ALERE INC.
Form 10-Q
November 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

COMMISSION FILE NUMBER 001-16789

ALERE INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**04-3565120**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

51 SAWYER ROAD, SUITE 200

WALTHAM, MASSACHUSETTS 02453

(Address of principal executive offices)(Zip code)

(781) 647-3900

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** x **No** ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** x **No** ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ¨ **No** x

The number of shares outstanding of the registrant s common stock, par value of $0.001 per share, as of November 5, 2014 was 83,556,390.

Table of Contents

ALERE INC.

REPORT ON FORM 10-Q

For the Quarterly Period Ended September 30, 2014

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as may, could, should, would, intend, will, expect, anticipate, believe, estimate, continue or similar words. A number of important factors could cause actual results of Alere Inc. and its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, the risk factors detailed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2013 and other risk factors identified herein or from time to time in our periodic filings with the Securities and Exchange Commission. Readers should carefully review these risk factors, and should not place undue reliance on our forward-looking statements. These forward-looking statements are based on information, plans and estimates at the date of this report. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to we, us and our refer to Alere Inc. and its subsidiaries.

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALERE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net product sales	$ 509,276	$ 509,038	$ 1,508,145	$ 1,538,876
Services revenue	222,788	240,098	665,680	703,344
Net product sales and services revenue	732,064	749,136	2,173,825	2,242,220
License and royalty revenue	4,182	4,184	15,999	13,113
Net revenue	736,246	753,320	2,189,824	2,255,333
Cost of net product sales	274,046	258,234	794,619	764,501
Cost of services revenue	118,105	123,760	355,538	367,081
Cost of net product sales and services revenue	392,151	381,994	1,150,157	1,131,582
Cost of license and royalty revenue	1,236	2,009	3,900	5,264
Cost of net revenue	393,387	384,003	1,154,057	1,136,846
Gross profit	342,859	369,317	1,035,767	1,118,487
Operating expenses:				
Research and development	38,726	40,498	114,855	120,860
Sales and marketing	136,336	158,678	432,527	472,921
General and administrative	130,185	138,672	424,998	409,606
Loss on disposition		5,885	638	5,885
Operating income	37,612	25,584	62,749	109,215
Interest expense, including amortization of original issue discounts and deferred financing costs	(52,481)	(53,420)	(156,678)	(203,272)
Other income (expense), net	(8,260)	(8,868)	(886)	(8,260)
Loss from continuing operations before provision (benefit) for income taxes	(23,129)	(36,704)	(94,815)	(102,317)

Provision (benefit) for income taxes	76,648	(15,085)	63,109	(30,673)
Loss from continuing operations before equity earnings of unconsolidated entities, net of tax	(99,777)	(21,619)	(157,924)	(71,644)
Equity earnings of unconsolidated entities, net of tax	6,277	5,753	13,716	13,238
Loss from continuing operations	(93,500)	(15,866)	(144,208)	(58,406)
Income (loss) from discontinued operations, net of tax	7,045	(3,223)	2,047	(8,560)
Net loss	(86,455)	(19,089)	(142,161)	(66,966)
Less: Net income (loss) attributable to non-controlling interests	(306)	359	(136)	601
Net loss attributable to Alere Inc. and Subsidiaries	(86,149)	(19,448)	(142,025)	(67,567)
Preferred stock dividends	(5,367)	(5,367)	(15,926)	(15,926)
Net loss available to common stockholders	$ (91,516)	$ (24,815)	$ (157,951)	$ (83,493)
Basic and diluted net loss per common share attributable to Alere Inc. and Subsidiaries:				
Loss from continuing operations	$ (1.19)	$ (0.26)	$ (1.93)	$ (0.92)
Income (loss) from discontinued operations	0.09	(0.04)	0.02	(0.11)
Net loss per common share	$ (1.10)	$ (0.30)	$ (1.91)	$ (1.03)
Weighted-average shares basic and diluted	83,115	81,735	82,719	81,417

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ALERE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Net loss	$ (86,455)	$ (19,089)	$ (142,161)	$ (66,966)
Other comprehensive income (loss), before tax:				
Changes in cumulative translation adjustment	(96,425)	67,268	(69,950)	(42,515)
Unrealized losses on available for sale securities			(17)	
Unrealized gains on hedging instruments	7	20	21	31
Minimum pension liability adjustment	481	(369)	468	335
Other comprehensive income (loss), before tax	(95,937)	66,919	(69,478)	(42,149)
Income tax provision (benefit) related to items of other comprehensive income (loss)				
Other comprehensive income (loss), net of tax	(95,937)	66,919	(69,478)	(42,149)
Comprehensive income (loss)	(182,392)	47,830	(211,639)	(109,115)
Less: Comprehensive income (loss) attributable to non-controlling interests	(306)	359	(136)	601
Comprehensive income (loss) attributable to Alere Inc. and Subsidiaries	$ (182,086)	$ 47,471	$ (211,503)	$ (109,716)

The accompanying notes are an integral part of these consolidated financial statements.

4

Table of Contents

ALERE INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except par value)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 444,853	$ 361,626
Restricted cash	38,156	6,273
Marketable securities	794	858
Accounts receivable, net of allowances of $81,785 and $76,587 at September 30, 2014 and December 31, 2013, respectively	517,434	547,860
Inventories, net	362,102	364,185
Deferred tax assets	33,551	60,689
Prepaid expenses and other current assets	128,126	129,326
Assets held for sale	2,143	19,052
Total current assets	1,527,159	1,489,869
Property, plant and equipment, net	526,922	543,877
Goodwill	3,067,110	3,093,691
Other intangible assets with indefinite lives	46,831	56,702
Finite-lived intangible assets, net	1,465,561	1,668,443
Restricted cash		29,370
Deferred financing costs, net, and other non-current assets	74,123	84,073
Investments in unconsolidated entities	91,175	86,830
Deferred tax assets	7,404	7,959
Non-current income tax receivable	2,336	
Total assets	$ 6,808,621	$ 7,060,814
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 88,042	$ 49,112
Current portion of capital lease obligations	4,995	6,855
Accounts payable	216,748	186,818
Accrued expenses and other current liabilities	404,915	427,809
Liabilities related to assets held for sale	2,186	28,327
Total current liabilities	716,886	698,921
Long-term liabilities:		
Long-term debt, net of current portion	3,683,614	3,772,788

Capital lease obligations, net of current portion	12,824	14,407
Deferred tax liabilities	310,330	329,249
Other long-term liabilities	192,686	162,601
Total long-term liabilities	4,199,454	4,279,045
Commitments and contingencies (Note 16)		
Stockholders equity:		
Series B preferred stock, $0.001 par value (liquidation preference: $709,763 at September 30, 2014 and December 31, 2013); Authorized: 2,300 shares; Issued: 2,065 shares at September 30, 2014 and December 31, 2013; Outstanding: 1,774 shares at September 30, 2014 and December 31, 2013	606,468	606,468
Common stock, $0.001 par value; Authorized: 200,000 shares; Issued: 90,964 shares at September 30, 2014 and 89,666 shares at December 31, 2013; Outstanding: 83,285 shares at September 30, 2014 and 81,987 shares at December 31, 2013	91	90
Additional paid-in capital	3,340,239	3,319,168
Accumulated deficit	(1,778,252)	(1,636,227)
Treasury stock, at cost, 7,679 shares at September 30, 2014 and December 31, 2013	(184,971)	(184,971)
Accumulated other comprehensive loss	(96,040)	(26,562)
Total stockholders equity	1,887,535	2,077,966
Non-controlling interests	4,746	4,882
Total equity	1,892,281	2,082,848
Total liabilities and equity	$ 6,808,621	$ 7,060,814

