

BUSINESS

Walgreen Terminates Partnership With Blood-Testing Firm Theranos

Move by drugstore chain shuts off Silicon Valley firm's primary revenue source



Walgreen Co. said it was shutting down Theranos lab-testing services in all its Walgreens locations. *PHOTO: CHARLES KRUPA/ASSOCIATED PRESS*

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Drugstore operator Walgreen Co. formally ended a strained alliance with Theranos Inc. as regulators near a decision on whether to impose sanctions against the embattled Silicon Valley firm.

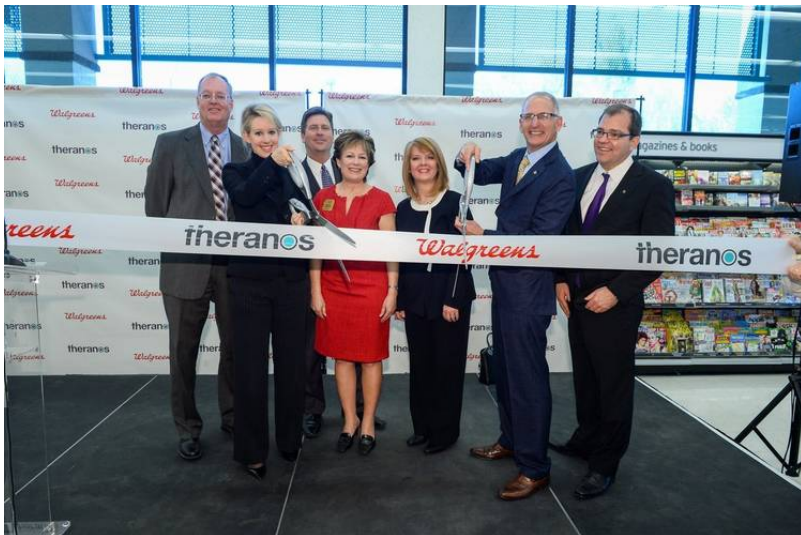
Some officials at the Walgreens Boots Alliance Inc. unit had grown frustrated at not getting more details and documentation from Theranos after learning it had corrected tens of thousands of blood tests, including many performed on samples collected from patients at Walgreens pharmacies, according to people familiar with the partnership.

In a news release late Sunday, Walgreens said it had told Theranos it was terminating their nearly three-year-old partnership, effective immediately, and that it was shutting

down Theranos lab-testing services in Walgreens locations. It said it would work over the next several days to help transition its customers.

“In light of the voiding of a number of test results, and as the Centers for Medicare and Medicaid Services has rejected Theranos’s plan of correction and considers sanctions, we have carefully considered our relationship with Theranos and believe it is in our customers’ best interests to terminate our partnership,” Brad Fluegel, Walgreens’ senior vice president and chief healthcare commercial market development officer, said in a statement.

The move is a significant blow to Theranos. The 40 Theranos blood-draw sites inside Walgreens stores in Arizona, which the company calls “wellness centers,” have been the primary source of revenue for Theranos and its conduit to consumers, analysts say. The tie-up also has given the blood-testing firm a stamp of credibility since it was publicly announced in September 2013.



Theranos CEO Elizabeth Holmes, left, in 2013 marking the company’s partnership with Walgreens. PHOTO: WALGREENS

Walgreens leaders decided to end the partnership after regulators disclosed problems at Theranos in late January, but held off on finalizing the separation because the company feared Theranos might sue, said people familiar with the matter.

Without Walgreens, Theranos would no longer be competing with major labs. To regain its access to consumers, it would have to forge a new retail partnership, offer its blood-testing services directly to more doctors’ offices or open its own blood-draw sites, among other options. It already has moved to open a blood-testing center in Arizona. Recently, the company has been exploring a tie-up with another pharmacy or supermarket, according to a person familiar with the matter.

Michael Polzin, a Walgreens spokesman, declined to comment beyond the news release.

Theranos spokeswoman Brooke Buchanan said, “Quality and safety are our top priorities, and we are working closely with government officials to ensure that we not only comply with all federal regulations but exceed them.”

Ms. Buchanan added, “We are disappointed that Walgreens has chosen to terminate our relationship and remain fully committed to our mission to provide patients access to affordable health information and look forward to continuing to serve customers in Arizona and California through our retail locations.”

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- Theranos Voids Two Years of Edison Blood-Test Results (<http://www.wsj.com/articles/theranos-voids-two-years-of-edison-blood-test-results-1463616976>) (May 18)
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agency that inspected Theranos’s Newark, Calif., lab last fall, will inform Theranos in roughly the next two weeks about its determination on sanctions, said a person familiar with the matter. A CMS spokeswoman declined to comment

In recent days, some Walgreens officials became more convinced that Theranos would face painful CMS sanctions, according to people familiar with the matter. The agency previously said it had found major deficiencies at the California lab, including at least one it said posed an immediate threat to patients.

It proposed in a March letter closing the laboratory down and barring Theranos founder Elizabeth Holmes from the industry for at least two years.

“Due to the comprehensive nature of the corrective measures we’ve taken over the past several months, which has been affirmed by several experts, we are hopeful that CMS won’t impose sanctions,” Theranos’s Ms. Buchanan has said. “But if they do, we will work with CMS to address all of their concerns.”

Senior Walgreens officials believe that any significant sanctions would give them a defense if Theranos were to sue Walgreens for breach of contract, people familiar with the matter said.

Top Walgreens leaders previously worried they could face litigation seeking massive

damages if they unilaterally closed Theranos's testing sites at their Arizona stores, according to people with knowledge of the thinking inside Walgreens.

Walgreens managers also grew increasingly frustrated in recent weeks with Theranos as they sought information about the extent of test reports it had corrected or voided.

The drugstores' senior leadership team learned Theranos had told regulators it was voiding or correcting tens of thousands of reports in mid-April. In early May, Walgreens asked Theranos to provide details of the corrected reports, according to people familiar with matter.

Theranos told Walgreens the corrections were part of the normal process of coming back into compliance with regulators and only involved tests performed in the California lab, according to people familiar with the matter.

On May 18, The Wall Street Journal reported that Theranos had voided all results for tests run on its proprietary Edison device in 2014 and 2015, and that it had also corrected some blood coagulation tests performed in a second laboratory it operates in Scottsdale, Ariz.

Since then, Theranos hasn't provided Walgreens some specific information and documentation about blood tests voided for its customers, including which specific customers and tests, according to a person familiar with the matter. The issue is important because any erroneous results could throw off health decisions patients make with their doctors. Theranos has said it voided the tests out of an abundance of caution, and doesn't think any patients were affected.

In recent weeks, Walgreens also was named as a co-defendant in one of three civil lawsuits filed by consumers against Theranos. The suits, which seek class-action status, allege that Theranos misled the public about the nature and accuracy of its blood-testing technology.

Walgreens declined to comment. Theranos said the suits are without merit and that it would vigorously defend itself against them.

Current and former Walgreens officials say Theranos veiled its technology and operations in secrecy from the early days of the relationship between the two companies.

Some of the officials said Theranos told Walgreens' team it could accurately perform dozens of tests on just a drop of blood using its proprietary testing system, the Journal reported in late May.

The company later told regulators it had performed just 12 tests using the device and that by late last summer, it used conventional devices made by companies like Siemens AG to perform all of its tests.

In exiting the partnership, Walgreens doesn't expect to recoup its investment of at least \$50 million in Theranos, according to people familiar with the thinking of some officials at the drugstore chain.

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