

ALERE INC.  
Form 10-Q  
November 07, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**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**  
(State or other jurisdiction of  
incorporation or organization)  
**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)

**04-3565120**  
(I.R.S. Employer  
Identification No.)

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**  **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**  **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  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**

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**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
<b><u>Item 1. Financial Statements (unaudited)</u></b>	3
<b><u>a) Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2013</u></b>	3
<b><u>b) Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2014 and 2013</u></b>	4
<b><u>c) Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u></b>	5
<b><u>d) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u></b>	6
<b><u>e) Notes to Consolidated Financial Statements</u></b>	7
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	37
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	49
<b><u>Item 4. Controls and Procedures</u></b>	49
<b><u>PART II. OTHER INFORMATION</u></b>	49
<b><u>Item 1. Legal Proceedings</u></b>	49
<b><u>Item 1A. Risk Factors</u></b>	50
<b><u>Item 6. Exhibits</u></b>	51
<b><u>SIGNATURE</u></b>	52

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)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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
<b>Net revenue</b>	<b>736,246</b>	<b>753,320</b>	<b>2,189,824</b>	<b>2,255,333</b>
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
<b>Cost of net revenue</b>	<b>393,387</b>	<b>384,003</b>	<b>1,154,057</b>	<b>1,136,846</b>
<b>Gross profit</b>	<b>342,859</b>	<b>369,317</b>	<b>1,035,767</b>	<b>1,118,487</b>
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
<b>Operating income</b>	<b>37,612</b>	<b>25,584</b>	<b>62,749</b>	<b>109,215</b>
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)
<b>Loss from continuing operations before provision (benefit) for income taxes</b>	<b>(23,129)</b>	<b>(36,704)</b>	<b>(94,815)</b>	<b>(102,317)</b>

Edgar Filing: ALERE INC. - Form 10-Q

Provision (benefit) for income taxes	76,648	(15,085)	63,109	(30,673)
<b>Loss from continuing operations before equity earnings of unconsolidated entities, net of tax</b>	(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)
<b>Net loss</b>	(86,455)	(19,089)	(142,161)	(66,966)
Less: Net income (loss) attributable to non-controlling interests	(306)	359	(136)	601
<b>Net loss attributable to Alere Inc. and Subsidiaries</b>	(86,149)	(19,448)	(142,025)	(67,567)
Preferred stock dividends	(5,367)	(5,367)	(15,926)	(15,926)
<b>Net loss available to common stockholders</b>	\$ (91,516)	\$ (24,815)	\$ (157,951)	\$ (83,493)
<b>Basic and diluted net loss per common share attributable to Alere Inc. and Subsidiaries:</b>				
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)
<b>Weighted-average shares basic and diluted</b>	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)

	<b>Three Months Ended September 30,</b>		<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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.

Table of Contents

**ALERE INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

(in thousands, except par value)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current assets:</b>		
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
<b>Total current assets</b>	<b>1,527,159</b>	<b>1,489,869</b>
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	
<b>Total assets</b>	<b>\$ 6,808,621</b>	<b>\$ 7,060,814</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
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
<b>Total current liabilities</b>	<b>716,886</b>	<b>698,921</b>
<b>Long-term liabilities:</b>		
Long-term debt, net of current portion	3,683,614	3,772,788



Edgar Filing: ALERE INC. - Form 10-Q

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
<b>Total long-term liabilities</b>	<b>4,199,454</b>	<b>4,279,045</b>
<b>Commitments and contingencies (Note 16)</b>		
<b>Stockholders equity:</b>		
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)
<b>Total stockholders equity</b>	<b>1,887,535</b>	<b>2,077,966</b>
Non-controlling interests	4,746	4,882
<b>Total equity</b>	<b>1,892,281</b>	<b>2,082,848</b>
<b>Total liabilities and equity</b>	<b>\$ 6,808,621</b>	<b>\$ 7,060,814</b>

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
<b>Cash Flows from Operating Activities:</b>		
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)
<b>Net cash provided by operating activities</b>	<b>216,895</b>	<b>159,105</b>

<b>Cash Flows from Investing Activities:</b>		
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)
<b>Net cash used in investing activities</b>	<b>(69,252)</b>	<b>(222,648)</b>
<b>Cash Flows from Financing Activities:</b>		
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)	
<b>Net cash provided by (used in) financing activities</b>	<b>(55,245)</b>	<b>84,208</b>
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
<b>Cash and cash equivalents of continuing operations, end of period</b>	<b>\$ 444,853</b>	<b>\$ 353,992</b>

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):

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

**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
<b>Basic and diluted net loss per common share:</b>				
<b>Numerator:</b>				
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
<b>Loss from continuing operations attributable to Alere Inc. and Subsidiaries</b>	<b>(98,561)</b>	<b>(21,592)</b>	<b>(159,998)</b>	<b>(74,933)</b>
	7,045	(3,223)	2,047	(8,560)

Edgar Filing: ALERE INC. - Form 10-Q

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, 2014		Three Months Ended September 30, 2013	
	2014	2013	2014	2013
<b>Denominator:</b>				
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):

	<b>Nine Months Ended September 30,</b>					
	<b>2014</b>			<b>2013</b>		
	<b>Total</b>	<b>Non-</b>	<b>Total</b>	<b>Total</b>	<b>Non-</b>	<b>Total</b>
	<b>Stockholders</b>	<b>controlling</b>	<b>Equity</b>	<b>Stockholders</b>	<b>controlling</b>	<b>Equity</b>
	<b>Equity</b>	<b>Interests</b>	<b>Equity</b>	<b>Equity</b>	<b>Interests</b>	<b>Equity</b>
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):

	<b>Epocal</b>	<b>Other</b>	<b>Total</b>
Current assets <sup>(1)</sup>	\$ 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
<b>Total assets acquired</b>	<b>296,779</b>	<b>69,010</b>	<b>365,789</b>
Current liabilities	2,701	5,398	8,099
Non-current liabilities	45,542	6,062	51,604
<b>Total liabilities assumed</b>	<b>48,243</b>	<b>11,460</b>	<b>59,703</b>
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
<b>Cash paid</b>	<b>\$ 151,448</b>	<b>\$ 28,221</b>	<b>\$ 179,669</b>

<sup>(1)</sup> 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):

	<b>Epocal</b>	<b>Other</b>	<b>Total</b>	<b>Weighted-average Useful Life</b>
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):

Statement of Operations Caption	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	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
<b>Total operating expenses</b>	<b>17,727</b>	<b>7,694</b>	<b>40,772</b>	<b>19,630</b>
Interest expense, including amortization of original issue discounts and deferred financing costs	142	111	375	228
<b>Total charges</b>	<b>\$ 17,869</b>	<b>\$ 7,805</b>	<b>\$ 41,147</b>	<b>\$ 19,858</b>

**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):

	<b>Three Months Ended September 30, 2014</b>			
	<b>Professional Diagnostics</b>	<b>Health Information Solutions</b>	<b>Corporate and Other</b>	<b>Total</b>
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
<b>Total charges</b>	<b>\$ 13,868</b>	<b>\$ 539</b>	<b>\$ 3,178</b>	<b>\$ 17,585</b>

	<b>Nine Months Ended September 30, 2014</b>			
	<b>Professional Diagnostics</b>	<b>Health Information Solutions</b>	<b>Corporate and Other</b>	<b>Total</b>
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
<b>Total charges</b>	<b>\$ 28,044</b>	<b>\$ 1,464</b>	<b>\$ 7,328</b>	<b>\$ 36,836</b>

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):

<b>Professional Diagnostics</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Since Inception</b>
	<b>September 30, 2014</b>	<b>September 30, 2013</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>	
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
<b>Total charges</b>	<b>\$ 151</b>	<b>\$ 5,453</b>	<b>\$ 1,205</b>	<b>\$ 7,887</b>	<b>\$ 11,655</b>

**Table of Contents**

<b>Health Information Solutions</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Since Inception</b>
	<b>September 30, 2014</b>	<b>September 30, 2013</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>	
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):

<b>Professional Diagnostics</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Since Inception</b>
	<b>September 30, 2014</b>	<b>September 30, 2013</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>	
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

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



Edgar Filing: ALERE INC. - Form 10-Q

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.

**Table of Contents***(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):

	<b>Severance- related Costs</b>	<b>Facility and Transition Costs</b>	<b>Other Exit Costs</b>	<b>Total</b>
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)
<b>Balance, September 30, 2014</b>	<b>\$ 4,175</b>	<b>\$ 11,159</b>	<b>\$ 686</b>	<b>\$ 16,020</b>

**(10) Long-term Debt**

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

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
A term loans <sup>(1) (2)</sup>	\$ 797,500	\$ 832,188
B term loans <sup>(1) (3)</sup>	1,334,165	1,344,238
Revolving line of credit <sup>(1)</sup>	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)
	<b>\$ 3,683,614</b>	<b>\$ 3,772,788</b>

(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 <sup>(1)</sup>	\$ 24,985	\$ 25,809	\$ 74,606	\$ 78,741
7.25% Senior notes	8,525	8,535	25,574	25,371
7.875% Senior notes <sup>(2)</sup>				137
6.5% Senior subordinated notes	7,180	7,172	21,534	10,185
9% Senior subordinated notes <sup>(3)</sup>				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):

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

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

<sup>(1)</sup> 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	(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):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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
<b>Three Months Ended September 30, 2014:</b>					
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
<b>Three Months Ended September 30, 2013:</b>					
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
<b>Nine Months Ended September 30, 2014:</b>					
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
<b>Nine Months Ended September 30, 2013:</b>					
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
<b>Assets:</b>					
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.

**Table of Contents**

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):

<b>Balance Sheet Caption</b>	<b>September 30, 2014</b>		<b>December 31, 2013</b>	
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 Fair Value	Maximum	Remaining		Estimated		Payments Made During
			Remaining Earn-out Potential as of September 30, 2014	Earn-out Period as of September 30, 2014	Estimated Fair Value as of September 30, 2014	Fair Value as of December 31, 2013		
TwistDx, Inc. <sup>(1)</sup>	March 11, 2010	\$ 35,600	\$ 108,777	2014	2025 <sup>(10)</sup>	\$ 39,900	\$ 45,502	\$ 15,250
Ionian Technologies, Inc. <sup>(2)</sup>	July 12, 2010	\$ 24,500	\$ 50,000	2014	2015	24,700	29,000	7,500
Laboratory Data Systems, Inc. <sup>(3)</sup>	August 29, 2011	\$ 13,000	\$				7,400	7,500
Forensics Limited (ROAR) <sup>(4)</sup>	September 22, 2011	\$ 5,463	\$ 12,600	2014		3,492	2,484	
ACS <sup>(5)</sup>	December 9, 2011	\$ 18,900	\$				26,900	579
MedApps <sup>(6)</sup>	July 2, 2012	\$ 13,100	\$ 8,600	2014		6,500	8,200	5,000
Amedica Biotech, Inc. <sup>(7)</sup>	July 3, 2012	\$ 8,900	\$				7,500	8,055
DiagnosisOne, Inc. <sup>(8)</sup>	July 31, 2012	\$ 22,300	\$ 30,000	2014	2017	20,400	26,600	3,000
Epocal <sup>(9)</sup>	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**



Edgar Filing: ALERE INC. - Form 10-Q

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):

<b>Combined Condensed Results of Operations:</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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**

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

**(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):

	<b>September 30, 2014</b>		<b>December 31, 2013</b>	
<b>Assets</b>				
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

Edgar Filing: ALERE INC. - Form 10-Q

Property, plant and equipment, net			1,288
Other intangible assets, net			16,168
Total assets held for sale	\$	2,143	\$ 19,052
<b>Liabilities</b>			
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):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non - Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
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
<b>Net revenue</b>		<b>428,433</b>	<b>371,064</b>	<b>(63,251)</b>	<b>736,246</b>
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
<b>Cost of net revenue</b>	<b>1,011</b>	<b>238,534</b>	<b>217,060</b>	<b>(63,218)</b>	<b>393,387</b>
<b>Gross profit (loss)</b>	<b>(1,011)</b>	<b>189,899</b>	<b>154,004</b>	<b>(33)</b>	<b>342,859</b>
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
<b>Operating income (loss)</b>	<b>(42,146)</b>	<b>49,934</b>	<b>29,857</b>	<b>(33)</b>	<b>37,612</b>
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)
<b>Income (loss) from continuing operations before provision for income taxes</b>	<b>(89,029)</b>	<b>50,026</b>	<b>15,908</b>	<b>(34)</b>	<b>(23,129)</b>
Provision for income taxes	54,030	13,801	8,852	(35)	76,648
<b>Income (loss) from continuing operations before equity in earnings of subsidiaries and unconsolidated</b>	<b>(143,059)</b>	<b>36,225</b>	<b>7,056</b>	<b>1</b>	<b>(99,777)</b>

<b>entities, net of tax</b>					
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
<b>Net income (loss)</b>	<b>(86,455)</b>	<b>21,064</b>	<b>35,250</b>	<b>(56,314)</b>	<b>(86,455)</b>
Less: Net loss attributable to non-controlling interests			(306)		(306)
<b>Net income (loss) attributable to Alere Inc. and Subsidiaries</b>	<b>(86,455)</b>	<b>21,064</b>	<b>35,556</b>	<b>(56,314)</b>	<b>(86,149)</b>
Preferred stock dividends	(5,367)				(5,367)
<b>Net income (loss) available to common stockholders</b>	<b>\$ (91,822)</b>	<b>\$ 21,064</b>	<b>\$ 35,556</b>	<b>\$ (56,314)</b>	<b>\$ (91,516)</b>

