INVERNESS MEDICAL INNOVATIONS INC
Form 10-Q
November 09, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

o **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

INVERNESS MEDICAL INNOVATIONS, INC.

(Exact Name Of Registrant As Specified In Its Charter)

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

51 SAWYER ROAD, SUITE 200
WALTHAM, MASSACHUSETTS 02453
(Address of principal executive offices)

(781) 647-3900
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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 o No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares outstanding of the registrant s common stock, par value of $0.001 per share, as of November 2, 2009 was 83,212,724.

INVERNESS MEDICAL INNOVATIONS, INC.
REPORT ON FORM 10-Q
For the Quarterly Period Ended September 30, 2009

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. There are a number of important factors that could cause actual results of Inverness Medical Innovations, 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 ending December 31, 2008 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 factors as well as the Special Statement Regarding Forward-Looking Statements beginning on page 57 in this Quarterly Report on Form 10-Q 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 Inverness Medical Innovations, Inc. and its subsidiaries.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net product sales	$ 393,887	$ 305,266	$ 1,036,193	$ 918,484
Services revenue	134,075	127,768	383,279	272,200
License and royalty revenue	7,848	5,766	20,588	21,476
Net revenue	535,810	438,800	1,440,060	1,212,160
Cost of net product sales	189,689	153,103	506,485	470,160
Cost of services revenue	61,209	55,906	172,123	119,876
Cost of license and royalty revenue	1,944	1,643	5,290	7,484
Cost of net revenue	252,842	210,652	683,898	597,520
Gross profit	282,968	228,148	756,162	614,640
Operating expenses:				
Research and development	27,720	25,693	80,811	86,426
Sales and marketing	117,304	104,607	319,997	281,297
General and administrative	87,338	84,601	250,157	215,390
Gain on disposition	(3,355)		(3,355)	
Operating income	53,961	13,247	108,552	31,527
Interest expense, including amortization of deferred financing costs and original issue discounts	(30,582)	(23,600)	(72,093)	(78,762)
Other income (expense), net	957	(1,152)	858	(5,389)
Income (loss) before provision (benefit) for income taxes	24,336	(11,505)	37,317	(52,624)
Provision (benefit) for income taxes	6,253	(4,696)	11,927	(13,274)
Equity earnings of unconsolidated entities, net of tax	2,059	3,150	5,539	1,169
Net income (loss)	20,142	(3,659)	30,929	(38,181)
Preferred stock dividends	(5,843)	(5,393)	(17,056)	(8,500)
Net income (loss) available to common stockholders	$ 14,299	$ (9,052)	$ 13,873	$ (46,681)
	$ 0.18	$ (0.12)	$ 0.17	$ (0.60)

Net income (loss) per common share basic				
Net income (loss) per common share diluted	$ 0.17	$ (0.12)	$ 0.17	$ (0.60)
Weighted average common shares basic	81,625	77,995	79,682	77,630
Weighted average common shares diluted	83,418	77,995	81,110	77,630

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

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 555,871	$ 141,324
Restricted cash	3,098	2,748
Marketable securities	907	1,763
Accounts receivable, net of allowances of $13,287 and $12,835 at September 30, 2009 and December 31, 2008, respectively	363,054	280,608
Inventories, net	223,103	199,131
Deferred tax assets	90,054	104,311
Income tax receivable	5,948	6,406
Receivable from joint venture, net		12,018
Prepaid expenses and other current assets	73,368	74,234
Total current assets	1,315,403	822,543
Property, plant and equipment, net	324,020	284,483
Goodwill	3,425,684	3,046,083
Other intangible assets with indefinite lives	43,180	42,984
Core technology and patents, net	441,459	459,307
Other intangible assets, net	1,278,023	1,169,330
Deferred financing costs, net, and other non-current assets	71,523	46,884
Investments in unconsolidated entities	62,760	68,832
Marketable securities	1,074	591
Deferred tax assets	18,975	14,323
Total assets	$ 6,982,101	$ 5,955,360
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 18,881	$ 19,058
Current portion of capital lease obligations	731	451
Accounts payable	142,524	112,704
Accrued expenses and other current liabilities	307,277	233,132
Payable to joint venture, net	510	
Total current liabilities	469,923	365,345
Long-term liabilities:		
Long-term debt, net of current portion	2,133,215	1,500,557
Capital lease obligations, net of current portion	1,183	468
Deferred tax liabilities	506,074	462,787
Deferred gain on joint venture	288,625	287,030

Other long-term liabilities	104,398	60,335
Total long-term liabilities	3,033,495	2,311,177
Commitments and contingencies (Note 16)		
Stockholders equity:		
Series B preferred stock, $0.001 par value (liquidation preference, $784,974 at September 30, 2009 and $751,479 at December 31, 2008); Authorized: 2,300 shares; Issued and outstanding: 1,962 shares at September 30, 2009 and 1,879 shares at December 31, 2008	688,578	671,501
Common stock, $0.001 par value; Authorized: 150,000 shares; Issued and outstanding: 82,667 shares at September 30, 2009 and 78,431 shares at December 31, 2008	83	78
Additional paid-in capital	3,166,743	3,029,694
Accumulated deficit	(362,661)	(393,590)
Accumulated other comprehensive loss	(14,060)	(28,845)
Total stockholders equity	3,478,683	3,278,838
Total liabilities and stockholders equity	$ 6,982,101	$ 5,955,360

