



THE OUTSIDER: Former CEO of Olympus Michael Woodford poses for a photograph in central London, October. **REUTERS/TOBY MELVILLE**

IN JAPAN, A FOREIGNER SPEAKS OUT

Michael Woodford worked his way up to become president and CEO of camera-maker Olympus. But when he started questioning payments he was sacked

**BY KIRSTIN RIDLEY AND
ALEXANDER SMITH**
LONDON, NOV 1

MICHAEL WOODFORD makes an unlikely fighter.

As he tucks his tie into his shirt and digs into a plate of Dover sole in a London restaurant, it's hard to imagine that this down-to-earth 51-year-old Englishman is at war with one of Japan's biggest corporations.

Woodford is taking on the leaders of Olympus Corp., one of Japan's most venerable camera makers. He was made CEO of the company in early October. But two weeks later, on Oct. 14, the board sacked him for what chairman Tsuyoshi Kikukawa said was Woodford's failure to understand the company's management style and Japanese culture.

Woodford says he was dismissed for questioning a series of odd-looking deals and hefty payments that the company had

made over the past half decade, including the biggest mergers and acquisitions fee ever.

Revelations about the payments have now forced Woodford to flee Japan, led Kikukawa to resign, wiped around \$4 billion off Olympus' market value and prompted law enforcement agencies in Japan and the United States to investigate the firm. Sources in Japan have told Reuters the country's securities watchdog is probing Olympus' takeover deals, focusing on whether it



LOGO: Allegations against Olympus were initially made by a Japanese magazine, but the country's mainstream media have downplayed the story. **REUTERS/ISSEI KATO**

properly disclosed relevant information. The head of Tokyo's stock exchange says the company may face shareholder suits if it does not produce a truly independent investigation into how the acquisitions were accounted for.

Unanswered questions about the payments have also spurred speculation that Japan's Yakuza crime syndicates -- which a Japanese magazine euphemistically described as "anti-social forces" -- could be involved.

Olympus said there was nothing improper about the payments and denies any link to "anti-social forces". At a news conference on Oct. 26 to discuss his resignation, 70-year-old Kikukawa said he needed to leave "to restore confidence in the company under the new management". Olympus was clean, he said. Woodford was guilty of his own power grab and sacked because of "his autocratic actions, and these included intimidation of my own staff".

Kikukawa's successor as chairman, Shuichi Takayama, also says the company has done nothing wrong. "You are asking me about anti-social forces, but I am absolutely not aware of any such thing," he said at his first news conference last week.

In a separate briefing with reporters, Takayama said he didn't think the M&A fee, of \$687 million for a \$2.2 billion takeover, was "inappropriately high". He said confidentiality rules meant he was "not in a position" to know where the funds had gone after Olympus had paid its advisers.

Both Japanese executives declined interview requests from Reuters.

GLANCING NERVOUSLY AT a nearby table of

diners, Woodford wonders aloud whether he should have employed body guards. He is tired and the strain of the last few weeks is showing. His cell phone never stops ringing; usually it's journalists wanting to interview him. When callers ask how he is bearing up he repeats the same word again and again: "stressed." He comes across as polite but blunt.

When he was ousted, Woodford lost his corporate support network -- his staff, expense account, reliable high-speed broadband. His Spanish wife Nuncia now acts as his temporary personal assistant, although she struggles with the paperwork and emails. A man Woodford identified as his "trusted counsel" was poring over a laptop in Woodford's apartment during one of several interviews with Reuters. Woodford says he could do with a team of 15 to help his investigations into the Olympus payments, and his busy schedule.

His nervousness belies his determination. The 31-year Olympus veteran has his sights set on the removal of its entire board, which he says failed in its duty to investigate irregular payments, including the \$687 million fee on the purchase of British medical equipment maker Gyrus in 2008.