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS****For the Three Months Ended September 30, 2013**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
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		443,820	349,655	(44,339)	749,136
License and royalty revenue		5,103	4,057	(4,976)	4,184
<b>Net revenue</b>		<b>448,923</b>	<b>353,712</b>	<b>(49,315)</b>	<b>753,320</b>
Cost of net product sales	887	128,905	165,914	(37,472)	258,234
Cost of services revenue		120,062	8,749	(5,051)	123,760
Cost of net product sales and services revenue	887	248,967	174,663	(42,523)	381,994
Cost of license and royalty revenue		17	6,967	(4,975)	2,009
<b>Cost of net revenue</b>	<b>887</b>	<b>248,984</b>	<b>181,630</b>	<b>(47,498)</b>	<b>384,003</b>
<b>Gross profit (loss)</b>	<b>(887)</b>	<b>199,939</b>	<b>172,082</b>	<b>(1,817)</b>	<b>369,317</b>
Operating expenses:					
Research and development	5,515	17,030	17,953		40,498
Sales and marketing	1,579	81,466	75,633		158,678
General and administrative	23,027	60,942	54,703		138,672
Loss on disposition			5,885		5,885
<b>Operating income (loss)</b>	<b>(31,008)</b>	<b>40,501</b>	<b>17,908</b>	<b>(1,817)</b>	<b>25,584</b>
Interest expense, including amortization of original issue discounts and deferred financing costs	(52,318)	(6,326)	(2,721)	7,945	(53,420)
Other income (expense), net	(6,775)	5,771	81	(7,945)	(8,868)
<b>Income (loss) from continuing operations before provision (benefit) for income taxes</b>	<b>(90,101)</b>	<b>39,946</b>	<b>15,268</b>	<b>(1,817)</b>	<b>(36,704)</b>
Provision (benefit) for income taxes	(29,302)	14,212	564	(559)	(15,085)
<b>Income (loss) from continuing operations before in equity earnings</b>	<b>(60,799)</b>	<b>25,734</b>	<b>14,704</b>	<b>(1,258)</b>	<b>(21,619)</b>

**(losses) of subsidiaries and****unconsolidated entities, net of tax**

Equity in earnings (losses) of subsidiaries, net of tax	41,246	(337)		(40,909)	
Equity earnings of unconsolidated entities, net of tax	464		5,217	72	5,753
Income (loss) from continuing operations	(19,089)	25,397	19,921	(42,095)	(15,866)
Loss from discontinued operations, net of tax		(2,685)	(538)		(3,223)
<b>Net income (loss)</b>	<b>(19,089)</b>	<b>22,712</b>	<b>19,383</b>	<b>(42,095)</b>	<b>(19,089)</b>
Less: Net income attributable to non-controlling interests			359		359
<b>Net income (loss) attributable to Alere Inc. and Subsidiaries</b>	<b>(19,089)</b>	<b>22,712</b>	<b>19,024</b>	<b>(42,095)</b>	<b>(19,448)</b>
Preferred stock dividends	(5,367)				(5,367)
<b>Net income (loss) available to common stockholders</b>	<b>\$(24,456)</b>	<b>\$ 22,712</b>	<b>\$ 19,024</b>	<b>\$ (42,095)</b>	<b>\$ (24,815)</b>



Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2014**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net product sales	\$	\$ 634,066	\$ 1,046,197	\$ (172,118)	\$ 1,508,145
Services revenue		614,264	51,416		665,680
Net product sales and services revenue		1,248,330	1,097,613	(172,118)	2,173,825
License and royalty revenue		10,312	14,684	(8,997)	15,999
<b>Net revenue</b>		<b>1,258,642</b>	<b>1,112,297</b>	<b>(181,115)</b>	<b>2,189,824</b>
Cost of net product sales	2,291	357,401	591,779	(156,852)	794,619
Cost of services revenue	214	350,324	25,123	(20,123)	355,538
Cost of net product sales and services revenue	2,505	707,725	616,902	(176,975)	1,150,157
Cost of license and royalty revenue	28	194	12,675	(8,997)	3,900
<b>Cost of net revenue</b>	<b>2,533</b>	<b>707,919</b>	<b>629,577</b>	<b>(185,972)</b>	<b>1,154,057</b>
<b>Gross profit (loss)</b>	<b>(2,533)</b>	<b>550,723</b>	<b>482,720</b>	<b>4,857</b>	<b>1,035,767</b>
Operating expenses:					
Research and development	20,034	45,753	49,068		114,855
Sales and marketing	6,329	216,458	209,740		432,527
General and administrative	76,803	195,715	152,480		424,998
Loss on disposition		638			638
<b>Operating income (loss)</b>	<b>(105,699)</b>	<b>92,159</b>	<b>71,432</b>	<b>4,857</b>	<b>62,749</b>
Interest expense, including amortization of original issue discounts and deferred financing costs	(154,232)	(15,335)	(13,646)	26,535	(156,678)
Other income (expense), net	11,823	12,817	1,068	(26,594)	(886)
<b>Income (loss) from continuing operations before provision (benefit) for income taxes</b>	<b>(248,108)</b>	<b>89,641</b>	<b>58,854</b>	<b>4,798</b>	<b>(94,815)</b>
Provision (benefit) for income taxes	(8,291)	42,151	27,625	1,624	63,109
<b>Income (loss) from continuing operations before equity in earnings of</b>	<b>(239,817)</b>	<b>47,490</b>	<b>31,229</b>	<b>3,174</b>	<b>(157,924)</b>

**subsidiaries and unconsolidated entities, net of tax**

Equity in earnings of subsidiaries, net of tax	96,269	442		(96,711)	
Equity earnings of unconsolidated entities, net of tax	1,387		12,516	(187)	13,716
Income (loss) from continuing operations	(142,161)	47,932	43,745	(93,724)	(144,208)
Income (loss) from discontinued operations, net of tax		(21,149)	23,196		2,047
<b>Net income (loss)</b>	<b>(142,161)</b>	<b>26,783</b>	<b>66,941</b>	<b>(93,724)</b>	<b>(142,161)</b>
Less: Net loss attributable to non-controlling interests			(136)		(136)
<b>Net income (loss) attributable to Alere Inc. and Subsidiaries</b>	<b>(142,161)</b>	<b>26,783</b>	<b>67,077</b>	<b>(93,724)</b>	<b>(142,025)</b>
Preferred stock dividends	(15,926)				(15,926)
<b>Net income (loss) available to common stockholders</b>	<b>\$ (158,087)</b>	<b>\$ 26,783</b>	<b>\$ 67,077</b>	<b>\$ (93,724)</b>	<b>\$ (157,951)</b>

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2013**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net product sales	\$	\$ 665,927	\$ 1,015,646	\$ (142,697)	\$ 1,538,876
Services revenue		645,620	57,724		703,344
Net product sales and services revenue		1,311,547	1,073,370	(142,697)	2,242,220
License and royalty revenue		10,908	12,662	(10,457)	13,113
<b>Net revenue</b>		<b>1,322,455</b>	<b>1,086,032</b>	<b>(153,154)</b>	<b>2,255,333</b>
Cost of net product sales	2,722	368,325	518,776	(125,322)	764,501
Cost of services revenue		354,711	26,147	(13,777)	367,081
Cost of net product sales and services revenue	2,722	723,036	544,923	(139,099)	1,131,582
Cost of license and royalty revenue		52	15,668	(10,456)	5,264
<b>Cost of net revenue</b>	<b>2,722</b>	<b>723,088</b>	<b>560,591</b>	<b>(149,555)</b>	<b>1,136,846</b>
<b>Gross profit (loss)</b>	<b>(2,722)</b>	<b>599,367</b>	<b>525,441</b>	<b>(3,599)</b>	<b>1,118,487</b>
Operating expenses:					
Research and development	16,167	50,682	54,011		120,860
Sales and marketing	4,384	245,265	223,272		472,921
General and administrative	51,531	201,719	156,356		409,606
Loss on disposition			5,885		5,885
<b>Operating income (loss)</b>	<b>(74,804)</b>	<b>101,701</b>	<b>85,917</b>	<b>(3,599)</b>	<b>109,215</b>
Interest expense, including amortization of original issue discounts and deferred financing costs	(200,836)	(19,729)	(9,209)	26,502	(203,272)
Other income (expense), net	(7,612)	17,676	8,178	(26,502)	(8,260)
<b>Income (loss) from continuing operations before provision (benefit) for income taxes</b>	<b>(283,252)</b>	<b>99,648</b>	<b>84,886</b>	<b>(3,599)</b>	<b>(102,317)</b>
Provision (benefit) for income taxes	(102,473)	44,528	28,510	(1,238)	(30,673)
<b>Income (loss) from continuing operations before in equity earnings</b>	<b>(180,779)</b>	<b>55,120</b>	<b>56,376</b>	<b>(2,361)</b>	<b>(71,644)</b>

**(losses) of subsidiaries and  
unconsolidated entities, net of tax**

Equity in earnings (losses) of subsidiaries, net of tax	112,535	(1,510)		(111,025)	
Equity earnings of unconsolidated entities, net of tax	1,278		11,932	28	13,238
Income (loss) from continuing operations	(66,966)	53,610	68,308	(113,358)	(58,406)
Loss from discontinued operations, net of tax		(6,941)	(1,619)		(8,560)
<b>Net income (loss)</b>	<b>(66,966)</b>	<b>46,669</b>	<b>66,689</b>	<b>(113,358)</b>	<b>(66,966)</b>
Less: Net income attributable to non-controlling interests			601		601
<b>Net income (loss) attributable to Alere Inc. and Subsidiaries</b>	<b>(66,966)</b>	<b>46,669</b>	<b>66,088</b>	<b>(113,358)</b>	<b>(67,567)</b>
Preferred stock dividends	(15,926)				(15,926)
<b>Net income (loss) available to common stockholders</b>	<b>\$ (82,892)</b>	<b>\$ 46,669</b>	<b>\$ 66,088</b>	<b>\$ (113,358)</b>	<b>\$ (83,493)</b>

Table of Contents**CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****For the Three Months Ended September 30, 2014**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ (86,455)	\$ 21,064	\$ 35,250	\$ (56,314)	\$ (86,455)
Other comprehensive loss, before tax:					
Changes in cumulative translation adjustment	(383)	(104)	(95,936)	(2)	(96,425)
Unrealized gains on hedging instruments			7		7
Minimum pension liability adjustment			481		481
Other comprehensive loss, before tax	(383)	(104)	(95,448)	(2)	(95,937)
Income tax provision (benefit) related to items of other comprehensive income					
Other comprehensive loss, net of tax	(383)	(104)	(95,448)	(2)	(95,937)
Comprehensive income (loss)	(86,838)	20,960	(60,198)	(56,316)	(182,392)
Less: Comprehensive loss attributable to non-controlling interests			(306)		(306)
Comprehensive income (loss) attributable to Alere Inc. and Subsidiaries	\$ (86,838)	\$ 20,960	\$ (59,892)	\$ (56,316)	\$ (182,086)

**Table of Contents****CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****For the Three Months Ended September 30, 2013**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ (19,089)	\$ 22,712	\$ 19,383	\$ (42,095)	\$ (19,089)
Other comprehensive income, before tax:					
Changes in cumulative translation adjustment	524		66,742	2	67,268
Unrealized gains on hedging instruments			20		20
Minimum pension liability adjustment			(369)		(369)
Other comprehensive income, before tax	524		66,393	2	66,919
Income tax provision (benefit) related to items of other comprehensive loss					
Other comprehensive income, net of tax	524		66,393	2	66,919
Comprehensive income (loss)	(18,565)	22,712	85,776	(42,093)	47,830
Less: Comprehensive income attributable to non-controlling interests			359		359
Comprehensive income (loss) attributable to Alere Inc. and Subsidiaries	\$ (18,565)	\$ 22,712	\$ 85,417	\$ (42,093)	\$ 47,471

**Table of Contents****CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****For the Nine Months Ended September 30, 2014**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ (142,161)	\$ 26,783	\$ 66,941	\$ (93,724)	\$ (142,161)
Other comprehensive loss, before tax:					
Changes in cumulative translation adjustment	(137)	(178)	(69,633)	(2)	(69,950)
Unrealized losses on available for sale securities		(17)			(17)
Unrealized gains on hedging instruments			21		21
Minimum pension liability adjustment			468		468
Other comprehensive loss, before tax	(137)	(195)	(69,144)	(2)	(69,478)
Income tax provision (benefit) related to items of other comprehensive income					
Other comprehensive loss, net of tax	(137)	(195)	(69,144)	(2)	(69,478)
Comprehensive income (loss)	(142,298)	26,588	(2,203)	(93,726)	(211,639)
Less: Comprehensive loss attributable to non-controlling interests			(136)		(136)
Comprehensive income (loss) attributable to Alere Inc. and Subsidiaries	\$ (142,298)	\$ 26,588	\$ (2,067)	\$ (93,726)	\$ (211,503)

**Table of Contents****CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)****For the Nine Months Ended September 30, 2013**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ (66,966)	\$ 46,669	\$ 66,689	\$ (113,358)	\$ (66,966)
Other comprehensive loss, before tax:					
Changes in cumulative translation adjustment	(329)		(42,188)	2	(42,515)
Unrealized gains on hedging instruments			31		31
Minimum pension liability adjustment			335		335
Other comprehensive loss, before tax	(329)		(41,822)	2	(42,149)
Income tax provision (benefit) related to items of other comprehensive loss					
Other comprehensive loss, net of tax	(329)		(41,822)	2	(42,149)
Comprehensive income (loss)	(67,295)	46,669	24,867	(113,356)	(109,115)
Less: Comprehensive income attributable to non-controlling interests			601		601
Comprehensive income (loss) attributable to Alere Inc. and Subsidiaries	\$ (67,295)	\$ 46,669	\$ 24,266	\$ (113,356)	\$ (109,716)



