

## ETIC to Provide Support to Kishimoto Clinical Laboratory and related company

December 9<sup>th</sup> 2010

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”), has decided to provide support to Kishimoto Clinical Laboratory, Inc. and a related company under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, of 2009, hereafter “the ETIC Act”),

1. Name(s) of persons or companies concerned  
Kishimoto Clinical Laboratory, Inc. and Doutou Clinical Laboratory, Inc. (hereafter collectively “Kishimoto Laboratories”)
2. Name(s) of financial institutions jointly applying for rehabilitation support with Kishimoto Laboratories  
Mizuho Bank, Ltd.  
BML, Inc.
3. Outline of business revitalization plan  
Please see appendix.
4. Comments from State Ministers in charge of ETIC  
Prime Minister, Minister of Internal Affairs, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed.  
Minister of Health, Labour and Welfare: *“I have no objection to the decision to support Kishimoto Laboratories. However, I ask that after reaching the decision to support, ETIC should encourage Kishimoto Laboratories to discuss the situation with employees of the company as soon as possible. I also ask that in advising on and guiding the implementation of the corporate revitalization plan, ETIC should aim to ensure that Kishimoto Laboratories complies with related laws and regulations, and that Kishimoto Laboratories also provides adequate opportunities for substantive discussions with the workforce with due consideration of employment stability and other such factors.”*
5. Comment from state minister supervising business activities  
Minister of Health, Labour and Welfare: *“I have no objection to the decision to support*

*Kishimoto Laboratories.”*

6. Debt purchase application period

From Thursday, December 9<sup>th</sup>, 2010 for receipt by ETIC no later than Wednesday, February 24<sup>th</sup>, 2011.

7. Request for temporary suspension

Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors, other than those permitted under the corporate revitalization plan, before the end of the debt purchase period as per item 6 above.

8. Treatment of trade creditors

The decision by ETIC to provide support involves requesting the waiver of debt only from financial institutions providing loans to Kishimoto Laboratories. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade creditors.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

Kishimoto Laboratories operates a clinical laboratory business mainly in Hokkaido Prefecture. Kishimoto Laboratories plays an indispensable role in the healthcare infrastructure of Hokkaido, and holds a high market share in the region, providing services to approximately 3,000 hospitals and clinics (hereafter “hospitals”). Clinical testing requires a system which ensures the prompt collection and delivery and reporting of test samples between client hospitals and laboratories. Furthermore, for testing method and reference purposes, it is necessary to maintain consistency and continuity in data. Therefore a certain amount of time is required before a clinical testing mandate can be granted or undertaken.

Accordingly, if Kishimoto Laboratories were to be impacted by unforeseen circumstances, there is a high likelihood of a severe effect on testing and diagnostic systems at client hospitals, causing significant impact on healthcare in the region. Moreover, Kishimoto Laboratories mainly provides its services to the Hokkaido region, which is an area with a low concentration of hospitals in relation to land mass. If the

operation of Kishimoto Laboratories was to stall, with concomitant destabilization of the testing and diagnostic infrastructure of client hospitals, the region may face an inability to provide residents in the community with necessary clinical testing.

In collaboration with a sponsor, industry leader BML, Inc., it is expected that Kishimoto Laboratory can work to make a rapid recovery in the quality and consistency of its clinical testing by renewing its clinical testing facilities through a new capital injection and introducing industry-leading testing methods and know-how. These measures, in conjunction with a reduction in costs through the consolidation of overlapping operations, are expected to enable the realization of a swift business rehabilitation. Accordingly, ETIC has determined that there is ample merit in supporting the revitalization of Kishimoto Laboratories as a means of preventing the occurrence of the destabilization mentioned above, and as a means of contributing to the sustainability of clinical testing quality and reliability.

Moreover, Kishimoto Laboratories employs a workforce of around 1,000 people across the Kishimoto Clinical Laboratories Group, contributing significantly to the sustainable employment of the community in Tomakomai-shi, Hokkaido, the location of the group's head office.

## 9.2 Role of ETIC

In deciding to support Kishimoto Laboratories, ETIC will seek to facilitate a smooth progression of the revitalization plan, by coordinating activities which Kishimoto Laboratories would have found difficult to execute alone, including reconciling the interests of the concerned companies, the related financial institutions, sponsors, and other related parties from a fair and neutral standpoint.

Under the business plan, ETIC will not supply any capital or financing to Kishimoto Laboratories.

