The Company hoped the Chief Inspector's report would be published but the Secretary of State chose to use Section 24 of the 1986 Act and grounds of confidentiality to refuse its publication. Publication would have greatly helped the Company but it might have embarrassed the government, if only because, according to the Chief Inspector, he had been instructed to re-edit it so that it could be published (if need be) in three separate parts without a recipient being aware there were two other parts. The parts to be protected were those relating to the Home Office Inspectorate and the APC.

However, he did publish details of the species of animals and numbers the Home Office estimated HRC held. This information is commercially sensitive and closely guarded by each company so as not to provide sentimental data to activists to use in their campaigns. The overall tone of the Secretary of State's written answer encouraged activists to conclude that HRC was to be closed and harassment of the Company and staff increased dramatically.

The written answer implied that the Chief Inspector had only filed his report in the previous 10 days and the Secretary of State had acted on it promptly. A recurrent theme of the written answer was the absolution of any guilt on behalf of the Home Office. There was praise for the Home Office's 'firm and prompt action', the Chief Inspector was congratulated on his 'comprehensive and detailed investigation', the Secretary of State was satisfied that any alleged mistreatment of animals 'would not have taken place in front of inspectors'. The Secretary of State proposed 'to revoke the Certification of Designation . . . the revocation will take effect on 30 November 1997'. He went on to state: 'Whilst the failures and omissions at the establishment are extremely serious this outcome (that is shut down) would not necessarily be warranted.' He added that: 'An application for a replacement certificate could, therefore be considered . . . Sixteen stringent conditions have been set which must be met before any new application can be considered.'

The presumption by most observers was that the Company's 'failings and omissions' were current and that the Home Office had uncovered new problems. In reality, the Chief Inspector and Home Office were largely satisfied, having made no attempt to interfere with HRC's operations. It was not mentioned that the Chief Inspector tried to recreate the situation that existed in October through December 1996 as a basis for his inspection.

The Secretary of State chose not to comment that the Chief Inspector was highly complimentary of the technicians and the situation he found when he began his investigation on 22 April 1997, ie that the Company had successfully introduced innovative measures such as a Compliance Officer and an Animal Welfare and Use Committee. This Committee was to include two eminent external animal veterinarian scientists who were highly regarded by the Home Office.

Another example of the deliberate skewing of the information against the Company was the Secretary of State's failure to mention the government's decisions taken in the previous three months to expand the Company's licences.

Taken together with the phrase 'proposes to revoke the Certificate of Designation', the most damaging remarks were: 'Shortcomings relating to the care, treatment and handling of animals, and delegation of health checking to new staff of undetermined competence demonstrate that HRC was not appropriately staffed and that animals were not at all times

provided with adequate care.' The impression created was of a wholesale breakdown across all animal departments in management, supervision and control, and that HRC deliberately chose to use untrained, inexperienced and, by implication, less costly staff.

Despite providing most of the source material on which the Chief Inspector's report was based and employees of the Company co-operating fully and freely, the Secretary of State continues to refuse to release the Report or the dossier of allegations the Home Office received to the Company. Having to mount a defence while partially blindfolded and with both arms tied behind your back is manifestly unjust and was probably prejudicial to the livelihoods of over 1,400 employees in the UK. But, the prosecutor, jury and judge in this case was the UK Government.

9

COMPANY SURVIVAL IN DOUBT

With our backs to the wall, and believing in the justice of our cause, each one of us must fight to the end

Field Marshall Earl Haig, 1861–1928
Order to the British Troops, 12 April 1918

Media coverage on the 25 July 1997 was widespread. Headlines such as: 'Huntingdon may lose its licence'; 'Threat to close lab for mistreating animals'; 'Closure threat after documentary exposes 'squalid' conditions'; and 'Drug-test lab faces closure,' were alarmist but reflected reasonably accurately the emotive language of the Parliamentary written answer. There was open speculation that closure of HRC was inevitable. This renewed interest revived the controversy of April, which had gone relatively unmentioned in the previous three to four weeks.

I was forced to deny the Company was about to be closed or that it would cease trading in the near future. The impact on morale was devastating. One veteran employee bet me his month's salary that the Company would be closed by November.

The recent resurgence of support among a broad spectrum of customers and the increased flow of new orders into both HRC and PRC throughout July was reduced to a trickle. Most observers, investors, staff, and alarmingly, customers, presumed the Home Office had found recent and new problems and that they were addressing serious matters other than those mentioned in the broadcast.

The announcement on 25 July 1997 of the suspension of the Company's shares from both the LSE and NYSE led to even more adverse publicity. *The Times*, in its business section, was moved to say: 'Why should a large pharmaceutical company take the risk of adverse publicity and awkward questions at the annual meeting. There are plenty of other contract research outfits they can turn to in this secretive industry' (see Figure 5). Despite this comment illustrating a lack of understanding of the contract research industry and barriers to entry, it was nevertheless widely circulated among investors and analysts and often quoted to the Company.

Figure 5: Newspaper reports speculate on the prospects of the Company following the suspension of shares in July 1997

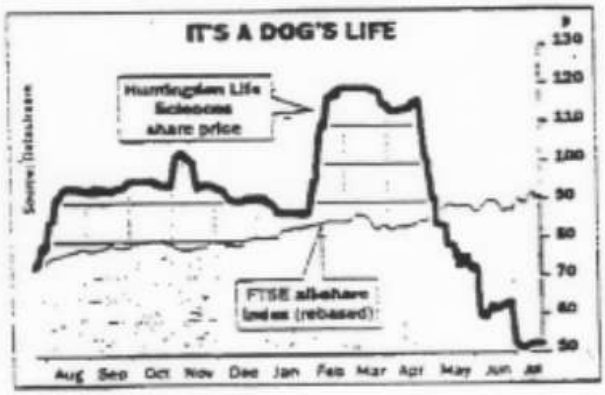
Huntingdon

The future of Huntingdon Life Sciences must be in doubt. The stigma of animal cruelty will be difficult to shift, even if the company can persuade the Home Office not to revoke its animal testing licence. Astra refuses to deal with Huntingdon again, while the likes of Glaxo Wellcome, Zeneca and SmithKline Beecham are withholding new work. But even if Huntingdon can satisfy the Home Office's inspectors, why should a large pharmaceutical company take the risk of adverse publicity and awkward questions at the annual meeting. There are plenty of other contract research outfits they can turn to in this secretive industry.

Huntingdon's response to the Home Office bombshell is inadequate. Christopher Cliffe, chief executive, complains about unfair reporting and points to staff and management changes already made — but none on the board.

Much more is needed to restore confidence. With an annual interest bill approaching £4 million, much of it due to bondholders, Huntingdon needs to find some quick answers to address the inevitable decline in its business.

The Stock Exchange has assented to Huntingdon's request to suspend share trading, which helps the company much more than investors. When will the Stock Exchange learn that its purpose is to facilitate dealing?



Source: © Times Newspapers Limited, 26 July 1997
Note: Photocopying allowed for classroom use only

The gravity with which the Secretary of State's written answer was received and, in particular, the suspension of the Company's share price, appeared to stun officials at the Home Office. They admitted to the *Financial Times* that they were satisfied with the improvements made by the Company and confessed to a leading analyst at HSBC James Capel that the 16 conditions included standards not in existence in other companies in the UK but declined to explain why HRC was an exception.

Officials became more responsive to the Company and this was most probably partly due to the justified indignation with which John Major tackled both Jack Straw and the Minister responsible for the implementation of the 1986 Act, Lord Williams. Lady Blatch also raised questions with Lord Williams and officials in the Home Office.

John Major, in his capacity as a Privy Councillor, belatedly received a copy of the Chief Inspector's report. Although unable to release the report to the Company because of its security status, he did compare it with both a fully documented briefing from the Company and the written answer. When the new Certificate Holder and I met him in his office in the Palace of Westminster, he had the report broken apart and scattered all round his office; he was obviously familiar with its detail. He concluded that even though he wasn't a lawyer, the Company had good reason to consider suing the government as he had concluded the parliamentary answer was deliberately misleading.

The Company's main objective was to obtain a new Certificate, a public acknowledgement that the 16 conditions were satisfied and to avoid confrontation with the Home Office, no matter how righteous the Company's position. We were pleased that John Major had passed

the Company's briefing document to the Secretary of State and Lord Williams. Although it did not result in any adverse comment, it may have caused embarrassment because it highlighted omissions and errors in the written answer.

Following submission of a dossier to the Home Office, brief discussions with the Chief Inspector and a curt meeting with Lord Williams, George Haworth MP and Home Office officials, the Home Office decided on 26 September 1997 to issue a new Certificate – two months before the 30 November deadline. Unfortunately, this successful and speedy outcome was overshadowed by media reporting about the increase in direct action by animal activists, the suspension of the Company's shares and developments in the Company's dispute with PETA.

The Company received different messages from the LSE and NYSE. The latter preferred to talk direct to the Company and believed investors were best served by being able to trade a share, particularly if there is uncertainty attached to the Company. Thus, the NYSE urged the Company to agree to re-list on 25 July 1997, following the Company's press release pointing out that none of the Company's licences had been revoked, the Company was operating normally and that it expected to satisfy the Home Office's 16 conditions shortly.

The LSE declined to speak direct to the Company but advised the Company's advisers, DrKB, that: 'It is concerned that there may be further information concerning the Company's business or financial position which may be considered to be price sensitive and which has not been disclosed by the Company (either to its advisers or the market in general).' There seemed to be more at stake than simply the question of when to re-list the Company's share. DrKB reluctantly agreed to support the Company.

The LSE Account Executive was pressing DrKB for full disclosure of the letter of 24 July 1997 received by the Certificate Holder. Home Office officials had advised the Company that disclosure could prejudice the statutory right of the Certificate Holder to appeal and make representations to the Secretary of State.

Although unsettled by DrKB's refusal to send a director, the Chairman and I met the LSE Account Executive. We offered to disclose the letter to the LSE and, supported by the relatively junior executive from DrKB, maintained that there was nothing further to disclose. The LSE Account Executive referred to the allegations against the Company, quoted extensively from the *Independent* and in particular, quoted the libellous accusations of dogs being kicked and thrown against a wall. Although she declared she had no evidence, she chose not to believe the Company's representatives.

It became clear that the LSE wanted a letter from the Company's Board confirming the directors were committed to the LSE Listing Rules, particularly Chapter 9 and Rules 9.1 and 9.2 in relation to continuing obligations to maintain an orderly market and that all 'users' have simultaneous access to the same information.

Meanwhile, the NYSE were under growing pressure from investors, brokers and dealers in the US to arrange for the Company's American Depositary Receipts to be re-listed. After two weeks of regularly lobbying the Company, the Director for European Companies in the NYSE capitulated and concluded that the decision to re-list was fundamentally dependent on the home country (ie the LSE) and simultaneous action. The NYSE withdrew from the argument.

The Company's corporate lawyer mapped out a strategy to obtain the LSE's approval to re-list, but this was expected to take three weeks, involve a considerable amount of key Company executives' time, require the participation of DrKB and to conclude with a meeting of the Board. There was no alternative but to commence this verification process. The outcome would be an Information Pack put together by the Company's lawyers, which would provide comfort to the directors and DrKB in relation to the letters required by the LSE from the Company and from DrKB. Although the LSE would not request a copy of this Information Pack, which was confidential to the Company, 'they'd know it had been done'.

In the form of a question and answer document supported by comprehensive appendices, reports and data, the Information Pack addressed current business and trading, press releases, dealings with the Home Office, the Company's competency in relation to the 16 conditions, a judgement of the effects of various announcements on trading, the probability of obtaining a new Certificate, the timing and next steps in the Home Office review process and miscellany.

On 20 August 1997, the directors and DrKB submitted written undertakings to the LSE. In their letter DrKB wrote: 'We accept the Company's assurance that it understands its continuing obligations based on the information given to us by the Board. The Company, so far as we are aware, has observed the disclosure obligations imposed on it by Rules 9.1 and 9.2.' All responsibility for the undertaking given by the Company and its directors was plainly for them alone and DrKB accepted no liability whatsoever.

Having been suspended at 54p on 25 July 1997, the share re-opened at 48p at 2.30pm on 20 August 1997 (timed to coincide with the opening of business in the NYSE at 9.30am).

During the suspension of the Company's shares, the holders of the 7½% Convertible Capital Bonds (Bonds) issued in August 1991 became increasingly interested in the Company's trading performance. The Bonds are bearer, granting anonymity to the holder, resulting in haphazard communication. Anxious to conceal their identity, most Bondholders contacted the Company through brokers or dealers. Under the terms of the trust deed, the directors of the Company had an obligation to ensure there was a market in the Company's shares. Bondholders are empowered to take action through the Trustee if the directors fail in any of their obligations.

The Bonds were subordinated debt and thus ranked after bank debt. Nevertheless, the continuing suspension of the Company's shares and possible action by Bondholders, and the likelihood of failure, caused the Company's banks and suppliers to increase their demands for information from the Company. An emergency meeting was held with the banks on 4 August 1997, during which considerable effort was spent on reassuring them that they had not been deliberately misled on 24 July 1997. However, the main topic was the projected deterioration in the Company's cash flow.

Enquiries from shareholders and analysts were heightened by a headline in the *Independent*: 'Huntingdon faces US test.' The article referred to the legal action started by the PRC in the US against PETA to prevent the misrepresentation of material stolen from PRC, to return that material and to stop the harassment of PRC's customers. The follow-up report headlined: 'Huntingdon loses fight to bar video footage,' concluded with the observation that the court's decision could threaten its US licence. The substance of the report was totally inaccurate but severely damaging to the Company.

The presiding judge had said: 'In their zealousness, they (PETA) forgot that people and institutions have rights.' In addition to upholding the injunction in the Company's favour, preventing PETA from using video, photographs and other materials taken inside PRC, the judge also ruled favourably on seven of the 16 actions filed by the Company. The other nine actions were carried over to the main trial planned for December 1997. Most importantly, the judge held that PETA's letter to PRC customers was designed to damage PRC's business and that it had caused irreparable damage. Stymied in the US, PETA increased its publicity activities in the UK and Europe through its own efforts and surrogate animal activist groups.

On 18 August 1997, Michael Hales of solicitors Nabarro Nathanson, on behalf of his client, Ingrid Newkirk, spoke to the non-executive director Richard Slater to ensure he was aware that the Company was involved in litigation in the US against PETA. Hales sent Richard a copy of a letter to me that Newkirk had dated 11 August 1997. The original letter only arrived on 19 August 1997, a full day after Hales' intervention, thus showing clearly Newkirk was active in London. It was an extraordinary and emotional letter that gave an insight into Newkirk's strategy. She stated: 'Contract testing laboratories are not our targets . . . We simply do not care if you get more or less business than your competitors.' She went on to lambaste the management and employees at PRC and to explain why she was confident PETA would prevail over the Company in the US Courts. Unable to restrain herself, she resorted to intimidation and threats. She exclaimed: 'Once the case comes before the court proper the international press . . . expects to show the public how cruelly the animals were treated . . . It won't be pretty.' She referred to the 'McLibel' trial and the adverse publicity directed at McDonalds, making the point that: 'Activists still hand out the very same pamphlet McDonalds spent $16 million litigating against.'

While officers and representatives of PETA engaged in frequent press and media briefings and appeared regularly in radio and television broadcasts, they relied on highly-motivated activists to present their views at protest meetings and demonstrations. They studiously avoided exposure to potentially violent activities. Begrudgingly, Newkirk invited me to contact her if I thought direct talks would be productive, but she 'set in concrete' her non-negotiable position that: 'We will give nothing that would compromise our mission, and we will only spend money fighting animal laboratories, not subsidising them.'

The *Guardian* published an article titled 'Dog daze' written by Zoe Broughton on 13 August 1997, which continued her theme of 'innocence lost'. She complained that she feared 'nothing would happen . . . and then my film was broadcast', but intriguingly introduced readers to the PETA undercover operation in the US. It was also a high-profile appeal to the public, who were concerned about cruelty to animals, to rally to the cause because she claimed PETA were unable 'to get the USDA to follow up the case'. The subliminal question was: would the UK Government act on their threat to revoke HRC's Certificate in three months' time?

Direct action involving assaults on employees' homes, verbal and physical abuse outside laboratories, damage to vehicles and attempts to breach the Company's perimeter defences (which had been strengthened to include razor barbed wire) escalated alarmingly throughout August 1997. Other reported incidents included attacks on scientists elsewhere and an imprisoned activist, Barry Horne, started his second hunger strike of 1997 to put pressure on the government of whom he said: 'They have no intention of helping the animals.' The ALF admitted their involvement in recent activities and also attacked the government for its failure to establish a Royal Commission (see Figure 6). It seemed obvious to us that the activists were aware of consultations between the Company and the Home Office.

Figure 6: The plight of scientists following attacks by animal rights activists is highlighted

Animal activists attack four more scientists

Alexandra Williams

Four more scientists at Oxford University have suffered attacks by animal rights activists who are trying to draw attention to a fellow activist who is on hunger strike in jail.

The new cases emerged last night after *The Independent* highlighted an assault on Professor Colin Blakemore, whose car was vandalised at his Oxfordshire home on Saturday.

Yesterday, the Animal Liberation Front telephoned *The Independent* claiming responsibility for the Blakemore attack and admitting a further four attacks on Oxford University scientists on the same night.

Barry Horne, a remand prisoner in Bristol Prison, began his hunger strike on 11 August. He claims that he Government has reneged on pre-election promises on animal experimentation.

Robin Webb, spokesman for the ALF, said: "Five torturers all had their vehicles done and some of their homes were targeted. This is to show support for Barry Horne and disgust at the Government and scientists who use animals. The severity of actions can be escalated."

The ALF gave *The Independent* a list of those targeted on Saturday. One professor, who refused to be named, said: "Paintstripper was thrown over my car, the tyres were slashed and the words 'Murderous scum' were sprayed on my drive. In the past, my children have been approached. We have been warned they were going to hot up their campaign."

The scientists said that they had little knowledge of the hunger striker. Professor John Hopewell, director of research at the Research Institute, Oxford, said: "I do not even know the name Barry Horne but my house was vandalised. In the past I've been targeted but this is the first time my house has been damaged. It's a nuisance but it's a hazard of the job these days."

Mr Horne, charged with possessing explosive devices with intent to damage property, staged a 35-day hunger strike earlier this year. He said: "The pledges that were made by Labour were nothing more than empty words – they have no intention of helping the animals."

Mr Webb said: "We have a letter dated December from Elliot Morley, Parliamentary Secretary of the Commons, saying: 'We are proposing a Royal Commission to investigate the claims that animals need to be used and to recommend on alternatives'. What happened to that?"

A Home Office spokeswoman said a Royal Commission was unnecessary. Referring to Mr Morley's comments she said: "December was a long time before the election. Besides, we already have an excellent source of independent advice – the Animal Procedures Committee."