Woodford's dark eyes sit in a tanned face; his nose and cheekbones are sprinkled with freckles. He carries a laptop and dossiers of papers in two shoulder bags. He says he has shared the documents with Britain's Serious Fraud Office (SFO), Japan's Securities and Exchange Surveillance Commission (SESC), the U.S. Federal Bureau of Investigation (FBI), and the U.S. Department of Justice (DOJ), and contacted the U.S. Securities and Exchange



COMPANY MAN: Chairman Tsuyoshi Kikukawa, who stood down last week, here at a 2007 news conference. **REUTERS/YURIKO NAKAO**

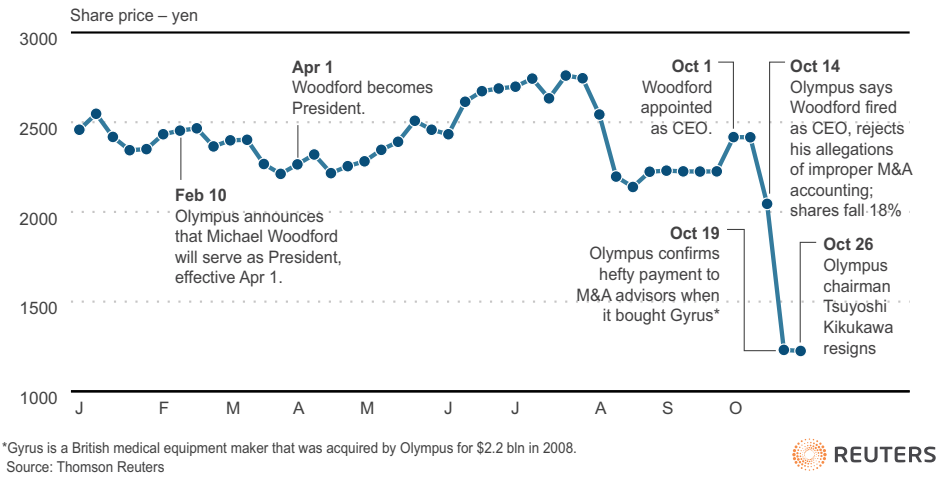
(SEC) regulator in his one-man campaign to "cleanse" Olympus.

WOODFORD GREW UP with two sisters in Staffordshire in the English West Midlands before moving north to Liverpool after his parents divorced when he was seven.

He cut his teeth as an Olympus salesman in north-eastern England in his twenties, working his way into senior positions in Europe. He was

Embroiled in scandal, Olympus shares plunge

Revelations of controversial M&A payments following the abrupt ouster of its CEO send Olympus shares into free fall



Reuters graphic/Christine Chan 27/10/11

made president of the entire company in April, the first foreigner to hold that position.

Woodford speaks no Japanese. But he won respect as a cost cutter, he says.

His elevation was significant in conservative Japan. With some notable exceptions -- Carlos Ghosn at Nissan and Howard Stringer at Sony -- very few foreigners run Japanese companies. The appointment of a foreign boss usually signals strategic change, as in the case with Stringer, or belt-tightening, as with "Le Cost Cutter" Ghosn.

But the chatter in Tokyo when Woodford took over was that he had been given the job because he would be easy to control.

Chairman Kikukawa, known as Tom to his friends, is fond of poodles. He uses a photo of his two pet poodles, Chappi and Megu, as his computer screensaver and brandished shots of the pair in a light-hearted moment during a February presentation on Olympus' cameras business. Some sceptical Japanese saw Woodford as the chairman's new pet.

"I felt sorry for him. He doesn't speak Japanese, so he would only be a Yes Man to Kikukawa, a top executive in name only, Kikukawa's puppet," says Masaharu Hamada, an Olympus employee who has taken his own legal action against the company because, he says, he was subjected to management harassment after he reported a compliance breach by his supervisor. (The lower Tokyo court ruled in the employee's favour in August; Olympus is now appealing that decision in the Tokyo High Court.)

As Japanese investigative magazine Facta would later note: "The fact that the company picked a bottom-ranking foreign

executive director with virtually no significant responsibilities from amongst a total pool of 25 potential candidates, including the vice-president who was responsible for medical instruments... set tongues a-wagging."

Japanese experts say Woodford, as a foreigner, failed to understand that CEOs are meant to toe the line. Woodford himself says he can be loud-mouthed, opinionated and strong-headed. Asked why he was appointed as Olympus' first foreign president, Woodford now says the board must have believed he'd

never "find out and they were in desperate need to recover their financial position".