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## Appendix: Outline of the Business Revitalization Plan

### Section 1: Overview of the companies receiving support

#### 1.1 Names of companies

Kishimoto Clinical Laboratory, Inc. (hereafter “Kishimoto Laboratory”)

Doutou Clinical Laboratory, Inc. (hereafter “Doutou”)

#### 1.2 Head office, Subsidiaries

Kishimoto Clinical Laboratory	Tomakomai-shi, Hokkaido
Doutou Clinical Laboratory, Inc.	Kitami-shi, Hokkaido
Tokachi Clinical Laboratory, Inc.	Obihiro-shi, Hokkaido
Takikawa Clinical Laboratory, Inc.	Takikawa-shi, Hokkaido
Kyoei Medical Institute Co., Ltd.	Maebashi-shi, Gunma-ken
Sapporo Immuno Diagnostic Laboratory (IDL)	Sapporo-shi, Hokkaido
Acty Inc.	Sapporo-shi, Hokkaido
Seven System Inc.	Sapporo-shi, Hokkaido
SKL K.K.	Okinawa-shi, Okinawa-ken
Yukinohana Shuzo K.K.	Otaru-shi, Hokkaido
Hokkaido Golf Resort K.K.	Tomakomai-shi, Hokkaido
Nakano Sogo Shokuryouhinten	Tomakomai-shi, Hokkaido

Kishimoto Laboratory and Doutou are hereafter collectively referred to as the “Kishimoto Laboratories”; The company headquarters and subsidiaries are hereafter collectively referred to as “KCLG”

#### 1.3 Company Group

KCLG is made up of Kishimoto Laboratory and 11 subsidiaries. The Group is engaged in a clinical laboratory business, a reagent production and sales business, a real estate leasing business, and other businesses. Subsidiaries relating to each business area are as follows:

1. Clinical laboratory business: Kishimoto Clinical Laboratory and 4 subsidiaries: Tokachi Clinical Laboratory, Inc., Takikawa Clinical Laboratory, Inc., Doutou Clinical Laboratory, Inc., and Kyoei Medical Institute Co., Ltd.
2. Reagent production and sales business: Sapporo Immuno Diagnostic Laboratory
3. Electrocardiographic business: 2 subsidiaries: Acty Inc., and Seven System.

4. Real estate and equipment leasing business: SKL Co., Ltd.
5. Other businesses: 3 subsidiaries practicing the sale of alcohol, and operation of golf courses.

1.4 Number of employees

Kishimoto Laboratories:	898 (As of September 2010. Including temporary and part-time employees.)
KCLG	1,048 (As above)

1.5 Labor union

None

1.6 Main banks

Mizuho Bank, Ltd.  
 Bank of Tokyo-Mitsubishi UFJ, Ltd.  
 Development Bank of Japan Inc.  
 Sumitomo Mitsui Banking Corporation  
 Resona Bank, Ltd.  
 The 77 Bank, Ltd.  
 Shoko Chukin Bank, Ltd.  
 North Pacific Bank, Ltd.  
 Jogashima Godo Kaisha  
 Kanagawa Bank, Ltd.  
 Shizuoka Bank, Ltd.  
 The Akita Bank, Ltd.  
 Tomakomai Shinkin Bank  
 Kitami Shinkin Bank

1.7 Financial overview (financial results for year ended December 31, 2009)

Kishimoto Laboratories	
Revenue	¥8,157 million
Operating income before amortization	¥1,310 million
Interest-bearing debt	¥12,392 million

**Section 2: Background and circumstances leading to request for ETIC support**

Established in 1970 as the Tomakomai Clinical Laboratory, Kishimoto Laboratories spent its

first 20 years expanding its operations in Hokkaido, and in the year 2000, actively began expanding its operations in Honshu. However, increased costs associated with this aggressive investment led to a decline in profitability, and in 2002 the company recorded a capital deficit. Moreover, during the same period, the company attempted to diversify into a range of businesses unrelated to its main business, including golf courses, wineries and Japanese sake breweries, which led to an accelerated outflow of funds.

To cover the decline in revenues in its main business and funding deficiencies due to the failure of non-core businesses, Kishimoto Laboratories used improper accounting procedures to enable an increase in interest-bearing debt, and in 2009, with interest-bearing debt of ¥12.8 billion, faced a liquidity crunch.

From June 2009, Kishimoto Laboratories' newly appointed president, Mitsuhiro Tokuda, led measures aimed at achieving a self-directed business restructuring, gaining the cooperation of financial institutions to extend repayments of interest-bearing debt, and seeking to improve business performance.

Meanwhile, in order to prevent the deterioration of the quality of its testing and services due to the aging of its laboratory equipment, in April 2010 the company began searching for a business partner in the same industry. This resulted in the formation of a business partnership with BML Inc. (hereafter "BML") to pursue service outsourcing and other measures.

However, in addition to continued financial problems, the company was faced with the urgent need to procure funds necessary for vital capital investment. After consulting its main financial institutions, it made the decision to apply for support from ETIC.

### **Section 3: Outline of business revitalization plan**

#### **1. Basic policy and main measures of business revitalization plan**

Under the business plan, the sponsor BML will establish a subsidiary that will receive the continuing operations of Kishimoto Laboratories (using the Second Company Method) via an absorption separation. Under the control of BML, the following measures will be implemented.

- (1) Introduce BML's institutional knowledge so as to provide high quality services that meet BML's service standards.