Source: The Independent, 20 August 1997, by Alexandra Williams

On 7 September 1997, a group of activists established a 'peace' camp on Company-owned land opposite one of HRC's two main entrances. Several of the activists were known to the police as having been involved in previous protests relating to infrastructure developments, such as roads and airports. The land occupied was not easily identified as belonging to the Company and there was no barrier across its entrance. While obtaining a Court Order to evict the squatters, it was important to secure a cordon round HRC to prevent them simply moving elsewhere but nearby.

Since the intimidation had begun in April 1997, records of incidents were being kept; and despite some participants often concealing their faces, legal sources were being used to collect information on identified activists and their illegal and often violent activities. However, many of the organisations involved in direct action do not publish membership lists deliberately and well-known leaders of established lobby groups such as PETA and the BUAV were never recognised as participating in any demonstrations. It was, therefore, difficult to link demonstrators with support organisations.

Having tentatively agreed to purchase the only piece of land bordering HRC not owned by the Company for roughly three times its market value, the Company obtained an Order under the Protection from Harassment Act 1997 in the Court of Appeal on 22 September 1997. Although intended to protect individuals who were being 'stalked', the legislation had been used once previously by a company to protect its property and staff. The Company used a specialist firm of solicitors, Lawson-Cruttenden & Co, who had experience of dealing with animal activists, preparing evidence and using the recent legislation.

The Order granted the Company an exclusion zone round its premises and employees' homes, naming two individuals, John Curtin and Max Watson, and four organisations, the BUAV, ALF, ARC and London Animal Action. Surprisingly, the BUAV did not try to have their name excluded. Before the Company took action to obtain an Eviction Order, which the Under Sheriff of Cambridgeshire could then enforce, it was necessary to increase intelligence gathering and surveillance in order to evaluate the camp's defences. The police allowed themselves to be befriended by the camp dwellers.

The Eviction Order was obtained in the London High Court on 25 September 1997. Court procedural delays in obtaining it allowed time for the activists to mount a major demonstration on 21 September in which they succeeded in entering HRC. Three activists occupied a roof and following reports of the event, the Company again became a news item.

Since the creation of the camp, the comings and goings and re-supply of the occupiers were closely monitored and it was noticeable that a frequent visitor drove an expensive four wheel drive vehicle with the registration number 'K9'. He was rumoured to operate a security business out of Luton and reliable sources in the police special branch linked him closely with the ALF. He was observed providing supplies to the camp dwellers disguised with a balaclava and dark sunglasses. He had led a violent and abusive protest and on one occasion, under the cover of darkness, had been caught stealing part of HRC's security railings along with three others, whereupon his wife struck a policewoman. However, since the Order had been obtained the two named individuals were conspicuously absent.

At dawn on 30 September 1997, the Under Sheriff and his bailiffs (including experienced tunnellers and climbers), backed by a considerable force of police in protective clothing, began to clear the camp. It took nearly a full week to complete the exercise. The authorities and the Company wished to avoid any injuries, however, there were 15 arrests.

One demonstrator had entered a tunnel through a submerged old office safe, but had lost the keys to their padlocks and were now entombed against their will. The tunnel was supported with struts, compressed air pumped in and oxygen supplied for the demonstrator who was using an asthma inhaler to overcome breathing difficulties. Some media reported correctly that the brand of inhaler being used had been successfully developed partly because of HRC's excellent science on behalf of Astra. The action resulted in heightened media interest and led

to a tactical delay of several days in the Company's announcement that the Home Office had issued a new Certificate.

During the first few days of August new orders were being obtained at a daily average rate similar to that seen in July and this greatly encouraged the Company. However, in the latter part of August, this flow of new orders stopped abruptly and only partially recovered in September, returning to below break-even levels at under £4 million and $900,000, respectively. By the end of September, new orders received since April were approximately 26% below the same period in 1996, with the most dramatic fall being in pharmaceuticals. The new orders being obtained were increasingly for short-term, lower-margin studies, which also generated considerably less cash up front. Also, the volume and value of enquiries had dropped and the time to convert to an order was considerably greater than in previous years.

The regulatory authorities in Japan had begun to delay approvals of compounds on which the Company had researched, provided data and reported. They did not understand the seriousness or otherwise of matters investigated by the UKGLPMA, nor the outcome of their investigations. The regulatory authorities in Japan believe that either a laboratory complies with GLP or it does not. Thus, for the UKGLPMA to declare five studies (four of which were on behalf of Japanese sponsors) non-compliant but to issue a new compliance certificate, was thoroughly mystifying. Customers in Japan were aware of the Authorities' concern and it was unrealistic to assume that monthly new orders would return to their former levels in the near future.

The UKGLPMA sent an explanatory letter and subsequently despatched their manager, who led the investigation, to meet the Authorities, to brief customers and to make a presentation to Japan's national Quality Assurance Association on both the UKGLPMA's investigation and the operation of GLP principles in the UK. Company projections were revised to account for continuing historic low, but marginally increasing, new orders from Japan for the foreseeable future.

Monthly new orders originating in the UK showed some signs of a sustained improvement; however, there was a lack of endorsements from high-profile companies and institutions. This was partly due to the continuing public debate. In the UK media, prominent and concentrated attacks on the government's record had elicited a spate of responses. The Home Office, in a press release, summarised the APC's Interim Report on their review of the first 10 years of the operations of the 1986 Act, commenting favourably on their observations, and drawing heavily on its dealings with the Company (although this was not mentioned).

This was shortly followed by a Home Office announcement titled 'Cosmetic product testing on animals ends today', which tried to claim progress on the agenda outlined in the Labour Party's 'New Life for Animals' document.

High-profile companies were openly stating to the Company that it was their intention to stay away either until this public debate died or until the beginning of 1998. Thus, from the UK at least, there was little prospect of a resurgence in new orders, although current levels were likely to be marginally exceeded in the near future.

Overall, it was estimated that the Company had 'lost' about £14 million of new orders since the original allegations. While it was estimated that completion of orders in the Company's backlog would sustain activity levels until the latter part of the year, when profitability would also decline, new projections were indicating that the Company could not expect to meet its

debt repayment obligations or comply with all the financial covenants in its facilities agreement. Those projections also indicated that additional support might be needed from the syndicate of banks in the first quarter of 1998.

To avoid precipitating a crisis with its Bondholders, the Company paid the interest instalment due on the Bonds at the end of September. However, urgent measures to conserve cash were needed. During October 1997, staff take-home pay was reduced as the Company lowered the monthly profit-related pay instalments to all staff, but on a sliding scale to give some protection to the lower earners. This reduction was offset by the adoption of a pension contributions holiday for both employees and the Company, resulting in an increase in take-home pay and a substantial cash saving for the Company. Work patterns were altered to reduce shift allowances and non-essential recruitment was frozen. Further, the Company's capital expenditure programme was cut back, although most was already committed on critical system enhancements and study-related equipment. Suppliers involuntarily agreed to accept a lengthening in average payment terms from 45 days to nearly 130 days. This was more easily achieved with suppliers of specialist materials and services for which the Company was a major buyer.

Exceptional expenditure in relation to the management's responses to the allegations was placing a substantial strain on cash flow. In the UK, the cost of staff dismissals, advisers' fees, costs associated with the share suspension, fees and costs relating to the clearing of the 'peace' camp, additional security measures at each laboratory and expenditure to repair damage, had resulted in an unbudgeted cash flow since April 1997 of nearly £1.5 million. The continuing legal confrontation with PETA in the US had resulted in an escalation in fees to between $300,000–400,000 per month, mainly because of the diversionary tactics of PETA's lawyers and the extensive discovery process favoured by the US legal system. Efforts to reach an out-of-court settlement failed. It was anticipated that by the end of 1997, total exceptional costs and fees could be £4 million, none of which were forecast in March 1997.

Despite carefully constructed messages to staff about the payroll changes and studious instruction of senior managers who were responsible for cascading information throughout their divisions and departments, there was widespread alarm. Feedback demonstrated that staff generally believed the Company was raiding their pension fund, the steps being taken were thought to be preliminary manoeuvrings before insolvency and changes to shift patterns were unwelcome because it disrupted their home life.

While the Company's announcement that it had a new Certificate attracted little media attention, the media's switch to attacks on the government for failing to implement its promises published in the Labour Party's electioneering document – 'New Life for Animals' – ensured the issue of animals used in research and the Company remained under the spotlight.

Activists were employing new tactics of intimidation, which included writing to all the Company's shareholders, backing up letters with threats to major institutional shareholders, demonstrating outside NatWest branches and in the City of London. The Co-operative Bank had for some time attracted savers with the promise of the pursuit of an ethical investment policy. Management of the Co-operative Bank had implied in their advertisements that research using animals was unethical. However, the Co-operative Insurance Society was a sizeable shareholder in the Company and was therefore singled out for a particularly persistent campaign of intimidation while the activists blockaded Co-operative Bank

branches, accusing them of hypocrisy. These threatening new tactics carried on for many months throughout 1997 and 1998.

10

KING CASH BECOMES SCARCE

Let us never negotiate out of fear. But let us never fear to negotiate

President John F Kennedy, 1917–1963
Inaugural address, 20 January 1961

At the end of November 1997, the Company had to pay the second tranche of its acquisition debt. Default under any bank debt agreement would trigger clauses in the Bonds' trust deed, which would empower Bondholders to force repayment of the Bonds.

Prior informal discussions with NatWest and the other members of the bank syndicate had resulted in their unanimous support. However, to formally defer the loan repayment for 12 months and to waive compliance with the financial covenants in the debt agreement, they required a three-year business plan. A demand forecast per customer, per industry, per country was prepared and a zero-based resource and cost budget compiled.

During October, new orders had increased slightly over September and, importantly, there had been a marked increase in enquiries, indicating that many customers proposed to 'honour' their promise to return in 1998 and at higher levels. The syndicate of banks accepted the revised projections as being sufficiently robust to approve a re-scheduling of debt and to waive the financial covenants. However, they required a more comprehensive three-year projection at the end of January 1998 using the full year results for 1997 as the base. The banks also reserved the right to audit the projection and to appoint reporting accountants. Surprisingly, although not having increased their risk or suffered material costs, the banks demanded a considerable fee – despite the Company's precarious cash position – in return for their agreement.

During negotiations with the banks, tensions surfaced between NatWest and FNBM, with the latter making it abundantly clear that they thought there was a 'British conspiracy' to conceal information and release it late. The representatives for each of the banks also changed because the Company's debt was transferred to their 'sick and lame' departments, called 'Corporate Banking Support Services' in NatWest and 'Loan Recovery' in both FNBM and Comercia. Inter-bank relations deteriorated further when FNBM insisted on a legal charge being taken over PRC.

This had been considered but rejected by the banks in 1995 because legal advice from the US indicated that in the event of any environmental issues involving remedial expenditure, a mortgagee was considered a 'related responsible party'. Each of these parties had theoretically unlimited liability. NatWest believed their floating charge over all property, plant and equipment and other assets (for example receivables) plus registered charges in the UK was sufficient security for their loans. As a quid pro quo for their acquiescence in the agreement to change the terms of the loan to the Company, FNBM forced NatWest's acceptance. The Company prepared the legal contracts and incurred all related expenditure; however, this took two months of wrangling and legal review.

From the Company's perspective, a more serious development was FNBM's unilateral withdrawal of its standby $1 million overdraft, bringing the Company's cash crisis forward

by several weeks and infuriating NatWest because a member of the syndicate had broken the unwritten 'London inter-bank code of conduct'. That is, by gentleman's agreement, all exposure should be frozen throughout a crisis until resolved by agreement of the majority in the syndicate.

The Company was able to release its trading report for the nine months ended 30 September 1997, a month later than usual, but on a going concern basis now that a revised bank facilities agreement was in place. The markets had anticipated a significant trading loss, but having to report a deterioration in new orders since the exceptional high inflow in July resulted in a downslide in the share price. However, despite muted media coverage, shareholders increased their demands for information and again the trading report encouraged the activists to presume the Company was about to close, resulting in more regular protests outside the laboratories.

Employing a publicity tactic favoured by PETA in the US, the BUAV in a full page advertisement in the *Guardian* in December 1997, claimed that the Company had tried to gag them through use of the courts. Headlined: 'Why HLS Laboratories is also trying to shut people up,' it claimed the backing of entertainment celebrities such as Annie Lennox, Sir Paul McCartney, Joanna Lumley, Phil Collins, various MPs, scientists and other organisations, including The Vegetarian Society and the National Canine Defence League. Although it listed 68 names, PETA did not appear. As the BUAV well knew, the court action taken in September – which they chose not to defend – was simply to stop harassment and it related only to a cordon round the Company laboratories and employees' homes.

Nevertheless, it undoubtedly unsettled customers and institutions in the UK. From being on the brink of influential endorsements, the process of rehabilitation was put back several months.

Uncertainty was further encouraged by the PETA announcement in December that they had settled out-of-court with the Company and claimed a significant victory. This was challenged in a subsequent Company announcement, which hardly received any media attention, that PETA had agreed, among other things, that neither they nor their surrogates would use the material they had covertly obtained or to investigate the Company for five years.

It is difficult to estimate the impact of lobbying or media attention on Company results. Whether the poor results announced in November 1997, which contained comments on available cash resources, and the announcement by the BUAV and PETA actually affected new orders cannot be proven, but anecdotal stories suggest that they did. New orders in November were well below break-even, and in December, reduced to a trickle.

At the end of the year, because of timing reasons affecting bank clearance of receipts and payments, cash resources were slightly above the projection given to the banks two months earlier. However, they were insufficient to fund the business for more than a few weeks due to the recent further decline in orders for cash-rich, multi-year big packages of studies.

As the Company entered 1998, the directors faced a major dilemma. In the absence of a dramatic increase in both new orders and study starts, in particular large multi-year studies, the Company would run out of cash in about the middle of February 1998. With this knowledge they were unable to present accounts to the Company's auditors because there were insufficient working capital funds projected to be available during the next 12–15 months.

I was concerned that, as defined by the Insolvency Act 1986, the Company could be accused of over-trading while insolvent. In this situation, the directors could be held to have committed a criminal offence and so become liable for the Company's debts. It was imperative that NatWest Bank asserted their commitment to continue to support the Company and that this valuable lifeline was communicated to the whole Board.

The directors resolved to continue the search for a durable solution and the emergence of NatWest in the role of 'banker of last resort' only served to emphasise the need for speed.

Solutions available, but not necessarily mutually exclusive, were to restructure and increase bank facilities, to issue new equity for cash or to form a business alliance of some type. The strategy decided on was to simultaneously pursue revised banking facilities while seeking a business alliance, ensuring throughout the process that all interested parties were informed but not to the extent that confidences would be broken.

During 1997, one of the world's leading manufacturers of security fasteners and parts based on plastics and resins for medicines and medical devices had shown a strong desire to acquire another business that serviced the pharmaceutical industry. They had completed preliminary due diligence but they withdrew before reaching the stage of discussing the structure of a possible transaction. Throughout 1997, potentially interested trade buyers or partners were kept informed about the Company's rate of recovery.

As a blue chip company with a good reputation, in an industry generally forecast to be growing, priced by the markets substantially below historic p/e ratios, it would not have been unusual for value investors to make inquiries about the Company. As none had been received, the directors realised that the business alliance solution would require particularly creative ideas and would be a long haul. It was timely in January 1998 to reactivate contacts with potentially interested trade buyers.

The trading report for 1997 was woeful reading compared with the buoyancy of 1996. Revenues in 1997 declined to £63.7 million from £73.6 million in 1996, a reduction of £9.9 million or 13%. A net loss of £5.3 million was reported for 1997 compared with a net profit of £7.6 million in 1996, a reversal amounting to £12.9 million. Before reporting the 1997 loss, directors set aside £3.5 million in relation to the consequences of responding to the allegations of malpractice. This amount included lost revenue on studies that had to be repeated and related costs, payments associated with staff dismissals, management time, and legal and professional costs and fees. Other significant security-related improvements, which required a cash outlay of about £1 million, were added to property, plant and equipment.

The value of new orders obtained in 1997, £58.5 million, was £17.9 million or 24% below the £76.4 million achieved in 1996. The total amount of revenues to be accounted for in future years on studies that had been confirmed (ie the backlog), reduced to £29 million compared with £44.2 million at the end of 1996, a fall of £15.2 million. In briefings to shareholders and analysts, it was obvious that they had not realised that, although the Company's profitability had fallen, the only reason it had not totally collapsed was because of the substantial backlog with which the Company entered 1997, and the relatively strong inflow of new orders in the first quarter. Cash flow had been sustained by the same backlog and proceeds from the new equity issue in February 1997. They began to realise that, in 1998, there would be an acceleration in trading losses, particularly in the first half of 1998 compared with the second half of 1997.

A high priority was to ensure the banks, the Company's financial advisers and auditors were fully aware and engaged in a dialogue to find a solution. In meetings in January 1998, NatWest proposed the principles of a deal should be built on an injection of cash in return for new equity from existing shareholders and the re-scheduling of bank debt at new margins above the London Inter-Bank Offer Rate (LIBOR) but without any new finance from the banks. In their view, the other banks in the syndicate would not agree to take an equity type risk. They repeated their commitment to supporting the Company but invoked their reserve authority to appoint reporting accountants at a cost of over £120,000 to the Company. This was partly a defensive reaction from NatWest faced by hostile 'partner' banks. They instructed the Corporate Finance Division of Arthur Andersen (AA) to review the Company's projections and to advise the syndicate of banks how much cash the Company really needed. AA agreed to report no later than 28 February 1998, that is in six weeks, on the Company's short-term cash requirements and projections for the three years ending 31 December 2000.

The Company's financial advisers, DrKB, were pessimistic about the likelihood of a successful rescue issue of new equity, despite several institutions and fund managers having indicated their support to the Company subject to their review of revised projections. Having issued new equity in February 1997, the Company had insufficient headroom to issue more shares within the 1985 Companies Act limits to raise sufficient cash at current share prices.

If a rescue equity issue was to proceed, great care would have to be taken so as not to disenfranchise US American Depositary Receipt holders. This could probably only be achieved through registration of a proposed stock issue under the US Securities Exchange Commission regulations and the issue of a Prospectus in the UK prepared in accordance with the LSE's Listing Rules and the Financial Services Act 1986. As part of the process, accountants would have to be appointed to report on the requirements, adequacy and availability of the Company's working capital. Overall this process could take up to three months and would require shareholders' approval for the issue to proceed.

If this was to happen, then during this period the Company could be 'hung out to dry' because of the nature of the disclosures those documents require. Suppliers would most probably withdraw credit, thus precipitating insolvency, customers might choose to withhold contractually due stage payments and the controversy in relation to the Company that had only recently died down could flare up again. There was only one realistic option, to negotiate an increase and a rescheduling of the Company's bank debt. The banks knew full well that in the time available they were the only realistic solution.