An elderly Olympus employee leaving a company building in Southend, England, where Woodford used to work, said the former boss was "a nice guy to work for". But "cut costs? Just look over there at that building. They spend ... there's a nice restaurant."

THE NEW BOSS spent about three-quarters of his first few months travelling around the company's empire.

On July 20, friends and colleagues drew Woodford's attention to a negative article in Facta. The magazine alleged Olympus had made undisclosed payments tied to a series of acquisitions, including of firms such as cosmetics and medical waste recycling that had little to do with its core camera and endoscope business. One payment stood out in particular: the \$687 million apparently paid to advisers as part of the Gyrus acquisition.

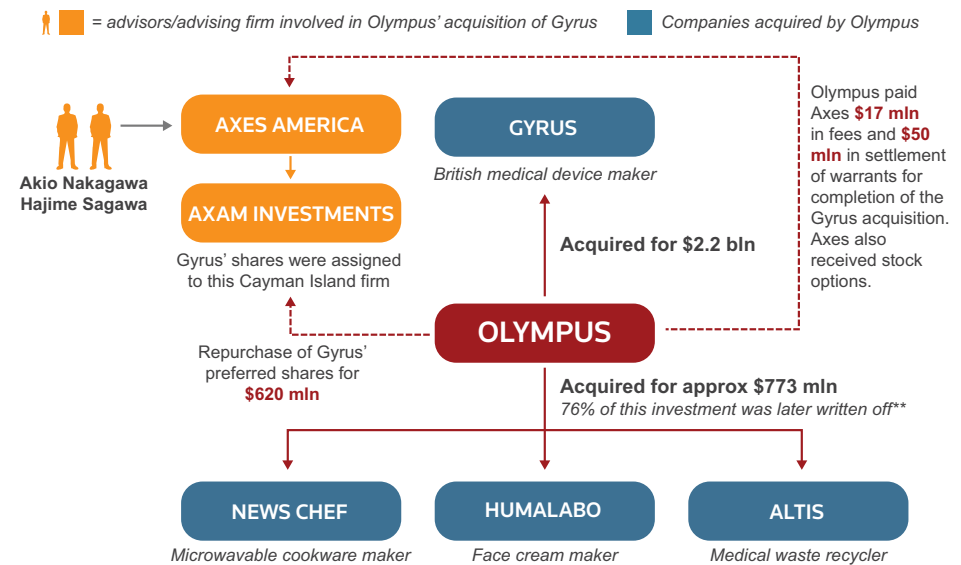
When Woodford returned to Japan in the first week of August he began asking questions.

"I saw (senior executive Hisashi) Mori, saw a few people I trusted and asked if they had seen the (Facta) report," he said during an interview in his London apartment.

On Aug. 2 he says he requested a lunch meeting with Kikukawa and Mori, who was also Olympus' compliance officer. Woodford says the two Japanese men ordered sushi; he describes the meeting as "good humoured".

Tracking the Olympus scandal

Olympus paid \$687 million, or about 35 pct* of the deal value, to advisers linked to the \$2.2 bln acquisition of British company Gyrus in 2008; three smaller deals are also being scrutinized



*Fees typically range between 1 and 2 percent of the purchase price. **Within the same fiscal year as the deals were completed. Sources: Thomson Reuters, documents provided by Olympus's former CEO Michael Woodford.



Reuters graphic/Christine Chan 26/10/11

But when he produced a copy of the article, "the mood changed markedly".

Kikukawa told him he had decided Woodford should not be told about the allegations because he was "too busy" dealing with other matters. "You're the president," Woodford says Kikukawa told him. "I told people not to tell you."

Woodford says Kikukawa brushed the article off as a Japanese domestic issue -- tabloid, sensationalist journalism. Mori, he says, was evasive. "I thought things were profoundly wrong," Woodford says.

He asked Mori, who was officially his deputy, "Who is your boss here?"

"Chairman Kikukawa," Mori answered, according to Woodford.

Like Kikukawa, Mori declined to be interviewed for this story.

Woodford left Japan to take a break on the Spanish island of Majorca. He was uneasy, but things were about to take another twist.