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ALERE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30, 2014	2013
Cash Flows from Operating Activities:		
Net loss	$ (142,161)	$ (66,966)
Income (loss) from discontinued operations, net of tax	2,047	(8,560)
Loss from continuing operations	(144,208)	(58,406)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Non-cash interest expense, including amortization of original issue discounts and deferred financing costs	12,167	14,088
Depreciation and amortization	290,756	325,632
Non-cash charges for sale of inventories revalued at the date of acquisition		1,880
Non-cash stock-based compensation expense	7,751	14,462
Tax benefit related to discontinued operations retained by Alere Inc.	9,594	5,480
Impairment of inventory	1,536	243
Impairment of long-lived assets	7,182	4,101
Loss on disposition of fixed assets	5,926	1,849
Equity earnings of unconsolidated entities, net of tax	(13,716)	(13,238)
Deferred income taxes	440	(73,470)
Loss on extinguishment of debt		35,603
Loss on disposition	638	5,885
Bargain purchase gain		(5,707)
Other non-cash items	2,826	6,674
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	20,388	(56,894)
Inventories, net	(30,489)	(72,727)
Prepaid expenses and other current assets	(4,847)	(9,166)
Accounts payable	38,324	15,950
Accrued expenses and other current liabilities	12,843	44,420
Other non-current liabilities	33,405	(7,909)
Cash paid for contingent consideration	(21,078)	(9,066)
Net cash provided by continuing operations	229,438	169,684
Net cash used in discontinued operations	(12,543)	(10,579)
Net cash provided by operating activities	216,895	159,105

Cash Flows from Investing Activities:		
Increase in restricted cash	(2,987)	(33,881)
Purchases of property, plant and equipment	(80,456)	(89,955)
Proceeds from sale of property, plant and equipment	1,167	5,831
Cash received from disposition	5,454	32,000
Cash paid for business acquisitions, net of cash acquired	(75)	(166,196)
Cash received from investments	198	11,262
Proceeds from sale of equity investment	9,526	
Cash received from sales of marketable securities	47	
Decrease in other assets	1,189	21,453
Net cash used in continuing operations	(65,937)	(219,486)
Net cash used in discontinued operations	(3,315)	(3,162)
Net cash used in investing activities	(69,252)	(222,648)
Cash Flows from Financing Activities:		
Cash paid for financing costs	(5)	(9,798)
Cash paid for contingent purchase price consideration	(23,608)	(27,496)
Proceeds from issuance of common stock, net of issuance costs	35,593	17,555
Proceeds from issuance of long-term debt	981	460,141
Payments on long-term debt	(48,071)	(455,157)
Proceeds from issuance of short-term debt	806	25
Net proceeds under revolving credit facilities	498	138,768
Cash paid for dividends	(15,970)	(15,970)
Excess tax benefits on exercised stock options	415	434
Principal payments on capital lease obligations	(5,305)	(5,341)
Other		(18,953)
Net cash provided by (used in) continuing operations	(54,666)	84,208
Net cash used in discontinued operations	(579)	
Net cash provided by (used in) financing activities	(55,245)	84,208
Foreign exchange effect on cash and cash equivalents	(9,445)	4,982
Net increase in cash and cash equivalents	82,953	25,647
Cash and cash equivalents, beginning of period	361,908	328,346
Cash and cash equivalents, end of period	444,861	353,993
Less: Cash and cash equivalents of discontinued operations, end of period	8	1
Cash and cash equivalents of continuing operations, end of period	$ 444,853	$ 353,992

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ALERE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Basis of Presentation of Financial Information

The accompanying consolidated financial statements of Alere Inc. are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair statement. Interim results are not necessarily indicative of results to be expected for the year. These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows. Our audited consolidated financial statements for the year ended December 31, 2013 included information and footnotes necessary for such presentation and were included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission, or SEC, on March 3, 2014. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2013.

Certain reclassifications of prior period amounts have been made to conform to current period presentation. These reclassifications had no effect on net income or equity.

During the three and nine months ended September 30, 2014, we recorded net after-tax expense charges of $1.4 million and $2.7 million, respectively, to correct prior period items. A net after-tax charge of $2.8 million related to the fair value of the MedApps Holding Company, Inc., or MedApps, contingent consideration obligations recorded during the three months ended March 31, 2014 is included in the nine-month charge. We consider the adjustments to be immaterial to both the prior period and the current period financial statements.

Certain amounts presented may not recalculate directly, due to rounding.

(2) Cash and Cash Equivalents

We consider all highly-liquid cash investments with original maturities of three months or less at the date of acquisition to be cash equivalents. At September 30, 2014, our cash equivalents consisted of money market funds.

(3) Restricted Cash

We had restricted cash of $38.2 million and $35.6 million as of September 30, 2014 and December 31, 2013, respectively. As of December 31, 2013, $29.4 million was classified as non-current on our Consolidated Balance Sheet, as it secures a foreign bank loan arrangement that we entered into during the third quarter of 2013 and, under the terms of the loan agreement, is required to remain on deposit for two years.

(4) Inventories, Net

Inventories are stated at the lower of cost (first in, first out) or market and are comprised of the following (in thousands):

	September 30, 2014	December 31, 2013
Raw materials	$ 126,265	$ 118,571
Work-in-process	74,914	79,559
Finished goods	160,923	166,055
	$ 362,102	$ 364,185

7

Table of Contents

(5) Stock-based Compensation

We recorded stock-based compensation expense in our consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cost of net revenue	$ 291	$ 287	$ 863	$ 797
Research and development	280	1,111	(340)	2,641
Sales and marketing	920	975	2,778	2,597
General and administrative	1,678	3,289	4,450	8,427
	3,169	5,662	7,751	14,462
Benefit for income taxes	(878)	(1,511)	(2,001)	(2,869)
	$ 2,291	$ 4,151	$ 5,750	$ 11,593

In connection with the departure of three of our senior executives, we recorded a reversal of stock-based compensation expense in the amount of $5.6 million during the second quarter of 2014, relating to the impact on their prior stock option awards upon their resignations. Of the $5.6 million reversal, $2.2 million was recorded through research and development and $3.4 million through general and administrative.

(6) Net Loss per Common Share

The following table sets forth the computation of basic and diluted net loss per common share for the periods presented (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic and diluted net loss per common share:				
Numerator:				
Loss from continuing operations	$ (93,500)	$ (15,866)	$ (144,208)	$ (58,406)
Preferred stock dividends	(5,367)	(5,367)	(15,926)	(15,926)
Loss from continuing operations attributable to common shares	(98,867)	(21,233)	(160,134)	(74,332)
Less: Net income (loss) attributable to non-controlling interest	(306)	359	(136)	601
Loss from continuing operations attributable to Alere Inc. and Subsidiaries	(98,561)	(21,592)	(159,998)	(74,933)
	7,045	(3,223)	2,047	(8,560)

Income (loss) from discontinued operations				
Net loss available to common stockholders	$ (91,516)	$ (24,815)	$ (157,951)	$ (83,493)
Denominator:				
Weighted-average common shares outstanding basic and diluted	83,115	81,735	82,719	81,417
Basic and diluted net loss per common share:				
Loss from continuing operations attributable to Alere Inc. and Subsidiaries	$ (1.19)	$ (0.26)	$ (1.93)	$ (0.92)
Income (loss) from discontinued operations	0.09	(0.04)	0.02	(0.11)
Basic and diluted net loss per common share attributable to Alere Inc. and Subsidiaries	$ (1.10)	$ (0.30)	$ (1.91)	$ (1.03)

The following potential dilutive securities were not included in the calculation of diluted net loss per common share for our continuing operations because the inclusion thereof would be antidilutive (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Denominator:				
Options to purchase shares of common stock	7,687	10,239	7,687	10,239
Warrants	4	4	4	4
Conversion shares related to 3% convertible senior subordinated notes	3,411	3,411	3,411	3,411
Conversion shares related to subordinated convertible promissory notes	27	27	27	27
Conversion shares related to Series B convertible preferred stock	10,239	10,239	10,239	10,239
Total number of antidilutive potentially issuable shares of common stock excluded from diluted common shares outstanding	21,368	23,920	21,368	23,920

Table of Contents

(7) Stockholders Equity and Non-controlling Interests

(a) Preferred Stock

For each of the three and nine months ended September 30, 2014 and 2013 Series B preferred stock dividends amounted to $5.3 million and $15.9 million, respectively, which reduced earnings available to common stockholders for purposes of calculating net loss per common share for each of the respective periods. As of September 30, 2014, $5.3 million of Series B preferred stock dividends was accrued. As of October 15, 2014, payments have been made covering all dividend periods through September 30, 2014.