In a timeframe considerably shorter than the Company had achieved in its history, the preliminary results for 1997 were prepared and, together with a projection for 1998, submitted to the banks at the beginning of February 1998. The executive summary stated that without an injection of new funds, the Company could not pay its February payroll, payable on 20 February. Projections were provided on three scenarios labelled 'Rake's Progress', 'Target' and 'White Charger'. The banks assumed 'Rake's Progress' was the most realistic but tough to deliver, in contrast to the Company's financial advisers, who preferred 'White Charger'.

'Rake's Progress' showed a slight improvement in new orders and revenues compared with 1997 but a reduction in costs arising from closure of a laboratory and a significant overall reduction in staff. In this scenario, the Company required the banks to increase their loans and to defer any repayment for a further 12 months. The 'White Charger' scenario projected a significant improvement over 1997 based on a resurgence in new orders commencing in the

first quarter of 1998. Between these two extremes was 'Target', which assumed a recovery in orders of 20% above 1997, although revenues were projected to grow by only 9% compared with 1997.

Management was alarmed to learn that the team from AA knew little about the pharmaceutical industry and even less about the contract research industry. An obvious solution to update their knowledge was to use Andersen Consulting (AC), who have extensive pharmaceutical industry exposure and who had previously advised the Company. However, the protracted divorce proceedings going on between AA and AC closed off this remedy. Consequently, some of the Company's key managers had to divert their attention from the pursuit of orders and enquiries to spend a considerable amount of time with AA covering background information and subsequently the substance of the Company's trading and customer base.

It soon emerged that AA worked to a template and that, irrespective of the difficulties with the Company's data, it had to be 'shoe horned' into their models. However, the output then had to be analysed and explained by key managers from within the Company, particularly if variances emerged from the Company's projections. In their desire to corroborate remarks from key managers, AA interviewed both formally and informally other staff, including scientists, in many departments, causing misunderstandings and considerable misgivings among staff. Staff consultation had to be increased in order to assuage fears of imminent closure and/or substantial job losses.

In an ill-tempered meeting with the banks and AA – held in the US because the American banks refused to travel – the banks agreed to consider to advance an additional £2,125,000 to cover the February payroll and other requirements up to the March payroll. NatWest followed the action taken by FNBM and unilaterally withdrew its standby overdraft of £1 million, which meant the Company had been refused access to approximately £1.6 million to which it had a contractual entitlement.

Nevertheless, the banks charged a total commitment fee equivalent to 8.5% of the additional amount for a period of one month, which approximates to an annualised rate of over 100%. However, the amount being advanced had also to be used to pay the banks their fees. Despite protests that the fees were unreasonably excessive, the banks made it clear that there was no room for negotiation.

Concerns that the Company might suffer because of the poor relationship between the banks increased. NatWest submitted to the other banks draft 'heads of terms' showing each their share of the additional cash and their revised proportionate share of the Company's total debt. Comercia's exposure increased. They were furious because it had been agreed that until AA had reported and negotiations to reschedule the total debt had been completed, there would be no increase in the exposure. The draft 'heads of terms' were revised; however, the two American banks were now in conflict with NatWest no matter how gentlemanly it was expressed. The Company and its financial advisers commenced contacts with each bank in order to act as facilitators. Final agreement to provide the cash was received two days before payment of the February payroll was due.

AA were about one week late in their report submission, which slipped into March and was perilously close to the March payroll. However, after intense discussions over two days, the banks responded promptly with a proposal to increase their total exposure by £5 million (including the £2,125,000 provided in February) to £24.5 million for the period ending 31

March 1999. The entire facilities were repayable on demand, but the bank wrote to the Company's auditors to explain it was their intention not to make such a demand prior to 31 March 1999. This allowed the directors to prepare the 1997 Report and Accounts on a going concern basis and the auditors to complete their audit.

However, the banks levied another substantial fee, increased their margins over LIBOR on the new money to 3.5% and demanded that the Company pursue strategic options that would either result in a business alliance or bring in new equity. Either solution should aim to significantly reduce the banks' exposure or to eliminate it completely. Not satisfied with significant fees and high margins, the banks demanded a repayment fee of £1.5 million if the debt was not repaid until 1 April 1999, with a declining scale if it were repaid in part or whole beforehand. These arrangements were demanded despite the recognition that their risk had not increased.

On 1 April 1998, the Company announced its trading results for 1997, which were a little worse than market expectations, mainly because exceptional costs had been underestimated. However, considerable alarm was caused by the declaration of a significant reduction in available cash, the increase in indebtedness and the announcement that it had been necessary to both increase and reschedule the Company's bank facilities. It was clear from comments to the Company that many shareholders in the UK and US, institutions, fund managers and small shareholders, feared the Company needed another injection of cash in the very near future and that this would probably involve an issue of new equity.

Customers bombarded the Company seeking clarification about its viability and openly queried the Company's prospects for survival. New orders in the first quarter of 1998 had shown an overall increase compared with the previous quarter but fell back alarmingly in April. Projections of cash flow worsened due to a lower than forecast number of study starts because of staff shortages in certain departments. Lower than forecast new orders also meant that in the months ahead, the number of new study starts was unlikely to increase.

While deliberations with the banks and AA were going on, attempts were being made to resurrect the Company's strategic objectives, which had largely been abandoned when the allegations of malpractice emerged in March 1997. Despite the resolute nature of the rejection from the manufacturers of security fasteners and medical devices, even they were approached. They were now definitely not interested, largely because of dissension among their board members.

Various potential trade buyers agreed to talk. However, issues that emerged and presented barriers to progress included: a concern that a full merger would dilute their earnings in 1998; the sector of the contract research industry in which the Company operated had shown relatively low growth and this would be factored into their share price; the continuing uncertainty as to whether customers' confidence had been restored and whether there were any more shocks to come. One interested trade buyer wanted to select only certain of the Company's laboratories for purchase and another had recently encountered trading difficulties of its own.

The Company's credibility in these exploratory talks was undermined by the use of the 'White Charger' scenario rather than the most realistic 'Rake's Progress'. This was used because the Company's financial advisers believed any interested trade party would do two things. Firstly, that they would vigorously challenge whatever projection the Company

presented and secondly, they would prepare their own estimates. Discussions did not reach the stage of any interested trade party presenting their own estimates.

Under the terms of the revised bank facilities agreement, the banks were to be kept informed, and whereas in the past NatWest had not proactively sought information, this changed dramatically.

NatWest vigorously pursed the directors and the Company's financial advisers for updates to the extent that they demanded a timetable under which the Company would abandon its search for a trade alliance and resort to a rescue issue of equity. As the few completed transactions in the previous two years showed, it was a buyers' market and they dictated the pace, particularly in relation to the Company given its tarnished reputation. Towards the end of April 1998, the directors and the Company's advisers accepted it was improbable that a trade buyer would even discuss a possible transaction, let alone make an offer.

11

UNERRING SPOTLIGHT

The media have, indeed, provided the devil with perhaps the greatest opportunity accorded him since Adam and Eve were turned out of the Garden of Eden

Malcolm Muggeridge, 1903–1990
Christ and the Media, 1976

Since the beginning of 1998, I had again been diverted from directing and driving forward the business as the Board would wish and a sense of drift was beginning to walk the corridors. The activist groups and the media kept public interest alive with various prominent stories.

A planning application to build a state-of-the-art dog breeding facility at the Company's laboratory near Eye in Suffolk was referred to a public enquiry that, unfortunately, attracted the media's attention. It was also a blessing, however, because it meant the Company could avoid an obligation to commit expenditure and the Home Office would have to renew authorisations of temporary facilities for the foreseeable future, probably for at least two years.

Shortly before Christmas 1997, Ingrid Newkirk had again publicly entered the fray in the UK. Writing from PETA's London address, she mailed out a donations appeal letter to which was attached an exhortation from Andrew Butler. In her letter to me of 11 August 1997, Newkirk had written: 'I may need to point out that PETA doesn't depend on being rich to make its points.' Yet in this latest communication she wrote 'the astronomical costs involved threaten PETA's other vital international work', stating: 'That's why I hope you will help us with an immediate and generous gift today, which will be used to fight vivisection here in the United Kingdom.' The attachment from Butler implored supporters to write to the planning authority in protest at the Company's application for a breeding centre and to withdraw their business from any organisations connected with the Co-operative movement because the Co-operative Insurance Society owned shares in the Company.

The *Washington Post* published an article titled 'Spy in the House' and while it was a balanced report, to the intense embarrassment of the Company it reported the incredible mass of documents that were either stolen or photocopied and the amount of audiotape and videotape that had been recorded by the PRC infiltrator.

In the London *Evening Standard*, the Co-operative Bank inserted a full page advertisement showing a picture of white rabbits in a type of restraint that companies had not used for a number of years under the heading: 'The more people join the Co-operative Bank, the less animal testing there'll be.' To the obvious discomfort of the Co-operative Insurance Society, the shareholder in the Company and a sister organisation of the Co-operative Bank, the animal activist lobby increased their harassment and demands on the Co-operative Insurance Society to dispose of their shares.

The highly-regarded *Science Times* (published by the *New York Times*) gave front-page exposure to an article: 'Tough tactics in one battle over animals in the lab,' and summarised

the progress and outcome of PRC's legal action against PETA. Not only was this article quoted in other newspapers but it was also widely syndicated and appeared in Europe.

The *Mail on Sunday* published an article discussing the work of scientists and the general harassment and intimidation they suffer because they use animals. The BBC *Wildlife* magazine published an article by Zoe Broughton titled 'Making a Difference'.

The final chapter in investigations by the regulatory authorities occurred in April 1998. The USDA resolved that there were deficiencies in record keeping that justified imposing a cash penalty on PRC. A total amount of $50,000 was to be spent by PRC on reimbursement of the USDA's expenses and two actions to be agreed with the USDA in relation to a review of procedures and research into alternatives to the use of animals. The media chose to characterise these payments as fines.

The Company adopted a reactive mode and restricted its responses to enquiries directed to it. When the Company published its 1997 Report and Accounts it announced that the AGM would be held in the US in May. For several months the Company had carefully monitored its share register, which showed a small increase in the number of shareholders with only one share. Security checks and confirmation of identities confirmed most were animal activists, some quite extreme. This information taken together with continuing media coverage, harassment of institutional shareholders and although less threatening, demonstrations outside HRC, was all I needed to convince the directors that the AGM would be disrupted and other shareholders inconvenienced if it were held in England.

The Company's lawyers in Boston had worked with private security firms and the Boston police department in the past when an annual meeting at which trouble was expected took place in their offices. Following completion of business at the AGM on 15 May 1998, the directors held a question and answer session since eight shareholders were in attendance, two of whom had flown in from the UK. One was identified as the driver of 'K9' and was now showing remarkable restraint to appear as a respectable member of the public. The conspicuous police and security presence ensured proper civility; there was no disruption and after about 45 minutes the session closed.

Despite having published the first quarter trading report 10 days earlier, showing a considerable deterioration in profitability and cash since the fourth quarter of 1997, all questions related to animal welfare and safety.

Since the beginning of 1998, customers that had unceremoniously fled in 1997 began to return, although in accordance with its contractual obligations, the Company made no announcements. The publicised re-admittance to membership of the RDS at the end of January undoubtedly helped.

Despite growing acceptance, companies made it clear that new orders would return slowly, beginning with short-term studies. Cash flow projections could not therefore be increased and I realised that for the Company to survive, I needed to reduce its cost base and increase my efforts to arrange a business alliance with or without an injection of cash from an issue of equity. In the meantime, working capital requirements were being reduced through even further deferment of suppliers' payments and the revenue cycle was shortened by billing customers for short-term studies on signature of order.

All too frequently, suppliers retaliated by withholding supplies, sometimes jeopardising the study starts, which were critical because these triggered collections. Because of this, senior management was increasingly being drawn into micro-management to determine priorities. This led to indecision among departmental management and study teams, thus undermining staff morale, which in turn resulted in a noticeable decline in efficiency and productivity.

In a major reversal, I announced the proposed closure of WRC – the laboratory purchased in March 1997 – at the end of June 1998 and planning began for the complex task of transferring breeding animals and young animals to another location. Under strict secrecy, staff who were to lose their jobs showed tremendous commitment in finding practical solutions and several agreed to remain working throughout a transfer programme that would take four months. At the end of June 1998, activists were jubilant and for a short time, protest meetings outside the Company's laboratories began again.

During May the tentative leads with potential trade buyers were almost totally cold, so the emphasis in seeking a business alliance switched to private equity firms, which were value investors and had interests in the pharmaceutical sector. The Company's financial advisers introduced two European funds that were part of much larger organisations, based primarily in the US. Discussions began with each and a front-runner, driven by its financial adviser in London, quickly emerged.

This front-runner, code-named WX, prepared its own projections for the Company and determined that to obtain its desired return on investment over four years, it would have to restrict its equity injection to £12½ million; allow no more than £5 million of additional equity to be issued at its subscription price of 17½p (a discount of 50% from the current market price); and to ensure the banks deferred any debt repayment for two years. In return for this cash injection they required a controlling interest equivalent to about 33% of the enlarged equity in circulation. They offered no solution in relation to the Bonds and gave no indication as to when, if ever, they would make an offer for the equity they did not own. Due diligence began in earnest, which they completed in three weeks; after discussions and minor adjustments to the outline terms of the transaction they eventually proposed to submit an offer.

The Company did not expect to be in the enviable position of there being a bidding war but decided to continue discussions with the other organisation, code-named BL, as an insurance policy. Preliminary due diligence commenced and BL prepared their own projections for the Company. However, their outline proposal was based on their medium-term objective of taking the Company private, after having eliminated all debt, the banks and the Bonds.

Essentially they proposed a massive injection of cash in the form of debt carrying high interest in order to finance the Company's expansion, to buy out the bank's debt at a massive discount from face value, to offer the shareholders nothing thus eliminating a market in the shares and to then buy out the Bonds at a massive discount. The directors believed this transaction was a poor alternative to that proposed by WX from the shareholders' perspective but there were no other interested parties. Further due diligence was planned to commence with a 'kick-off' meeting between the principals of BL and senior management of the Company in the second half of June.

From the beginning of June 1998, there had been unsubstantiated rumour in the NYSE that there was a tranche of about 15 million shares (3 million American Depositary Receipts) for sale. The Chairman and I were assured by the Company's major shareholders in discussions

in May that they remained supportive; however, the rumours also surfaced in the LSE. The Company's stockbrokers monitored transactions closely but volumes being traded in both the LSE and the NYSE were small. The only exceptional volume occurred on Friday 12 June 1998, when a Canadian buyer known to the Company's stockbroker, DrKB, bought the remaining holdings of two unrelated institutions at a price of 34p. Again major shareholders confirmed their holdings had not changed. However, the share price had fallen from 41p on 28 May 1998 to 33.5p on 15 June 1998 without there having been significant volume and despite there being a buyer.

The LSE sought an explanation from the Company's stockbrokers. Consequently, on Tuesday 16 June 1998, the Company issued an announcement via the LSE, at the opening of business, that it knew of no reason why the share price had dropped. Within an hour of this announcement, the compliance officer of Robert Fleming advised the Company's Group Company Secretary that he had, in fact, overlooked the disposal of Robert Fleming's entire shareholding of over 17 million shares – 15% of the Company – in the previous week. This was shortly thereafter confirmed in writing and the Company had to rush out another announcement that same day.

Sometime later it was confirmed that the entire holding had been sold privately in one transaction to Merrill Lynch, acting as a market maker who bought at the astonishingly low price of 11p per share. The share price dropped from 33.5p at the close of the market on 15 June to 18.5p on 16 June.

Newspapers (the *Observer* (see Figure 7) and the *Independent on Sunday*) speculated that the disposal resulted from the 'anti-vivisectionists' campaign of economic sabotage and pressure on institutional investors to withdraw'. Apparently a 'source close to the Company believed the only possible explanation for the sudden exit is the renewed campaigning by the animal rights activists'. The Company's financial adviser, DrKB, acknowledged having made the remark 'off the record'.

Figure 7: Newspapers comment on the future of Huntingdon Life Sciences following Robert Fleming's disposal of shares

Clients still shun animal test firm

by Sarah Ryle

LEADING pharmaceuticals companies are still shunning controversial drug research group Huntingdon Life Sciences, even though its animal testing practices now have Home Office approval.

Glaxo Wellcome and Zeneca are among firms that have written to animal rights campaigners at the British Union for the Abolition of Vivisection explaining why they will not give research work to the Cambridgeshire company, *The Observer* has learned.

A damning TV documentary last year showed cruelty to animals in Huntingdon's care. The Channel 4 film showed dogs being punched and shaken. The Home Office intervened and in July last year the firm had to suspend its shares for three months.

Many pharmaceuticals companies responded by witholding new work. They have had nearly eight months to reassess their position since Huntingdon made improvements to the way it looks after animals and was granted a new Home Office certificate.

Glaxo Wellcome, the UK's biggest such firm, told the campaigners: 'We had worked with them [Huntingdon] before the documentary and we were surprised by the programme, which was horrific. We have not placed any contracts there since.'

Healthcare company Smith & Nephew wrote: 'HLS has been removed from our suppliers' list, and we have no plans to renew links with HLS in the foreseeable future.'

Zeneca, which specialises in anti-cancer treatments, wrote that it 'will not be placing new contracts with Huntingdon Life Sciences until it is reassured that actions have been taken and procedures put in place to ensure the proper treatment of its animals'.

However a spokeswoman confirmed on Friday that Zeneca intends to carry out an audit at Huntingdon in the autumn, and might consider renewing the relationship.

Glaxo added that although it has no plans to renew the business links, it could not rule out working with the company again.

SmithKline Beecham, which said in July after the Home Office investigation that its confidence in Huntingdon was 'completely dented' and that it would not 'be giving them any further work' has done a u-turn.

SmithKline said it lifted its ban on further work for Huntingdon in February. But the letter warned: 'Any future failure to maintain good practices in animal husbandry will lead SB to permanently withdraw from working with HLS.'

Huntingdon's chief executive, Christopher Cliffe, wants to rebuild its order book after its value declined by 24 per cent in 1997. According to the firm's most recent annual report, they fell after the documentary and again when the Home Office issued its report.

Cliffe, who declined to comment on Friday, tried to shake off the publicity and has stressed new training procedures. The staff whose cruelty was televised were dismissed.

But two weeks ago one of Huntingdon's big shareholders, Robert Fleming Holdings, ditched its 15 per cent stake. Trading in the shares has been fairly static: the price, which plunged from 124p to about 18p, has not recovered.

The BUAV is hoping to persuade other shareholders, in particular the Co-operative Bank's investment partner CIS, to sell up. Fleming has declined to explain its exit.

Source: © Observer, 5 July 1998, by Sarah Ryle

This dramatic fall in the share price happened to coincide with the negotiations with WX, having reached a particularly crucial stage in their decision making process. WX were distinctly wrong-footed. It disturbed them that a major institutional shareholder could act so precipitously and irrationally by selling in one tranche to one market maker in the knowledge that the likely outcome would be to destabilise the Company and cause a substantial drop in the share price. As they withdrew their expression of interest, their managing director remarked that: 'They were not prepared to take the risk of investing to help the Company back to 100p only for another institution to act irrationally.' Several weeks of management effort came to nought.