Facta published a second article that linked the payments to "anti-social forces". This prompted Woodford to write the first of a series of six letters addressed to either Mori or Kikukawa. Entitled "serious governance concerns relating to the company's M&A activities", the letter outlined his worries. He copied in board members for good measure.

"I made it clear I would have to resign if I didn't get answers. I pushed and pushed and pushed and by letter four, I copied in (auditors) Ernst & Young." Olympus' auditor "said they would investigate as appropriate," Woodford says.

A spokesman for Ernst & Young declined to comment, citing its duty of confidentiality as auditor.

In the letters, which Reuters has reviewed, Woodford focuses on two decisions that have hit the company's financial position: the costs linked to the Gyrus purchase and an extraordinary goodwill charge of around \$600 million, taken six months after the company bought three Japanese start-ups -- a microwaveable cookware maker, a medical waste recycler and a cosmetics firm -- in 2008.

"If this information is neither forthcoming nor satisfactory in its content, then the advice I have received is unambiguous, in that I should not return," he wrote to Kikukawa on Sept. 26.

Reuters reviewed some, but not all of the answers to Woodford's letters. Most were brief. Responding to his request for details about the advice Olympus sought on the fee structure of the Gyrus deal, Mori wrote: "Legal firm generally avoid to make advice and/or provide with view in terms of compensation of financial advisory service (sic). (Law firm) Mori



FOCUS: Olympus digital cameras at an electronics shop in Tokyo. **REUTERS/KIM KYUNG-HOON**

Hamada & Matsumoto made a document review legally but did not make any financial advice through their document review."

THIS WAS NOT THE first time Woodford was involved with exposing corporate irregularities. He says he uncovered two corruption cases in Germany around six years ago, which led to an Olympus director leaving without compensation.

The Hamburg state prosecutor's office told Reuters three executives in the management team were charged in March for allegedly issuing invoices to Olympus Europe in 2003, for which no deliveries or services had been made. No date has been set for a court appearance. The company could not be reached for comment on the case.

"You will know from the corruption cases we had in Olympus Europe, I am never afraid of challenging where I believe wrongdoing may have occurred or contacting the police and the relevant authorities," Woodford wrote to Kikukawa in the same letter.

His final two letters were copied not only to senior partners at Ernst & Young in Japan, Europe and the United States, but also to the auditor's global chairman and CEO.

Woodford also simultaneously commissioned PriceWaterhouseCoopers (PwC) to investigate the deals. PwC quickly discovered that the \$687 million Gyrus fee had been paid to two small firms, U.S.-based Axes America LLC and Cayman Island-based Axam

Investments Ltd.

The fee was equal to around a third of the takeover value, compared with the usual 1-2 percent charged by established global investment banks.

The PwC report identifies Hajime "Jim" Sagawa as the principal of Axes, which was the main advisory firm for the Gyrus deal. It said Sagawa was Axes president and "held himself out" to be a director of affiliated firm Axam, which ultimately received the bulk of the fee from Olympus. Reuters visited Sagawa's home in Boca Raton, Florida, where his wife Ellen said he was travelling and gave his mobile number. Messages left for Sagawa on the cell phone were unanswered, and requests for interview at a Japanese affiliate, Axes Securities Japan, were declined. The Cayman company registry shows Axam was delisted for failing to comply with registration regulations.

PwC also examined the three 2008 purchases which had led to the near \$600 million write-down.

Woodford describes the report, which was delivered on Oct. 11 and which Reuters has reviewed, as a "catalogue of calamitous errors and exceptionally poor judgment."

The report concluded: "We were unable to confirm that there has been improper conduct, however, given the sums of money involved and some of the unusual decisions that have been made it cannot be ruled out at this stage... In addition, there are a number of other potential offences to consider including false accounting, financial assistance and breaches of directors' duties by the board."

Confronting Mori and Kikukawa in early October, Woodford says he asked a manager he trusted to be his witness. "It was a horrible day," he recounts grimly. "There was lots of shouting.

Woodford demanded authority over board appointments, pushing for the resignation of both Kikukawa and Mori.

Kikukawa started shouting, Woodford says. "Don't shout at me. I'm not your poodle," Woodford says he replied.

Woodford said he would quit as president unless Kikukawa gave him the CEO role.