The Series B preferred stock dividends for the three and nine months ended September 30, 2014 and 2013 were paid in cash.

(b) Changes in Stockholders Equity and Non-controlling Interests

A summary of the changes in stockholders equity and non-controlling interests comprising total equity for the nine months ended September 30, 2014 and 2013 is provided below (in thousands):

	Nine Months Ended September 30,					
	2014			2013		
	Total Stockholders Equity	Non-controlling Interests	Total Equity	Total Stockholders Equity	Non-controlling Interests	Total Equity
Equity, beginning of period	$ 2,077,966	$ 4,882	$ 2,082,848	$ 2,180,422	$ 2,282	$ 2,182,704
Issuance of common stock under employee compensation plans	35,593		35,593	17,555		17,555
Preferred stock dividends	(15,970)		(15,970)	(15,970)		(15,970)
Stock-based compensation expense	7,751		7,751	14,462		14,462
Excess tax benefits on exercised stock options	(6,302)		(6,302)	(1,283)		(1,283)
Non-controlling interest from acquisition					1,788	1,788
Net income (loss)	(142,025)	(136)	(142,161)	(67,567)	601	(66,966)
Total other comprehensive loss	(69,478)		(69,478)	(42,149)		(42,149)
Equity, end of period	$ 1,887,535	$ 4,746	$ 1,892,281	$ 2,085,470	$ 4,671	$ 2,090,141

(8) Business Combinations

Acquisitions are accounted for using the acquisition method and the acquired companies results have been included in the accompanying consolidated financial statements from their respective dates of acquisition. During the three and nine months ended September 30, 2014, we expensed acquisition-related costs of $0.3 million and $0.7 million, respectively, in general and administrative expense. During the three and nine months ended September 30, 2013, we expensed acquisition-related costs of $0.5 million and $1.8 million, respectively, in general and administrative expense.

Our business acquisitions have historically been made at prices above the fair value of the assets acquired and liabilities assumed, resulting in goodwill, based on our expectations of synergies and other benefits of combining the businesses. These synergies and benefits include elimination of redundant facilities, functions and staffing; use of our existing commercial infrastructure to expand sales of the products of the acquired businesses; and use of the commercial infrastructure of the acquired businesses to expand product sales in a cost-efficient manner.

Table of Contents

Net assets acquired are recorded at their fair value and are subject to adjustment upon finalization of the fair value analysis. The estimated useful lives of the individual categories of intangible assets were based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with finite lives is recognized over the shorter of the respective lives of the agreement or the period of time the intangible assets are expected to contribute to future cash flows. We amortize our finite-lived intangible assets based on patterns on which the respective economic benefits are expected to be realized.

Acquisitions in 2013

(i) Epocal

On February 1, 2013, we acquired Epocal, Inc., or Epocal, located in Ottawa, Canada, a provider of technologies that support blood gas and electrolyte testing at the point of care. The aggregate purchase price was approximately $248.5 million, which consisted of $151.4 million in cash, a $22.1 million settlement of a pre-existing arrangement and a contingent consideration obligation with an aggregate acquisition date fair value of $75.0 million. The operating results of Epocal are included in our professional diagnostics reporting unit and business segment. The amount allocated to goodwill from this acquisition is not deductible for tax purposes.

(ii) Other acquisitions in 2013

During the year ended December 31, 2013, we acquired the following businesses for an aggregate purchase price of $57.6 million, which included cash payments totaling $28.2 million, a $17.5 million settlement of a pre-existing arrangement, contingent consideration obligations with an aggregate acquisition date fair value of $1.3 million, deferred purchase price consideration with an acquisition date fair value of $0.8 million and an $8.0 million bargain purchase gain.

- certain assets of PT Mega Medika Mandiri, or Mega Medika, located in South Jakarta, Indonesia, a distributor of infectious disease products to the Indonesian marketplace as well as materials for vaccines to a pharmaceutical customer (Acquired January 2013)

- Discount Diabetic, LLC, or Discount Diabetic, located in Phoenix, Arizona, a provider of blood glucose monitoring products, including diabetes testing systems and test strips and other products (Acquired April 2013)

- the Medicare fee-for-service assets of Liberty Medical, or the Liberty business, located in Port St. Lucie, Florida, a leading mail order provider of diabetes testing supplies serving the needs of both Type 1 and Type 2 diabetic patients (Acquired April 2013)

- 51% share in Cardio Selfcare B.V., subsequently renamed Alere Health Services B.V., or Alere Health Services, located in Ede, the Netherlands, a developer of innovative software for the healthcare industry that develops and licenses software and sells medical devices to enable patients to perform medical self-care, including thrombosis self-care (Acquired May 2013)

74.9% interest in Pantech Proprietary Limited, or Pantech, located in Durban, South Africa, a supplier of rapid diagnostic test kits, including HIV, malaria, syphilis, drugs of abuse, 10 parameter urine sticks, glucometers and glucose sticks (Acquired July 2013)

Certain assets of Simplex Healthcare, Inc. and its subsidiaries, or Simplex, located in Tennessee, a provider of home delivery of diabetes-related medical supplies and products (Acquired November 2013)

The operating results of Mega Medika, Discount Diabetic, the Liberty business, Alere Health Services, Pantech, and Simplex are included in our professional diagnostics reporting unit and business segment.

Our consolidated statement of operations for the three and nine months ended September 30, 2014 included revenue totaling approximately $5.8 million and $41.2 million, respectively, related to these businesses. Goodwill has been recognized in the Mega Medika, Alere Health Services, Pantech, and Simplex acquisitions and amounted to approximately $2.4 million. The goodwill related to the Mega Medika and Simplex acquisitions is deductible for tax purposes, but the goodwill related to the Pantech and Alere Health Services acquisitions is not.

With respect to our acquisition of the Liberty business, the purchase price of the acquisition has been allocated to the net tangible and intangible assets acquired, with the excess of the fair value of assets acquired over the purchase price recorded as a bargain purchase gain. The $8.0 million bargain purchase gain has been recorded in other income (expense), net in our Consolidated Statement of Operations and is not recognized for tax purposes. The bargain purchase gain resulted from our operating cost structure which we believe will allow us to operate this business more cost effectively than the sellers.

Table of Contents

A summary of the fair values of the net assets acquired for the acquisitions consummated in 2013 is as follows (in thousands):

	Epocal	Other	Total
Current assets[(1)]	$ 12,535	$ 13,623	$ 26,158
Property, plant and equipment	1,267	1,731	2,998
Goodwill	100,419	2,447	102,866
Intangible assets	164,400	51,180	215,580
Other non-current assets	18,158	29	18,187
Total assets acquired	296,779	69,010	365,789
Current liabilities	2,701	5,398	8,099
Non-current liabilities	45,542	6,062	51,604
Total liabilities assumed	48,243	11,460	59,703
Net assets acquired	248,536	57,550	306,086
Less:			
Contingent consideration	75,000	1,264	76,264
Settlement of pre-existing arrangements	22,088	17,500	39,588
Non-controlling interest		1,774	1,774
Bargain purchase gain		8,023	8,023
Deferred purchase price consideration		768	768
Cash paid	$ 151,448	$ 28,221	$ 179,669

(1) Includes approximately $3.3 million of acquired cash.