Although not emphasised, it is quite possible that WX's most senior management based in Washington, US – including various high-profile former politicians – decided it was too risky for its first investment in Europe to be connected with a scandal-ridden blue chip organisation when WX had deliberately chosen privacy for many years.

The 'kick-off' meeting with BL went ahead in the US, but it was clear they suspected that Robert Fleming's decision to sell was due to concern about the Company's liquidity and prospects of returning to former revenue and profit levels. A short while after the meeting it became clear that BL were withdrawing. It seemed that BL's latest projections for the Company, and in particular its cash forecasts, resulted in a low rate of return on BL's investment. They had many other investment opportunities and this one did not clear their investment hurdle.

Working capital requirements had been squeezed so tightly that several critical suppliers were only continuing to trade based on an agreed schedule of payments. The lower than expected number of study starts meant that cash collections were below expectations and there was only slightly encouraging news in the flow of new orders. Costs and expenses were being held below forecast largely because the number of employees had fallen by about 10% since December 1997 but this, together with poor productivity, was a contributory factor in the shortfall against budget in study starts; staff were overstretched.

Headroom available within the additional bank facilities granted in March had shrunk alarmingly to under £1 million. An agreement was reached in July with the Inland Revenue to defer payment of tax and national insurance collected from employees' wages and salaries as well as employers' national insurance contributions. The need for this arrangement heightened the Board's anxiety, because in certain circumstances directors can become individually responsible for outstanding taxes and national insurance contributions; notwithstanding there is an agreement with the Inland Revenue. Meanwhile, NatWest were considering the creation of a standby facility of £1 million.

The danger of being accused of over-trading or trading while the directors believed the Company was insolvent increased. Without NatWest's repeated assertions of continuing support, and they could not rely on the other banks, cessation of trading was emerging as the most realistic option.

12

LAST THROW OF THE DICE

Decisions are easier, you know, when there are no choices left

P V Narashimha Rao
Interview in the Observer, 7 July 1991

The share price since 16 June 1998 and throughout July languished near its all time low and oscillated between 17.5p and 20p. Also, with the exception of the sale of the Robert Fleming shares to Merrill Lynch, the volumes transacted were relatively small. As far as could be determined, at the end of July Merrill Lynch was holding 11–12 million shares; there were no major buyers in the market. Taking together its equity value and debt, the enterprise value of the Company was about £72 million compared with approximately £200 million when the allegations of malpractice were published in March 1997. Despite the enterprise value being at a substantial discount from its prospective value, the Company did not receive a single enquiry from any potential trade buyers.

Regular feedback from knowledgeable industry watchers, particularly those with an existing investment, was that most potential trade buyers feared the Company's reputation had been damaged beyond repair.

There were some indications that in the US wealthy investors and certain fund managers, who were already shareholders, had recently begun to contemplate putting a consortium together to propose to inject substantial cash in return for a dominant majority stake. They formed a Subscriber Group and submitted an indicative proposal and a request for exclusivity and due diligence at the beginning of July. It was their judgement that without the continuing goodwill of the Company's lead bank, NatWest, the Company was insolvent. The cycle of management presentations and buyer due diligence commenced again.

Matters progressed speedily. Although there was some disagreement over the breadth and depth of their proposed due diligence, and their demands for highly sensitive commercial information were not always satisfied (after all, their outline proposal placed a value on the Company below its current market value) they quickly moved to submit an outline offer.

This offer had various caveats, for example, the banks must agree to defer any debt repayments for two years and the LSE should waive the requirement that a buyer or group of buyers acting in concert owning or controlling 30% or more of issued shares must bid for the shares they do not own. On the completion of due diligence, accountants were to be appointed to prepare a working capital report. They established a cash limit on fees and costs to be paid by the Company to advisers, precluded any other issue of new equity for cash, and outlined certain changes to the Board of directors. The banks had to be persuaded that this outline offer was credible and that the alternative of existing shareholders providing sufficient cash through a rescue issue of equity was unlikely to happen. The uncertainty attached to the offer, because of the caveats, meant it was not an announceable event according to the LSE's Listing Rules and so discussions could proceed without shareholder or public scrutiny.

Several crucial matters were being progressed contemporaneously: the accountants' report; consultations with existing shareholders to win their support to underwrite an equity issue;

due diligence by the Subscriber Group, and the amount to be subscribed. The Subscriber Group had largely delegated negotiations and due diligence to the incoming Executive Chairman, Andrew Baker, but they still insisted on regular consultation with him round a table in the US. During their due diligence and based on informed projections, the Subscriber Group amended their outline offer to allow the directors to offer additional equity to existing shareholders on the same terms granted to the Subscriber Group.

The potential for failure due to power disputes in the boardroom was dealt with at the outset. The Subscriber Group would appoint an executive chairman, the current chairman would step down to deputy chairman, I would be dismissed and replaced by a managing director in the UK, one non-executive director would retire and both the finance director and strategic planning director would continue.

Eventually, the LSE would have to be approached to obtain the Panel on Takeover and Mergers' agreement for a substantial issue of new shares at a massive discount from the current market price. The Subscriber Group was to subscribe for 120 million new shares, and 57 million shares were either to be placed with certain institutional shareholders or allotted to other shareholders. The new 177 million shares were to be each priced at 12½p, a discount of 36% from the current market price. For placings, the LSE applied a limit of 10% discount from market price, except in those cases in which a company's financial circumstances were dire by any measure.

Further, the Subscriber Group needed relief from the requirement to bid for the whole company (the so called 'whitewash') since if the shareholders, meeting in an EGM, approved the transactions, they would control 43.5% of the Company's enlarged share capital. Lastly, the Subscriber Group wanted the Panel to acknowledge that they were no longer acting in concert once the new shares were admitted to the LSE list for trading.

Without the Company's knowledge, the Company's financial adviser, DrKB, began premature negotiations with the LSE to try to expedite matters. They sought to obtain their clearance for the deeply discounted Subscription, Placing and Open Offer, and in order to put pressure on the LSE, they explained that if the proposals did not proceed quickly the Company's bankers had warned they would withdraw facilities and appoint a receiver. In fact, NatWest had provided an additional standby facility up to and including the date of the proposed EGM in case any unforeseen circumstances should arise. They had also repeated their solid support for the directors' ongoing efforts to find an equity solution to its cash requirement. The LSE panicked and demanded that the directors request suspension of the Company's shares from the listings until they could clarify the Company's financial position.

The LSE believed an announcement was needed to prevent a false market in accordance with Rule 9.2 of the Listing Rules because the directors had information that, if released, could lead to a substantial movement in the price of the Company's shares. Unable to communicate direct to the LSE and despite explaining to them via its advisers that the syndicate of banks had not threatened a withdrawal of support, the directors were unable to dissuade the LSE from themselves threatening to suspend the shares under Rule 1.19 to protect investors. After a lengthy debate between the Company's advisers and lawyer and the LSE, which had been closed for trading for several hours (although the NYSE was still open), an announcement requesting suspension was agreed. At the opening of business on the next trading day, Monday 3 August 1998, the Company announced:

'The Board is in the course of negotiating a refinancing which is required to meet the Company's current and foreseeable working capital requirements and which if successfully completed is expected to include a significant equity issue and new short and medium-term banking facilities as well as possible Board changes. Shareholders will be kept informed and a further announcement will be made as soon as possible.'

The LSE and NYSE granted a temporary suspension of the listing of the Company's shares and American Depositary Receipts; the share closed at 19.5p on the previous trading day. Almost two weeks later, following a request from directors, after having issued a Prospectus, the Company's shares were re-listed on 13 August and closed that day at 13.5p.

13

ARMAGEDDON OR AGINCOURT?

Victory at all costs, victory in spite of all terror; victory, however long and hard the road may be; for without victory, there is no survival

Sir Winston Churchill, 1874–1965
Speech, House of Commons, 13 May 1940

Calling an EGM is risky although pre-marketing your recommendations significantly strengthens the probability of success. Nevertheless, an EGM would provide the activists with a golden opportunity to cause mayhem. Further, without shareholders' support of the directors' recommendations, I believed NatWest would no longer continue its support or hold the bank syndicate together. Thus victory was imperative.

On 10 August 1998, the Company's share registrars instructed printers to mail to all qualifying shareholders and American Depositary Shareholders a Prospectus, share allotment application forms, proxy and voting cards. The directors took full responsibility for the substance, detail and accuracy of the Prospectus and all other documents. The Prospectus outlined the complex proposals agreed with the Subscriber Group, stated that any shareholder on the register on 31 July 1998 could apply for one new share for every two held, explained that shares not taken up would be placed by DrKB and laid out with amazing frankness the challenges facing the Company. It recommended shareholders' approval in an EGM which was to be convened in London on Tuesday 2 September 1998.

During the seven days previous to the mailing, negotiations went on round the clock in relation to the various agreements that had to be reviewed and finalised between the Company, its banks, advisers and the Subscriber Group. Until the opening of business on 10 August 1998, the final draft of the Prospectus hung in the balance. Comments on previous drafts from the LSE showed they believed they had veto powers over omissions, insertions, substance in general and retained overall editorial authority. If their concurrence slipped beyond 10 August 1998, the EGM could not be held as planned.

While this was going on, a committee of directors had to be on call to review changes and answer questions about each draft. Furthermore, the Board of directors of the Company had to meet with their advisers at extraordinary times during the day and night, and frequently for several hours at a stretch. LSE clearance was obtained at the eleventh hour.

Being in an extremely weak negotiating position, the Company was unable to withstand demands for high fees from the banks and its advisers. The banks demanded commitment fees in relation to the new facility, which replaced the existing loan arrangements, except repayment was deferred 17 months to 31 August 2000. They insisted on a substantial repayment fee relating to the existing arrangement being replaced even though the banks understood that, providing the Subscription, Placing and Open Offer was approved by shareholders, the Company would receive cash of £20.2 million after expenses and therefore the banks' risk, if it changed at all, reduced. However, this was not sufficient to persuade the banks to moderate their fee demands.

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DrKB, who refused to take any underwriting risk and in the certain knowledge that the 57 million shares could be placed with the Company's major shareholders, nevertheless insisted on their 'normal' underwriters' fees. These were additional to advisor fees for less than one month's work. In total, DrKB's fees amounted to over £900,000. Astonishingly, these fees were payable whether or not shareholders approved the proposals. Of course, the Company was billed separately for their costs, for example, their legal advisers, printers' charges and delivery expenditure.

The mailing was preceded on 10 August 1998 by announcement of the Company's trading in the first half of 1998. This trading report, or Interim Statement for the six months ended 30 June 1998, showed a further decline in profitability since the fourth quarter 1997; pre-tax loss was substantially increased compared with the first six months of 1997. Shareholders or interested observers would have expected this result if they had analysed and read the Company's 1997 Report and Accounts published in April, however, the media expressed concerns about the Company's future viability.

The media focused on the words used in the Chairman's letter to shareholders published in the Prospectus which, out of necessity in order to obtain LSE clearance of the proposals and approval of the Prospectus, commented that the Company had nearly fully utilised its available bank facilities. The letter went on to say that in the case of shareholders failing to approve the proposals, the Company might not be able to meet its obligations.

Headlines screamed that 1,400 jobs were to go because the Company faced insolvency, rather than emphasising that approval of the proposals would secure the future. It was either not understood – or it was considered uninteresting news – that barring some unforeseen material adverse event, shareholders would approve, and a sufficient number had informally done so beforehand to encourage the directors to proceed with the proposals; the big institutions and fund managers were in no doubt.

Between the issue of the documents on 10 August 1998 and the EGM on 2 September, priorities for the directors were to brief staff in each laboratory and office and to encourage customers to authorise their pending multi-year large packages of studies.

Many staff were shareholders or held share options and consequently received the documents direct. Information sessions were arranged, followed by extensive feedback and the issue of a question and answer document. All sales and marketing personnel were instructed to meet and advise their customers as a follow-up to a letter that I had sent out. Unfortunately, August is a slow month for sales trips because of vacations in each of the Company's major territories of Japan, Europe, the UK and US.

Considerable thought and planning went into the details of the EGM. The share register of 31 July 1998 showed up to about 80–100 shareholders were known or suspected of being associated with an animal activist group and could, therefore, be expected to attend in order to disrupt the EGM.

The location for the meeting had been chosen because it was within a clearly delineated boundary, which could be monitored centrally and policed. Entry and exit could be controlled. Within the building, the room allocated could hold several hundred people; it had observation areas at ceiling level and at ground floor level, several rooms with access doors led into the room. Once again, it could be relatively easily policed and the directors could enter and leave the room without having to pass through the body of the meeting. The

location, Armoury House in the City of London, comes under the jurisdiction of the UK Government's Ministry of Defence, although it is managed by the Honourable Artillery Company. Thus inside the territory of Armoury House, the police of the Ministry of Defence were responsible for maintaining civil order, whereas up to their gates it was the Metropolitan Police. The two police forces worked excellently together.

Security was to be supplemented by a private security firm that had experience of controlling disorderly crowds in confined spaces. Their precautions included identity checks aided by the Company's share registrar, retention of individuals' bags in a secure cloakroom and electronic body searches.

However, drama began before the EGM itself. The Open Offer part of the proposals meant that on application, one share would be allotted for every two owned. Further, shareholders had to receive notice of the meeting 21 days before the EGM. About two weeks before the EGM, the Company had received several protests from holders of one share who maintained they had not received anything.

Feverish enquiries demonstrated the Company had correctly instructed its share registrar. However, a relatively junior member of their staff had presumed that because a holder of one share was not entitled to participate in the Open Offer, there was no need to send them the documents and notice of the meeting. Therefore, names and addresses of all holders of one share had been expunged from the distribution list sent to the printers.

Protests were made by the 'disenfranchised' shareholders to the LSE. The Company instructed its lawyers to undertake an urgent investigation. Meanwhile, using priority mail the share registrar despatched documents to all holders of one share. Providing the directors could substantiate that the oversight was the result of an 'accidental omission', within the meaning of Article 52 of the Company's Articles of Association, the meeting could be validly held on 2 September. The Company's corporate lawyer, Simmons & Simmons, rescued the directors again. They ensured evidence was complete and affidavits sworn a matter of only a few days before the meeting.

An ominous threat was the possibility that shareholders at the meeting could try to introduce a motion to adjourn the meeting or amend the resolutions proposed by the directors. Unusually, the Company had to request specific powers of attorney from large institutional shareholders to enable a representative of the Company to cast their votes in their absence in relation to a motion to adjourn. After some scepticism, the powers of attorney in favour of the Group Company Secretary were obtained.

As a final precaution, the Company offered time off and transport to any employee shareholders who wished to attend the EGM; nearly 30 did.

Tension mounted as the EGM approached and to minimise mishaps, the Company organised a practice session for directors involving a review of the proposed proceedings and examination of security arrangements.

On the day, the Metropolitan Police had a significant presence both outside and within the boundary of Armoury House and the Ministry of Defence police had a substantial number of officers plus dog handlers within the boundary and the building. There were about 20 additional private security officers.

At the outset it was resolved the Chairman would deal forcibly with any persistent disruptive individuals who would be ejected; five were, including the driver of 'K9', and proceedings were halted several times. Total attendance was nearly 80, of whom about 50 were activists.

With the exception of a proposed motion to adjourn the meeting, the activists did not organise themselves. Groups were shouting over each other and clearly they did not have either a strategy or tactical plan. They created a considerable noise, frequently interrupted the Chairman, shouted abuse and on occasions threatened violence. This was unpleasant but easy to deal with; both the security firm and the Ministry of Defence police were admirably efficient.

The EGM closed after nearly two and a half hours with all resolutions in relation to the proposals properly approved. It was subsequently shown that existing shareholders had taken up 24,980,275 shares under their entitlements, 32,023,156 had been placed with certain institutional shareholders and of course the subscriber group took up their 120,000,000 shares. The new shares, total 177,003,431 were admitted to the list in the LSE for trading to commence on 3 September 1998. The Company now had approximately 291,100,000 shares issued, an increase of over 155%. The Company was re-financed and new management installed.

14

THE HUMAN COST

And though hard be the task, keep a stiff upper lip

Phoebe Cary, 1824–1871
'Keep a Stiff Upper Lip'

Prior to March 1997, I had no experience of either personal harassment or intimidation as a consequence of my job; when these became a regular feature of my daily routine, emotion rather than objectivity drove my initial responses. Although employees at HRC had grown hardened over the years to occasional threats and demonstrations by animal activists, they were unprepared for the intensity of intimidation and animosity generated in 1997 that continued throughout 1998.

New dimensions to the activists' campaigns included threats and harassment of individual employees, shareholders, the Company's main bank, customers, suppliers, advisers and even the LSE. Thankfully, in the US, PETA's campaign was primarily directed at customers and the Company and there were no recorded acts of intimidation or harassment against Company personnel. Unless, that is, you classify in this way the actress Kim Basinger's widely reported description of Alan Staple, the Company's President in the US: 'I think I saw the devil. I do not trust this man.' This happened during a publicity stunt set up by Ingrid Newkirk in which she and Kim Basinger arrived at PRC with supporters and transport to take away some beagle dogs. The media had arrived shortly before.

First indications that intimidation and harassment of individuals were to feature in any campaign in the UK were revealed in the broadcast on 26 March 1997. None of the Company's directors or employees authorised or collaborated with the clandestine filming and sound recording undertaken by Zoe Broughton. Nevertheless, Channel 4 Television chose to allow full facial pictures of certain employees to be shown. To emphasise the significance of this, the producers selectively masked the faces of other employees. By implication, the viewer was invited to conclude that those identifiable employees were doing something unacceptable and possibly unlawful. This contrast was picked up by activists; pictures of the 'guilty' employees appeared on 'wanted' posters in their publicity material.

At the end of the broadcast, the credits revealed that Sarah Kite, a well-known leading activist in the BUAV, had been an adviser to the programme. She had worked briefly at HRC in the late 1980s on rodents and, after leaving, had tried to mount a hostile campaign against HRC. Sinisterly, a short while after the broadcast employees who had then worked alongside her, although now in different capacities, received threatening letters even though they were neither mentioned nor appeared in the programme.

The weekend of 29–30 March 1997 heralded the first demonstration outside HRC for over two years. There were around 20–30 activists, a sizeable core of whom were intent on a violent confrontation with the Company's security personnel as well as physically and verbally abusing staff. A large number of objects were thrown and employees' cars were attacked when they were either arriving or attempting to leave. Several rushes were made by the demonstrators to try to breach the front gates or the Company's perimeter fence. In fact, at one point only a heavily outnumbered security dog handler backed by some of the

Company's animal technicians prevented a major incident, which fortunately subsided once the police arrived on the scene.

The chaos and noise created was of such intensity and volume it was considered to be such a serious threat to individuals that all exit movements of staff were stopped. A convoy style exit was arranged under heavy police presence at around 5.30pm on Sunday 30 March 1997. Many employees had been trapped for several hours past their normal Sunday finish time. They were angry and hungry because there was no catering facility on site for most of the day and they believed the police were not doing enough to help.

