



# The Story of SureBeam: From Zapping Missiles to Zapping Food

During the 1990s, when the “Star Wars” missile-defense program faded into the background, the defense industry began searching for new income sources. The industry has found one: killing bacteria instead of shooting down enemy missiles.

San Diego-based Titan Corporation is hoping that the linear accelerators the company designed to neutralize threats from the Soviet Union can neutralize threats from *E. coli*, *Salmonella*, *Listeria* and other food-borne pathogens.

The SureBeam Corporation, founded by Titan, says electrons fired nearly to the speed of light can kill microorganisms. But SureBeam dismisses the well-documented side-effects of “treating” food with extremely high doses of ionizing radiation – such as forming toxic chemicals, destroying vitamins, breaking down protein and ruining flavor. SureBeam has also resorted to questionable marketing tactics, such as calling its process “electronic pasteurization.” And, the company is in dire financial condition.

Should SureBeam be trusted to solve the problem of food-borne illness?

Titan put a name on its fledgling food irradiation subsidiary in 2000 and announced that SureBeam soon would become its own publicly traded company. The initial public offering, which originally priced SureBeam stock at \$15, was delayed until March 2001. The stock price was lowered to \$10.<sup>1</sup>

After experiencing difficulties getting off the ground, SureBeam acknowledged that its troubles probably were not over. In a filing to the U.S. Securities and Exchange Commission, company executives acknowledged that their services “may not gain adequate commercial acceptance or success.”

They went on to say that food irradiation “is opposed by several organized and vocal consumer groups who claim that irradiated food products are unsafe for consumption... We risk not being able to overcome these fears.”<sup>2</sup>

The financial press and stock analysts were skeptical. “SureBeam IPO Fails to Electrify,” read one headline.<sup>3</sup> “I don’t know whether this one is going to generate enough investor interest,” said an analyst.<sup>4</sup>

Over the next year, however, SureBeam made strides forward. American Foodservice, Anchor, Cargill, Del Monte, IBP, Kraft, Omaha Steaks,

Schwan’s, SYSCO, Tyson and United Food Group were among the more than dozen companies that signed on as clients. And, former San Diego Mayor Susan Golding joined SureBeam’s board.<sup>5</sup>

Problems began to resurface in summer 2001.

In June and July, participants of U.S. Food and Drug Administration focus groups said unanimously that companies should not be permitted to label irradiated foods “electronically pasteurized” or “cold pasteurized.” These phrases were called “sneaky,” “deceitful,” “dishonest” and “a fake.”<sup>6</sup> This struck a blow to efforts by SureBeam and other irradiation companies to weaken federal labeling rules, which require irradiated foods sold in stores to be labeled “Treated by Irradiation” or “Treated with Radiation.”

In July, the Pick ‘n Save grocery store chain discontinued SureBeam-irradiated ground beef in its Milwaukee-area stores. “There’s been absolutely no customer acceptance,” a company spokesperson said.<sup>7</sup>

In August, Public Citizen and the Center for Food Safety filed a false advertising complaint with the Federal Trade Commission against SureBeam, which was calling its process “electronic pasteurization.”

In September, the U.S Department of Agricul-

ture refuted SureBeam's claim that irradiation is the equivalent of pasteurization, which kills food-borne pathogens with heat.<sup>8</sup> The Federal Trade Commission began an inquiry into SureBeam's advertising practices.

In October, Illinois food-safety activists persuaded state environmental officials to require SureBeam to apply for a permit to operate its new irradiation plant in a Chicago suburb, due to concerns about ozone emissions. Though the situation arose shortly after the Sept. 11 attacks, SureBeam went so far as to say that the activists were trying to "terrorize" citizens.<sup>9</sup>

In November, SureBeam client Huisken Meats withdrew plans to build an irradiation facility in Sauk Rapids, a small community near Minneapolis-St. Paul, after activists requested that an environmental review of the plant be conducted.<sup>10</sup>

Also in November, Public Citizen filed a complaint with the Securities and Exchange Commission against SureBeam and Titan, which called its technology "electronic pasteurization" in press releases. SureBeam has since cut back on the use of this phrase.