The following are the intangible assets acquired in 2013 and their respective fair values and weighted-average useful lives (dollars in thousands):

	Epocal	Other	Total	Weighted-average Useful Life
Core technology and patents	$ 119,700	$	$ 119,700	20.0 years
Software		2,154	2,154	5.7 years
Trademarks and trade names	20,500	80	20,580	19.1 years
License agreements		620	620	1.5 years
Customer relationships		42,510	42,510	11.5 years
Other		5,816	5,816	3.0 years
In-process research and development	24,200		24,200	N/A

Total intangible assets	$ 164,400	$ 51,180	$ 215,580

(9) Restructuring Plans

The following table sets forth aggregate restructuring charges recorded in our Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Statement of Operations Caption	**2014**	**2013**	**2014**	**2013**
Cost of net revenue	$ 5,654	$ 3,556	$ 6,821	$ 4,908
Research and development	5,457	1,100	8,488	1,745
Sales and marketing	1,019	218	7,427	1,476
General and administrative	5,597	2,820	18,036	11,501
Total operating expenses	17,727	7,694	40,772	19,630
Interest expense, including amortization of original issue discounts and deferred financing costs	142	111	375	228
Total charges	$ 17,869	$ 7,805	$ 41,147	$ 19,858

Table of Contents

(a) 2014 Restructuring Plans

In 2014, management developed world-wide cost reduction efforts to reduce costs and improve operational efficiencies within our professional diagnostics, health information solutions and corporate and other business segments, primarily impacting our U.S. sales force, our global information technology group, our global research and development group and certain businesses in Europe and Asia. The following table summarizes the restructuring activities related to our 2014 restructuring plans for the three and nine months ended September 30, 2014 (in thousands):

	Three Months Ended September 30, 2014			
	Professional Diagnostics	Health Information Solutions	Corporate and Other	Total
Severance-related costs	$ 5,833	$ 225	$ 199	$ 6,257
Facility and transition costs	1,713		2,979	4,692
Cash charges	7,546	225	3,178	10,949
Fixed asset and inventory impairments	6,322	314		6,636
Total charges	$ 13,868	$ 539	$ 3,178	$ 17,585

	Nine Months Ended September 30, 2014			
	Professional Diagnostics	Health Information Solutions	Corporate and Other	Total
Severance-related costs	$ 17,748	$ 1,150	$ 2,399	$ 21,297
Facility and transition costs	1,894		4,929	6,823
Cash charges	19,642	1,150	7,328	28,120
Fixed asset and inventory impairments	8,402	314		8,716
Total charges	$ 28,044	$ 1,464	$ 7,328	$ 36,836

We anticipate incurring approximately $5.2 million and $6.0 million in additional costs under our 2014 restructuring plans related to our professional diagnostics and corporate and other business segments, respectively, primarily in the U.S. and Europe. We do not anticipate incurring additional costs under our existing 2014 restructuring plan relating to our health information solutions segment. We may develop additional plans over the remainder of 2014. As of September 30, 2014, $8.4 million in severance and transition costs arising under our 2014 restructuring plans remain unpaid.

(b) 2013 Restructuring Plans

In 2013, management developed cost reduction efforts within our professional diagnostics business segment, impacting businesses in our U.S., Europe and Asia Pacific regions. Additionally, management took steps to improve efficiencies within our health information solutions business segment, including winding down a small portion of this business, which resulted in charges associated with the impairment of related fixed and intangible assets. The following tables summarize the restructuring activities in our professional diagnostics and health information solutions business segments related to our 2013 restructuring plans for the three and nine months ended September 30, 2014 and 2013 and since inception (in thousands):

Professional Diagnostics	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Since Inception
Severance-related costs	$ 55	$ 3,876	$ 893	$ 5,960	$ 8,019
Facility and transition costs	96	1,107	312	1,457	2,893
Cash charges	151	4,983	1,205	7,417	10,912
Fixed asset and inventory impairments		470		470	743
Total charges	$ 151	$ 5,453	$ 1,205	$ 7,887	$ 11,655

Table of Contents

Health Information Solutions	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013	Since Inception
Severance-related costs	$	$ 1,340	$ 89	$ 1,398	$ 3,356
Facility and transition costs	85	327	3,120	568	6,075
Other exit costs	95	2	180	2	197
Cash charges	180	1,669	3,389	1,968	9,628
Fixed asset and inventory impairments				170	1,089
Intangible asset impairments				2,596	2,596
Other non-cash recoveries		(20)	(854)	(20)	(1,757)
Total charges	$ 180	$ 1,649	$ 2,535	$ 4,714	$ 11,556

We anticipate incurring approximately $0.7 million in additional costs under our 2013 restructuring plans related to our professional diagnostics business segment in the United States. We do not anticipate incurring significant additional costs under our 2013 restructuring plans related to our health information solutions segment. As of September 30, 2014, $4.5 million in severance and facility costs arising under our 2013 restructuring plans remain unpaid.

(c) Restructuring Plans Prior to 2013

The following table summarizes the restructuring activities related to our active 2012, 2011, 2010 and 2008 restructuring plans for the three and nine months ended September 30, 2014 and 2013 and since inception (in thousands):

Professional Diagnostics	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013	Since Inception
Severance-related costs (recoveries)	$	$ (568)	$ 98	$ (284)	$ 24,290
Facility and transition costs	106	112	225	524	8,987
Other exit costs	10	14	33	45	789
Cash charges (recoveries)	116	(442)	356	285	34,066
Fixed asset and inventory impairments		350		350	6,922
Intangible asset impairments		686		686	686
Other non-cash charges					64
Total charges	$ 116	$ 594	$ 356	$ 1,321	$ 41,738

Health Information Solutions	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013	Since Inception
Severance-related costs	$	$ 14	$	$ 2,362	$ 12,308
Facility and transition costs (recoveries)	(200)		53	4,271	13,568

Other exit costs	37	95	162	181	925
Cash charges (recoveries)	(163)	109	215	6,814	26,801
Fixed asset and inventory impairments				75	3,878
Intangible asset impairments					5,923
Other non-cash recoveries				(953)	(223)
Total charges (recoveries)	$ (163)	$ 109	$ 215	$ 5,936	$ 36,379

As of September 30, 2014, $3.1 million in cash charges remain unpaid, primarily related to facility lease obligations, which are anticipated to continue through 2020.

(d) Restructuring Reserves

The following table summarizes our restructuring reserves related to the plans described above, of which $10.9 million is included in accrued expenses and other current liabilities and $5.1 million is included in other long-term liabilities on our accompanying Consolidated Balance Sheets (in thousands):

	Severance-related Costs	Facility and Transition Costs	Other Exit Costs	Total
Balance, December 31, 2013	$ 2,708	$ 7,830	$ 609	$ 11,147
Cash charges	22,377	10,533	375	33,285
Payments	(20,508)	(7,152)	(288)	(27,948)
Currency adjustments	(402)	(52)	(10)	(464)
Balance, September 30, 2014	$ 4,175	$ 11,159	$ 686	$ 16,020

(10) Long-term Debt

We had the following long-term debt balances outstanding (in thousands):

	September 30, 2014	December 31, 2013
A term loans(1) (2)	$ 797,500	$ 832,188
B term loans(1) (3)	1,334,165	1,344,238
Revolving line of credit(1)	170,000	170,000
7.25% Senior notes	450,000	450,000
6.5% Senior subordinated notes	425,000	425,000
8.625% Senior subordinated notes	400,000	400,000
3% Convertible senior subordinated notes	150,000	150,000
Other lines of credit	728	355
Other	44,263	50,119
	3,771,656	3,821,900
Less: Short-term debt and current portion	(88,042)	(49,112)
	$ 3,683,614	$ 3,772,788

(1) Incurred under our secured credit facility.