Table of Contents**CONSOLIDATING BALANCE SHEET****September 30, 2014**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 11,469	\$ 104,690	\$ 328,694	\$	\$ 444,853
Restricted cash	1,940	2,675	33,541		38,156
Marketable securities		793	1		794
Accounts receivable, net of allowances		241,710	275,724		517,434
Inventories, net		172,090	209,486	(19,474)	362,102
Deferred tax assets	(17,440)	22,450	30,648	(2,107)	33,551
Prepaid expenses and other current assets	8,411	34,187	81,476	4,052	128,126
Assets held for sale		2,127	16		2,143
Intercompany receivables	366,149	809,418	59,656	(1,235,223)	
<b>Total current assets</b>	<b>370,529</b>	<b>1,390,140</b>	<b>1,019,242</b>	<b>(1,252,752)</b>	<b>1,527,159</b>
Property, plant and equipment, net	29,563	275,232	222,183	(56)	526,922
Goodwill		1,841,316	1,225,794		3,067,110
Other intangible assets with indefinite lives		9,600	37,290	(59)	46,831
Finite-lived intangible assets, net	8,715	870,640	586,206		1,465,561
Deferred financing costs, net and other non-current assets	43,982	7,105	23,081	(45)	74,123
Investments in subsidiaries	3,835,826	271,122	189,998	(4,296,946)	
Investments in unconsolidated entities	15,814	14,764	47,269	13,328	91,175
Deferred tax assets			7,404		7,404
Non-current income tax receivable	2,336				2,336
Intercompany notes receivables	2,073,773	681,592	51,732	(2,807,097)	
<b>Total assets</b>	<b>\$ 6,380,538</b>	<b>\$ 5,361,511</b>	<b>\$ 3,410,199</b>	<b>\$ (8,343,627)</b>	<b>\$ 6,808,621</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities:</b>					
Short-term debt and current portion of long-term debt	\$ 60,000	\$ 221	\$ 27,821	\$	\$ 88,042
Current portion of capital lease obligations		2,271	2,724		4,995
Accounts payable	15,221	88,814	112,713		216,748

Edgar Filing: ALERE INC. - Form 10-Q

Accrued expenses and other current liabilities	(463,171)	636,824	231,388	(126)	404,915
Liabilities related to assets held for sale		2,186			2,186
Intercompany payables	772,405	192,272	270,545	(1,235,222)	
<b>Total current liabilities</b>	<b>384,455</b>	<b>922,588</b>	<b>645,191</b>	<b>(1,235,348)</b>	<b>716,886</b>
<b>Long-term liabilities:</b>					
Long-term debt, net of current portion	3,675,377		8,237		3,683,614
Capital lease obligations, net of current portion		4,883	7,941		12,824
Deferred tax liabilities	(31,533)	261,975	79,684	204	310,330
Other long-term liabilities	43,946	61,915	86,870	(45)	192,686
Intercompany notes payables	420,758	1,341,223	1,045,116	(2,807,097)	
<b>Total long-term liabilities</b>	<b>4,108,548</b>	<b>1,669,996</b>	<b>1,227,848</b>	<b>(2,806,938)</b>	<b>4,199,454</b>
<b>Stockholders equity</b>	<b>1,887,535</b>	<b>2,768,927</b>	<b>1,532,414</b>	<b>(4,301,341)</b>	<b>1,887,535</b>
Non-controlling interests			4,746		4,746
<b>Total equity</b>	<b>1,887,535</b>	<b>2,768,927</b>	<b>1,537,160</b>	<b>(4,301,341)</b>	<b>1,892,281</b>
<b>Total liabilities and equity</b>	<b>\$ 6,380,538</b>	<b>\$ 5,361,511</b>	<b>\$ 3,410,199</b>	<b>\$ (8,343,627)</b>	<b>\$ 6,808,621</b>

**Table of Contents****CONSOLIDATING BALANCE SHEET****December 31, 2013****(in thousands)**

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 14,801	\$ 85,171	\$ 261,654	\$	\$ 361,626
Restricted cash	2,221	2,815	1,237		6,273
Marketable securities		853	5		858
Accounts receivable, net of allowances		237,913	309,947		547,860
Inventories, net		168,058	219,892	(23,765)	364,185
Deferred tax assets	5,191	20,541	31,451	3,506	60,689
Prepaid expenses and other current assets	512,123	(406,255)	23,502	(44)	129,326
Assets held for sale		18,983	69		19,052
Intercompany receivables	331,844	759,497	75,424	(1,166,765)	
<b>Total current assets</b>	866,180	887,576	923,181	(1,187,068)	1,489,869
Property, plant and equipment, net	15,086	287,374	241,713	(296)	543,877
Goodwill		1,841,376	1,252,315		3,093,691
Other intangible assets with indefinite lives		14,301	42,401		56,702
Finite-lived intangible assets, net	11,006	979,700	677,737		1,668,443
Restricted cash			29,370		29,370
Deferred financing costs, net and other non-current assets	55,207	8,353	20,560	(47)	84,073
Investments in subsidiaries	3,787,988	282,310	191,947	(4,262,245)	
Investments in unconsolidated entities	29,005		44,636	13,189	86,830
Deferred tax assets			7,959		7,959
Intercompany notes receivables	2,197,576	630,628	60,440	(2,888,644)	
<b>Total assets</b>	\$ 6,962,048	\$ 4,931,618	\$ 3,492,259	\$ (8,325,111)	\$ 7,060,814
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities:</b>					
Short-term debt and current portion of long-term debt	\$ 45,000	\$ 324	\$ 3,788	\$	\$ 49,112
Current portion of capital lease obligations		3,751	3,104		6,855
Accounts payable	12,584	68,522	105,712		186,818

Edgar Filing: ALERE INC. - Form 10-Q

Accrued expenses and other current liabilities	63,990	163,948	199,907	(36)	427,809
Liabilities related to assets held for sale		1,427	26,900		28,327
Intercompany payables	728,541	163,518	274,707	(1,166,766)	
<b>Total current liabilities</b>	<b>850,115</b>	<b>401,490</b>	<b>614,118</b>	<b>(1,166,802)</b>	<b>698,921</b>
<b>Long-term liabilities:</b>					
Long-term debt, net of current portion	3,735,137	100	37,551		3,772,788
Capital lease obligations, net of current portion		5,938	8,469		14,407
Deferred tax liabilities	(43,246)	284,448	88,039	8	329,249
Other long-term liabilities	19,753	58,762	84,131	(45)	162,601
Intercompany notes payables	322,323	1,444,741	1,121,581	(2,888,645)	
<b>Total long-term liabilities</b>	<b>4,033,967</b>	<b>1,793,989</b>	<b>1,339,771</b>	<b>(2,888,682)</b>	<b>4,279,045</b>
<b>Stockholders equity</b>	<b>2,077,966</b>	<b>2,736,139</b>	<b>1,533,488</b>	<b>(4,269,627)</b>	<b>2,077,966</b>
Non-controlling interests			4,882		4,882
<b>Total equity</b>	<b>2,077,966</b>	<b>2,736,139</b>	<b>1,538,370</b>	<b>(4,269,627)</b>	<b>2,082,848</b>
<b>Total liabilities and equity</b>	<b>\$ 6,962,048</b>	<b>\$ 4,931,618</b>	<b>\$ 3,492,259</b>	<b>\$ (8,325,111)</b>	<b>\$ 7,060,814</b>

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2014**

(in thousands)

	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash Flows from Operating Activities:</b>					
Net income (loss)	\$ (142,161)	\$ 26,783	\$ 66,941	\$ (93,724)	\$ (142,161)
Income (loss) from discontinued operations, net of tax		(21,149)	23,196		2,047
Income (loss) from continuing operations	(142,161)	47,932	43,745	(93,724)	(144,208)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:					
Equity in earnings of subsidiaries, net of tax	(96,269)	(442)		96,711	
Non-cash interest expense, including amortization of original issue discounts and deferred financing costs	11,575	375	217		12,167
Depreciation and amortization	4,417	172,127	114,218	(6)	290,756
Non-cash stock-based compensation expense	1,629	3,463	2,659		7,751
Tax benefit related to discontinued operations retained by Alere Inc.		9,594			9,594
Impairment of inventory			1,536		1,536
Impairment of long-lived assets	980	463	5,739		7,182
Loss on disposition of fixed assets		5,325	601		5,926
Equity earnings of unconsolidated entities, net of tax	(1,387)		(12,516)	187	(13,716)
Deferred income taxes	27,000	(20,950)	(7,320)	1,710	440
Loss on disposition		638			638
Other non-cash items	(988)	1,988	1,826		2,826
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable, net		(4,406)	24,794		20,388
Inventories, net		(22,564)	(3,495)	(4,430)	(30,489)
Prepaid expenses and other current assets	503,712	(440,983)	(65,138)	(2,438)	(4,847)
Accounts payable	2,637	25,375	10,312		38,324
Accrued expenses and other current liabilities	(521,828)	484,722	51,697	(1,748)	12,843
Other non-current liabilities	16,931	6,524	5,849	4,101	33,405
Cash paid for contingent consideration	(20,966)		(112)		(21,078)
Intercompany payable (receivable)	277,206	(197,561)	(79,645)		
Net cash provided by continuing operations	62,488	71,620	94,967	363	229,438
	579	(13,184)	62		(12,543)

Net cash provided by (used in)  
discontinued operations

<b>Net cash provided by operating activities</b>	63,067	58,436	95,029	363	216,895
<b>Cash Flows from Investing Activities:</b>					
(Increase) decrease in restricted cash	135	140	(3,262)		(2,987)
Purchases of property, plant and equipment	(18,065)	(35,108)	(29,805)	2,522	(80,456)
Proceeds from sale of property, plant and equipment	268	801	2,853	(2,755)	1,167
Cash received from disposition		1,081	4,373		5,454
Cash paid for business acquisitions, net of cash acquired	(75)				(75)
Cash received (paid) for investments	477	(278)	(1)		198
Proceeds from sale of equity investment			9,526		9,526
Cash received from sales of marketable securities		43	4		47
(Increase) decrease in other assets	(104)	305	931	57	1,189
Net cash used in continuing operations	(17,364)	(33,016)	(15,381)	(176)	(65,937)
Net cash used in discontinued operations		(3,315)			(3,315)
<b>Net cash used in investing activities</b>	(17,364)	(36,331)	(15,381)	(176)	(69,252)
<b>Cash Flows from Financing Activities:</b>					
Cash paid for financing costs	(5)				(5)
Cash paid for contingent purchase price consideration	(23,285)		(323)		(23,608)
Proceeds from issuance of common stock, net of issuance costs	35,593				35,593
Proceeds from issuance of long-term debt		940	41		981
Payments on long-term debt	(45,000)	(992)	(2,079)		(48,071)
Proceeds from issuance of short-term debt			806		806
Net proceeds under revolving credit facilities			498		498
Cash paid for dividends	(15,970)				(15,970)
Excess tax benefits on exercised stock options	65	282	68		415
Principal payments on capital lease obligations		(2,912)	(2,393)		(5,305)
Net cash used in continuing operations	(48,602)	(2,682)	(3,382)		(54,666)
Net cash used in discontinued operations	(579)				(579)
<b>Net cash used in financing activities</b>	(49,181)	(2,682)	(3,382)		(55,245)
<b>Foreign exchange effect on cash and cash equivalents</b>					
	146	(179)	(9,225)	(187)	(9,445)
Net increase (decrease) in cash and cash equivalents	(3,332)	19,244	67,041		82,953
Cash and cash equivalents, beginning of period	14,801	85,453	261,654		361,908
Cash and cash equivalents, end of period	11,469	104,697	328,695		444,861

Less: Cash and cash equivalents of discontinued operations, end of period	7	1	8
<b>Cash and cash equivalents of continuing operations, end of period</b>	\$ 11,469	\$ 104,690	\$ 328,694
		\$	\$ 444,853

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2013**

(in thousands)

	<b>Guarantor</b>		<b>Non-Guarantor</b>		
	<b>Issuer</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash Flows from Operating Activities:</b>					
Net income (loss)	\$ (66,966)	\$ 46,669	\$ 66,689	\$ (113,358)	\$ (66,966)
Loss from discontinued operations, net of tax		(6,941)	(1,619)		(8,560)
Income (loss) from continuing operations	(66,966)	53,610	68,308	(113,358)	(58,406)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:					
Equity in (earnings) losses of subsidiaries, net of tax	(112,535)	1,510		111,025	
Non-cash interest expense, including amortization of original issue discounts and deferred financing costs	13,814	229	45		14,088
Depreciation and amortization	3,731	189,991	132,014	(104)	325,632
Non-cash charges for sale of inventories revalued at the date of acquisition			1,880		1,880
Non-cash stock-based compensation expense	5,836	3,646	4,980		14,462
Tax benefit related to discontinued operations retained by Alere Inc.		5,480			5,480
Impairment of inventory		27	216		243
Impairment of long-lived assets		2,954	1,147		4,101
Loss on disposition of fixed assets		1,118	731		1,849
Equity earnings of unconsolidated entities, net of tax	(1,278)		(11,932)	(28)	(13,238)
Deferred income taxes	(17,386)	(27,938)	(26,992)	(1,154)	(73,470)
Loss on extinguishment of debt	35,603				35,603
Loss on disposition			5,885		5,885
Bargain purchase gain			(5,707)		(5,707)
Other non-cash items	5,201	(8)	1,481		6,674
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable, net		(14,384)	(42,510)		(56,894)
Inventories, net		(46,460)	(30,038)	3,771	(72,727)
Prepaid expenses and other current assets	(64,547)	64,210	(1,314)	(7,515)	(9,166)
Accounts payable	5,918	(1,378)	11,410		15,950
Accrued expenses and other current liabilities	13,897	17,618	5,971	6,934	44,420
Other non-current liabilities	(915)	(18,876)	11,366	516	(7,909)
Cash paid for contingent consideration	(8,855)		(211)		(9,066)