In February 2002, the Save Mart grocery store chain discontinued SureBeam-irradiated ground beef in its stores in the Modesto, Calif. area.<sup>11</sup>

In April, SureBeam announced losses of \$74 million for 2001, due in part to "marketing initiatives,"<sup>12</sup> which have included television and radio ads, billboards, and newspaper coupons.

These losses came as SureBeam executives and board members made millions of dollars via insider trades. Since October 2001, SureBeam executives and other parties associated with the company have collected or announced to collect \$28 million.<sup>13</sup>

Also in April, an article in *Forbes*, "Accounting Acrobatics," states that SureBeam was crediting its ledger with revenues even before sending out invoices to clients. "SureBeam," the article states, "needs a little disinfectant on its balance sheet."<sup>14</sup>

In July, a Congressional agency determined that the headaches, nose bleeds, nausea, rashes, eye irritation and other health problems suffered by more than 200 Congressional staff members may have been caused by handling irradiated mail.<sup>15</sup> Though SureBeam, which was hired along with another company to irradiate mail following the anthrax scare, was not specifically named as being responsible, SureBeam's stock plunged following the announcement.

In August, SureBeam severed its financial ties with Titan, driving down SureBeam's stock price.

Troubles continued in 2003:

- Losses of \$35 million were reported for 2002;
- The CEO and three vice presidents recently left the company;
- SureBeam's stock price hit an all-time low.
  - Analyst firms began advising investors to sell their stock;
  - An outside accounting firm was fired after raising questions about SureBeam's accounting methods;
  - Several class-action suits were filed on behalf of investors due to alleged accounting irregularities; and
  - The company became in jeopardy of being removed from the Nasdaq stock exchange.

SureBeam calls itself a "leading" irradiation company. It certainly is the leading promoter of irradiated foods. But, plagued by huge financial losses, test-market failures, public relations blunders, and allegations of false advertising and making misleading statements to investors, the company faces an uncertain future. For that matter, the future of the U.S. food irradiation movement may hang in the balance.

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### 'SureBeam needs a little disinfectant on its balance sheet.'

*Forbes*, April 29, 2002

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### Notes

- <sup>1</sup> Lehrfeld, Ingrid. Dow Jones Newswires, January 11, 2001.
- <sup>2</sup> Form S-1, SureBeam Corporation, filed with the U.S. Securities and Exchange Commission, August 14, 2000.
- <sup>3</sup> Balancia, Donna. "SureBeam IPO Fails to Electrify." LocalBusiness.com, March 16, 2001.
- <sup>4</sup> Bigelow, Bruce. "SureBeam IPO is Still on the Way." San Diego Union-Tribune, March 16, 2001.
- <sup>5</sup> Titan Corp. and SureBeam Corp., press releases.
- <sup>6</sup> Consumers' Understanding of Food Irradiation Labeling." Submitted to the Food and Drug Administration, Center for Food Safety and Applied Nutrition, by ORC Macro, April 2002.
- <sup>7</sup> Herzog, Karen. "Zapped Hamburgers Not on Shopping List." Milwaukee Journal Sentinel, July 27, 2001.
- <sup>8</sup> Ault, Alicia. "Firm's Claims on Food Irradiation Misleading: USDA." Reuters Health, October 8, 2001.
- <sup>9</sup> Illinois Food Safety Coalition <[www.illinoisfoodsafety.org](http://www.illinoisfoodsafety.org)>
- <sup>10</sup> *Food Irradiation Alert!*, Public Citizen, January/February 2002.
- <sup>11</sup> *Food Irradiation Alert!*, Public Citizen, March/April 2002.
- <sup>12</sup> Form 10-K405, SureBeam Corporation, filed with the U.S. Securities and Exchange Commission, April 1, 2002.
- <sup>13</sup> Multex Investor <[www.multexinvestor.com](http://www.multexinvestor.com)>
- <sup>14</sup> MacDonald, Elizabeth. "Accounting Acrobatics." *Forbes*, April 29, 2002.
- <sup>15</sup> "Investigation of the Health Effects of Irradiated Mail." Report of the General Counsel of the Office of Compliance, U.S. Congress, Case Nos. OSH-0201, 0202, July 2, 2002.



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