During the next week, employees who had been caught up in Sunday's events and who recognised themselves in the programme were particularly distressed. Some, although not shown as one of the 'guilty' ones by the programme producers, and despite having many years' experience, were inconsolable. A trickle of resignations began.

HRC was readily accessible from Northampton and the Midlands via the improved A14, where some of the more aggressive activists were resident, some of whom were suspected of being active in the ALF. Located in the North West, both in Manchester and Liverpool, were other known cells of activists who often targeted WRC. Prior to ownership by Ciba it had been owned by ICI and had bred dogs for use in research for many years.

Employees and their families in the North West were the first to experience the harrowing experience of being followed home and their house being attacked under the cover of darkness either mid-evening or early morning. None of the employees targeted was senior in the Company and they all lived modestly. These 'home visits', as we called them, would often include a group of up to 10 activists usually wearing facemasks. Vehicles parked outside the house would be beaten and damaged, sometimes with acid, a terrible noise would be created and quite often the attackers would try to 'force' someone to come out of the house. The disturbance created was frightening and was meant to intimidate employees into giving up their jobs. It also worried neighbours, who on the whole rallied to support the intended victim. This practice of following individuals and home visits went on in an unpredictable pattern for many months and only stopped when the Company obtained a Court Order in September 1997.

Bravely, five employees agreed to give evidence against certain individuals eventually arrested and charged by police, and despite the research centre closing in July 1998 with the loss of their jobs, they gave evidence in the Magistrates' Court in August 1998.

WRC had been owned for many years by wealthy multinational companies that invested heavily in security measures. Not only was there closed-circuit television (CCTV) monitored in a central control room manned 24 hours a day, seven days a week, but there was a high perimeter fence backed by a thick covering of conifers and movement and sound sensors along the ground. The external appearance was easy on the eye and completely obliterated any view of the research and administration buildings. Hence, once inside, employees were relatively easily protected and oblivious to any demonstration or noise at the main entrance. There was only one obvious drawback; there was only one entrance and one exit onto the main road, albeit heavily reinforced.

In September 1997, I visited WRC to again discuss with employees the investigations in the aftermath of the broadcast; I arrived at about 8am, before the demonstrators usually congregated outside the gate. On leaving they were there together with their ubiquitous

'transit vans' and had been baiting the Company's security personnel for a few hours. In order to leave I had to drive through the gauntlet of their abusive shouting and attacks. I experienced the nerve-racking ordeal of having to drive at a snail's pace with the police yelling for me to keep going while demonstrators banged the windows and kicked the bodywork with their steel toe-capped boots. Most alarmingly, one female demonstrator grabbed the car manufacturers' emblem and threw her legs under the bonnet; two of her companions yanked her out and I accelerated. Apparently an attack such as I endured had been directed at relatively junior members of staff fairly frequently whenever the police were not present and their cars were certainly not as robust as mine.

Although shaken and my car damaged, it was not as threatening as some experiences of employees based at HRC, particularly female staff. In total, the Company received detailed reports from employees of 25 attacks on their cars. These included acid attacks, windscreens being smashed, bricks and other objects being hurled and damage to bodywork ranging from serious to mild, but none of it accidental. It was all premeditated.

In stark contrast to the benign look of the entrance to WRC was the spartan prison camp appearance of HRC. The security house at the front entrance dominated but could only accommodate one visitor at a time. Along the front of the site was a high wire fence topped by barbed wire and not softened by any landscaping, trees or groomed hedge. There was no secondary barrier although the wire fence contained sound and movement sensors. Anyone walking round the perimeter could readily throw things at buildings and see individuals in offices. HRC appeared hostile.

Demonstrators would regularly walk round the fence attempting to find weaknesses or to identify possible points at which to launch an attempt at mass entry. They would openly record the make and registration numbers of any cars in the employee car park and endeavoured to take photographs of individuals using cameras with high-powered lenses.

The Company, conscious of the sinister appearance of HRC, had applied nearly 18 months previously to the local authority for permission to landscape and plant conifers. Discussions had been going on all that time because the planners wanted deciduous trees planted and had their own ideas of landscaping. As a result, the security screen the Company needed was not in place.

After a short while, the activists organised themselves well enough to use powerful megaphones to broadcast their message and harangue staff on arrival, throughout the day and on departure. Their screamed messages were extremely abusive and they would personalise their diatribe whenever they spotted an individual walking between buildings.

Of great concern to management was the risk of some employees retaliating. On more than one occasion staff were found yelling abuse back across the fence during their breaks. When activists threatened to breach the fence, some animal technicians were hopeful of a physical confrontation. Through the extensive use of e-mail messages and departmental briefings led by local management, all employees were warned against responding in kind and implored to 'turn the other cheek'. This was accepted and strictly adhered to by all employees despite immense provocation at their workplace, in their neighbourhoods and local shopping areas.

However, there was one unexpected encounter. In April 1998, because of extensive flooding on the A1 near Alconbury, some HRC staff found themselves extremely close to some of their tormentors. The police closed the A1 for several hours and staff collected together at a

service area half a mile from HRC. Nearby was a small, dishevelled camp of activists who had become almost barricaded in by obstacles placed round by the land's owner and construction workers. They were now trapped and HRC's staff enjoyed their chance to bait them. Many lorry drivers who were parked there apparently joined in. The police arrived to 'protect' the activists, who wisely left the next day.

Shortly after the broadcast of 'It's A Dog's Life', employees began to receive telephone calls at home. Some were openly abusive but a minority began as if the caller wished to have a sensible discussion, however, without exception they soon deteriorated into shouting abuse and threats. Sometimes the callers would leave abusive and threatening messages on answering machines either during the night or day. Over 40 staff reported such telephone calls and messages to the Company's Head of Security. It is believed others chose not to register the incident but to take their own action by changing their telephone number.

The Company had installed a mail screening device some years previously because of letter bombs, suspect packages and the more usual practice of taping razor blades into the flap of an envelope. During this crisis, four suspect packages were received at HRC; most were addressed to me. One particular package required bomb disposal experts to undertake a controlled explosion; whatever was in the package smashed through the closed post room door.

While the individuals who publicly represented the Company might expect to be the target of extremists, it was particularly disturbing that junior staff were also being singled out. Because of its remote location, employees travel to HRC either by their own transport or buses arranged by the Company. Not only were car drivers attacked and sometimes followed, but the extremists would also follow the buses. As employees disembarked they would be accosted with abusive messages announcing that both their employer and they were 'murderers'.

Not content with following the buses and harassing disembarking employees, it is also believed that extremists among the activists were responsible for a fire bomb attack on the bus operators' depot. This emphasised to the local community that association with the Company meant that you could also become a target. It was hardly surprising that the bus company withdrew from its contract and no other local operator was prepared to substitute. Arrangements had to be made with operators up to 20 miles away who charged a premium; although they took the precaution of obliterating any identification marks from their vehicles they, like some other local suppliers, were unflinching in their support of the Company throughout the crisis.

Neighbourhood visits and leafleting exercises became a favourite ploy of the activists. A neighbour would receive a leaflet explaining that they were living next door an 'animal murderer' who worked at HRC, the Company accused by the government of cruelty. Several animal technicians' families were physically attacked. It is quite probable that the two animal technicians accused of cruelty under the 1911 Act were influenced to plead guilty to one charge because of the physical attacks on them and their homes which resulted in considerable damage.

In two separate incidents, employees returned home to find a wreath pinned to their front door. Employees living in Alconbury, within one mile of HRC, were easy targets for the demonstrators. Frequently, the activists chose to cause a disturbance outside a house on a quiet Sunday afternoon when they hoped the occupants were most likely home. To have a

police car outside your front door in a quiet neighbourhood is a dramatic way to draw attention to yourself.

Some shops in the centre of Huntingdon allowed themselves to make available to shoppers leaflets prepared by the 'Huntingdon Death Sciences' campaign. Some showed a picture of one of the accused technicians and others showed pictures of distraught animals, but all accused the Company and its employees of widespread abuse and cruelty to animals. It generally only required one approach by the Company to the local shop manager or the shop's head office for the offending material to be removed. In the meantime, it kept up the pressure on employees and their families, who increasingly believed that their jobs were in jeopardy and also worried about their personal security.

The Company's security manager and the police made special efforts to keep employees informed of security arrangements and precautions they could take. Unfortunately, this communication programme did not get off the ground until several months after the broadcast, during which time many employees had already suffered personal trauma.

The police handled these open forum sessions with outstanding professionalism and sensitivity. They explained that even if they wished to be more forceful in dealing with the demonstrators, it was important that their right to protest peacefully was also respected. It was clear that the police had access to reliable intelligence regarding the extremists within the activist groups and they had a good insight into their strategy and tactics; one of which was to try to provoke individual police officers into 'assaults' on them.

As time went by, the directors became prime targets for the activists. Each of the non-executive directors and their families received death threats, abusive telephone calls and messages. On two separate occasions homes were attacked by baying mobs. In one incident, while the non-executive director remained safe and secure inside the house, it was damaged and a bottle thrown through a window. The Metropolitan Police arrived within 15 minutes to restore order.

In another incident, also in London, a crowd who had attacked a McDonald's restaurant moved on to a non-executive director's house. Under covert surveillance the mob created a disturbance and scrawled graffiti all over the front door. The police considered the threat to directors to be so serious that almost permanent surveillance was arranged involving private security, the police and CCTV.

A commonly-used nuisance tactic started in 1998 with the unexpected home delivery of peculiar items from mail order firms. There were unwanted deliveries from the Military and Aviation Book Society about the Waffen SS; the Dance of Time music package and the Adventures of Noddy arrived from Compton and Woodhouse; Timelife sent 'Classic Rock'; home shopping with Ambrose Wilson sent three dresses of varying sizes; the Legendary Trains Maxi-Card collection came from Orbis Ltd; Fashion World delivered two denim skirts; Franklin Mint despatched the England's Rose Heirloom Collector Plate and Marshall Ward sent two trouser suits. Each of these meant a detailed discussion with and interrogation of the relevant customer ordering services to arrange the return of goods, deletion of the account and the provision of details to the police.

The establishment of a camp opposite one of the entrances to HRC in September 1997 made harassment of employees much easier for the activists and less predictable for the police and

security personnel. But it did mean that there was a constant police presence rather than their attending in response to a call for assistance.

A small group of demonstrators would gather each day at the entrance and set up their stalls. This comprised horrific large-scale posters of animals that were obviously in distress; they were most certainly not of animals in any of the Company's laboratories, but that didn't seem to matter to the activists. There was usually a roving group who would walk up and down the perimeter with a megaphone and camera, while a similar group remained at the entrance. Quite often a queue of cars to enter would form and it was not unusual for activists to press their faces up against a window and shout abuse at the occupants, particularly if they were women on their own. The activists' appearance was intimidating; they wore combat and dark clothes, ankle high boots, rings in noses and ears, were unshaven and had congealed hair. Some demonstrators wore a mask.

Throughout occupation of the camp there were protests during the evening when the activists concentrated on intimidating security personnel, attempting to breach the fence, cutting alarm cables, throwing objects – usually bricks – and generally creating a tremendous noise. On 21 September 1997, over 150 people attended a demonstration outside HRC; during an orchestrated rush at the main entrance that distracted the police and security personnel, three demonstrators scaled the fence and occupied a roof. This event attracted local and national media coverage and, encouraged by their notoriety, they refused to come down for nearly three days, during which time HRC provided them with water and blankets.

Dealing with overnight messages and in preparation for the daily barrage of staff and media enquiries, I was getting to the office at about 6am. On 30 September, I was prevented from going on site by a large police contingent dressed in protective clothing and with shields who formed a barrier across the road – they were a formidable sight. There were about 100 police officers and at dawn they surrounded the camp while the County Sheriff (bailiff) began the clean-up operation. While there were no confrontations, partly because the occupants were totally surprised by the police's action and most were still asleep, there were several arrests in relation to items found in their possession.

The dirtiest and most unpleasant work fell to the County Sheriff and his staff (mainly contractors) who were experts in tunnelling, climbing and various construction tasks such as removal of concrete. Nevertheless, it took several days to regain vacant possession. The filth, strategically placed booby traps and obnoxious items encountered by the Sheriff's personnel had all been seen before at previous demonstrations such as that at the Newbury bypass and the construction site at Manchester airport. They were well prepared, wearing protective clothing and gloves, and had with them specialist cutting equipment, whatever they needed for climbing, mobile compressors for power generation and 24 hour medical facilities. Nothing surprised them.

The land in question and another piece nearby has since been improved under the guidance of an expert environmentalist and local wildlife trusts. Each now has, among other things, a pond as a centrepiece. It is clearly no longer suitable for pitching a campsite.

With the exception of about 30 demonstrators celebrating the first anniversary of the 1997 broadcast, protests at HRC during 1998 became less frequent and only involved a smaller hardcore of activists. Although not as regular or obvious, harassment continued with leafleting campaigns and money raising efforts in local towns.

In the latter part of 1997, activists altered their main line of attack after they obtained access to shareholders' names and addresses. Although they targeted the Company's institutional shareholders most aggressively, they also wrote to small shareholders. Many of these were former employees who became shareholders through the Company share bonus scheme. Quite a few had forgotten about their shares, others had relocated and both they and the new occupants of their houses were surprised to receive threatening mail and telephone calls.

In the cases of the Company's three big shareholders – Phillips & Drew Fund Management, Fidelity and Robert Fleming – and other significant but smaller holders such as the Co-operative Insurance Society, Equitable Life and Sun Life, the activists addressed their abusive and threatening mail to a named executive. If you are not accustomed to being under threat, the receipt of such personalised correspondence 'out of the blue' can be quite frightening. Advisers were also targeted and while the names of responsible executives are not too difficult to discover, some research was needed in order to identify their immediate family. Whenever the activists had this information, their names were included as targets in the letter addressed to the executive.

It is believed that such a personalised threat was a major contributory factor in the decision of the director at DrKB with responsibility for the Company not to sign the Company's Prospectus. This was acknowledged at the time as being a significant departure from tradition.

In the run up to the EGM in September 1998, a group calling itself the 'Coalition to Ruin Huntingdon Life Sciences' protested outside HRC (see Figure 8), paraded in the City wearing beagle dog outfits and claimed to have sent 150 videos to shareholders. The Company was notified of 80, which included clips from the television broadcast and a voiceover criticising the use of animals in research and lambasting HRC's record. The narrative repeated the well-worn allegations that abuse and cruelty was prevalent and that the correct moral and ethical decision would be to abandon their shareholding.

Figure 8: Protesters demonstrated outside the Company in the run up to the extraordinary general meeting



An animal rights protester is removed by police during a demonstration at Huntingdon Life Sciences at the weekend

Protest at Huntingdon rescue

BY PAUL DURMAN

ANIMAL RIGHTS protesters clashed with police at the weekend during a demonstration outside the main research centre of Huntingdon Life Sciences, which will tomorrow seek shareholder approval for a £20.2 million rescue.

A group called Coalition to Ruin Huntingdon Life Sciences is hoping to scupper the rescue, and has sent videos to 150 of the animal testing company's largest shareholders. The video includes the controversial footage of Huntingdon staff shaking and hitting beagles that last year brought the company a severe warning from the Home Office and lost it the custom of several pharmaceutical companies.

The protesters claim the support of Barclays Bank's investment arm. Some have become Huntingdon shareholders, and are to attend tomorrow's special meeting in London.

Huntingdon has said that it is likely to become insolvent unless it can raise new funds. Existing shareholders have conditionally agreed to put in £7.1 million, but most of the new money will come from a group of American investors led by Andrew Baker, who previously ran the clinical laboratories arm of Corning of the US.

Source: © Times Newspapers Limited, 1 September 1998, by Paul Durman. Photograph by Paul Rogers
Note: Photocopying allowed for classroom use only

During the run up to the EGM, nervousness among the directors and advisers in anticipation of what could happen became more obvious as each day went by. Anxieties were heightened by the knowledge that all the business on the agenda had to be completed with a victory for the Board and the Subscriber Group, otherwise the Company would probably have been

faced with a split bank syndicate. This in turn would probably have resulted in the Company having to cease trading.

We were acutely conscious of the need for security and how important it would be to have a reasonably large turn out in order to counterbalance a likely presence of animal activists. Recent estimates of the number of shareholders with one share who were animal activists were around 80. Typically, neither institutional shareholders nor other shareholders attend either AGMs or EGMs of small companies and so we decided to encourage employee shareholders to come. As it turned out, they didn't need too much persuasion and almost 30 attended taking advantage of Company provided transport.

The security arrangements worked according to plan with great emphasis placed on controlled access to the meeting room. There was a massive show of force by the Ministry of Defence police, the Metropolitan Police and Group 4 personnel. The facility was sufficiently large to allow the audience to be corralled and also observed from above. Nevertheless the noise and threatening gestures of the activists who attended, many of whom were recognisable from their activities outside HRC, were quite intimidating. They were wearing 'normal' casual clothes; there was no sign of matted hair or rings through noses, combat boots were out for the day and the men were clean shaven. Until they became agitated, they had tried to present a calm, friendly and relaxed air.

Their lack of discipline and unruly behaviour played into the hands of the Chairman who was able to proceed as planned and to instruct security to remove persons among the activists who were making a rather pathetic effort to be seen as a leader. On three occasions in response to advancing, highly-excited activists, a line of Group 4 personnel formed in front of the podium occupied by directors to prevent them carrying out their pledges of violence.

Security personnel removed one person without too much obstruction but subsequent ejections required the intervention in numbers by the Ministry of Defence police who, despite violent provocation, managed to contain themselves very well. Throughout this ordeal, which lasted the best part of two and a half hours, employee shareholders bravely occupied many of the front seats and forward rows and were surrounded by their adversaries. They behaved impeccably and did not respond either to the screams of abuse or the parading of large posters of distressed animals. Apart from employee shareholders, there were present (seated among the activists) a former director shareholder, a representative of the Subscriber Group, a representative from the Bank of New York who was empowered to vote and a journalist who had recently become a shareholder. They each endured a harrowing experience, the like of which they declared they had not seen before.

The animal activist shareholders appeared and sounded as if they had no co-ordinated plan to change the course of the EGM other than to cause intolerable disruption and to continue their tactics of intimidation. They screamed out abuse and generally tried to overwhelm the Chairman by drowning out his oratory. As far as I could tell, they presumed that they could have the EGM adjourned on the premise that not all shareholders had received 21 days' notification. They seemed not to have anticipated that the Board would have taken the necessary steps to ensure its legality despite the error in despatch of documents.

Fortunately, they didn't seem to know that the tactic that could have caused directors most embarrassment, and to potentially stop the meeting, was to propose a resolution to amend any one of the resolutions that had been put forward by the directors. If they had done so, and we could not presume they would not have sufficient votes available on a show of hands, it

would have probably been unacceptable for the Chairman to vote it down by use of the power of attorney the Company had arranged before the EGM. The power of attorney had not been obtained to allow the Chairman to vote on what would have been a 'new resolution'.