Edgar Filing: ALERE INC. - Form 10-Q

Intercompany payable (receivable)	303,437	(169,487)	(133,950)		
Net cash provided by (used in) continuing operations	114,955	61,862	(7,220)	87	169,684
Net cash provided by (used in) discontinued operations		(10,625)	46		(10,579)
<b>Net cash provided by (used in) operating activities</b>	<b>114,955</b>	<b>51,237</b>	<b>(7,174)</b>	<b>87</b>	<b>159,105</b>
<b>Cash Flows from Investing Activities:</b>					
Increase in restricted cash	(4,439)	(630)	(28,812)		(33,881)
Purchases of property, plant and equipment	(1,037)	(42,365)	(58,491)	11,938	(89,955)
Proceeds from sale of property, plant and equipment		6,908	11,186	(12,263)	5,831
Cash received from disposition			32,000		32,000
Cash paid for business acquisitions, net of cash acquired	(157,373)		(8,823)		(166,196)
Cash received from investments	490		10,772		11,262
(Increase) decrease in other assets	19,244	(684)	2,910	(17)	21,453
Net cash used in continuing operations	(143,115)	(36,771)	(39,258)	(342)	(219,486)
Net cash used in discontinued operations		(3,135)	(27)		(3,162)
<b>Net cash used in investing activities</b>	<b>(143,115)</b>	<b>(39,906)</b>	<b>(39,285)</b>	<b>(342)</b>	<b>(222,648)</b>
<b>Cash Flows from Financing Activities:</b>					
Cash paid for financing costs	(9,798)				(9,798)
Cash paid for contingent purchase price consideration	(27,165)		(331)		(27,496)
Proceeds from issuance of common stock, net of issuance costs	17,555				17,555
Proceeds from issuance of long-term debt	425,000	989	34,152		460,141
Payments on long-term debt	(446,845)	(1,213)	(7,099)		(455,157)
Proceeds from issuance of short-term debt			25		25
Net proceeds (payments) under revolving credit facilities	147,500		(8,732)		138,768
Cash paid for dividends	(15,970)				(15,970)
Excess tax benefits on exercised stock options	205	181	48		434
Principal payments on capital lease obligations		(2,722)	(2,619)		(5,341)
Other	(18,953)				(18,953)
<b>Net cash provided by (used in) financing activities</b>	<b>71,529</b>	<b>(2,765)</b>	<b>15,444</b>		<b>84,208</b>
Foreign exchange effect on cash and cash equivalents	871	(28)	3,884	255	4,982
	44,240	8,538	(27,131)		25,647

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents, beginning of period	3,623	67,941	256,782	328,346
Cash and cash equivalents, end of period	47,863	76,479	229,651	353,993
Less: Cash and cash equivalents of discontinued operations, end of period			1	1
<b>Cash and cash equivalents of continuing operations, end of period</b>	<b>\$ 47,863</b>	<b>\$ 76,479</b>	<b>\$ 229,650</b>	<b>\$ 353,992</b>

### (23) Subsequent Event

On October 27, 2014, we entered into a membership interest purchase agreement with Optum pursuant to which we agreed to sell Alere Health and its subsidiaries, which together comprise our condition management, case management, wellbeing, wellness and women's and children's health businesses, which we refer to collectively as our health management business, and which is included in our Health Information Solutions reporting segment, to Optum for a purchase price of \$600.0 million. The purchase price is subject to a post-closing adjustment based on the amount of the subsidiaries' working capital and other liabilities as of the closing date. All of the businesses being sold are included in our health information solutions reporting segment. In addition, we agreed to indemnify the buyer for certain breaches of representations, warranties, covenants and other matters, and any payment we may make pursuant to the indemnification provisions of the purchase agreement would reduce the net proceeds we expect to receive from the sale. At the closing of the sale, we expect to enter into a transitional services agreement and a transitional license agreement with Optum relating to certain administrative and support functions and the use of certain trademarks.

The closing of the sale is subject to the satisfaction of a number of conditions, including the expiration of any waiting periods imposed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), the receipt of the consent of the required lenders under our senior secured credit facility and the absence of any material adverse change in the business to be sold. The closing of the sale is currently expected to occur during the fourth quarter of 2014. If for any reason the closing of the sale is not completed by April 27, 2015, or upon the happening of certain other events such as the entry of a final and non-appealable court order prohibiting consummation of the transaction, either we or Optum may have the right to terminate the agreement. The deadline for the completion of the closing of the sale will be extended to July 27, 2015 if the only condition that has not been satisfied as of April 27, 2015 is the expiration of all waiting periods under the HSR Act or other applicable antitrust laws.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

This report 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. You can identify these statements by forward-looking words such as may, could, should, would, intend, will, expect, anticipate, believe, or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial condition or state other

forward-looking information. Forward-looking statements include, without limitation, statements regarding the impact of recent changes in our senior management and the anticipated benefits of, and the anticipated timing of the completion of, our strategic review, the impact and timing of reductions in operating expenses, and the timing of potential divestitures. Actual results or developments could differ materially from those projected in such statements as a result of numerous factors, including, without limitation, those risks and uncertainties set forth in Part I, Item 1A,

Risk Factors, of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013 and other risk factors identified herein or from time to time in our periodic filings with the SEC. We do not undertake any obligation to update any forward-looking statements. This report and, in particular, the following discussion and analysis of our financial condition and results of operations, should be read in light of those risks and uncertainties and in conjunction with our accompanying Consolidated Financial Statements and notes thereto.

**Overview**

Alere delivers reliable and actionable information through rapid diagnostic tests, resulting in better clinical and economic healthcare outcomes globally. Our high-performance diagnostics for infectious disease, cardiometabolic disease and toxicology meet the growing global demand for accurate, easy-to-use and cost-effective near-patient tests. Our goal is to make Alere products accessible to more people around the world by making them affordable and usable in any setting, even in the most remote and resource-limited areas. By making critical information available to doctors and patients in an actionable timeframe, Alere products help streamline healthcare delivery and improve patient outcomes.

On October 28, 2014, we announced that our Board of Directors had unanimously selected Namal Nawana to serve as our Chief Executive Officer, removing the interim status from his title. That same day we also announced that we had reached a definitive agreement to sell our Alere Health business to Optum and, during our quarterly earnings call, we discussed several other divestitures and cost-cutting measures achieved during the quarter. Collectively, these accomplishments demonstrate substantial progress toward delivering on our previously announced initiatives of rationalizing our investment in connected health concepts and technologies and reducing overall operating expenses by winding down certain non-core projects. We remain committed to these initiatives and we expect that the insights garnered during our previously announced strategic review process will continue to enable our transformation into an organization with a focused and readily understandable business portfolio. We anticipate completion of the strategic review in the near future.

**Recent Events**

On October 27, 2014, we entered into a membership interest purchase agreement with Optum pursuant to which we agreed to sell Alere Health and its subsidiaries, which together comprise our condition management, case management, wellbeing, wellness and women's and children's health businesses, which we refer to collectively as our health management business, to Optum for a purchase price of \$600.0 million. The purchase price is subject to a post-closing adjustment based on the amount of the subsidiaries' working capital and other liabilities as of the closing

date. All of the businesses being sold are included in our health information solutions reporting segment. In addition, we agreed to indemnify the buyer for certain breaches of representations, warranties, covenants and other matters, and any payment we may make pursuant to the indemnification provisions of the purchase agreement would reduce the net proceeds we expect to receive from the sale. At the closing of the sale, we expect to enter into a transitional services agreement and a transitional license agreement with Optum relating to certain administrative and support functions and the use of certain trademarks. We intend to use net cash proceeds from this transaction to pay down debt.

The closing of the sale is subject to the satisfaction of a number of conditions, including the expiration of any waiting periods imposed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act ), the receipt of the consent of the required lenders under our senior secured credit facility and the absence of any material adverse change in the business to be sold. The closing of the sale is currently expected to occur during the fourth quarter of 2014. If for any reason the closing of the sale is not completed by April 27, 2015, or upon the happening of certain other events, such as the entry of a final and non-appealable court order prohibiting consummation of the transaction, either we or Optum may have the right to terminate the agreement. The deadline for the completion of the closing of the sale will be extended to July 27, 2015 if the only condition that has not been satisfied as of April 27, 2015 is the expiration of all waiting periods under the HSR Act or other applicable antitrust laws.

## Table of Contents

### **Financial Highlights**

Net revenue decreased by \$17.1 million, or 2%, to \$736.2 million for the three months ended September 30, 2014, from \$753.3 million for the three months ended September 30, 2013. Net revenue decreased by \$65.5 million, or 3%, to \$2.2 billion for the nine months ended September 30, 2014, from \$2.3 billion for the nine months ended September 30, 2013.

Gross profit decreased by \$26.5 million, or 7%, to \$342.9 million for the three months ended September 30, 2014, from \$369.3 million for the three months ended September 30, 2013. Gross profit decreased by \$82.7 million, or 7%, to \$1.0 billion for the nine months ended September 30, 2014, from \$1.1 billion for the nine months ended September 30, 2013.

For the three months ended September 30, 2014, we generated a net loss available to common stockholders of \$91.5 million, or \$1.10 per basic and diluted common share, compared to a net loss available to common stockholders of \$24.8 million, or \$0.30 per basic and diluted common share, for the three months ended September 30, 2013. For the nine months ended September 30, 2014, we generated a net loss available to common stockholders of \$158.0 million, or \$1.91 per basic and diluted common share, compared to a net loss available to common stockholders of \$83.5 million, or \$1.03 per basic and diluted common share, for the nine months ended September 30, 2013.

Net loss for the nine months ended September 30, 2013 includes a \$35.6 million loss on extinguishment of debt in connection with the repurchase of our 9% senior subordinated notes in the second quarter of last year.

During the three months ended September 30, 2014, we established a valuation allowance of \$79.4 million against deferred tax assets associated with our U.S. foreign tax credit carryforwards since we determined that it is more likely than not that these deferred tax assets will not be realized.

### **Results of Operations**

Where discussed, results excluding the impact of foreign currency translation are calculated on the basis of local currency results, using foreign currency exchange rates applicable to the earlier comparative period. We believe presenting information using the same foreign currency exchange rates helps investors isolate the impact of changes in those rates from other trends. Our results of operations were as follows:

**Net Product Sales and Services Revenue, Total and by Business Segment.** Total net product sales and services revenue decreased by \$17.1 million, or 2%, to \$732.1 million for the three months ended September 30, 2014, from \$749.1 million for the three months ended September 30, 2013. Excluding the impact of currency translation, net product sales and services revenue for the three months ended September 30, 2014 decreased by \$21.1 million, or 3%, compared to the three months ended September 30, 2013. Total net product sales and services revenue decreased by \$68.4 million, or 3%, to \$2.174 billion for the nine months ended September 30, 2014, from \$2.242 billion for the nine months ended September 30, 2013. Excluding the impact of currency translation, net product sales and services revenue for the nine months ended September 30, 2014 decreased by \$75.4 million, or 3%, compared to the nine months ended September 30, 2013. Net product sales and services revenue by business segment for the three and nine

months ended September 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended September 30, %			Nine Months Ended September 30, %		
	2014	2013	Change	2014	2013	Change
Professional diagnostics	\$ 581,758	\$ 587,313	(1)%	\$ 1,721,169	\$ 1,765,538	(3)%
Health information solutions	123,856	133,671	(7)%	372,352	401,432	(7)%
Consumer diagnostics	26,450	28,152	(6)%	80,304	75,250	7%
Net product sales and services revenue	\$ 732,064	\$ 749,136	(2)%	\$ 2,173,825	\$ 2,242,220	(3)%

#### *Professional Diagnostics*

The following table summarizes our net product sales and services revenue from our professional diagnostics business segment by groups of similar products and services for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30, %			Nine Months Ended September 30, %		
	2014	2013	Change	2014	2013	Change
Infectious disease	\$ 177,339	\$ 172,739	3%	\$ 507,010	\$ 520,289	(3)%
Toxicology	161,940	166,536	(3)%	478,514	481,469	(1)%
Cardiology	108,501	116,281	(7)%	331,917	349,650	(5)%
Diabetes	49,477	53,150	(7)%	151,425	178,138	(15)%
Other	84,501	78,607	7%	252,303	235,992	7%
Professional diagnostics net product sales and services revenue	\$ 581,758	\$ 587,313	(1)%	\$ 1,721,169	\$ 1,765,538	(3)%