(2) Includes A term loans and Delayed Draw term loans under our secured credit facility.

(3) Includes term loans previously referred to as Incremental B-1 term loans and Incremental B-2 term loans under our secured credit facility, which term loans have been converted into and consolidated with the B term loans

under our secured credit facility.

Table of Contents

In connection with our significant long-term debt issuances, we recorded interest expense, including amortization and write-offs of deferred financing costs and original issue discounts, in our Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2014 and 2013, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Secured credit facility [1]	$ 24,985	$ 25,809	$ 74,606	$ 78,741
7.25% Senior notes	8,525	8,535	25,574	25,371
7.875% Senior notes [2]				137
6.5% Senior subordinated notes	7,180	7,172	21,534	10,185
9% Senior subordinated notes [3]				54,043
8.625% Senior subordinated notes	9,271	9,273	27,819	27,820
3% Senior subordinated convertible notes	1,246	1,246	3,738	3,738
	$ 51,207	$ 52,035	$ 153,271	$ 200,035

(1) Includes A term loans, including the Delayed-Draw term loans; B term loans, including the term loans previously referred to as Incremental B-1 term loans and Incremental B-2 term loans, which term loans have been converted into and consolidated with the B term loans; and revolving line of credit loans. For the three-month and nine-month periods ended September 30, 2014, the amounts include $0.4 million and $1.1 million, respectively, related to the amortization of fees paid for certain debt modifications. For the three-month and nine-month periods ended September 30, 2013, the amount includes $0.4 million and $2.2 million, respectively, related to the amortization of fees paid for certain debt modifications.

(2) For the nine months ended September 30, 2013, this amount includes an approximate $0.1 million loss recorded in connection with the repurchase of our 7.875% senior notes.

(3) An approximate $35.6 million loss in connection with the repurchase of our 9% senior subordinated notes has been included in the nine-month period ended September 30, 2013. Included in the $35.6 million is $19.0 million related to tender offer consideration and call premium which has been classified within cash flows from financing activities in our Consolidated Statement of Cash Flows.

(11) Fair Value Measurements

We apply fair value measurement accounting to value our financial assets and liabilities. Fair value measurement accounting provides a framework for measuring fair value under U.S. GAAP and requires expanded disclosures regarding fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value.

Described below are the three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

Description	September 30, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$ 794	$ 794	$	$
Total assets	$ 794	$ 794	$	$
Liabilities:				
Contingent consideration obligations (1)	$ 155,000	$	$	$ 155,000
Total liabilities	$ 155,000	$	$	$ 155,000

Description	December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$ 858	$ 858	$	$
Total assets	$ 858	$ 858	$	$
Liabilities:				
Contingent consideration obligations (1)	$ 213,969	$	$	$ 213,969
Total liabilities	$ 213,969	$	$	$ 213,969

(1) We determine the fair value of the contingent consideration obligations based on a probability-weighted approach derived from earn-out criteria estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. The measurement is based upon significant inputs not observable in the market. Significant increases or decreases in any of these inputs could result in a significantly higher or lower fair value measurement. Changes in the fair value of these contingent consideration obligations are recorded as income or expense within operating income in our Consolidated Statements of Operations. See Note 16 for additional information on the valuation of our contingent consideration obligations.

Changes in the fair value of our Level 3 contingent consideration obligations during the nine months ended September 30, 2014 were as follows (in thousands):

Fair value of contingent consideration obligations, January 1, 2014	$ 213,969
Payments	(49,573)
Present value accretion and adjustments	17,042
Reversal of Method Factory Inc., now known as Alere Accountable Care Solutions, LLC (ACS) obligation[1]	(26,321)
Foreign currency adjustments	(117)
Fair value of contingent consideration obligations, September 30, 2014	$ 155,000

(1) ACS was divested in October 2014 and, in connection with this transaction, the contingent consideration obligation was terminated. See Note 20.

At September 30, 2014 and December 31, 2013, the carrying amounts of cash and cash equivalents, restricted cash, receivables, accounts payable and other current liabilities approximated their estimated fair values.

The carrying amount and estimated fair value of our long-term debt were both $3.8 billion at September 30, 2014. The carrying amount and estimated fair value of our long-term debt were $3.8 billion and $3.9 billion, respectively, at December 31, 2013. The estimated fair value of our long-term debt was determined using market sources that were derived from available market information (Level 2 in the fair value hierarchy) and may not be representative of actual values that could have been or will be realized in the future.

Table of Contents

(12) Defined Benefit Pension Plan

Our subsidiary in England, Unipath Ltd., has a defined benefit pension plan established for certain of its employees. The net periodic benefit costs are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	$	$	$	$
Interest cost	202	182	604	543
Expected return on plan assets	(191)	(156)	(571)	(465)
Amortization of prior service costs	111	103	333	308
Net periodic benefit cost	$ 122	$ 129	$ 366	$ 386

(13) Financial Information by Segment

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-making group is composed of the chief executive officer and members of senior management. Our reportable operating segments are professional diagnostics, health information solutions, consumer diagnostics and corporate and other. Our operating results include license and royalty revenue which are allocated to professional diagnostics and consumer diagnostics on the basis of the original license or royalty agreement. We evaluate performance of our operating segments based on revenue and operating income (loss). Segment information for the three and nine months ended September 30, 2014 and 2013 and as of September 30, 2014 and December 31, 2013 is as follows (in thousands):

Table of Contents

	Professional Diagnostics	Health Information Solutions	Consumer Diagnostics	Corporate and Other	Total
Three Months Ended September 30, 2014:					
Net revenue	$ 585,941	$ 123,856	$ 26,449	$	$ 736,246
Operating income (loss)	$ 56,498	$ 9,824	$ 3,742	$ (32,452)	$ 37,612
Depreciation and amortization	$ 75,625	$ 17,529	$ 841	$ 1,917	$ 95,912
Restructuring charge	$ 14,124	$ 425	$	$ 3,178	$ 17,727
Stock-based compensation	$	$	$	$ 3,169	$ 3,169
Three Months Ended September 30, 2013:					
Net revenue	$ 590,801	$ 133,671	$ 28,848	$	$ 753,320
Operating income (loss)	$ 53,189	$ (1,918)	$ 3,347	$ (29,034)	$ 25,584
Depreciation and amortization	$ 88,835	$ 21,586	$ 1,063	$ 287	$ 111,771
Non-cash charge associated with acquired inventory	$ 708	$	$	$	$ 708
Restructuring charge	$ 6,033	$ 1,661	$	$	$ 7,694
Stock-based compensation	$	$	$	$ 5,662	$ 5,662
Loss on disposition	$ 5,885	$	$	$	$ 5,885
Nine Months Ended September 30, 2014:					
Net revenue	$ 1,735,856	$ 372,352	$ 81,616	$	$ 2,189,824
Operating income (loss)	$ 119,339	$ 6,814	$ 10,618	$ (74,022)	$ 62,749
Depreciation and amortization	$ 230,219	$ 54,472	$ 2,604	$ 3,461	$ 290,756
Restructuring charge	$ 29,572	$ 3,872	$	$ 7,328	$ 40,772
Stock-based compensation	$	$	$	$ 7,751	$ 7,751
Loss on disposition	$ 638	$	$	$	$ 638
Nine Months Ended September 30, 2013:					
Net revenue	$ 1,777,055	$ 401,432	$ 76,846	$	$ 2,255,333
Operating income (loss)	$ 185,925	$ (18,832)	$ 9,031	$ (66,909)	$ 109,215
Depreciation and amortization	$ 258,485	$ 63,005	$ 3,296	$ 846	$ 325,632
Non-cash charge associated with acquired inventory	$ 1,880	$	$	$	$ 1,880
Restructuring charge	$ 9,162	$ 10,468	$	$	$ 19,630
Stock-based compensation	$	$	$	$ 14,462	$ 14,462
Loss on disposition	$ 5,885	$	$	$	$ 5,885
Assets:					
As of September 30, 2014	$ 6,016,347	$ 486,937	$ 215,802	$ 89,535	$ 6,808,621
As of December 31, 2013	$ 5,744,734	$ 504,645	$ 197,458	$ 613,977	$ 7,060,814