Back in April 1997, and at the outset of the demonstrations outside HRC and WRC, we had decided to pursue a policy of business as usual. In the case of WRC this meant redesigning their security procedures, which in the past had often resulted in either staff arriving late or leaving early to avoid demonstrators. This fortress mentality meant that the activist protesters knew that they only had to turn up with a token presence outside the gates in order to cause disruption. HRC over the years had learnt that to respond unusually, that is to change the work patterns of large groups of individuals, both excited and encouraged the demonstrators. Over the whole crisis of nearly two years this policy of 'business as usual' was so successful that not a single day of operations was lost and delays to staff leaving at the end of their working day could be counted on one hand. Feedback from staff in briefing and information sessions showed that this policy was fully supported by them.

Indeed the general policy of 'fighting back', or as I preferred to call it 'trying to encourage an informed debate in the media' was the staff's policy of choice. Many of them wrote to newspapers as well as their MPs to explain not only what HRC did and how it was supervised but to explain the intimidation and harassment they had to endure.

To bolster employee confidence I chose a policy of high-profile security. New procedures were introduced to control and screen visitors; access control was progressively installed on buildings and there were frequent checks to ensure individuals were properly displaying their ID cards. Site access arrangements were reviewed and improved, and ditches along perimeter fences were cleared to remove impediments to security operations. A secondary coiled razor wire fence was installed behind the exterior fence, and while it did not enhance the aesthetic appearance of HRC, it certainly boosted confidence that activists couldn't get in. At the main entrance a watchtower was installed to facilitate surveillance of demonstrators as well as filming. Some of these arrangements were necessary to allow the collection of evidence in relation to damage to property and assaults on employees.

In the first few months of demonstrator activity, employees thought that the police were sympathetic to the demonstrators and not doing enough to keep the highways open. Employees' attitudes softened once they realised the need to police within criminal law, to gather evidence and not to provoke. This was only achieved through periodic and well-attended face-to-face meetings between the police and groups of employees.

Shortly after the allegations of malpractice were broadcast and the ferocious intimidation and harassment of individual employees began, a trickle of resignations started. The first groups to experience unusual losses were the animal technicians who were being singled out for particular vilification and who personally felt threatened. During 'exit' interviews, it frequently emerged that their resignation was due to 'family' pressure, often directly related to the activists, their intimidation and demonstrations. Quite often they had no job to go to.

Solicitation of employees by both competitors and customers increased. Customers who were apparently happy to let it be known that they were not working with HRC, were nevertheless enthusiastic about recruiting HRC's scientists, especially those they knew. Competitors were receiving orders that they had assumed would be awarded to HRC and were now eager to recruit toxicologists and animal technicians from HRC.

Even the UK Government's Home Office stepped in. They poached a senior veterinarian and also the Company's Director of Animal Welfare and Safety to become Inspectors within their Inspectorate. Both these individuals were known to the Home Office who understood fully the accountability and responsibilities of the veterinary staff within HRC.

Within six months of the outbreak of the crisis, the rate of resignations had slowed. Over both years, 1997 and 1998, the loss of staff, or more precisely the number of joiners and leavers expressed as a percentage of the average number of total employees, settled down to be the same as in previous years, 13%. However, the longer the crisis lasted – especially when it became a desperate fight for survival due to the growing cash shortage – the employees leaving were increasingly in relatively senior scientific positions. This in turn weakened the Company's chances of winning new business.

At the time of the EGM in September 1998, the Company employed in the UK, US and Japan about 1,550 people; it had largely sustained its critical mass throughout the crisis even though it had certain vacancies that it was extremely keen to fill.

Most employees had seen the Company through its severest test and in the process had suffered while the output from their work and their work methods had been unfairly vilified in the media and by the UK Government. At home they had suffered the stress and anxiety of an uncertain future and now, while the demonstrations and harassment had subsided, they were still unsure as to whether their job would survive or not. Most dispiritingly, they had witnessed few so-called loyal customers come out publicly and express confidence in the Company.

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POST-MORTEM

A lie can travel halfway round the world before the truth has got its boots on

Lord Callaghan
Speech, 1 November 1976

Being at the centre of a storm for two years, without advisers who had relevant experience, I was mostly in a reactive mode. The crisis was essentially several crises rolled into one enormous, catastrophic, volcanic eruption that could not seemingly be contained; no one could have predicted the direction the cascading lava would take.

In this book I have suggested that the Company was in trouble from early 1993, due to both the growing realisation of possible insolvency unless performance substantially improved or businesses were sold, and the disarray in the boardroom. From the end of 1995 and through 1996, there was a relative period of calm when the Company got back onto the growth curve. This came to an abrupt halt with the television broadcast of malpractice allegations in March 1997. This small company suffered all the unimaginable unwelcome challenges that could possibly have ambushed it.

Although the Company is not a provider of public services, the public had and will continue to have a strong interest in the Company's operations because of the use of several species of animals in research, particularly mammals. The Company had presented itself as a caring research institute, however, the public disclosure of ill treatment of animals and the possible falsification of data allowed single interest lobby groups to exploit public sentiment towards animals and to present the Company as evil. On the whole, the media chose not to report on the benefits derived from the Company's research and instead focussed on the campaign to eliminate all cruelty and question the use of animals in research. All of the Company's employees were condemned through association even though less than a handful were involved.

When the crisis escalated alarmingly throughout July 1997, the majority of the Company's customers sought to protect their own reputations, and some even actively turned against the Company. They believed the Company's marketing material, which positioned the Company narrowly as a provider of science services. Other increasingly successful contract research organisations, for example Covance or Quintiles Transnational Corporation, had for some time been positioning themselves as the essential product development partner of their customers, who were often also customers of Huntingdon. However, to those customers, in particular the pharmaceutical industry, a service provider – albeit of sophisticated science – is dispensable because there are other outstanding providers, and the costs of changing are infinitesimal compared with the potential overall costs of development.

Perhaps to the Company's customers the most damaging allegations were those in relation to the falsification of data. In other words the products the Company sold, which were essentially credible scientific research studies, were invalid. The disgraceful behaviour of the UKGLPMA in choosing to look both ways at the same time – that is to determine that five

studies did not comply with GLP regulations yet the Company did, and to then issue a new certificate of compliance – caused more controversy, not less.

The drama that followed Bennie Woolley's proposal to resign on health grounds, its subsequent abrupt withdrawal and the changes in boardroom responsibilities during the early 1990s illustrated the absence of a credible succession plan. This was not solved with the injection of new management from acquired companies because they either left voluntarily or were pushed out unceremoniously. Modest progress was being made on succession planning when the crisis of 1997 erupted. If the Board had included a broader spectrum of experience then perhaps the course of the crisis may have been different.

Profitability and cash flow had deteriorated relentlessly from 1990 and in 1994 insolvency was only avoided because of the strength of HRC's cash flow and available bank credit lines. They became depleted as they were used but all bank debt was secured against HRC's assets. The cash drain arising from the collapse in customer confidence in 1997 and 1998 presented a graver cash crisis. The core business was affected, the Company's borrowings had increased to finance its expansion in 1995, the Company's share price was trading perilously close to net asset values and concern over the availability of operating licences meant that to raise cash through an issue of equity would have been a hazardous exercise. Without reducing the size of the core business, assets could not be sold, and to significantly reduce costs would require further cash.

I assumed that when the Company purchased its laboratory at Princeton in the US that it would reduce the Company's exposure to the animal activist lobby in the UK and Europe and that it would bring us closer to the burgeoning pharmaceutical research industry in the US. Being poorly informed and lacking research on animal activists in the US proved to be a costly oversight. Their substantial resources and track record of successful undercover operations makes PETA a formidable opponent. With their sophisticated network outside the US promoting allegations against the Princeton laboratory and skilled economic sabotage, PETA created an international incident which embraced all the territories in which the Company had important customers.

Operating within a heavily regulated industry with supervision provided mainly by government agencies and institutions, the importance of exemplary compliance cannot be overstated. Failure to allocate sufficient resources and scrutiny to compliance audits, procedures and staff training caused the Company to lose much of its customer base and ultimately, the reputation it had built up over nearly 50 years. At the same time, it was breathtaking to witness the way in which the government was able to take action against the Company whilst protecting its own policies and procedures and passing over the entirety of blame.

To crown it all, I was also heavily embroiled in attempts to re-capitalise the Company to provide much needed cash for the foreseeable future and to retain the continuing support of the Company's syndicate of banks. Unable to persuade or entice a trade buyer to mount a 'friendly' acquisition that would have resulted in a secure business future as part of an established and growing company, the Board was obliged to resort to a financial buyer. Financial buyers specialise in high-risk transactions; they pay a low price for a large stake, which they hope will eventually pay a high return. It is almost a hostile takeover. The incoming shareholders provided much needed cash but didn't have the benefits that come with a trade buyer, such as a knowledge of the client base, an existing business with which there may be synergies and a clearly defined corporate strategy to restore shareholder value.

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The recommended classic responses to a crisis start with the creation of a crisis team, a command structure and central control over all communications. Centred on my office, these three steps were all put in place within 24 hours of the television broadcast. Unfortunately, experience has shown that this should have happened two months previously on receipt of the letter from Small World Productions. However, the small senior management team and executive directors were heavily stretched dealing with operational matters and were simply unable to cope with the increased workload. So what lessons have been learned?

There's no smoke without fire – English proverb

I seriously misjudged the danger lurking in the letter from Small World Productions. It was poorly presented and together with my management team, I was lulled into ridiculing their capability to muster evidence to support their claims of malpractice. This error of judgement was compounded when I chose to instruct the executive responsible for the named animal science department to conduct an investigation rather than another more independent executive. It was hardly surprising that his report concluded all was well.

I chose to restrict the knowledge of the potential disclosure of damaging information to the Board and a small group of senior executives. However, on a confidential basis I did notify certain external bodies, including the government, in the belief that they would support us. This approach was chosen because I presumed I faced a public relations crisis rather than an extremely serious commercial challenge and I needed to alert them to a possible short-lived hostile media campaign.

I believe these responses were exactly what Small World Productions hoped for. To maintain silence and merely issue a holding statement enabled them to spring their exposé documentary and sensational evidence on the unsuspecting public. The Company was participating in Small World's game according to their rules.

If Small World had evidence, I presumed it must be film, witness statements and audio recordings. Thus, the Company should have immediately established the rules of a hostile engagement. Directors, managers and employees had not given authority for the collection of evidence within any research laboratory. Accordingly, the Company's lawyers should have been advised immediately of the threatening letter from Small World, not simply the Company's newly recruited public relations adviser.

Such action would undoubtedly have led to the Independent Television Commission, the Broadcasting Standards Commission and the police being informed that the Company had good reason to believe there had been trespass, proprietary information had been stolen and that it was going to be used in such a way as to misrepresent the Company and to possibly endanger employees.

Better be safe than sorry – English proverb

The Company had long prided itself on its secure recruitment procedures and the confidential verification that any applicant was not an animal activist or journalist acting undercover. Nevertheless, the two infiltrators, Michelle Rokke in the US and Zoe Broughton in the UK, easily circumvented the Personnel Division's enquiries. Furthermore, during their employment they brought a concealed camera and audio recording equipment into their workplace. Although the positions they occupied were relatively junior in the Company's

hierarchy, they had access to some of the Company's most sensitive operations and documents.

Michelle Rokke was a professional undercover investigative agent for PETA when she applied to Princeton to be an animal carer. She had undertaken assignments in the previous four years, in each case working with animals; prior to that she was a hairdresser in Minnesota who had been a vegetarian since the age of twelve, having rejected meat because of her concern for animals. PETA gave her training in investigative techniques and helped her develop a convenient history in order to conceal her true identity and beliefs. When she joined Princeton she was about 31 years old. She pretended that she'd just happened to be passing one day when she noticed the advertisement of vacancies and applied on impulse. Princeton's recruitment officer checked out in telephone conversations the details Rokke provided of her previous employment and background with her two referees. While employed she performed excellently and was looked upon by the other animal technicians as being helpful and inquisitive. There was nothing in her demeanour or lack of willingness to undertake the usual tasks of an animal carer to suggest she was anything other than she appeared. Mary Beth Sweetland, head of PETA's Research, Investigations and Rescue Department, described Rokke as being 'perhaps too stoic' and said: 'I really do think she [Rokke] likes the action and the excitement and the unpredictability.' Rokke worked undercover in Princeton for nearly eight months and continued approximately two months after the broadcast in the UK of allegations against HRC.

The professionalism of Michelle Rokke in the US contrasts starkly with the perceived amateurism of Zoe Broughton, the infiltrator in HRC. Broughton joined HRC on 30 September 1996 as a young trainee animal technician; she declared no previous experience in a laboratory environment but claimed she was comfortable with animals having worked on a farm. Her references were checked out. Other validation procedures used in England, such as enquiries with the RDS, the Association of Animal Technicians and the police special branch, drew a blank meaning she was not a journalist, hadn't come to the attention of the Association of Animal Technicians and was not known as an animal activist. In fact, available biographic facts on her were largely limited to her achievements at school and personal details. In other words, there was almost no trail to investigate. During her employment some of her idiosyncratic behaviour and apparent inability to perform even the simplest of tasks nearly led to her discovery. However, colleagues covered for her, probably because she seemed rather helpless and was attractive to the men. She took many days off work, supposedly due to illness.

Investigation later revealed that the company had become complacent in the application of its security recruitment routines and, because of confidentiality requirements, the Personnel Division had escaped internal control checks.

Two lessons learned and subsequently established as essential pre-requisites to recruitment are:

- All references must be obtained in writing and validated with a telephone conversation
- As recommended by the police, only original education certificates should be accepted as proof of both scholastic achievement and identity

The Company had always believed that surveillance cameras, physical barriers and the overt presence of security personnel provided good external security, and deterred intruders and reassured staff. However, the Company's standard contract of employment did not allow random stop and searches of employees' cars, bags or general belongings. All companies should include this because these breaches of security could have been easily avoided through the early detection of the equipment and documents stolen by the infiltrators.

An obvious security weakness overlooked was the freedom of employees to move through and between sensitive work areas because of the absence of security barriers and the lack of effective supervision. Interdepartmental security to protect commercially sensitive materials and to restrict access to a 'needs basis' is essential.

Following the crisis I considered the installation of CCTV in all laboratory animal areas and, because employees in Princeton welcomed the idea, it was done. In England, conversely, it met with resistance and questions of civil rights. I soon learned, however, that electronic surveillance is effective and an additional reinforcer of desirable employee behaviour provided by regular training, reassessment and effective 'hands-on' supervision.

On 13 August 1998, during a visit to the animal laboratory area in Princeton, I watched an animal technician feeding a group of monkeys through an observation window. The technician was wearing the proper protective clothing, was talking to the animals as he fed them and they seemed to be interacting with him. Less than two minutes later, when I entered the CCTV control room, I observed the same technician maliciously aiming and then violently throwing a large fruit at an animal in a deliberate attempt to hurt and intimidate. He was summarily dismissed.

Truth will out – English proverb

I went to great lengths to ensure the original investigation into the allegations made by Small World Productions was conducted in secret. Staff, including those working either in or alongside the animal area targeted in the allegations, were largely oblivious to anything untoward. This error was compounded by the failure to formally communicate with all employees in open forums until almost two months after the television broadcast. After the broadcast, I was so consumed by external relations that vitally important employee relations were neglected.

At all times and particularly during a crisis, a company's employees are potentially its most enthusiastic ambassadors, if only because they have proportionately more to lose than the directors. However, the delay in getting them embroiled in this controversy led to rumours, often originating among employees in the non-animal areas and, most damagingly, to open conflict between groups of employees because many presumed that the directors' silence implied an acceptance of guilt.

Most employees lived in close proximity to their employing laboratory and so had numerous contacts in the local community whose support was vital. Many employees held valuable educational and vocational qualifications and were members and office holders of influential associations whose support and interest could have been stimulated early on.

I have learned that after any indication of a controversy, particularly one that alleges misconduct by employees that could give rise to adverse publicity and negative reactions from customers, it should be communicated to all employees as soon as possible.

Based on the letter from Small World Productions, a series of formal information meetings should have been convened within departments and divisions led by the relevant manager. An early warning should be seen as a 'wake-up' call to all staff. Despite only having 'hunches' to work on rather than concrete evidence and facts, the managers should nevertheless be provided with a briefing document explaining the potential danger to the Company, the steps the directors intend to take together with a question and answer document providing a guide to some of the more likely enquiries they will probably have thrown at them in the meeting. At the end of the meeting, employees' unanswered questions and suggestions should be recorded and forwarded to the crisis team.

These information meetings should be followed up in 10 days with feedback meetings in which the employees take the lead with their findings and observations. At the end of the meeting these should be summarised and sent on to the crisis team. Before breaking up the meeting, an update on the progress and actions of the crisis team should be provided from a briefing document.

This cycle of information and feedback meetings should carry on throughout the crisis and must be supplemented by comprehensive communications through the Company's e-mail system. Without doubt, I recommend that employees are told as promptly as possible:

- What has happened
- What is happening
- What is likely to happen
- What are the dangers
- How they can help

He that gives honour to his enemy is like an ass – English proverb

Foolishly, I omitted to realise that in a major controversy – particularly one that has resulted in strong public interest and the general perception of widespread abuse, especially to animals – friends become enemies merely to protect themselves. Furthermore, friends likely to be hurt by the controversy engulfing the Company included regulatory authorities – civil servants with political masters who are renowned for their ability to avert responsibility and accountability.

Anticipating that the regulatory authorities (the UK Government's Home Office, the UKGLPMA and the USDA) would most probably choose to take an aggressive stance against the Company's persecutors, the animal activists, because of the perceived danger to their own regimes, I chose appeasement and an open approach to communication in my dealings with them. However, the situation in the US erupted into a crisis eight weeks after the UK and by this time I had modified the Company's co-operative stance towards perceived regulatory friends to be more cautious, along with the threat of resorting to the law to protect the Company. Unfortunately, investigations were too advanced in the UK to contemplate a revision in tactics.

In facilitating unrestricted access to the government's investigators to the findings, conclusions and recommendations of the Company's own investigations, other commercially sensitive management reports and to staff in various departments and locations, the Company unwittingly provided its most dangerous enemies with the information they needed to absolve themselves of any complicity for the allegations of malpractice.

Before allowing investigations to proceed I should have agreed with the investigators to have access to their dossier of allegations, a commitment to be consulted on their final report and a right of reply to their findings. If necessary, the Company should have been prepared to resort to law in order to obtain these basic civil rights. The USDA granted these requests without any resistance, although it took them nearly 12 months to complete their investigation. It was only in the UK that the Company was seriously disadvantaged.