---

**Table of Contents**

Net product sales and services revenue from our professional diagnostics business segment decreased by \$5.6 million, or 1%, to \$581.8 million for the three months ended September 30, 2014, from \$587.3 million for the three months ended September 30, 2013. Excluding the impact of currency translation, net product sales and services revenue from our professional diagnostics business segment decreased by \$9.7 million, or 2%, comparing the three months ended September 30, 2014 to the three months ended September 30, 2013. We experienced revenue declines principally in the U.S. where revenue decreased by \$15.3 million, or 5%, to \$267.8 million, from \$283.1 million, primarily as a result of declines in Beckman BNP product sales and pain management and rehab during the third quarter of 2014, compared to the comparable period in 2013. From the third quarter of 2013 to the third quarter of 2014, revenues declined \$3.2 million as a result of lower U.S. flu-related sales, \$2.7 million as a result of our 2013 disposition of Spinreact, and \$1.9 million as a result of lower net product sales of Alere Triage<sup>®</sup> meter-based products in the U.S., which decreased to \$15.8 million during the three months ended September 30, 2014, from \$17.7 million during the three months ended September 30, 2013 as a result of our supply issues, which began in the second quarter of 2012. These decreases were partially offset by \$4.3 million in non-currency-adjusted incremental revenues attributable to acquisitions and higher U.S. revenues from our mail order business. Revenue from mail order sales, which include both diabetes and ancillary products, increased by \$2.9 million, or 8%, to \$37.2 million for the three months ended September 30, 2014, from \$34.3 million for the three months ended September 30, 2013, primarily as a result of an increase in patients served from 656,000 as of September 30, 2013 to 784,000 as of September 30, 2014. Revenues from international sales increased by \$8.9 million to \$275.0 million during the third quarter of 2014, from \$266.1 million in the third quarter of 2013 due principally to continued strong performance in India and Africa, which together grew by approximately \$11.4 million, or 22%, which was partially offset by a \$4.2 million decrease in revenues from markets in Latin America as a result of a reduction in diabetes revenue in Brazil and a weak dengue season in the region. Excluding the impact of acquisitions, the decrease in net product sales from meter-based Triage products in the U.S., the impact of the decrease in flu-related sales, and the increase in organic revenues from our U.S. mail order diabetes business, the currency-adjusted organic growth for our professional diagnostics net product sales and services revenue was approximately negative 0.9%, or \$4.8 million, from the three months ended September 30, 2013 to the three months ended September 30, 2014. New products contributed favorably, however, to our overall adjusted growth, with sales of our CD4 products increasing from \$5.0 million in the third quarter of 2013 to \$7.6 million in the third quarter of 2014 and Epcoc sales increasing from \$5.7 million to \$6.7 million for the same periods.

Within our professional diagnostics business segment, net product sales and services revenue for our infectious disease business increased by approximately \$4.6 million, or 3%, to \$177.3 million for the three months ended September 30, 2014, from \$172.7 million for the three months ended September 30, 2013. The quarter-over-quarter increase was primarily due to an overall increase in international sales, as discussed above, offset by a \$3.2 million decrease in U.S. flu-related sales. Net product sales and services revenue for our toxicology business decreased by approximately \$4.6 million, or 3%, to \$161.9 million for the three months ended September 30, 2014, from \$166.5 million for the three months ended September 30, 2013, primarily as a result of lower pain management and rehab revenues. Net product sales and services revenue for our cardiology business decreased by approximately \$7.8 million, or 7%, to \$108.5 million for the three months ended September 30, 2014, from \$116.3 million for the three months ended September 30, 2013, primarily as a result of the impact of lower U.S. INRatio revenues as a result of the recall initiated early in the second quarter of 2014 and declines in Beckman BNP product sales. Our diabetes business decreased by approximately \$3.7 million, or 7%, to \$49.5 million for the three months ended September 30, 2014, from \$53.2 million for the three months ended September 30, 2013. This decrease was primarily the result of the decline in revenue attributable to a reduction in diabetes revenue in Brazil, as discussed above, which was partially offset by our recent acquisitions of the Medicare fee-for-service assets of Liberty Medical, or the Liberty business, and Simplex Healthcare, Inc., or Simplex, which contributed a combined net \$4.3 million of the non-currency adjusted incremental revenues from our diabetes business. Included in the \$49.5 million of revenue from our diabetes business for the three months ended September 30, 2014 was \$37.2 million of mail order diabetes sales, compared to \$34.3 million for the three months ended September 30, 2013.

Net product sales and services revenue from our professional diagnostics business segment decreased by \$44.4 million, or 3%, to \$1.7 billion for the nine months ended September 30, 2014, from \$1.8 billion for the nine months ended September 30, 2013. Excluding the impact of currency translation, net product sales and services revenue from our professional diagnostics business segment decreased by \$50.9 million, or 3%, comparing the nine months ended September 30, 2014 to the nine months ended September 30, 2013. We experienced revenue declines principally in the U.S., where revenue decreased by \$81.6 million, or 10%, to



---

**Table of Contents**

\$753.0 million from \$834.6 million. Revenue decreased primarily as a result of a \$27.2 million decrease in our U.S. flu-related net product sales, which decreased from \$54.6 million during the nine months ended September 30, 2013 to \$27.4 million during the nine months ended September 30, 2014, a \$21.4 million decrease in U.S. revenues from our mail order diabetes business, and a \$15.9 million decrease in revenue as a result of our 2013 disposition of Spinreact, partially offset by \$34.2 million in non-currency-adjusted incremental revenues attributable to acquisitions. Revenue from mail order diabetes sales decreased by 17.2% to \$102.4 million for the nine months ended September 30, 2014 from \$123.8 million for the nine months ended September 30, 2013, primarily as a result of a reduction in the Center for Medicare & Medicaid Services; or CMS , reimbursement rates for those products, which became effective on July 1, 2013, the effect of which was partially offset by an increase in patients served from 656,000 as of September 30, 2013 to 784,000 as of September 30, 2014. Revenues in the U.S. were further reduced by declines in Beckman BNP product sales and pain management and rehab, as well as continued lower U.S healthcare utilization levels during the nine months ended September 30, 2014 compared to the comparable period in 2013 and by the impact of product returns in our INRatio business as a result of the recall initiated early in the second quarter of 2014, which adversely impacted revenues by \$3.7 million. Net product sales of Alere Triage® meter-based products in the U.S. decreased by \$3.7 million to \$54.9 million during the nine months ended September 30, 2014 from \$58.6 million during the nine months ended September 30, 2013. Revenues from international sales increased by \$42.4 million to \$846.0 million during the nine months ended September 30, 2014 from \$803.6 million in the comparable period of 2013 due to continued strong performance in India and Africa, which together grew by approximately \$34.4 million, or 24%, which was partially offset by a \$9.0 million decrease in revenues from markets in Latin America as a result of a reduction in diabetes revenue in Brazil and a weak dengue season in the region. Excluding the impact of acquisitions, the decrease in net product sales from meter-based Triage products in the U.S., the impact of the decrease in flu-related sales, and the decrease in organic revenues from our U.S. mail order diabetes business, the currency-adjusted organic growth for our professional diagnostics net product sales and services revenue was approximately \$15.1 million, or 1.0%, from the nine months ended September 30, 2013 to the nine months ended September 30, 2014. New products contributed favorably to our overall adjusted growth rate, with sales of our CD4 products increasing from \$12.7 million in the nine months ended September 30, 2013 to \$21.9 million in the comparable period of 2014 and Epcoc sales increasing from \$15.9 million to \$20.3 million for the same periods.

Within our professional diagnostics business segment, net product sales and services revenue for our infectious disease business decreased by approximately \$13.3 million, or 3%, to \$507.0 million for the nine months ended September 30, 2014, from \$520.3 million for the nine months ended September 30, 2013. The decrease was primarily due to a larger-than-expected reduction in U.S. healthcare utilization during the nine month ended September 30, 2014, as compared to the comparable period of 2013, and a \$27.2 million decrease in our U.S. flu-related net product sales from \$54.6 million during the nine months ended September 30, 2013 to \$27.4 million during the nine months ended September 30, 2014, as discussed above, partially offset by an overall increase in our international sales, as discussed above. Net product sales and services revenue for our toxicology business decreased by approximately \$3.0 million, or 1%, to \$478.5 million for the nine months ended September 30, 2014, from \$481.5 million for the nine months ended September 30, 2013, primarily as a result of lower pain management and rehab revenues. Net product sales and services revenue for our cardiology business decreased by approximately \$17.8 million, or 5%, to \$331.9 million for the nine months ended September 30, 2014, from \$349.7 million for the nine months ended September 30, 2013, primarily as a result of a decline in sales of our Alere INRatio2 PT/INR professional test strip in the U.S. due to a voluntary recall. Our diabetes business decreased by approximately \$26.7 million, or 15%, to \$151.4 million for the nine months ended September 30, 2014, from \$178.1 million for the nine months ended September 30, 2013. This decrease was primarily the result of the decline in revenue attributable to the reduction in CMS reimbursement rates described above, which was partially offset by our recent acquisitions of the Liberty business and Simplex, which contributed a combined net \$33.1 million of the non-currency adjusted incremental revenues from our diabetes business. Included in the \$151.4 million of revenue from our diabetes business for the nine months ended September 30, 2014 was \$102.4 million of mail order diabetes sales, compared to \$123.8 million for the nine months

ended September 30, 2013.

*Health Information Solutions*

The following table summarizes our net product sales and services revenue from our health information solutions business segment by groups of similar products and services for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	<b>Three Months Ended September 30,%</b>			<b>Nine Months Ended September 30,%</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>2014</b>	<b>2013</b>	<b>Change</b>
Condition and case management	\$ 48,356	\$ 55,992	(14)%	\$ 145,215	\$ 161,475	(10)%
Wellness	21,546	22,223	(3)%	70,030	75,753	(8)%
Women s & children s health	23,769	28,431	(16)%	70,308	86,767	(19)%
Patient self-testing services	30,185	27,025	12%	86,799	77,437	12%
Health information solutions net product sales and services revenue	\$ 123,856	\$ 133,671	(7)%	\$ 372,352	\$ 401,432	(7)%

---

**Table of Contents**

Our Alere Accountable Care Solutions business, or ACS, was formerly included in our health information solutions reporting segment. As of September 30, 2014, we considered the sale of ACS to be probable and accordingly reclassified the results of operations of the ACS business as discontinued operations in our Consolidated Statements of Operations. As a result, the results of operations of our health information solutions reporting segment differ from prior presentations of segment results.

Our health information solutions net product sales and services revenue decreased by \$9.8 million, or 7%, to \$123.9 million for the three months ended September 30, 2014, from \$133.7 million for the three months ended September 30, 2013, as a result of the challenging contracting season in the second half of 2013. Within our health information solutions business segment, net product sales and services revenues from our condition and case management, wellness and women's and children's health businesses each decreased during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, as we experienced customer terminations, lower state enrollments in wellness programs and lower revenue from homecare services in these businesses. Our patient self-testing services net product sales and services revenue increased approximately \$3.2 million, or 12%, to \$30.2 million for the three months ended September 30, 2014, from \$27.0 million for the three months ended September 30, 2013, principally driven by an increase in our home coagulation monitoring programs resulting from a larger patient population and a simultaneous reduction in customer attrition rates.

Our health information solutions net product sales and services revenue decreased by \$29.0 million, or 7%, to \$372.4 million for the nine months ended September 30, 2014, from \$401.4 million for the nine months ended September 30, 2013, as a result of the challenging contracting season in the second half of 2013. Within our health information solutions business segment, net product sales and services revenues from our condition and case management, wellness and women's and children's health businesses each decreased during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, as we experienced customer terminations, lower state enrollments in wellness programs and lower revenue from homecare services in these businesses. Our patient self-testing services net product sales and services revenue increased approximately \$9.4 million, or 12%, to \$86.8 million for the nine months ended September 30, 2014, from \$77.4 million for the nine months ended September 30, 2013, principally driven by an increase in our home coagulation monitoring programs resulting from a larger patient population and a simultaneous reduction in customer attrition rates.

*Consumer Diagnostics*

Net product sales and services revenue from our consumer diagnostics business segment revenue decreased by \$1.7 million, or 6%, to \$26.5 million for the three months ended September 30, 2014, from \$28.2 million for the three months ended September 30, 2013. The decrease in revenue primarily resulted from lower manufacturing revenue associated with SPD.

Net product sales and services revenue from our consumer diagnostics business segment revenue increased by \$5.1 million, or 7%, to \$80.3 million for the nine months ended September 30, 2014, from \$75.3 million for the nine months ended September 30, 2013. The increase in revenue primarily resulted from an increase in our manufacturing revenue associated with SPD, as SPD successfully launched the Clearblue Advanced Pregnancy Test with Weeks Estimator product in the U.S. during the third quarter of 2013.

**License and Royalty Revenue.** License and royalty revenue represents license and royalty fees from intellectual property license agreements with third parties. License and royalty revenue remained flat at \$4.2 million for the three months ended September 30, 2014, as compared to \$4.2 million for the three months ended September 30, 2013.

License and royalty revenue increased by approximately \$2.9 million, or 22%, to \$16.0 million for the nine months ended September 30, 2014, from \$13.1 million for the nine months ended September 30, 2013. The increase in royalty revenue for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, is primarily a result of higher royalties earned under existing licensing agreements.

**Gross Profit and Margin Percentage.** Gross profit decreased by \$26.4 million, or 7%, to \$342.9 million for the three months ended September 30, 2014, from \$369.3 million for the three months ended September 30, 2013. The decrease in gross profit during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was largely attributed to declines in Beckman BNP product sales and pain management and rehab during the third quarter of 2014.

