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BUSINESS

## Walgreens Threatens to End Theranos Agreement

Drugstore chain gave blood-testing company 30 days to fix problems found in federal inspection; Elizabeth Holmes resists suspending all tests



Walgreens has threatened to terminate its relationship with blood-testing company Theranos. *PHOTO: GETTY IMAGES*

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Theranos Inc.'s main retail partner threatened to terminate its relationship with the

blood-testing company unless it quickly fixes the problems found by federal inspectors at a laboratory in California, people familiar with the matter said.

The warning from drugstore chain Walgreens was issued in a letter to Theranos late last month and gives closely held Theranos, based in Palo Alto, Calif., a 30-day deadline that expires near the end of February to resolve major infractions that violate the U.S. law governing clinical labs, these people said.

The 40 Theranos “wellness centers” at Walgreens stores in Arizona are the primary source of revenue for the blood-testing company and its conduit to consumers. Theranos and Walgreens, a unit of Walgreens Boots Alliance Inc., have been in negotiations about the future of their partnership since shortly after an October article in The Wall Street Journal that raised questions about the blood-testing company’s technology.

The two companies originally planned to offer blood tests nationwide. Walgreens has more than 8,000 stores. In the past few months, though, the drugstore chain has frozen the plans to expand, stopped sending patients’ blood samples to the California lab and been assessing the overall viability of its relationship with Theranos.

Brooke Buchanan, a Theranos spokeswoman, declined to comment for this article, as did Walgreens spokesman Michael Polzin.

Talks between the two companies are continuing, said people familiar with the matter. Theranos has previously said the inspection findings don’t “reflect the current state of the lab.”

The company has said it “addressed many of the observations during the survey” and is “actively continuing to take corrective action.”

“Should the Theranos-Walgreens partnership dissolve, that would effectively mean they’d cease to be a competitor to other labs,” said William Quirk, a laboratory-industry analyst at Piper Jaffray Cos.

Without Walgreens, Theranos would need to forge a new retail partnership to regain access to consumers, Mr. Quirk added. Otherwise, Theranos would have to battle other lab companies, including giants Laboratory Corp. of America Holdings and Quest Diagnostics Inc., for blood-testing business through doctors’ offices.

Theranos faces a separate deadline of Friday to submit to the Centers for Medicare and

Medicaid Services a plan to fix the problems uncovered during an inspection completed last fall at the company's lab in Newark, Calif.

The infractions found in one area "pose immediate jeopardy to patient health and safety," the agency said.

The deadline has been extended once, and additional extensions are possible. The federal agency could begin imposing sanctions if Theranos remains out of compliance as of late March, according to a person familiar with the matter.

Walgreens issued its warning letter to Theranos after discussions on Jan. 28 with the blood-testing company's founder and chief executive, Elizabeth Holmes.

In a telephone call that day, Walgreens officials told Ms. Holmes the drugstore chain would continue working with Theranos if she agreed to suspend all blood testing and certain other operations until the problems identified by federal inspectors were resolved, according to the people familiar with the matter.

Ms. Holmes declined, the people said. She also suggested Walgreens might be in breach of its contract with Theranos for suggesting the suspension.

Ms. Holmes, 32 years old, started Theranos in 2003 and steered it to a valuation of about \$9 billion in a funding round in 2014.

The discussions with Ms. Holmes occurred during a regularly scheduled Walgreens board meeting at the Park Hyatt hotel in New York City.

Walgreens executives shuffled between the phone call with Ms. Holmes, briefing directors on the matter and preparing a news release about the decision to stop for now sending samples to Theranos's lab in California, according to the people familiar with the situation. The drugstore chain also announced the temporary closure of the wellness center in its Palo Alto store.

The contract with Theranos hasn't generated revenue for Walgreens, and the drugstore chain lent Theranos at least \$50 million in the form of debt that is convertible to equity, people familiar with the matter said.

Separately, Theranos and the Cleveland Clinic haven't reached an agreement on the terms of a study they would jointly run to compare Theranos's technology with more-traditional blood-testing techniques, according to a person familiar with the relationship.

The hospital system's chief executive, Toby Cosgrove, said in October that Theranos had agreed to run such a study with the Cleveland Clinic. The Cleveland Clinic also has a "long-term strategic alliance" to use Theranos's technology.

In January, three Cleveland Clinic scientists visited Theranos's headquarters, where they were shown the company's proprietary devices but not told how the devices work, this person said. Mr. Cosgrove declined to comment.

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