"I said I couldn't manage the company without any authority. The conclusion was that I was made CEO."

At the following board meeting, though, rather than discuss the PwC report and his concerns, directors grilled Woodford. He says he was accused of having raised no objections to the acquisitions either and was asked why he had copied the auditors in on his correspondence.

Woodford realised that even as chief executive, he would never be able to wrest

control of the company from the chairman. In his final letter to Kikukawa on Oct. 11, he wrote: "It is clear that the current situation is now untenable and to move forward positively the necessary course of action is for you both (Kikukawa and Mori) to tender your resignations from the board."

IN AN EMAIL HE sent to Olympus staff in the third week of October, Kikukawa said Woodford had set out to build an empire. He accused him of assembling a "gang" of direct reports who would normally have reported to his lieutenant, Mori.

"At a meeting with fund managers, and in front of our own executives, Woodford said his gang will run the company," Kikukawa wrote. "What a extremely low-class word, 'gang', but it's spot-on. It became apparent that his style was to surround himself with loyalists and eliminate those who got in the way ... I know someone who also actually heard him say that he was planning to get rid of five board members, including Kikukawa and Mori."

Woodford was a micro-manager, Kikukawa wrote in the staff email, obtained by Reuters. While heading the European operation, he had insisted on personally approving every piece of stationery ever purchased; in Tokyo he instructed staff to escalate to him any decision which involved spending. "He must get very nervous when he doesn't know where each and every yen goes," Kikukawa wrote.

In an earlier email sent to staff on Oct. 14, the day Woodford was fired, Kikukawa said his dismissal was a result of his autocratic style of management. "He ignored established decision-making processes and created many wedges among the managers and within the organisation," Kikukawa wrote. "This was vastly different to what we had expected of

him, which was to accelerate decision-making and speed up the management.

"I felt that there was no time to lose in deciding (to fire Woodford) to avoid having such a situation linger and hurt our stakeholders," he wrote.

Woodford sighs impatiently when these allegations are put to him. "I never said 'my gang,'" he says. "It's just a diatribe and it really is silly. It's just nonsense.

"Look, this is not about a power grab," he adds. "I found things that are profoundly wrong... that is the real story."

Kikukawa called an emergency board

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meeting for Oct. 14. Mori sat on Woodford's left. But the seat on his right, reserved for Kikukawa, remained empty. The man who had stood at the helm of the company for a decade was seven minutes late. Woodford remembers this, as it is almost unheard of in Japan.

It was also uncomfortable. "No-one made eye contact," Woodford recalls, although he says Mori tried to make small talk. "I know what you are going to do," he told Mori quietly.

When Kikukawa appeared, he went to the podium, rather than to his seat. He said the agenda that had been passed around earlier had been cancelled. He asked the board to

consider Woodford's dismissal. Woodford was not permitted to speak. All 14 board members voted. The vote was unanimous. The meeting was over.

Woodford was asked for his credit card, his two cell phones and computers. He was told his driver would no longer be available and asked to leave his apartment that weekend -- although he says he paid 51 percent of the rent himself. He should leave on the limousine bus, he was told.

Someone he trusted suggested he leave Japan immediately for his own safety.

He was prepared. "I made sure all my computers were sent back to the UK" before arriving for the board meeting, he says.

He left by the first available flight to London via Hong Kong that afternoon. He contacted Britain's Serious Fraud Office and sent a dossier of documents to Japan's SESC. He also sought advice from the British police about whether he needed protection. On Oct. 26, he flew to New York to meet FBI and DoJ officials and has since appointed both U.S. and UK lawyers.

In the relative comfort of his UK apartment, he ponders the payments. They "are inexplicable," he says. "The only way you can stop the company heading for the rocks is by answering the questions. It's bizarre. It's scary."

(Kirstin Ridley and Alexander Smith from London, Ethan Bilby from Southend, UK, Maki Shiraki, Reiji Murai, Nathan Layne, Tim Kelly and Noriyuki Hirata from Tokyo, Jan Schwartz from Hamburg, and Kevin Gray from Boca Raton, Florida; edited by Mark Bendeich, Simon Robinson and Sara Ledwith)

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