Gross profit decreased by \$82.7 million, or 7%, to \$1.0 billion for the nine months ended September 30, 2014, from \$1.1 billion for the nine months ended September 30, 2013. The decrease in gross profit during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was largely attributed to the decrease in net product sales and services revenue principally resulting from declines in Beckman BNP product sales during the third quarter of 2014, compared to the comparable period in 2013, lower pain management and rehab revenues, weak U.S. flu-related sales, a larger-than-expected reduction in U.S. healthcare utilization which primarily impacted our U.S. infectious disease revenue, decline in diabetes revenue attributable to the reduction in CMS reimbursement rates described above, coupled with the impacts of a recall of INRatio2 test strips and a recall of certain Triage BNP Calibrators during the nine months ended September 30, 2014, which included revenue and cost of sales charges totaling \$7.5 million during the nine months ended September 30, 2014.

**Table of Contents**

Cost of net revenue included amortization expense of \$16.0 million and \$18.0 million for the three months ended September 30, 2014 and 2013, respectively. Included in the cost of net revenue for the three months ended September 30, 2013 was a \$0.7 million non-cash charge relating to the write-up of inventory to fair value in connection with our acquisition of Epocal. Reducing gross profit for the three months ended September 30, 2014 and 2013 was \$5.7 million and \$3.6 million, respectively, in restructuring charges.

Cost of net revenue included amortization expense of \$48.1 million and \$53.7 million for the nine months ended September 30, 2014 and 2013, respectively, and \$1.9 million of non-cash charges relating to the write-up of inventory to fair value in connection with certain acquisitions during the nine months ended September 30, 2013. Reducing gross profit for the nine months ended September 30, 2014 and 2013 was \$6.8 million and \$4.9 million, respectively, in restructuring charges.

Overall gross margin for each of the three and nine months ended September 30, 2014 was 47%, compared to 49% and 50%, respectively, for the three and nine months ended September 30, 2013. The lower gross margin in the current three-month period principally reflects lower revenues from Beckman BNP product sales and pain management and rehab toxicology revenues. The lower gross margin in the current nine-month period principally reflects lower pain management and rehab toxicology revenues, the impact of the reduced mail order diabetes reimbursement rates noted above, as well as revenue and cost of sales charges of approximately \$7.5 million incurred in the second quarter in connection with our recall of INRatio2 test strips and our recall of certain Triage BNP Calibrators.

**Gross Profit from Net Product Sales and Services Revenue, Total and by Business Segment.** Gross profit from net product sales and services revenue decreased by \$27.2 million, or 7%, to \$339.9 million for the three months ended September 30, 2014, from \$367.1 million for the three months ended September 30, 2013. Gross profit from net product sales and services revenue decreased by \$87.0 million, or 8%, to \$1.0 billion for the nine months ended September 30, 2014, from \$1.1 billion for the nine months ended September 30, 2013. Gross profit from net product sales and services revenue by business segment for the three and nine months ended September 30, 2014 and 2013 is as follows (in thousands):

	Three Months Ended September 30,%			Nine Months Ended September 30, %		
	2014	2013	Change	2014	2013	Change
Professional diagnostics	\$ 273,292	\$ 300,832	(9)%	\$ 832,159	\$ 915,871	(9)%
Health information solutions	60,386	60,907	(1)%	174,330	179,464	(3)%
Consumer diagnostics	6,235	5,403	15%	17,179	15,303	12%
Gross profit from net product sales and services revenue	\$ 339,913	\$ 367,142	(7)%	\$ 1,023,668	\$ 1,110,638	(8)%

*Professional Diagnostics*

Gross profit from our professional diagnostics net product sales and services revenue decreased by \$27.5 million, or 9%, to \$273.3 million for the three months ended September 30, 2014, compared to \$300.8 million for the three months ended September 30, 2013. The lower gross profit in the current period principally reflects declines in Beckman BNP product sales and pain management and rehab revenues during the third quarter of 2014, compared to the comparable period in 2013. Cost of professional diagnostics net product sales and services revenue during the three months ended September 30, 2013 included a non-cash charge of \$0.7 million relating to the write-up of

inventory to fair value in connection with certain acquisitions. Reducing gross profit during the three months ended September 30, 2014 and 2013 was \$5.7 million and \$3.4 million, respectively, in restructuring charges.

Gross profit from our professional diagnostics net product sales and services revenue decreased by \$83.7 million, or 9%, to \$832.2 million for the nine months ended September 30, 2014, compared to \$915.9 million for the nine months ended September 30, 2013. The lower gross profit for the nine months ended September 30, 2014 principally reflects declines in Beckman BNP product sales during the third quarter of 2014 compared to the comparable period in 2013, lower pain management and rehab revenues, lower U.S. flu-related sales and reduced mail order diabetes reimbursement rates. Cost of professional diagnostics net product sales and services revenue during the nine months ended September 30, 2013 included a non-cash charge of \$1.9 million relating to the write-up of inventory to fair value in connection with certain acquisitions. Reducing gross profit during the nine months ended September 30, 2014 and 2013 was \$6.7 million and \$3.8 million, respectively, in restructuring charges.

Cost of professional diagnostics net product sales and services revenue included amortization expense of \$15.1 million and \$15.2 million during the three months ended September 30, 2014 and 2013, respectively. Cost of professional diagnostics net product sales and services revenue included amortization expense of \$45.3 million and \$48.3 million during the nine months ended September 30, 2014 and 2013, respectively.

---

**Table of Contents**

As a percentage of our professional diagnostics net product sales and services revenue, gross margin for the three and nine months ended September 30, 2014 was 47% and 48%, respectively, compared to 51% and 52% for the three and nine months ended September 30, 2013, respectively. The lower gross margin in the current three-month period principally reflects declines in Beckman BNP product sales and pain management and rehab revenues, compared to the comparable period in 2013. The lower gross margin in the current nine-month period principally reflects a continued weakness in U.S. healthcare utilization and lower pain management and rehab revenues, coupled with the impacts of a recall of INRatio2 test strips and our recall of certain Beckman Coulter Triage BNP Tests, lower U.S. flu-related sales and reduced mail order diabetes reimbursement rates, compared to the comparable period in 2013.

*Health Information Solutions*

Gross profit from our health information solutions net product sales and services revenue decreased by \$0.5 million, or 1%, to \$60.4 million for the three months ended September 30, 2014, compared to \$60.9 million for the three months ended September 30, 2013. Reducing gross profit during the three months ended September 30, 2014 and 2013 was \$0.0 million and \$0.1 million in restructuring charges, respectively. Gross profit from our health information solutions net product sales and services revenue decreased by \$5.1 million, or 3%, to \$174.3 million for the nine months ended September 30, 2014, compared to \$179.5 million for the nine months ended September 30, 2013. Reducing gross profit during the nine months ended September 30, 2014 and 2013 was \$0.1 million and \$1.1 million in restructuring charges, respectively.

Cost of health information solutions net product sales and services revenue included amortization expense of \$0.9 million and \$2.5 million during the three months ended September 30, 2014 and 2013, respectively. Cost of health information solutions net product sales and services revenue included amortization expense of \$2.7 million and \$4.7 million during the nine months ended September 30, 2014 and 2013, respectively.

As a percentage of our health information solutions net product sales and services revenue, gross margin for the three and nine months ended September 30, 2014 was 49% and 47%, respectively, compared to 46% and 45% for the three and nine months ended September 30, 2013, respectively. The increase in gross margin was primarily due to operational efficiencies realized during the nine months ended September 30, 2014 within the condition and case management business as a result of various restructuring plans.

*Consumer Diagnostics*

Gross profit from our consumer diagnostics net product sales and services revenue increased by \$0.8 million, or 15%, to \$6.2 million for the three months ended September 30, 2014, from \$5.4 million for the three months ended September 30, 2013. Gross profit from our consumer diagnostics net product sales and services revenue increased by \$1.9 million, or 12%, to \$17.2 million for the nine months ended September 30, 2014, compared to \$15.3 million for the nine months ended September 30, 2013. The increase in the gross profit for the three-month period was primarily the result of product mix and higher margins in our over-the-counter drug business. The increase in gross profit for the nine-month period was primarily the result of an increase in our manufacturing revenue, as discussed above.

Cost of consumer diagnostics net product sales and services revenue included amortization expense of \$0.0 million and \$0.2 million during the three months ended September 30, 2014 and 2013, respectively. Cost of consumer diagnostics net product sales and services revenue included amortization expense of \$0.1 million and \$0.7 million during the nine months ended September 30, 2014 and 2013, respectively.

As a percentage of our consumer diagnostics net product sales and services revenue, gross margin for the three and nine months ended September 30, 2014 was 24% and 21%, respectively, compared to 19% and 20% for the three and

nine months ended September 30, 2013, respectively.

**Research and Development Expense.** Research and development expense decreased by \$1.7 million, or 4%, to \$38.7 million for the three months ended September 30, 2014, from \$40.5 million for the three months ended September 30, 2013. Research and development expense during the three months ended September 30, 2014 and 2013 is reported net of grant funding of \$2.5 million and \$1.9 million, respectively, arising from the research and development funding relationship with the Bill and Melinda Gates Foundation that we entered into in February 2013. Included in research and development expense for the three months ended September 30, 2014 and 2013 were restructuring charges associated with our various restructuring plans to reduce expenses and integrate our newly-acquired businesses totaling approximately \$5.5 million and \$1.1 million, respectively. Amortization expense of \$1.4 million and \$1.2 million was included in research and development expense for the three months ended September 30, 2014 and 2013, respectively.

Research and development expense decreased by \$6.0 million, or 5%, to \$114.9 million for the nine months ended September 30, 2014, from \$120.9 million for the nine months ended September 30, 2013. Research and development expense during the nine months ended September 30, 2014 and 2013 is reported net of grant funding of \$7.0 million and \$4.3 million, respectively, arising from our research and development funding relationship with the Bill and Melinda Gates Foundation. Included in research and development expense for the nine months ended September 30, 2014 and 2013 were restructuring charges associated with our various restructuring plans to reduce expenses and integrate our newly-acquired businesses totaling approximately \$8.5 million and \$1.7 million, respectively. Amortization expense of \$3.7 million and \$3.6 million was included in research and development expense for the nine months ended September 30, 2014 and 2013, respectively.



---

**Table of Contents**

Research and development expense as a percentage of net revenue was 5% for the three and nine months ended September 30, 2014 and 2013.

**Sales and Marketing Expense.** Sales and marketing expense decreased by \$22.4 million, or 14%, to \$136.3 million for the three months ended September 30, 2014, from \$158.7 million for the three months ended September 30, 2013. The decrease was primarily driven by lower amortization expense related to customer relationship intangibles during the three months ended September 30, 2014, compared to the three months ended September 30, 2013. Amortization expense of \$44.9 million and \$59.2 million was included in sales and marketing expense for the three months ended September 30, 2014 and 2013, respectively. Restructuring charges associated with our various restructuring plans to reduce expenses and integrate our newly-acquired businesses totaling approximately \$1.0 million and \$0.2 million were included in sales and marketing expense for the three months ended September 30, 2014 and 2013, respectively.

Sales and marketing expense decreased by \$40.4 million, or 9%, to \$432.5 million for the nine months ended September 30, 2014, from \$472.9 million for the nine months ended September 30, 2013. The decrease in sales and marketing expense was primarily driven by lower amortization expense related to customer relationship intangibles during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013. Amortization expense of \$135.1 million and \$170.1 million was included in sales and marketing expense for the nine months ended September 30, 2014 and 2013, respectively. Restructuring charges associated with our various restructuring plans to reduce expenses and integrate our newly-acquired businesses totaling approximately \$7.4 million and \$1.5 million were included in sales and marketing expense for the nine months ended September 30, 2014 and 2013, respectively.

Sales and marketing expense as a percentage of net revenue was 19% and 20% for the three and nine months ended September 30, 2014, respectively, compared to 21% for each of the three and nine months ended September 30, 2013.

**General and Administrative Expense.** General and administrative expense decreased by approximately \$8.5 million, or 6%, to \$130.2 million for the three months ended September 30, 2014, from \$138.7 million for the three months ended September 30, 2013. The decrease was primarily attributable to the reversal of \$5.5 million of expenses recorded for fair value adjustments to acquisition-related contingent consideration during the third quarter of 2014, as compared to the \$2.7 million of adjustments recorded in the comparable period in 2013, the \$5.5 million of costs associated with the proxy contest and the \$5.9 million loss associated with the disposition of our Spinreact, S.A. subsidiary located in Spain during the third quarter of 2013, offset by the inclusion in general and administrative expense for the three months ended September 30, 2014 of \$6.2 million of costs associated with potential business dispositions, a \$2.8 million increase in restructuring plans to integrate our newly-acquired businesses, as well as a \$0.4 million loss on the sale of our equity investment in Vedalab S.A., or Vedalab, recorded in the three months ended September 30, 2014.

General and administrative expense increased by approximately \$15.4 million, or 4%, to \$425.0 million for the nine months ended September 30, 2014, from \$409.6 million for the nine months ended September 30, 2013. The increase was primarily attributable to the inclusion in general and administrative expense for the nine months ended September 30, 2014 of \$20.8 million of costs associated with potential business dispositions, a \$6.5 million increase in restructuring plans to integrate our newly-acquired businesses, offset by the \$5.5 million of costs associated with the proxy contest and the \$5.9 million loss associated with the disposition of our Spinreact, S.A. subsidiary located in Spain during the third quarter of 2013, as discussed above.

General and administrative expense as a percentage of net revenue was 18% and 19% for the three and nine months ended September 30, 2014, respectively, compared to 18% for each of the three and nine months ended September 30, 2013.