Attack is the best form of defence – English proverb

Secrecy proved to be one of the most serious barriers to the Company freeing itself of the public perception of wrongdoing. Traditionally, the Company had been religious about adherence to its contractual commitments not to reveal either the compounds or products it was working on, or for whom it was working. It was eventually realised that it was a costly mistake not to have communicated widely that the Company was about to be subject to malpractice allegations and the victim of a hate campaign. The emergence of the threat of exposure established new operating procedures for which the existing rules, regulations and procedures were inadequate.

Extensive briefings of newspapers, trade magazines, customers, suppliers and shareholders should have commenced shortly after receipt of the threatening letter from Small World Productions. These briefings should have taken the form of press releases explaining the allegations as described by Small World and inviting media representatives to visit HRC and talk to management and staff. Furthermore, although aware of the possibility of disturbing animals, filming should have been allowed.

In the press releases it should have been explained fully the regularity with which the government and customers inspect facilities and procedures. The most recent visits should have been listed together with the government department and company customer names. Every effort should have been made to implicate the overwhelming power of the Company's main customer base and to encourage them to take a forthright stance while admitting their close collaboration with HRC over many years.

Unfortunately, the Company and I, as leader of the crisis team, dealt with our adversaries in the same gentlemanly way that we conducted all the Company's business affairs. This was a mistake and could possibly have been avoided if the Company had built up a relationship over many years with an experienced public relations firm that could have provided consistent advice on publicity and communications throughout the crisis. To do this they would have had to know the Company's operations extremely well.

Above other changes in the Company's strategy and tactics, I believe the most beneficial would have been to have identified ourselves with our adversaries' agenda. We could have usurped their position by publicly assuming the same ethical and moral stance on which they claimed exclusivity.

Firstly, the Company opposed the unnecessary use of animals in research and had an excellent track record in continuing the downward trend in their use. The Company had developed alternative tests, often based on research paid for by the European Centre for the Validation of Alternative Methods. Further, the Company was a leading member of the Fund for the Replacement of Animals in Medical Experiments.

Secondly, the Company was a pioneer in the treatment and housing of animals. The Home Office regulators, who regarded the Company as having an exemplary record, acknowledged this. Any enhancements in procedures and their practical introduction had been discussed and agreed with them. Many customers were envious of the Company's progress and wished to copy its innovations.

Media interest in these matters was high because of public concern and the Company should have done considerably more to exploit and promote its successes and concentrated less on defending itself and attacking its adversaries.

Most small to medium-size companies would have insufficient resources of cash and managers to survive the sort of sustained attack targeted at the Company. In Huntingdon's case, the immediately preceding crisis and insufficient breadth and depth in the boardroom had weakened it. Other important conclusions can be drawn reflecting on issues that directly impacted upon the Company's reaction to the latest crisis.

Man learns little from success, but much from failure – Arabic proverb

Back in 1985 when the Company set out on its diversification into environmental, materials testing and engineering service businesses in the US, its tactical plan should have been aimed at fulfilling a strategic vision for the enlarged group. Part of this strategy would have included how the directors intended to manage the operations it was acquiring.

The core business, HRC, was very different and was run by accomplished scientists, few of whom could also claim to be effective managers. It sold to scientists who usually had clearly predefined outcomes and contracts were typically of at least three months in duration and often up to four years.

The businesses being acquired in the US were usually managed by their principal owner or owners who were entrepreneurs with an engineering background. Typically contracts were of short duration, and the average value was less than $1,000. Furthermore, unlike HRC these businesses did not use clearly worded contracts to set out their terms of business or limit their exposure to performance claims or environmental hazards. They operated in a highly competitive industry that had few barriers to entry; many competitors were family businesses operating out of their own backyard.

The owners of the businesses acquired were as close to their employees as their customers; administration was generally poor and internal controls virtually non-existent. This caused few problems during the late 1980s because the economy in the US was reasonably buoyant; however, the emergence of a downturn resulted in a rapid decline in profitability and cash flow. This led to increased interference in day-to-day operations by the then HLSG Chairman and CEO, Bennie Woolley. They resented the imposition of procedures and reporting requirements and any attempts to control or reduce costs. Many of these owners had received cash for their business and, in the absence of a readily enforceable contractual commitment to stay with Huntingdon or not to compete if they left, they simply walked out and set up a competitor down the road.

The Board could not decide whether to manage these businesses as if they owned a portfolio of investments and allow them autonomy or impose central control. Bennie Woolley's

actions hastened the loss of senior management and management was not replaceable from elsewhere in the Huntingdon Group.

Despite disquiet in the Company's boardroom at the events in the US, a President was not appointed until 1991, at a time when analysis showed a definite downturn in trading. However, procrastination, a lack of funding and indecision delayed any moves to central control and a single identity until 1993. This was probably at least four years too late.

Although Huntingdon's shares were highly valued in the late 1980s, diversification into the US was relatively expensive in terms of the high prices paid for low-margin, high-volume businesses operating in a highly-competitive environment and with an uncertain future. It was also expensive in the sense that it diverted the directors' attention onto a business they did not know and which had no synergy with its existing highly-prized business, HRC.

To the many shareholder employees within HRC, the high-risk diversification strategy caused consternation and no doubt a hidden cost was a drop in productivity and a withdrawal of full commitment. The increased cash controls placed on HRC and the failure to reward performance was blamed on directors having decided HRC was the past and the engineering and environmental services the future.

Three helping one another, bear the burden of six – English proverb

In publicly quoted small to medium-size businesses, the importance of boardroom leadership is probably of greater significance than within larger companies. Directors' duties and responsibilities to the management of the company and their statutory obligations are infinitely more important and onerous than those laid out in the LSE's listing rules. This is because the larger companies typically have both executive and functional management structures and strengths. For example, the vice president of R&D in a major pharmaceutical company will most likely be chosen because of their scientific excellence. However, that individual will be supported by highly-efficient professional managers who are experts in finance, budgeting, planning, project management, procurement and administration. These managerial layers are too unwieldy and expensive for smaller companies.

In a small company the distinction between executive and non-executive directors is an expensive luxury as well as increasing the personal risk of a non-executive director unless they choose to be involved in a practical sense. A director of any company must not rely solely on the facts as told by directors, who are also executives, nor should they blindly trust the statutory auditors.

Non-executive directors can make a major contribution to the identification and management of risks facing a company. They should be granted uninhibited access to staff at all levels at each operating location and be free to examine departmental management reports on an ad hoc basis. Indeed, the Chairman should require directors to explain how they have fulfilled their statutory obligations, how they have satisfied themselves in relation to internal controls and to describe their overall view of the Board's performance regarding corporate governance.

Directors should supplement the information they receive through Board papers and Board meetings by demanding regular meetings with senior staff from a selection of divisions,

instruct the Audit Committee to undertake clearly-defined investigations and insist on the preparation of an annual detailed 'bottom-up' internal control questionnaire.

When deciding and voting on the composition of a Board of directors, shareholders should examine clearly each director's curriculum vitae. While experience and knowledge of the obligations of public companies to shareholders and the workings of the City are necessary in the boardroom, they are not as important as being overloaded with more practical attributes; for example, the never to be underestimated value of a network of senior executives in the Company's major customer industry. The isolation of the Company during the 1997 crisis could probably have been lessened or ameliorated if directors other than those occupying executive positions could have consulted confidentially, individually or collectively, with a selection of the Company's most influential customers.

During a crisis with the potential for significant losses for shareholders, directors other than those normally responsible for liaison should communicate formally and regularly with shareholders. This can only operate successfully if those directors are known to the shareholders and undertake briefings reasonably frequently. To carry this off confidently, they should know the Company's operations intimately. If HLSG's shareholders could have been rallied behind the directors, or if they had used their investments in the Company's customers to discuss with them what they knew of the situation and to promote solidarity, how different the outcome to the crisis could have been.

EPILOGUE

Immediately following the successful outcome of the EGM on 2 September 1998, the incoming executive Chairman, Andrew Baker, began to exert his authority over the Company.

As announced in the Prospectus published on 10 August 1998, Roger Pinnington, the senior independent non-executive Director, relinquished the position of Chairman to become Deputy Chairman. Ladislas Rice resigned and left the Board. Frank Bonner, Director of Science and Technology, and Brian Cass, Managing Director, joined the Board on 17 September 1998. Further changes included the resignation of Christopher Cliffe on 31 December 1998 and Cameron MacDonald on 31 January 1999; on 19 April 1999, Julian Griffiths was appointed as Finance Director and Martyn Sandford resigned.

This process of managerial change was completed on 7 September 1999, when two non-executive Directors joined the Board, Roger Devlin and Joseph Dowling; Kirby Cramer joined as an executive Director and Roger Pinnington resigned.

Other corporate governance-related changes included the appointment of Deloitte & Touche as auditors, replacing Arthur Andersen, who resigned at the AGM on 3 June 1999.

Further, on 7 September 1999, the Company announced the appointment of WestLB Panmure as broker and sponsor, replacing Kleinwort Benson, who had served since 1988.

During the weeks following the management changes in 1998, the share price largely remained in the range 11–13p (the new shares were issued at 12.5p each), and at the beginning of January 1999 was 11p.

In December 1998, the Company announced a cost-reduction programme targeted to achieve £6 million in annual savings, based mainly on the elimination of 150 positions at an estimated implementation cost of £3.5 million.

The publication of the Company's results for the full year 1998 made depressing reading, but the decline in sales should not have been surprising for shareholders and observers of the Company due to the openness displayed in the Prospectus. Sales were £52.6 million, 17.4% below the 1997 figure of £63.7 million. Net loss after tax had increased to £24.9 million from £5.3 million in 1997. This enormous increase was undoubtedly partly due to the new management's desire to 'clear the decks' in order to establish a benchmark against which to judge improving results.

Encouragingly, as results for 1999 have been reported, the Company has been able to declare an improvement in sales and orders received through to the end of September. Furthermore, the rate of consumption of cash has slowed and the sale of the WRC facilitated a reduction of £4.2 million in the Company's debt.

On 29 July 1999, the Company announced: 'The steady improvement in orders has continued with the first half of this year showing a 10% increase over the previous six months and some 20% over the first half of last year. It is also pleasing to see over 100 companies who have not worked with us before or not placed studies in the last two years now appearing on our client list this year.'

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This optimism has borne fruit and in their results announcement for the nine months ended 30 September 1999, the Company reported sales of £42.7 million, 8.1% above 1998, and an operating loss of £3.8 million – an improvement of £5.3 million on the £9.1 million operating loss reported in 1998. The Company commented: 'Orders in the third quarter were 18% ahead of the same period last year, maintaining the momentum of the first half of the year. Year-to-date orders are now 20% ahead of last year.'

Subsequent to this announcement, on 16 November 1999, the Company indicated that it had reclassified its syndicated bank debt as short term – due within 12 months – but omitted to explain its strategy in relation to its working capital requirements. This may have been partly responsible for the dramatic drop in the share price. During 1999, this peaked at 22p on 26 February but gradually declined to 17p by the beginning of October, followed by a sudden drop to 10p on 17 December 1999.

While the Company believes it continues to make progress in re-establishing its reputation and relationships with its clients, the numerous opponents to the use of animals in research have relentlessly pursued their goal of sabotaging the Company's business, and towards the end of November 1999 they stepped up their direct action.

The Company's main research centre at Huntingdon has the regular presence of demonstrators who harass staff, clients and suppliers both when they enter and try to leave. Disturbingly, some of the company's opponents continue to target individuals in their homes and through abusive mail to their neighbours.

Coincidentally, the same weekend that Huntingdon town centre suffered its most violent and largest demonstration, the *Sunday Times* published a front-page article spread across seven columns, titled 'Scientific experiments on dogs to be banned'. The journalist claimed that, influenced by a BUAV exposé in relation to dog breeding facilities, Jack Straw, Secretary of State for Home Affairs, would ban the use of dogs in experiments. The article appeared on 12 December 1999, the day after the demonstration; it was estimated that there were around 300 participants, confronted by about 500 police officers including, for the first time in Cambridgeshire, mounted police.

The demonstrators deceived the police into believing HRC was their prime target, but instead they poured into the town centre, leading to considerable intimidation of shopkeepers and shoppers. There were 18 arrests. Later that day, a house in nearby Ramsey belonging to an employee of the company was attacked and there were 15 arrests.

One of the organisers of the demonstration repeated their intention to continue to target employees' homes and the Company's shareholders for whom they had obtained addresses (see Figure 9). Another employee's home in nearby Sawtry was attacked in the early hours of New Year's Day.

Figure 9: Protesters at a recent demonstration in Huntingdon reiterate their pledge to target employee's homes

Homes are the next targets – protesters

ANIMAL rights protesters say they will be targeting the homes of Huntingdon Life Sciences employees as part of their campaign to close down the Woolley laboratory.

By DEBBIE DAVIES, STUART LEITHES AND JO JONES

Heather James, from the Stop Huntingdon Animal Cruelty group which organised Saturday's protest in Huntingdon, said although campaigners would be maintaining a vigil outside the main gates of HLS the focus was now just as much on individuals.

She told *The Hunts Post*: "Everybody who works at HLS is guilty for the suffering of those animals and they will be targeted."

She said demonstrating outside worker's homes was the only way to let people know an HLS employee was living near them.

"If a mother's got a child she has the right to know there's a child molester in the area. People with pets should know there is an animal abuser in their area," she said.

Ms James says the SHAC group has obtained a list of the addresses of all 750 HLS shareholders.

But she insisted that SHAC were a non-violent campaign and added: "We are against violence, that's why we are campaigning against HLS."

When asked why some protesters had their faces covered at Saturday's protest, if the campaign was non-violent, she blamed police for being "in people's faces," referring to the filming of protesters with a video camera and taking photographs of the demonstration by police.

"Some people react to that by covering their faces, just because someone has got a mask on does not mean they are not peaceful."

Ms James said the campaign to close down HLS would include daily demonstrations outside the gates of HLS. The group is also planning a New Year's Eve vigil outside the firm's gates.

"We will continue to demonstrate until HLS closes," she said.



Source: The Hunts Post, 15 December 1999

The escalation in direct action may have contributed to Roger Devlin's decision to resign as a non-executive director on 30 December 1999, having only joined the Board in September. Plans by the Company's opponents to target shareholders certainly lie behind the Company's letter to small shareholders in which it advised them to place their shares in a nominee account.

Recently, history repeated itself with another major fund manager abruptly dumping the entirety of its shareholding in HLS. Phillips & Drew, a loyal supporter of HLS's management since December 1994, after having previously participated fully in various issues of new equity despite threats from animal welfare activists, sold its holding of over 32 million shares on 7 February 2000, reputedly at 1p each. The share price collapsed from 10p at the close of the LSE on 6 February to 5.5p.

According to the *Financial Times* on 14 February, Phillips & Drew admitted that unpleasant pressure, abusive telephone calls and death threats, also to some of their clients, and a four day blockade of their telephone system contributed to their decision.

This latest controversy began with the disclosure in the *Sunday Telegraph* on 23 January 2000 that the Labour Party Pension Fund held 75,000 shares in HLS, an increase of more than 55,000 shares since 1997. Supporters of the Labour Party were enraged. The IFAW, who had donated £1 million to the Labour Party prior to the 1997 election, was reported to have declared: 'We will be writing to the Prime Minister to ensure that this situation is changed as quickly as possible. It is appalling.' Phillips & Drew were identified as the fund managers responsible for the Labour Party's Pension Fund investments.

There followed a series of sinister events. On 4 February 2000, four City institutions received bomb threats, causing mass evacuations. An animal welfare leaflet published the names, private addresses and telephone numbers of the Directors of Phillips & Drew's parent company. On 15 February 2000, Paul Durman was moved to write in *The Times*: 'Animal welfare activists have caused panic in the Square Mile after a campaign of intimidation against leading City institutions linked to a leading research laboratory which tests products on animals.'

Despite the furore NatWest – the leading bank in the syndicate that has provided loans of up to £24 million to HLS – remains steadfastly supportive. On 15 February, *The Times* quoted NatWest as announcing: 'We do not believe it would be responsible to withdraw financial support to any company where it is judged that it would have a viable future.' This resolution compares with the comment in the *Financial Times* on the same day that: 'Fund managers said other institutions had also sold.'

Campaigners against the use of animals in research, whose primary target is again HLS, are becoming bolder in their pursuit of economic sabotage. Greg Jennings of the Stop Huntingdon Animal Cruelty (SHAC) group is an animal welfare activist veteran of 17 years and claimed in *The Times* to have set a goal to close HLS in three years. Other campaigns are now also targeting Quintiles Transnational Corporation and Covance Inc, which operate similar facilities to HLS in the UK, but whose shareholders should prove tougher to intimidate as they are largely based in the US.

As Jenny Marshall, Director of Carmague, said in the *Financial Times* on 15 February: 'Professional campaigners represent a growing challenge to the corporate sector.' Dr Anne Robinson, Director General of the National Association of Pension Funds, quoted in the *Financial Times* on 16 February, believes the government's new regulations regarding ethical investments 'give encouragement to activists . . . One person's ethics are different to the next person's.'

Finally, as the run up to the next general election begins, Helen Brinton (Labour MP for Peterborough) again called for the establishment of a Royal Commission to investigate the use of animals in research. The *Sunday Telegraph* of 23 January 2000 quotes her as saying: 'One of the reasons we won so many seats was because of our pledges on animal welfare. If we keep those promises not only will we consolidate those seats but we'll gain more.'