Table of Contents

The following tables summarize our net revenue from the professional diagnostics and health information solutions reporting segments by groups of similar products and services for the three and nine months ended September 30, 2014 and 2013 (in thousands):

Professional Diagnostics Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Infectious disease	$ 177,339	$ 172,739	$ 507,010	$ 520,289
Toxicology	161,940	166,536	478,514	481,469
Cardiology	108,501	116,281	331,917	349,650
Diabetes	49,477	53,150	151,425	178,138
Other	84,501	78,607	252,303	235,992
Professional diagnostics net product sales and services revenue	581,758	587,313	1,721,169	1,765,538
License and royalty revenue	4,183	3,488	14,687	11,517
Professional diagnostics net revenue	$ 585,941	$ 590,801	$ 1,735,856	$ 1,777,055

Health Information Solutions Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Condition and case management	$ 48,356	$ 55,992	$ 145,215	$ 161,475
Wellness	21,546	22,223	70,030	75,753
Women s and children s health	23,769	28,431	70,308	86,767
Patient self-testing services	30,185	27,025	86,799	77,437
Health information solutions net revenue	$ 123,856	$ 133,671	$ 372,352	$ 401,432

(14) Related Party Transactions

(a) Divestiture of ACS Companies

On October 10, 2014, we completed the sale of our ACS subsidiary to ACS Acquisition, LLC (the Purchaser), pursuant to the terms of a Membership Interest Purchase Agreement with the Purchaser and Sumit Nagpal. In connection with the sale of ACS, we also agreed to sell our subsidiary Wellogic ME FZ LLC (Wellogic, together with ACS, the ACS Companies) to the Purchaser, subject to the satisfaction of routine requirements of Dubai law relating to the transfer of equity. See Note 20.

Mr. Nagpal is a director of Wellogic and served as the chief executive officer and a director of ACS until his resignation on September 2, 2014. Mr. Nagpal was also the owner of Method Factory, Inc., the company that sold to Alere in 2011 the business and assets of ACS, and Wellogic prior to its sale to Alere in 2012.

(b) SPD Joint Venture

In May 2007, we completed the formation of Swiss Precision Diagnostics GmbH, or SPD, our 50/50 joint venture with Procter & Gamble, or P&G, for the development, manufacturing, marketing and sale of existing and to-be-developed consumer diagnostic products, outside the cardiology, diabetes and oral care fields. Upon completion of the arrangement to form the joint venture, we ceased to consolidate the operating results of our consumer diagnostic products business related to the joint venture and instead account for our 50% interest in the results of the joint venture under the equity method of accounting.

We had a net payable to SPD of $4.1 million as of September 30, 2014 and a net receivable from SPD of $2.1 million as of December 31, 2013. Included in the $4.1 million payable balance as of September 30, 2014 is a receivable of approximately $1.6 million for costs incurred in connection with our 2008 SPD-related restructuring plans. Included in the $2.1 million receivable balance as of December 31, 2013 is approximately $1.8 million of costs incurred in connection with our 2008 SPD-related restructuring plans. We have also recorded a long-term receivable totaling approximately $11.4 million and $13.2 million as of September 30, 2014 and December 31, 2013, respectively, related to the 2008 SPD-related restructuring plans. Additionally, customer receivables associated with revenue earned after the formation of the joint venture was completed have been classified as other receivables within prepaid and other current assets on our Consolidated Balance Sheets in the amount of $9.1 million and $12.4 million as of September 30, 2014 and December 31, 2013, respectively. In connection with the joint venture arrangement, the joint venture bears the collection risk associated with these receivables. Sales to the joint venture under our manufacturing agreement totaled $19.6 million and $60.8 million during the three and nine months ended September 30, 2014, respectively, and $21.2 million and $56.5 million during the three and nine months ended September 30, 2013, respectively. Additionally, services revenue generated pursuant to the long-term services agreement with the joint venture totaled $0.3 million and $1.0 million during the three and nine months ended September 30, 2014, respectively, and $0.3 million and $0.9 million during the three and nine months ended September 30, 2013, respectively. Sales under our manufacturing agreement and long-term services agreement are included in net product sales and services revenue, respectively, in our Consolidated Statements of Operations.

Under the terms of our product supply agreement, SPD purchases products from our manufacturing facilities in China. SPD in turn sells a portion of those tests back to us for final assembly and packaging. Once packaged, a portion of the tests are sold to P&G for distribution to third-party customers in North America. As a result of these related transactions, we have recorded $9.1 million and $9.4 million of trade receivables which are included in accounts receivable on our Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, respectively, and $25.8 million and $18.8 million of trade accounts payable which are included in accounts payable on our Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, respectively. During the nine months ended September 30, 2013, we received $10.8 million in cash from SPD as a return of capital.

The following table summarizes our related party balances with SPD within our Consolidated Balance Sheets (in thousands):

Balance Sheet Caption	**September 30, 2014**	**December 31, 2013**
Accounts receivable, net of allowances	$ 9,119	$ 11,510
Prepaid expenses and other current assets	$ 9,133	$ 12,417
Deferred financing costs, net, and other non-current assets	$ 11,369	$ 13,249
Accounts payable	$ 29,841	$ 18,811

(c) Entrustment Loan Arrangement with SPD Shanghai

Alere (Shanghai) Diagnostics Co., Ltd., or Alere Shanghai, and SPD Trading (Shanghai) Co., Ltd., or SPD Shanghai, entered into an entrustment loan arrangement for a maximum of CNY 23 million (approximately $3.7 million at September 30, 2014), in order to finance the latter s short-term working capital needs, with the Royal Bank of Scotland (China) Co., Ltd. Shanghai Branch, or RBS. The agreement governs the setting up of an Entrustment Loan Account with RBS, into which Alere Shanghai deposits certain monies. This restricted cash account provides a guarantee to RBS of amounts borrowed from RBS by SPD Shanghai. The Alere Shanghai RBS account is recorded as restricted cash on Alere Shanghai s balance sheet and amounted to $1.7 million at September 30, 2014.

(15) Other Arrangements

On February 19, 2013, we entered into an agreement with the Bill and Melinda Gates Foundation, or the Gates Foundation, whereby we were awarded a grant by the Gates Foundation in the amount of $21.6 million to support the development and commercialization of a validated, low-cost, nucleic-acid assay for clinical Tuberculosis, or TB, detection and drug-resistance test cartridges and adaptation of an analyzer platform capable of operation in rudimentary laboratories in low-resource settings. In connection with this agreement, we also entered into a loan agreement with the Gates Foundation, or the Gates Loan Agreement, which provides for the making of subordinated term loans by the Gates Foundation to us from time to time, subject to the achievement of certain milestones, in an aggregate principal amount of up to $20.6 million. Funding under the Gates Loan Agreement will be used in connection with the purchase of equipment for an automated high-throughput manufacturing line and other uses as necessary for the manufacture of the TB and HIV-related products. All loans under the Gates Loan Agreement are evidenced by promissory notes that we have executed and delivered to the Gates Foundation, bear interest at the rate of 3% per annum and, except to the extent earlier repaid by us, mature and are required to be repaid in full on December 31, 2019. As of September 30, 2014, we had borrowed no amounts under the Gates Loan Agreement. As of September 30, 2014, we had received approximately $11.6 million in grant-related funding from the Gates Foundation, which was recorded as restricted cash and deferred grant funding. The deferred grant funding is classified within accrued expenses and other current liabilities on our Consolidated Balance Sheet. As qualified expenditures are incurred under the terms of the grant, we use the deferred funding to recognize a reduction of our related qualified research and development expenditures. For the three and nine months ended September 30, 2014, we incurred $2.5 million and $7.0 million, respectively, and for the three and nine months ended September 30, 2013, we incurred $1.9 million and $4.3 million, respectively, of qualified expenditures, for which we reduced our deferred grant funding balance and recorded an offset to our research and development expenses.