**Interest Expense.** Interest expense includes interest charges and the amortization of deferred financing costs and original issue discounts associated with certain debt issuances. Interest expense decreased by \$0.9 million, or 2%, to \$52.5 million for the three months ended September 30, 2014, from \$53.4 million for the three months ended September 30, 2013. The decrease is principally due to the lower interest rate associated with our 6.5% senior subordinated notes issued in May 2013, compared to the interest rate associated with our 9% senior subordinated notes which we redeemed in the second quarter of 2013.

Interest expense decreased by \$46.6 million, or 23%, to \$156.7 million for the nine months ended September 30, 2014, from \$203.3 million for the nine months ended September 30, 2013. The decrease is principally due to a \$35.6 million loss recorded in connection with the repurchase of our 9% senior subordinated notes during the nine months ended September 30, 2013. Also contributing to the decrease was the lower interest rate associated with our 6.5% senior subordinated notes issued in May 2013, compared to the interest rate associated with our 9% senior subordinated notes which we redeemed in the second quarter of 2013.

**Table of Contents**

**Other Income (Expense), Net.** Other income (expense), net includes interest income, realized and unrealized foreign exchange gains and losses, and other income and expense. The components and the respective amounts of other income (expense), net are summarized as follows (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Interest income (expense), net	\$ 718	\$ 799	\$ (81)	\$ 1,574	\$ 2,602	\$ (1,028)
Foreign exchange gains (losses), net	(8,392)	(3,721)	(4,671)	(958)	(3,258)	2,300
Other	(586)	(5,946)	5,360	(1,502)	(7,604)	6,102
Total other income (expense), net	\$ (8,260)	\$ (8,868)	\$ 608	\$ (886)	\$ (8,260)	\$ 7,374

Other expense of \$1.5 million for the nine months ended September 30, 2014 primarily reflected \$1.9 million in losses on disposals of fixed assets and a \$1.8 million write-down on a receivable, offset by a \$1.5 million reversal of a legal settlement accrual and a \$0.5 million reversal of a royalty accrual. Other expense of \$5.9 million and \$7.6 million for the three and nine months ended September 30, 2013, respectively, includes a provision of \$5.0 million to reflect an estimate of the settlement or litigation costs which we may incur associated with an ongoing dispute with a customer in our U.S. toxicology business.

**Provision (Benefit) for Income Taxes.** The provision (benefit) for income taxes changed by \$91.7 million to a \$76.6 million provision for the three months ended September 30, 2014, from a \$(15.1) million benefit for the three months ended September 30, 2013. The effective tax rate for the three months ended September 30, 2014 and 2013 was (331.4)% and 41.1% on loss from continuing operations before provision (benefit) for income taxes of \$23.1 million and \$36.7 million, respectively. Our effective tax rate is based on our year-to-date results and projected income (loss), and is primarily impacted by changes in the geographical mix of consolidated pre-tax income (loss). The change in the effective tax rate for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, is primarily a result of the following: (i) valuation allowance of \$79.4 million against U.S. foreign tax credit carryforwards, (ii) our forecasted jurisdictional mix of income (loss), and (iii) loss entity valuation allowance changes.

The provision (benefit) for income taxes changed by \$93.8 million to a \$63.1 million provision for the nine months ended September 30, 2014, from a \$(30.7) million benefit for the nine months ended September 30, 2013. The effective tax rate for the nine months ended September 30, 2014 and 2013 was (66.6)% and 30.0% on loss from continuing operations before provision (benefit) for income taxes of \$94.8 million and \$102.3 million, respectively. Our effective tax rate is based on our year-to-date results and projected income (loss), and is primarily impacted by changes in the geographical mix of consolidated pre-tax income (loss). The change in the effective tax rate for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, is primarily a result of the following: (i) valuation allowance of \$79.4 million against U.S. foreign tax credit carryforwards, (ii) our forecasted jurisdictional mix of income (loss), and (iii) loss entity valuation allowance changes.

Deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As discussed above, the provision (benefit) for income taxes for the three months and nine months ended September 30, 2014 included a valuation allowance of \$79.4 million against U.S. foreign tax credit carryforwards. This valuation

allowance was established as we determined that 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.

**Equity Earnings of Unconsolidated Entities, Net of Tax.** Equity earnings of unconsolidated entities is reported net of tax and includes our share of earnings in entities that we account for under the equity method of accounting. Equity earnings of unconsolidated entities, net of tax for the three and nine months ended September 30, 2014 reflects the following: (i) our 50% interest in SPD in the amount of \$5.9 million and \$12.8 million, respectively, and (ii) our 49% interest in TechLab, Inc., or TechLab, in the amount of \$0.5 million and \$1.2 million, respectively. Loss on sale of our 40% interest in Vedalab S.A., or Vedalab, was in the amount of \$0.4 million. Equity earnings of unconsolidated entities, net of tax for the three and nine months ended September 30, 2013 reflects the following: (i) our 50% interest in SPD in the amount of \$4.7 million and \$11.4 million, respectively, (ii) our 49% interest in TechLab in the amount of \$0.5 million and \$1.3 million, respectively and (iii) our 40% interest in Vedalab S.A., or Vedalab, in the amount of \$0.5 million and \$0.6 million, respectively.

**Income (Loss) from Discontinued Operations, Net of Tax.** The results of the ACS Companies business are included in income (loss) from discontinued operations, net of tax, for all periods presented. For the three months ended September 30, 2014, the discontinued operations generated net income of \$7.0 million, as compared to a net loss of \$3.2 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, the discontinued operations generated net income of \$2.0 million, as compared to a net loss of \$8.6 million for the nine months ended September 30, 2013. 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, along with 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.

**Net Loss Available to Common Stockholders.** For the three months ended September 30, 2014, we generated a net loss available to common stockholders of \$91.5 million, or \$1.10 per basic and diluted common share. For the three months ended September 30, 2013, we generated a net loss available to common stockholders of \$24.8 million, or \$0.30 per basic and diluted common share. Net loss available to common stockholders reflects \$5.4 million of preferred stock dividends paid during each of the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014, we generated a net loss available

---

**Table of Contents**

to common stockholders of \$158.0 million, or \$1.91 per basic and diluted common share. For the nine months ended September 30, 2013, we generated a net loss available to common stockholders of \$83.5 million, or \$1.03 per basic and diluted common share. Net loss available to common stockholders reflects \$15.9 million of preferred stock dividends paid during each of the nine months ended September 30, 2014 and 2013. See Note 6 of the accompanying Consolidated Financial Statements for the calculation of net loss per common share.

**Liquidity and Capital Resources**

Based upon our current working capital position, current operating plans and expected business conditions, we expect to fund our short- and long-term working capital needs primarily using existing cash and our operating cash flow, and we expect our working capital position to improve as we improve our future operating margins and grow our business through new product and service offerings and by continuing to leverage our strong intellectual property position. Additionally, we remain engaged in discussions concerning divestitures, and we expect that as we complete divestitures we will use net proceeds to reduce our outstanding debt and intend to do so with regard to the net proceeds from our pending sale of our Alere Health business. As of September 30, 2014, we had \$444.9 million of cash and cash equivalents, of which \$150.7 million was held by domestic subsidiaries and \$294.1 million was held by foreign entities. We do not plan to repatriate cash held by foreign entities due to adverse tax implications, including incremental U.S. tax liabilities and potential foreign withholding tax liabilities.

We may also utilize our secured credit facility or other new sources of financing to fund a portion of our capital needs and other commitments, including our contractual contingent consideration obligations and future acquisitions. As of September 30, 2014, we had outstanding borrowings totaling \$170.0 million under the \$250.0 million revolving line of credit under our secured credit facility, leaving \$80.0 million available to us for additional borrowings. The terms and conditions of our outstanding debt instruments also contain covenants which expressly restrict our ability to incur additional indebtedness and conduct other financings. As of September 30, 2014, we had \$3.8 billion in outstanding indebtedness comprised of \$2.3 billion under our secured credit facility, including borrowings under our revolving line of credit, \$450.0 million of 7.25% senior notes due 2018, \$400.0 million of 8.625% senior subordinated notes due 2018, \$425.0 million of 6.5% senior subordinated notes due 2020, and \$150.0 million of 3% convertible senior subordinated notes due 2016. In February 2013, we redeemed the \$1.8 million outstanding principal amount of our 7.875% senior notes pursuant to our optional redemption right under the indenture under which the 7.875% senior notes were issued.

If the capital and credit markets experience volatility or the availability of funds is limited, we may incur increased costs associated with issuing debt instruments. In addition, it is possible that our ability to access the capital and credit markets could be limited by these or other factors at a time when we would like, or need, to do so, which could have an adverse impact on our ability to refinance maturing debt and/or react to changing economic and business conditions.

Our funding plans for our working capital needs and other commitments may be adversely impacted if our underlying assumed revenues and expenses are not realized. In particular, we could experience unexpected costs associated with our potential divestitures, operational integration efforts, core research and development projects, cost-saving initiatives and existing or unforeseen lawsuits against us. We may also choose to make significant investment to pursue legal remedies against potential infringers of our intellectual property rights. If we decide to engage in such activities, or if our operating results fail to meet our expectations, we could be required to seek additional funding through public or private financings or other arrangements. In such event, adequate funds may not be available when needed or may be available only on terms which could have a negative impact on our business and results of operations. In addition, if we raise additional funds by issuing equity or convertible securities, dilution to then-existing stockholders may result.

<b>Cash Flow Summary (in thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Net cash provided by operating activities	\$ 216,895	\$ 159,105
Net cash used in investing activities	(69,252)	(222,648)
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
<b>Cash and cash equivalents of continuing operations, end of period</b>	<b>\$ 444,853</b>	<b>\$ 353,992</b>

---

**Table of Contents***Summary of Changes in Cash Position*

As of September 30, 2014, we had cash and cash equivalents of \$444.9 million, an \$83.0 million increase from December 31, 2013. Our primary sources of cash during the nine months ended September 30, 2014 included \$216.9 million generated by our operating activities, \$35.6 million of cash received from common stock issuances under employee stock option and stock purchase plans, \$9.5 million received from the sale of our 40% equity investment in Vedalab, \$5.5 million received from dispositions, \$1.2 million in proceeds from the sale of property and equipment and \$1.2 million from a decrease in other assets. Our primary uses of cash during the nine months ended September 30, 2014 were \$80.5 million of capital expenditures, \$48.1 million related to the repayment of long-term debt obligations, \$23.6 million related to payments of acquisition-related contingent consideration obligations, \$16.0 million for cash dividends paid on our Series B Preferred Stock, a \$3.0 million increase in our restricted cash balance and \$5.3 million for principal payments on our capital lease obligations. Fluctuations in foreign currencies unfavorably impacted our cash balance by \$9.4 million during the nine months ended September 30, 2014.

Cash and cash equivalents increased \$25.6 million during the nine months ended September 30, 2013. Our primary sources of cash during the nine months ended September 30, 2013 included \$159.1 million generated by our operating activities, \$460.1 million of net proceeds received in connection with long-term debt issuances, which included \$425.0 million of gross proceeds received in connection with the issuance of our 6.5% senior subordinated notes, \$138.8 million of net proceeds under various revolving credit facilities, which included \$190.0 million borrowed against our secured credit facility revolving line-of-credit, \$32.0 million received from the disposition of our Spinreact operations, \$21.5 million related to a decrease in other assets, \$17.6 million of cash received from common stock issuances under employee stock option and stock purchase plans, \$11.3 million return of capital related to an equity investment and \$5.8 million in proceeds from the sale of property and equipment. Our primary uses of cash during the nine months ended September 30, 2013 were \$455.2 million of cash payments on long-term debt, which included \$400.0 million of cash payments related to the repurchase of our 9% senior subordinated notes, \$166.2 million net cash paid for acquisitions, \$90.0 million of capital expenditures, \$33.9 million related to an increase in restricted cash, \$27.5 million related to payments of acquisition-related contingent consideration obligations, \$19.0 million related to tender offer consideration and call premium incurred in connection with the repurchase of our 9% senior subordinated notes, \$16.0 million for cash dividends paid on our Series B preferred stock, \$9.8 million related to the payment of debt-related financing costs and \$5.3 million for payment of capital lease obligations. Fluctuations in foreign currencies improved our cash balance by \$5.0 million during the nine months ended September 30, 2013.

*Cash Flows from Operating Activities*

Net cash provided by operating activities during the nine months ended September 30, 2014 was \$216.9 million, which resulted from a net loss of \$142.2 million, \$325.1 million of non-cash items and \$48.5 million of cash provided by changes in net working capital during the period. The \$325.1 million of non-cash items included, among other items, \$290.8 million related to depreciation and amortization, \$12.2 million of interest expense related to the amortization of deferred financing costs and original issue discounts, \$9.6 million of tax benefit related to discontinued operations retained by Alere Inc., \$5.9 million loss on the disposition of fixed assets, \$7.8 million related to non-cash stock-based compensation, \$7.2 million of impairment of long-lived assets, \$2.8 million related to other non-cash items, a \$0.6 million loss on a disposition and a \$0.4 million increase related to changes in our deferred tax assets and liabilities, which resulted in part from amortization of intangible assets, partially offset by a \$13.7 million in equity earnings of unconsolidated entities, net of tax. In addition, \$12.5 million of net cash was used in discontinued operations for operating activities.