APPENDIX I

Key Dates at Huntingdon Life Sciences

1993	
28 September	Non-executive directors appoint replacement Chairman
1994	
16 May	Chief Executive of the Company resigns
15 December	Travers Morgan Ltd, a principal subsidiary, is forced into administrative receivership
	Share price drops to 16p
	Chairman resigns
19 December	New Chairman appointed
1995	
7 February	Chief Executive resigns
9 May	Huntingdon Engineering and Environmental Services, based in the US, is sold
21 November	The Company buys shares and assets from Applied Bioscience International Inc, giving it additional laboratories in the UK and US
1996	
31 May	Chief Operating Officer leaves abruptly
1997	
24 January	Letter from Small World Productions is received, advising that they have been commissioned by Channel 4 television to produce a documentary investigating allegations of cruelty to dogs used in testing of pharmaceuticals and agricultural chemicals
14 February	5,420,520 new shares issued to investors in the UK at 106p per share, raising £5.66 million after costs and expenses
14 March	The Company purchases the Wilmslow Research Centre from Ciba

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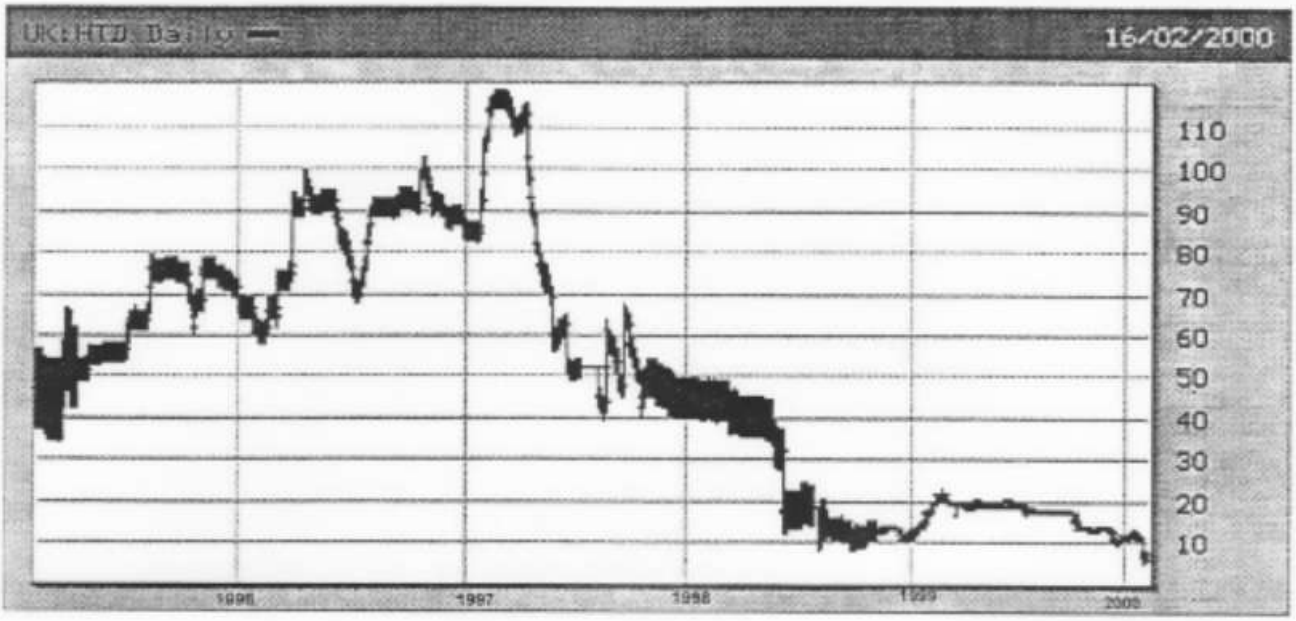
26 March	The *Guardian* publishes an article: 'Where blood runs cold – Zoe Broughton spent 10 weeks secretly filming experiments in an animal testing laboratory. She was shocked by what she discovered'
	Channel 4 television broadcasts its documentary: 'It's A Dog's Life'
27 March	UK Government's Home Office suspends licences of two animal technicians and notifies the police of possible offences
29 March	Mass protests begin at the Huntingdon Research Centre, causing damage and disruption
2 April	The Home Office requests general comments on the broadcast allegations and the Company's compliance generally with the Animals (Scientific Procedures) Act 1986
6 April	The *News of the World* publishes: 'Lab staff stabbed terrified beagles'
14 April	The UK Government's Medicines Control Agency advises the company that the UKGLPMA has received a dossier of allegations and will begin an investigation on 15 April
16 April	Joint inspection of the Company by Astra, Glaxo Wellcome, SmithKline Beecham and Roche
22 April	Chief Inspector from the Home Office's Constitutional and Community Policy Directorate, Animals, Bylaws and Coroners Unit, begins an investigation of the Company
23 April	Astra issue a press release claiming: 'As soon as Astra learned about the improprieties at Huntingdon the decision was made to discontinue co-operation'
1 May	UKGLPMA issues a Warning Notice to the Company giving it 28 days to take corrective measures otherwise enforcement action will follow
17 May	The *Independent* publishes: 'Glaxo to face ire of animal protestors – Pharmaceuticals giant announces end to business with controversial contract testers HLS'
19 May	PETA submit a dossier and videotape of allegations to the USDA in relation to the Company's laboratory in Princeton, US
4 June	UKGLPMA confirms the Company's overall compliance, although five long-term studies fail
	Chief Inspector from the Home Office presents a reasonably upbeat report to the Company
5 June	The global business television company, CNBC, broadcast PETA's allegations

9 June	The *Mirror* publishes PETA's allegations together with photographs
15 June	The *Mail on Sunday* publishes an article titled: 'Basinger's pleas wins reprieve for puppies'
2 July	The *Financial Times* reports on the Company's profits warning issued on 1 July under the headline: 'Huntingdon shares dive on fewer orders'
	Share price falls to 55p from 65p on 30 June
23 July	Company meets its syndicate of banks
24 July	UK Government's Secretary of State for Home Affairs authorises a parliamentary answer announcing proposals to revoke Huntingdon's Certificate effective 30 November 1997 unless Huntingdon complies with 16 stringent conditions
	Reuters headline: 'UK to revoke Huntingdon Life licence move may shut firm down'
25 July	Company shares suspended when 54p from both the London and New York Stock Exchanges
	The *Daily Telegraph* publishes an article on its front page: 'Drug test animal lab faces closure'
26 July	The *Independent* headlines an article: 'Huntingdon faces US test'
13 August	The *Guardian* publishes a follow-up article by Zoe Broughton: 'Dog Daze'
7 September	Peace camp established by protestors outside Huntingdon Research Centre on Company property
21 September	Most violent protests yet result in three demonstrators breaching the boundary fence and occupying the roof of a building
24 September	Company meets Lord Williams, the UK Government's Minister responsible for the Animals (Scientific Procedures) Act 1986
25 September	The Company obtains the necessary Injunction and Order to protect staff and property, and to instruct bailiffs to evict camp dwellers
26 September	Home Office issues a new Certificate
October	Company moves to conserve cash through reductions in wages, salaries, shift patterns and pension contributions
	Animal activists increase their campaign of economic sabotage by writing to major institutional shareholders and demonstrating in London
30 November	Syndicate of banks agrees to vary certain financial covenants

3 December	The BUAV publish a full page advertisement in the *Guardian*
December	The Company and PETA announce an end to their legal action in the US
1998	
3 January	The *Washington Post* publishes article: 'Spy in the House – Michelle Rokke's undercover life for animal rights'
10 February	Financial planning meeting with the syndicate of banks results in a temporary increase in available overdraft
16 March	Syndicate of banks offers increased facilities and revised terms and conditions, thus facilitating completion of the 1997 Report and Accounts
	Proposals to close Wilmslow Research Centre announced
1 April	The USDA determine the Company should pay $50,000 to cover the costs of their investigations and to contribute to advancement of science
16 April	The *New York Times* publishes article: 'New Jersey lab is fined over care of animals'
15 May	AGM held in the US attracts animal activists as shareholders
16 June	Share price falls to 18.5p from 41p at the end of May as a result of a major shareholder selling their entire holding of 15%
	A highly probable issue of new shares for cash collapses
29 June	Tentative enquiry received from a group of investors seeking to inject new cash into Huntingdon
3 August	Shares suspended from both the London and New York Stock Exchanges
10 August	Prospectus issued announcing the proposed issue of new shares to a Subscriber Group from the US and offering to existing shareholders one new share for each two held
2 September	EGM approves the refinancing of the Company and the appointment of new management
	Syndicate of banks agrees increased and extended loan facilities
3 September	New Executive Chairman, Andrew Baker, joins Board
	New shares listed on the London Stock Exchange

APPENDIX II

Huntingdon Life Sciences Share Price Movements



Source: Reproduced with permission from CBS MarketWatch

APPENDIX III

Formal Documentation

Home Office Statement 24 July 1997

The following appendix is reproduced from the House of Commons Hansard Written Answers for 24 July 1997 with the permission of Her Majesty's Stationery Office.

Ms Fiona Jones: To ask the Secretary of State for the Home Department what action he has taken in response to the allegations against Huntingdon Life Sciences broadcast on television on 26 March [10874].

Mr George Howarth: We are extremely concerned about the events shown in the Channel 4 programme 'Countryside Undercover: It's A Dog's Life', and we know these concerns are shared by members of the public, and by scientists and animal technicians, the vast majority of whom are responsible and caring towards animals.

The Home Office took prompt and firm action. On the morning after the programme was broadcast, the Home Office asked the police to investigate possible offences under the Protection of Animals Act 1911 and, as a result, two individuals have been charged with such offences. In replying to this question, we cannot therefore comment, at this time, about these two individuals or their actions as this might prejudice the prosecutions.

The chief inspector, who heads the animals (scientific procedures) inspectorate, has also carried out a comprehensive and detailed investigation into the allegations arising from the programme and into the management and control of animal work at the establishment. We understand that in excess of 250 man-hours of time were spent in viewing more than 20 hours of unbroadcast video material, studying journals and company records, visiting the establishment and interviewing staff (both present and ex-employees). A report detailing his findings and recommendations was submitted to the Home Office last week and we commend the chief inspector for the speed and thoroughness of his investigation.

The investigation has shown breaches of two of the standard conditions which apply to all certificates of designation. Shortcomings relating to the care, treatment and handling of animals, and delegation of health checking to new staff of undetermined competence demonstrate that the establishment was not appropriately staffed and that animals were not at all times provided with adequate care.

My right hon. Friend therefore proposes to revoke the certificate of designation for this establishment, subject to the consideration of any representations made under section 12 of the Animals (Scientific Procedures) Act 1986. However, if the proposed revocation took immediate effect, we estimate that up to 1,000 dogs; 10 baboons; 200 marmosets; 450 macaques; 13,000 mice; 35,000 rats; 2,000 rabbits; 4,000 guinea pigs; 3,000 birds; 4,000 fish; and smaller numbers of various other species undergoing scientific procedures would have to be destroyed. In addition, any ongoing work might need to be repeated; this would require the use of more laboratory animals. It is therefore proposed that the revocation will take effect on 30 November 1997.

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Revocation would shut down the company with the consequent loss of 1,400 jobs. Whilst the failures and omissions at the establishment are extremely serious, this outcome would not necessarily be warranted. An application for a replacement certificate could, therefore, be considered if my right hon. Friend can be assured that measures have been put in place to prevent any recurrence of the events shown in the television programme. Sixteen stringent conditions have been set which must be met before any new application can be considered.

In addition to the two individuals facing prosecution, my right hon. Friend proposes to revoke the personal licence of a third animal technician – again, subject to the right to make representations – and it has been decided that letters of admonition should be sent to two other technicians.

The Home Office, and specifically the animals (scientific procedures) inspectorate, was criticised for having missed alleged mistreatment, for failure to implement the requirements of the 'Code of Practice for the Housing and Care of Animals Used in Scientific Procedure', and for having conducted inspections during which no checks were made on the animals being cared for by the undercover investigator.

We are satisfied that any alleged mistreatment of animals would not have taken place in front of inspectors; that there was compliance with the code of practice; and that an appropriate proportion of inspectorate resources was directed at the establishment concerned. On each of the visits of inspection witnessed by the investigator, animals in other parts of the dog unit were checked and the performance of regulated procedures observed. The current inspection policy will, however, be reviewed and we have already announced that we will be considering ways of strengthening the inspectorate.

Whilst no breaches of the 'Code of Practice for the Housing and Care of Animals Used in Scientific Procedures' were identified, we are aware of public concern about the conditions in which the dogs were kept. We have, therefore, decided that the inspectorate will audit all commercial dog facilities to identify best practice and innovations with respect to the housing and care of animals, and that this information will be used to inform national standards.

It has also been deduced that the need for a code of conduct for the control of dogs and other species in all establishments should be considered.

The Animal Procedures Committee is keen to consider and promulgate to establishments any other general lessons which can be learned in order to help prevent similar occurrences in the future. We welcome this.

The chief inspector's report contains information which was provided in confidence and which cannot, therefore, be disclosed under section 24 of the Animals (Scientific Procedures) Act 1986. It cannot therefore be published in full.

The 16 Conditions Set Out By The Home Office

The conditions are:

1. That a report be submitted to the Home Office setting out what changes have been introduced to the line management and the responsibilities of the proposed Certificate Holder, to ensure that these arrangements do not compromise animal welfare.

2. That the applicant for a new certificate of designation has successfully completed Module 1 of a Home Office accredited training course.

3. That summary findings of the Department of Health Good Laboratory Practice scrutiny be disclosed by the establishment to the Home Office with confirmation that any process problems have been corrected.

4. That a written submission be made outlining how each of the standard conditions attached to all Certificates of Designation would be effectively and fully implemented.

5. That adequate provision has been made for regular and effective means of communication between those entrusted with responsibilities under the Act.

6. That the applicant be required to satisfy the Home Office that line management arrangements for all animal care staff are effective. Specifically:

- That line managers are qualified by experience or training, and informed of their responsibilities and the need for welfare-related problems to be notified to an appropriate level within the company

- That only trained and competent staff are entrusted with responsibility for the care and welfare of animals

- That measures are in place to ensure that the Certificate Holder will be properly informed of conditions and practices within the designated areas

7. That the applicant demonstrates that the staff appraisal reporting system for animal care staff ensures that concerns relating to animal welfare are properly identified and resolved, and makes provision for periodic assessment that basic competencies have been maintained.

8. That the applicant supplies the Home Office with a general 'process map' with overviews of the methods and resources to be used to ensure that reduction, refinement and replacement are adequately addressed in the design of animal studies performed at the establishment.

9. That, for new studies, a system is in place which ensures that adequate numbers of appropriately trained and licensed technical staff will be available.

10. That a system is established to determine the nature, frequency and duration of visits by the named veterinary surgeon to the designated areas.

11. That a suitable Named Person for the dog facility is nominated.

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12. That the applicant submits an enforceable Code of Conduct for the discipline and control of dogs, coupled with an effective means of reporting misconduct to an appropriate level within the organisation. This should be accompanied by evidence that all dog unit animal care staff have received appropriate training.

13. That the applicant demonstrates that systems are in place to ensure that staff training in the handling and care of dogs ensures that structured training is delivered, that competence is demonstrably, assessed, and that only competent persons are entrusted with responsibility for animals' health and welfare.

14. That the applicant submits Standard Operating Procedures and protocols for the dog facilities relating to the housing, husbandry, care, restraint and performance of regulated procedures, with evidence that staff have successfully completed appropriate structured training. This should include:

- A protocol for the group-exercising of dogs which specifies the minimum daily exercise period per dog, defines the minimum amount of staff time to be used to socialise with the dogs, and identifies the type of area provided for the exercise to take place

- Protocols for the restraint of dogs to enable intravenous dosing and sampling and the proper production of haemostasis thereafter. Evidence should be supplied that animal care staff have been appropriately trained or re-trained

15. That the company has determined by internal benchmarking the principles which will determine and minimise the daily period for which pair-housed dogs will be held.

16. That the applicant details any other measures which have or will be taken to provide environmental enrichment and a better quality of life for animals.



QUEEN ANNE'S GATE LONDON SWIH 9AT
29 JUL 1997

The Rt Hon John Major MP
House of Commons
LONDON
SW1A 0AA

Dear John,

Thank you for your letter of 25 July. I am sorry that the briefing we provided you with on Friday night arrived after the question had been answered and that we did not put you in the picture earlier.

The incidents of mistreatment shown on the Channel 4 programme were extremely serious and have no place in any United Kingdom laboratory. The subsequent investigation, carried out by my Chief Inspector, showed that deficiencies in the establishment's control and management of animal work needed to be rectified to help prevent any further problems.

Whilst strong action followed in the case of the individuals concerned, we also believe that appropriate action needs to be taken against the company itself. We recognised, however, that closure of the establishment would not necessarily be warranted. That is why we have given the establishment until 30 November to demonstrate to us that measures have been put in place to improve the management and control of animal units. That is the purpose of the sixteen conditions we have set. If the establishment meets these to our satisfaction, then an application for a new Certificate can be considered.

I understand that a copy of the report was couriered to you on Friday, on a Privy Counsellor basis. As you will have seen, the report sets out the management failings of the establishment in terms of systems, communications and staff training.

I believe you have spoken to Gareth Williams about handling and about the Chief Inspector's report. I hope that has taken the matter forward but, if points remain, I would be glad to discuss these with you.

We are unable to comment publicly at this stage on the company's performance in relation to the conditions set by the Home Office. These were laid formally with the company's certificate holder only on 24 July. In accordance with the Animals (Scientific Procedures) Act 1986, the revocation and our terms are subject to a 28-day appeal procedure. This statutory procedure was described clearly for the Certificate Holder in our letter to him.

Although it is known that the company moved to make safe the dog unit shortly after the Channel 4 broadcast in March, the 16 conditions are future criteria to be met when application is made for a new certificate. By their nature, they involve work still to be done by the company and to be checked by the Home Office. Until this is done in the context of arranging a new certificate, we are unable to comment on progress or to make a statement *pursuant* to the answer given on 24 July. At present, we must also avoid prejudicing any appeals procedure.

I appreciate your concerns about Huntingdon Life Sciences. As Gareth Williams will have explained, we regard the failings in management, communication and training to be serious omissions under the 1986 Act but are confident the company will want to comply with all the conditions and to recoup their position as a leading research contract house.

Yours ever,

Jack.

JACK STRAW

QUEEN ANNE'S GATE LONDON SW1H 9AT

07 OCT 1997

The Rt Hon John Major MP
House of Commons
London SW1A 0AA

Dear John,

Thank you for your letter of 1 September concerning Huntingdon Life Sciences. I apologise for not replying more promptly. There have been developments this week which were relevant to the questions you raised and I wanted to await the outcome before replying.

As you will know, Gareth Williams and George Howarth met xxxxxxxxxx , Mr Cliffe and xxxxxxxxxx on 24 September. The company gave clear and unequivocal commitments to ensuring that everything possible has been done and will continue to be done to prevent any recurrence. I welcome this.

I am very much aware of the financial losses suffered by Huntingdon Life Sciences both on the Stock Market and in lost orders. I would suggest, however, that these were primarily a consequence of the Channel 4 programme itself rather than the announcement of the outcome of the Home Office investigation.

When Gareth Williams and George Howarth met representatives of the company on 24 September, Gareth Williams confirmed that the Home Office was satisfied that the 16 conditions had been met. This conclusion had been reached only a few days earlier following the company's submission of a fourth dossier of information. He also informed them that a final decision on their application for a new Certificate of Designation would be taken by 26 September and communicated to the company on that day. I can now confirm that a new Certificate will be issued to xxxxxxxxxx immediately.

I have considered your third request carefully, but cannot accede to it. The problems at the company were extremely serious and the damage caused to the UK contract research industry, to the high reputation of scientists and animal technicians, and to the credibility of the Animals (Scientific Procedures) Act has been enormous. While we recognised that only a small number of individuals were involved in the physical abuse of animals, a share of responsibility has to be accepted by the company itself. I believe, therefore, that the tone and strength of the Parliamentary Answer were appropriate.

The Inspectorate has always been aware of the need to maintain proper lines of communication with all those that work under in animal laboratories and I know that this relationship existed with xxxxxxxxxx . At the same time, it is important that this relationship is professional. I understand that the Inspector for Huntingdon Life Sciences has already come to an arrangement with xxxxxxxxxx to meet with him regularly. The Inspectorate is not, however, a substitute for the diligent monitoring and control that must be exerted by Certificate holders.

Yours sincerely,

JACK STRAW