(16) Material Contingencies

Acquisition-related Contingent Consideration Obligations

We have contractual contingent purchase price consideration obligations related to certain of our acquisitions. We determine the acquisition date fair value of the contingent consideration obligations based on a probability-weighted approach derived from the overall likelihood of achieving certain performance targets, including product development milestones or financial metrics. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement, as defined in fair value measurement accounting. The resultant probability-weighted earn-out payments are discounted using a discount rate based upon the weighted-average cost of capital. At each reporting date, we revalue the contingent consideration obligations to the reporting date fair values and record increases and decreases in the fair values as income or expense in our Consolidated Statements of Operations.

Table of Contents

Increases or decreases in the fair values of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of earn-out criteria and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

The following table summarizes our contractual contingent purchase price consideration obligations related to certain of our acquisitions, as follows (in thousands):

Acquisition	Acquisition Date	Acquisition Date Fair Value	Maximum Remaining Earn-out Potential as of September 30, 2014	Remaining Earn-out Period as of September 30, 2014		Estimated Fair Value as of September 30, 2014	Estimated Fair Value as of December 31, 2013	Payments Made During 2014
TwistDx, Inc.[1]	March 11, 2010	$ 35,600	$ 108,777	2014	2025[10]	$ 39,900	$ 45,502	$ 15,250
Ionian Technologies, Inc.[2]	July 12, 2010	$ 24,500	$ 50,000	2014	2015	24,700	29,000	7,500
Laboratory Data Systems, Inc.[3]	August 29, 2011	$ 13,000	$				7,400	7,500
Forensics Limited (ROAR)[4]	September 22, 2011	$ 5,463	$ 12,600		2014	3,492	2,484	
ACS[5]	December 9, 2011	$ 18,900	$ [11]				26,900	579
MedApps[6]	July 2, 2012	$ 13,100	$ 8,600		2014	6,500	8,200	5,000
Amedica Biotech, Inc.[7]	July 3, 2012	$ 8,900	$				7,500	8,055
DiagnosisOne, Inc.[8]	July 31, 2012	$ 22,300	$ 30,000	2014	2017	20,400	26,600	3,000
Epocal [9]	February 1, 2013	$ 75,000	$ 65,500	2014	2018	47,100	47,200	
Other	Various	$ 58,877	$ 20,129	2014	2016	12,908	13,183	2,689
						$ 155,000	$ 213,969	$ 49,573

(1) The terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue and product development targets through 2025.

(2) The terms of the acquisition agreement require us to pay earn-outs upon successfully meeting multiple product development milestones during the five years following the acquisition.

(3) The terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue and operating income targets during each of the twelve-month periods ending June 30, 2012 and 2013.

(4) The terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain EBITDA targets during 2012 through 2014.

(5) The terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain operational and profit targets during 2012 through 2019. See also (11).

(6) The terms of the acquisition agreement require us to make earn-out payments upon achievement of certain technological and product development milestones through December 31, 2014.

(7) The terms of the acquisition agreement require us to make earn-out payments upon successfully meeting certain financial targets during each of the calendar years 2012 and 2013.

(8) The terms of the acquisition agreement require us to pay earn-outs upon successfully meeting certain financial targets within five years of the acquisition date.

(9) The terms of the acquisition agreement require us to pay earn-outs and management incentive payments upon successfully meeting certain product development and United States Food and Drug Administration regulatory approval milestones from the date of acquisition through December 31, 2018.

(10) The maximum earn-out period ends on the fifteenth anniversary of the acquisition date.

(11) The earn-out was comprised of three components, of which two components had an aggregate maximum remaining earn-out potential of $49.4 million. There was no dollar cap on the third earn-out component, however, the earn-out potential is limited to the remaining earn-out period. ACS was divested in October 2014 and these earn-outs were terminated in connection with the divestiture transaction. See Note 20.

(17) Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position, results of operations, comprehensive income or cash flows upon adoption.

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-15, *Presentation of Financial Statements -Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*, or ASU 2014-15. ASU 2014-15 is intended to define management s responsibility to evaluate whether there is substantial doubt about an organization s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years ending after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the potential impacts of the new standard on our consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-12, *Compensation Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be*

Table of Contents

Achieved after the Requisite Service Period, or ASU 2014-12. ASU 2014-12 requires that a performance target which affects vesting and which could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09. ASU 2014-09 requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. Early adoption is not permitted. We are currently evaluating the impact of the new guidance and the method of adoption in the consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, or ASU 2014-08. ASU 2014-08 requires that only disposals representing a strategic shift in operations which has a major effect on the organization s operations and financial results, such as a disposal of a major geographic area, a major line of business, or a major equity method investment, should be presented as discontinued operations. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. ASU 2014-08 is effective in the first quarter of 2015. The impact on our consolidated financial statements will be dependent on any transaction that is within the scope of the new guidance.

Recently Adopted Standards

Effective January 1, 2014, we adopted Accounting Standards Update, or ASU, 2013-11, *Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, similar tax loss or a tax credit carryforward exists, with limited exceptions. The adoption of this standard had no material impact on our Consolidated Financial Statements.

(18) Equity Investments

We account for the results from our equity investments under the equity method of accounting in accordance with Accounting Standards Codification, or ASC, 323, *Investments Equity Method and Joint Ventures,* based on the percentage of our ownership interest in the business. Our equity investments primarily include the following:

(a) SPD

We recorded earnings of $5.9 million and $12.8 million during the three and nine months ended September 30, 2014, respectively, and earnings of $4.7 million and $11.4 million during the three and nine months ended September 30, 2013, respectively, in equity earnings of unconsolidated entities, net of tax, in our Consolidated Statements of Operations, which represented our 50% share of SPD s net income for the respective periods.

(b) TechLab

We own 49% of TechLab, Inc., or TechLab, a privately-held developer, manufacturer and distributor of rapid non-invasive intestinal diagnostics tests in the areas of intestinal inflammation, antibiotic-associated diarrhea and parasitology. We recorded earnings of $0.9 million and $1.6 million during the three and nine months ended September 30, 2014, respectively, and earnings of $0.5 million and $1.3 million during the three and nine months ended September 30, 2013, respectively, in equity earnings of unconsolidated entities, net of tax, in our Consolidated Statements of Operations, which represented our minority share of TechLab s net income for the respective periods.

Summarized financial information for SPD and TechLab on a combined basis is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Combined Condensed Results of Operations:	**2014**	**2013**	**2014**	**2013**
Net revenue	$ 65,397	$ 49,272	$ 155,533	$ 153,096
Gross profit	$ 40,268	$ 40,158	$ 120,680	$ 112,862
Net income after taxes	$ 12,834	$ 10,543	$ 27,992	$ 25,549

Table of Contents

Combined Condensed Balance Sheet:	September 30, 2014	December 31, 2013
Current assets	$ 77,201	$ 63,985
Non-current assets	35,912	38,541
Total assets	$ 113,113	$ 102,526
Current liabilities	$ 27,675	$ 38,053
Non-current liabilities	6,333	6,175
Total liabilities	$ 34,008	$ 44,228

(19) Loss on Disposition

In April 2014, we sold the Glucostabilizer business of Alere Informatics, Inc., which was part of our professional diagnostics reporting unit and business segment, to Medical Decision Network, LLC, or MDN, for $1.1 million in cash proceeds and a $1.5 million note receivable, which we fully reserved for based on our assessment of collectability. As a result of this transaction, we recorded a loss on disposition of $0.6 million during the nine months ended September 30, 2014. The financial results for the Glucostabilizer business are immaterial to our consolidated financial results.