After receiving Kishimoto Laboratories' continuing operations, BML will introduce its institutional know-how, and progressively change to clinical investigation methodology and drugs that meet BML's standards while adopting those same standards within the organization. At the same time, older laboratory equipment will be replaced with new equipment, enabling the creation of a structure that can efficiently undertake clinical testing procedures with a high level of quality and stability. By providing a higher level of services and recovering lost credibility and trust, the business will endeavor to prevent further customer losses and gain new customers.

- (2) Reduce costs by closing and integrating locations, concentrating sales activities and improving distribution efficiency.

By making use of BML's infrastructure, the efficiency of Kishimoto Laboratories' operations will be improved.

- (3) Dispose of non-core assets.

Non-core assets will be sold in the process of withdrawing from businesses other than clinical laboratory testing.

2. Request for financial support from financial institutions, etc.

Of the ¥11.94562 billion owed to financial institutions and others by Kishimoto Laboratories (current estimated figure) financial support (effectively, debt forgiveness) will be requested for ¥7.6 billion. (Note: With regard to debt repayment under the Disposal Linked Method, additional financial support will be requested if the repayment amount achieved using this method is lower than the value of the secured provisional debt amount.)

3. Financing

Under the plan, financing of debt repayment and other funds required for the continuing business will be provided by a capital injection and loans from BML.

#### **Section 4. Conformance with standards for support**

1. Requirements related to standards of support

- (1) Possession of effective management resources

KCLG, and in particular Kishimoto Laboratories, possesses effective business resources in that it operates a clinical laboratory business and a reagent production and sales business with a capacity to provide services to approximately 3000 facilities,

and a staff of approximately 200 qualified clinical laboratory technicians and hygienic laboratory technicians who play a vital role in conducting clinical testing. The business supports client hospitals' medical services for their patients through its laboratory facilities' delivery and collection routes that enable the fast implementation of clinical testing. Moreover, it employs a workforce of around 1,000 people mainly in Tomakomai-shi, Hokkaido, the location of the group's head office.

(2) Carrying excessive debt

Because Kishimoto Laboratories bear excessive debt, financial support such as debt forgiveness is indispensable for business revitalization.

2. Requirements related to decision to provide support

(1) Conformance with application for support

Kishimoto Laboratories made a joint application for support with core creditor Mizuho Bank, Ltd. and sponsor BML Inc.

(2) Standards for productivity improvement

The business revitalization plan is deemed to meet the standards for productivity improvement.

(3) Standards for financial soundness

The business revitalization plan is deemed to meet the standards for financial soundness.

(4) Comparison with liquidation value

The recovery rate for debt applicable to the business revitalization plan is greater than the estimated recovery rate through bankruptcy proceedings.

(5) Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of Kishimoto Laboratories and enable the continuing companies to secure sustainable cash flow, making refinancing sufficiently likely.

(6) Connection with structural oversupply

Under the business revitalization plan, there will be no attempt to increase the supply capacity of Kishimoto Laboratories. Accordingly, the plan has been judged as not hindering the resolution of structural oversupply as specified in Article 19 of the



Act on Special Measures for Industrial Revitalization.

(7) Consultation with workforce

Because there is no labor union at Kishimoto Laboratories, it is planned that following the decision to provide support, meetings with employees will be promptly scheduled as part of the revitalization process to explain the main points of the business revitalization plan, and consult on employment and working conditions.

## **Section 5. Responsibility of management**

### **1. Responsibility of managers**

(1) Resignation of directors

In order to take management responsibility for previous improper accounting procedures and poor business performance, Katsuyasu Kishimoto and Noriyoshi Kishimoto, who were representative directors in the period prior to June 2009, resigned their board positions in June 2009; they currently have no role in the management of Kishimoto Laboratories, and will have no role in the management of the continuing business after the company separation.

Mitsuhiro Tokuda, who became CEO and representative of Kishimoto Laboratories in June 2009, has been implementing a range of measures to improve business performance, and with Yoichi Sakai, who became a director of the business in November of the same year, has been working to revitalize the operations. However, as part of the current proceedings, and in order to receive effective debt forgiveness from financial institutions, both these persons will resign their positions promptly after completion of the company separation. Kishimoto Laboratories will move to special liquidation proceedings after the company separation becomes effective, at which point all directors, other than Mitsuhiro Tokuda and Yoichi Sakai will also promptly resign. Yoichi Sakai will be appointed liquidator of Kishimoto Laboratories.

Mitsuhiro Tokuda and Yoichi Sakai will have an essential role to play in facilitating a smooth transfer of the operations of Kishimoto Laboratories to the continuing company, and for a necessary period after implementation of the company separation will cooperate with the business transfer as Special Advisor and General Manager respectively.

(2) Abandonment of claim for retirement benefits

All resigning directors will abandon any claim to the compassionate allowance related to

board members' retirement.

## 2. Responsibility of shareholders

After completion of the company separation, it is planned that special liquidation proceedings will commence by around May 2011. To reflect the responsibility of shareholders, no allocation of remaining assets will be made to shareholders in the course of these proceedings.

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