Net cash provided by operating activities during the nine months ended September 30, 2013 was \$159.1 million, which resulted from a net loss of \$67.0 million and \$95.4 million of cash utilized by changes in net working capital

items during the period, offset by \$323.5 million of non-cash items. The \$323.5 million of non-cash items included, among other items, \$325.6 million related to depreciation and amortization, \$14.5 million related to non-cash stock-based compensation, \$14.1 million of interest expense related to the amortization of deferred financing costs and original issue discounts, \$35.6 million related to a loss on extinguishment of debt, \$6.7 million related to other non-cash items, \$5.9 million loss on disposition from our sale of the Spinreact operations, \$4.1 million related to the impairment of long-lived assets, \$5.5 million of tax benefit related to discontinued operations retained by Alere Inc. and a \$1.9 million non-cash charge related to the write up of inventory to fair value in connection with the acquisition of Epocal, all partially offset by a \$73.5 million decrease related to changes in our deferred tax assets and liabilities, which resulted in part from amortization of intangible assets, \$13.2 million in equity earnings of unconsolidated entities, net of tax, and \$5.7 million relating to a bargain purchase gain in connection with our acquisition of the Liberty business. In addition, \$10.6 million of net cash was used in discontinued operations for operating activities.

#### *Cash Flows from Investing Activities*

Our investing activities during the nine months ended September 30, 2014 utilized \$69.3 million of cash, including \$80.5 million of capital expenditures and a \$3.0 million increase in our restricted cash balance, partially offset by \$9.5 million of cash proceeds from the sale of our 40% equity investment in Vedalab, \$5.5 million of cash received from dispositions, a \$1.2 million decrease in other assets, \$1.2 million of proceeds from the sale of property, plant and equipment and \$0.2 million of cash received from equity investments. In addition, discontinued operations used \$3.3 million of net cash for investing activities.

Our investing activities during the nine months ended September 30, 2013 utilized \$222.6 million of cash, including \$166.2 million net cash paid for acquisitions, \$90.0 million of capital expenditures and an increase in our restricted cash balance of \$33.9 million, which was principally driven by a \$29.0 million deposit in connection with a foreign bank loan arrangement and \$7.9 million of cash received from the Bill and Melinda Gates Foundation, of which \$3.5 million was used to fund qualified expenditures, partially offset by \$32.0 million in proceeds relating to the disposition of our Spinreact operations, a \$21.5 million decrease related to other assets, an \$11.3 million return of capital related to an equity investment and \$5.8 million of proceeds received from the sale of property and equipment. In addition, discontinued operations used \$3.2 million of net cash for investing activities.



---

**Table of Contents***Cash Flows from Financing Activities*

Net cash used in financing activities during the nine months ended September 30, 2014 was \$55.2 million. Financing activities during the nine months ended September 30, 2014 primarily included approximately \$48.1 million for the payment of long-term debt obligations, \$23.6 million for payments of acquisition-related contingent consideration obligations, \$16.0 million for dividend payments related to our Series B preferred stock, and \$5.3 million for payment of capital lease obligations. We received approximately \$35.6 million of cash from common stock issuances under employee stock option and stock purchase plans, \$1.0 million from long-term debt borrowings, and \$0.8 million from short-term debt borrowings. In addition, discontinued operations used \$0.6 million of net cash for financing activities.

Net cash provided by financing activities during the nine months ended September 30, 2013 was \$84.2 million. Financing activities providing cash during the nine months ended September 30, 2013 primarily included \$460.1 million of net proceeds received in connection with long-term debt issuances, which included \$425.0 million of gross proceeds received in connection with the issuance of our 6.5% senior subordinated notes, \$138.8 million of net proceeds under various revolving credit facilities, which included \$190.0 million borrowed, net of \$42.5 million paid, against our secured credit facility revolving line-of-credit, and \$17.6 million of cash received from common stock issuances under employee stock option and stock purchase plans. We utilized \$455.2 million of cash payments on long-term debt, which included \$400.0 million of cash payments related to the repurchase of our 9% senior subordinated notes, \$27.5 million for payments of acquisition-related contingent consideration obligations, \$19.0 million related to tender offer consideration and call premium incurred in connection with the repurchase of our 9% senior subordinated notes, \$16.0 million for dividend payments related to our Series B preferred stock, \$9.8 million related to the payment of debt-related financing costs and \$5.3 million for payment of capital lease obligations.

As of September 30, 2014, we had an aggregate of \$17.8 million in outstanding capital lease obligations which are payable through 2019.

*Income Taxes*

As of December 31, 2013, we had approximately \$76.6 million of U.S. federal net operating loss, or NOL, and capital loss carryforwards, approximately \$998.8 million of state NOL carryforwards and \$254.7 million of foreign NOL and capital loss carryforwards, which either expire on various dates through 2033 or can be carried forward indefinitely. As of December 31, 2013, we had approximately \$79.4 million of federal and state research and development, foreign tax and alternative minimum tax credits which either expire on various dates through 2033 or can be carried forward indefinitely. These loss and credit carryforwards may be available to reduce future federal, state and foreign taxable income, if any, and are subject to review and possible adjustment by the appropriate tax authorities when utilized.

Furthermore, all U.S. federal losses and credits are subject to the limitations imposed by Sections 382 and 383 of the Internal Revenue Code, and may be limited in the event of certain cumulative changes in ownership interests of significant shareholders over a three-year period in excess of 50%. Sections 382 and 383 impose an annual limitation on the use of these losses or credits to an amount equal to the value of the company at the time of the ownership change multiplied by the long-term tax exempt rate.

We have recorded a valuation allowance against a portion of the deferred tax assets related to our NOLs, capital loss and other credits as well as certain of our other deferred tax assets to reflect uncertainties that might affect the realization of such deferred tax assets.

**Off-Balance Sheet Arrangements**

We had no material off-balance sheet arrangements as of September 30, 2014.

### **Contractual Obligations**

As of September 30, 2014, our contractual obligations have not changed significantly since December 31, 2013, as presented in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements in accordance with generally accepted accounting principles requires us to make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent

## **Table of Contents**

assets and liabilities. On a quarterly basis, we evaluate our estimates, including those related to revenue recognition and related allowances, bad debt, inventory, valuation of long-lived assets, including intangible assets and goodwill, income taxes, including any valuation allowance for our net deferred tax assets, contingencies and litigation, and stock-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

There have been no significant changes in our critical accounting policies or management estimates since December 31, 2013. A comprehensive discussion of our critical accounting policies and management estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013.

## **Recent Accounting Pronouncements**

See Note 17 in the Notes to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, regarding the impact of certain recent accounting pronouncements on our Consolidated Financial Statements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risks, and the ways we manage them, are summarized in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013. There have been no material changes to our market risks or management of such risks since that date.

## **ITEM 4. CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

Our management evaluated, with the participation of our interim Chief Executive Officer (CEO) and Chief Financial Officer (CFO), the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our management, including the interim CEO and CFO, concluded that our disclosure controls and procedures were effective at that time. We and our management understand nonetheless that controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. In reaching their conclusions stated above regarding the effectiveness of our disclosure controls and procedures, our interim CEO and CFO concluded that such disclosure controls and procedures were effective as of such date at the reasonable assurance level.

### *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during the most recent fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Except as disclosed below, there have been no material developments with respect to the legal proceedings discussed in Part I, Item 3, Legal Proceedings, of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013.

*Matters Relating to our San Diego Facility*

In September 2014, as follow up to a further inspection of our San Diego facility, the FDA notified us that this most recent inspection was classified voluntary action indicated, meaning that the objectionable conditions or practices found in the inspection do not warrant regulatory action, but that formal close-out of the October 12 Warning Letter could not occur until after a future inspection.

**Table of Contents**

*Matters Related to Theft of Laptop*

On October 7, 2014, the class action filed in the U.S. District Court for the Northern District of California against Alere Home Monitoring, Inc., or AHM, was dismissed with leave to amend the complaint. On October 28, 2014, an amended complaint was filed, to which AHM has until November 17, 2014 to respond.

**ITEM 1A. RISK FACTORS**

***The announcement of our agreement to sell our health management business could adversely affect our business.***

On October 27, 2014, we entered into a membership interest purchase agreement with Optum pursuant to which we agreed to sell our health management business for a purchase price of \$600.0 million. The closing of the sale is currently expected to occur during the fourth quarter of 2014. The announcement of the sale of our health management business, or any significant delay in the consummation of the sale, could cause disruptions in our business, including affecting our relationships with our customers, vendors and employees. For example, customers of the health management business could defer decisions to purchase services from us, seek to renegotiate their existing arrangements or terminate their relationships with us. Similarly, employees uncertain about their future employment status or opportunities may seek other employment. Any of these outcomes could have a material adverse effect on our revenues, results of operations and financial condition, regardless of whether the transaction is completed.

***While the sale of our health management business is pending, we will be subject to contractual restrictions and commitments that could have a material adverse effect on our operations and the future of our business.***

The purchase agreement for our health management business includes restrictions on the conduct of our business prior to the completion of the sale, generally requiring us to conduct our business in the ordinary course and preventing us from taking specified actions without the buyer's prior written consent. These and other contractual limitations in the purchase agreement may delay, restrict or prevent us from responding effectively to competitive pressures, industry developments or future business opportunities that may arise during the pre-closing period, even if our management thinks they are advisable. Further, ongoing preparation for the sale of the health management business will require substantial time commitments from members of our senior management team and other employees, which will reduce the amount of time they can devote to improving our continuing business operations. Any of these outcomes could have a material adverse effect on our revenues, results of operations and financial condition, regardless of whether the transaction is completed.

***We may be unable to obtain necessary regulatory clearances to complete the sale of our health management business.***

The sale of our health management business is subject to review by the Antitrust Division of the Department of Justice and the Federal Trade Commission under the HSR Act, and potentially by other regulatory authorities. Under the terms of the purchase agreement for the health management business, it is a condition to the buyer's obligation to consummate the transaction that all applicable waiting periods under the HSR Act shall have expired without objection from applicable regulators and that there not be in effect any preliminary or permanent governmental order (including a temporary restraining order), or any law, prohibiting or making illegal the consummation of any of the transactions contemplated by the purchase agreement. We cannot provide assurances that we will obtain all necessary regulatory approvals to complete the sale in a timely manner. Regulators may request additional information regarding the transaction, which could substantially delay consummation of the sale. Regulators could also seek to impose modifications to the terms of the transaction, require divestitures, place restrictions on business operations or prohibit

consummation of the transaction. We and the buyer have only limited contractual obligations to seek to accommodate any modifications to the terms of the transaction requested or required by regulatory authorities. If any regulatory authority does not approve the terms of the transaction as negotiated by the parties, or if regulatory review of the transaction extends beyond the timeframe anticipated by the parties, the buyer may not have an obligation to consummate the transaction and may decide not to proceed with the transaction.

***The failure to complete the sale of our health management business could adversely affect our business.***

There is no assurance that the sale of our health management business will occur when and as expected, or at all. In addition to conditions regarding regulatory approval, the transaction is subject to other closing conditions, including the absence of a material adverse effect on the business to be sold, the receipt of required consents and approvals from third parties, including the required lenders under our senior secured credit facility, and the continued accuracy of our representations and warranties. If any condition to closing is not satisfied, the parties will not be obligated to consummate the transaction. Moreover, if for any reason the closing of the sale is not completed by April 27, 2015, or upon the happening of certain other events such as the entry of a final and non-appealable court order prohibiting consummation of the transaction, either we or Optum may have the right to terminate the agreement. The

**Table of Contents**

deadline for the completion of the closing of the sale will be extended to July 27, 2015 if the only condition that has not been satisfied as of April 27, 2015 is the expiration of all waiting periods under the HSR Act or other applicable antitrust laws. If the proposed sale is not completed for any reason, the market price of our common stock could decline on the basis that such price currently reflects an assumption that the sale will be completed and that the proceeds of the sale will be used to repay a portion of our outstanding indebtedness. The failure of the transaction to occur may result in negative publicity and a negative impression of us among other potential buyers of our health management business, as well as in the investment community generally. We may be unable to locate a buyer willing to purchase the health management business on terms equivalent to or more attractive than those agreed to by the buyer. We may face litigation regarding the transaction, which could cause us to incur substantial defense costs and potentially result in an adverse judgment for damages. Finally, we are incurring significant financial advisory, accounting, legal, regulatory and other expenses pursuing the sale of our health management business, and these expenses will reduce our earnings and cash flows, whether or not the sale is completed.

**ITEM 6. EXHIBITS****Exhibits:****Exhibit**

<b>No.</b>	<b>Description</b>
*3.1	Amended and Restated Certificate of Incorporation of the Company
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, event date August 21, 2014, filed on August 26, 2014)
10.1	Alere Inc. 2010 Stock Option and Incentive Plan, as amended (incorporated by reference to Appendix A to the Company's Proxy Statement filed on Schedule 14A as filed with the SEC on July 17, 2014)
10.2	Alere Inc. 2001 Employee Stock Purchase Plan, as amended (incorporated by reference to Appendix B to the Company's Proxy Statement filed on Schedule 14A as filed with the SEC on July 17, 2014)
10.3	Form of Change of Control Agreement between the Company and various executive officers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, event date October 25, 2014, filed on October 28, 2014)
*10.4	Summary of Material Terms of Award Agreements under Alere Inc. Stock Option Plans
*31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*101	Interactive Data Files regarding (a) our Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2013, (b) our Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013, (c) our Consolidated

Edgar Filing: ALERE INC. - Form 10-Q

Balance Sheets as of September 30, 2014 and December 31, 2013, (d) our Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013 and (e) the Notes to such Consolidated Financial Statements.

\* Filed herewith  
Management contract or compensatory plan or arrangement, of amendment thereto



Table of Contents

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALERE INC.

Date: November 7, 2014

/s/ Carla R. Flakne

Carla R. Flakne

*Chief Accounting Officer and an authorized officer*