(20) Discontinued Operations

On October 10, 2014, we completed the sale of our ACS subsidiary to ACS Acquisition, LLC (the Purchaser), pursuant to the terms of a Membership Interest Purchase Agreement with Sumit Nagpal. In connection with the sale of ACS, we also agreed to sell our subsidiary Wellogic ME FZ LLC (Wellogic, together with ACS, the ACS Companies) to the Purchaser, subject to the satisfaction of routine requirements of Dubai law relating to the transfer of equity. The ACS Companies were included in our health information solutions segment. The purchase price for the ACS Companies consisted of cash proceeds of $2.00 at closing and contingent consideration of up to an aggregate of $7.0 million, consisting of (i) payments based on the gross revenues of the ACS Companies, (ii) payments to be made in connection with financing transactions by the Purchaser or the ACS Companies and (iii) payments to be made in connection with a sale by the Purchaser of the ACS Companies. In connection with the sale, we agreed to reimburse the Purchaser for up to $750,000 of the Purchaser s and the ACS Companies transitional expenses.

Management determined that the transaction, as discussed above, met the criteria for assets held for sale as of September 30, 2014, and therefore, the following assets and liabilities have been segregated and classified as assets held for sale and liabilities related to assets held for sale, as appropriate, in the Consolidated Balance Sheet as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 8	$ 282
Restricted cash	100	100
Accounts receivable, net of allowances of $161 and $56 at September 30, 2014 and December 31, 2013, respectively	1,592	869
Prepaid expenses	443	345

Property, plant and equipment, net				1,288
Other intangible assets, net				16,168
Total assets held for sale	$	2,143	$	19,052
Liabilities				
Accounts payable	$	420	$	553
Accrued expenses and other current liabilities		1,703		2,038
Other long-term liabilities		63		25,736
Total liabilities related to assets held for sale	$	2,186	$	28,327

The following summarized financial information related to the ACS Companies business, which was previously included in our health information solutions reporting segment, has been segregated from continuing operations and has been reported as discontinued operations in our Consolidated Statements of Operations (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Net revenue	$ 690	$ 562	$ 1,678	$ 1,783
Income (loss) from discontinued operations before income taxes	$ 440	$ (5,286)	$ (7,547)	$ (14,040)
Benefit for income taxes	6,605	2,063	9,594	5,480
Income (loss) from discontinued operations, net of taxes	$ 7,045	$ (3,223)	$ 2,047	$ (8,560)

The net income of $7.0 million and $2.0 million for the three and nine months ended September 30, 2014, respectively, reflects a gain of $7.2 million ($11.3 million, net of tax) resulting from the write down of $18.0 million ($11.2 million, net of tax) of finite-lived intangible assets and $1.1 million ($0.7 million, net of tax) of fixed assets to fair value, offset by the reversal of a $26.3 million ($23.2 million, net of tax) contingent consideration obligation associated with our original purchase of ACS. See Note 16.

Our Consolidated Statements of Cash Flows reflect an adjustment to net loss relating to a tax benefit associated with discontinued operations that is being retained subsequent to the closing of the divestiture transaction. The tax benefit was $9.6 million and $5.5 million for the nine months ending September 30, 2014 and 2013, respectively.

(21) Income Taxes

Provision (Benefit) for Income Taxes. During the three and nine months ended September 30, 2014, the provision for income taxes included a provision of $79.4 million to establish a valuation allowance against deferred tax assets associated with our U.S. foreign tax credit carryforwards. This valuation allowance was established as it is more likely than not that these deferred tax assets will not be realized. This decision was based on the weight of all available positive and negative evidence that existed at September 30, 2014.

Table of Contents

(22) Guarantor Financial Information

Our 7.25% senior notes due 2018, our 8.625% senior subordinated notes due 2018, and our 6.5% senior subordinated notes due 2020 are guaranteed by certain of our consolidated 100% owned subsidiaries, or the Guarantor Subsidiaries. The guarantees are full and unconditional and joint and several. The following supplemental financial information sets forth, on a consolidating basis, Balance Sheets as of September 30, 2014 and December 31, 2013, the related Statements of Operations, Statements of Comprehensive Income (Loss) for each of the three and nine months ended September 30, 2014 and 2013, respectively, and the Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, respectively, for Alere Inc., the Guarantor Subsidiaries and our other subsidiaries, or the Non-Guarantor Subsidiaries. The supplemental financial information reflects the investments of Alere Inc. and the Guarantor Subsidiaries in the Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting.

We have extensive transactions and relationships between various members of the consolidated group. These transactions and relationships include intercompany pricing agreements, intellectual property royalty agreements and general and administrative and research and development cost-sharing agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

For comparative purposes, certain amounts for prior periods have been reclassified to conform to the current period classification.

Table of Contents

CONSOLIDATING STATEMENT OF OPERATIONS

For the Three Months Ended September 30, 2014

(in thousands)

	Issuer	Guarantor Subsidiaries	Non - Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales	$	$ 218,011	$ 352,042	$ (60,777)	$ 509,276
Services revenue		207,429	15,359		222,788
Net product sales and services revenue		425,440	367,401	(60,777)	732,064
License and royalty revenue		2,993	3,663	(2,474)	4,182
Net revenue		428,433	371,064	(63,251)	736,246
Cost of net product sales	912	121,036	204,984	(52,886)	274,046
Cost of services revenue	71	117,443	8,448	(7,857)	118,105
Cost of net product sales and services revenue	983	238,479	213,432	(60,743)	392,151
Cost of license and royalty revenue	28	55	3,628	(2,475)	1,236
Cost of net revenue	1,011	238,534	217,060	(63,218)	393,387
Gross profit (loss)	(1,011)	189,899	154,004	(33)	342,859
Operating expenses:					
Research and development	7,256	15,318	16,152		38,726
Sales and marketing	1,264	67,999	67,073		136,336
General and administrative	32,615	56,648	40,922		130,185
Operating income (loss)	(42,146)	49,934	29,857	(33)	37,612
Interest expense, including amortization of original issue discounts and deferred financing costs	(51,589)	(4,570)	(4,511)	8,189	(52,481)
Other income (expense), net	4,706	4,662	(9,438)	(8,190)	(8,260)
Income (loss) from continuing operations before provision for income taxes	(89,029)	50,026	15,908	(34)	(23,129)
Provision for income taxes	54,030	13,801	8,852	(35)	76,648
Income (loss) from continuing operations before equity in earnings of subsidiaries and unconsolidated	(143,059)	36,225	7,056	1	(99,777)

entities, net of tax					
Equity in earnings of subsidiaries, net of tax	56,045	209		(56,254)	
Equity earnings of unconsolidated entities, net of tax	559		5,779	(61)	6,277
Income (loss) from continuing operations	(86,455)	36,434	12,835	(56,314)	(93,500)
Income (loss) from discontinued operations, net of tax		(15,370)	22,415		7,045
Net income (loss)	(86,455)	21,064	35,250	(56,314)	(86,455)
Less: Net loss attributable to non-controlling interests			(306)		(306)
Net income (loss) attributable to Alere Inc. and Subsidiaries	(86,455)	21,064	35,556	(56,314)	(86,149)
Preferred stock dividends	(5,367)				(5,367)
Net income (loss) available to common stockholders	$ (91,822)	$ 21,064	$ 35,556	$ (56,314)	$ (91,516)

Table of Contents

CONSOLIDATING STATEMENT OF OPERATIONS

For the Three Months Ended September 30, 2013

(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales	$	$ 223,367	$ 330,010	$ (44,339)	$ 509,038
Services revenue		220,453	19,645		240,098
Net product sales and services revenue					