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

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2009	**2008**
Cash Flows from Operating Activities:		
Net income (loss)	$ 30,929	$ (38,181)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Interest expense related to amortization of deferred financing costs and original issue discounts	6,461	4,432
Depreciation and amortization	226,054	194,203
Non-cash stock-based compensation expense	20,287	19,716
Impairment of inventory	838	3,108
Impairment of long-lived assets	3,181	19,472
Loss on sale of property, plant and equipment	611	241
Equity earnings of unconsolidated entities, net of tax	(5,539)	(1,169)
Interest in minority investments	465	167
Deferred and other non-cash income taxes	(10,621)	(28,322)
Other non-cash items	1,069	3,779
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(40,607)	(33,657)
Inventories, net	(9,581)	(39,767)
Prepaid expenses and other current assets	3,037	(4,657)
Accounts payable	18,798	22,154
Accrued expenses and other current liabilities	(10,389)	(11,418)
Other non-current liabilities	10,306	4,210
Net cash provided by operating activities	245,299	114,311
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(74,730)	(47,014)
Proceeds from sale of property, plant and equipment	672	241
Cash paid for acquisitions and transactional costs, net of cash acquired	(397,467)	(614,175)
Net cash received from equity method investments	12,003	11,800
Increase in other assets	(5,056)	(8,558)
Net cash used in investing activities	(464,578)	(657,706)
Cash Flows from Financing Activities:		
(Increase) decrease in restricted cash	(252)	138,219
Issuance costs associated with preferred stock		(351)
Cash paid for financing costs	(15,331)	(986)
Proceeds from issuance of common stock, net of issuance costs	15,539	18,566
Proceeds from long-term debt	631,176	
Repayments of long-term debt	(8,344)	(10,680)

Net (repayments) proceeds from revolving lines-of-credit and other debt	(3,453)	138,270
Tax benefit on exercised stock options	2,152	420
Principal payments on capital lease obligations	(648)	(916)
Other	(115)	
Net cash provided by financing activities	620,724	282,542
Foreign exchange effect on cash and cash equivalents	13,102	291
Net increase (decrease) in cash and cash equivalents	414,547	(260,562)
Cash and cash equivalents, beginning of period	141,324	414,732
Cash and cash equivalents, end of period	$ 555,871	$ 154,170
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 50,680	$ 73,355
Income taxes paid (refunded)	$ 21,439	$ (1,847)
Supplemental Disclosure of Non-cash Activities:		
Note issued for purchase of intangible assets	$ 1,700	$
Equipment purchases under capital leases	$ 1,356	$ 395
Fair value of stock issued for acquisitions	$ 112,360	$ 673,803
Fair value of stock options exchanged	$ 2,881	$ 20,973

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

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation of Financial Information

The accompanying consolidated financial statements of Inverness Medical Innovations, Inc. and its subsidiaries are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair presentation. 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 and cash flows. Our audited consolidated financial statements for the year ended December 31, 2008 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 on April 10, 2009. 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, 2008.

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

(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, 2009, our cash equivalents consisted of money market funds.

(3) Inventories

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

	September 30, 2009	December 31, 2008
Raw materials	$ 67,023	$ 45,161
Work-in-process	63,187	41,651
Finished goods	92,893	112,319
	$ 223,103	$ 199,131

(4) Stock-based Compensation

We recorded stock-based compensation expense in our consolidated statements of operations of $7.8 million ($6.1 million, net of tax) and $20.3 million ($16.2 million, net of tax) and $7.0 million ($5.6 million, net of tax) and $19.7 million ($15.5 million, net of tax) for the three and nine-month periods ending September 30, 2009 and 2008, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of sales	$ 572	$ 365	$ 1,480	$ 999
Research and development	1,419	1,118	3,740	3,437
Sales and marketing	1,079	1,267	2,958	3,275
General and administrative	4,732	4,215	12,109	12,005
	$ 7,802	$ 6,965	$ 20,287	$ 19,716

Included in the amounts above for general and administrative expense for the three and nine months ended September 30, 2009, is $1.0 million related to our assumption of certain Concateno plc, or Concateno, options. The expense relates to the acceleration of certain unvested Concateno employee options. See Note 8 regarding our acquisition of Concateno.

We report excess tax benefits from the exercise of stock options as financing cash flows. For the three months ended September 30, 2009 and 2008, there was $0.1 million and $0.1 million, respectively, of excess tax benefits generated from option exercises. For the nine months ended September 30, 2009 and 2008, there was $2.2 million and $0.4 million, respectively, of excess tax benefits generated from option exercises.

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Our stock option plans provide for grants of options to employees to purchase common stock at the fair market value of such shares on the grant date of the award. The options generally vest over a four-year period, beginning on the date of grant, with a graded vesting schedule of 25% at the end of each of the four years. We use a Black-Scholes option pricing model to calculate the grant-date fair value of options. The fair value of the stock options granted during the three and nine months ended September 30, 2009 and 2008 was calculated using the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Stock Options:				
Risk-free interest rate	2.58%	3.14%	2.19%	3.07%
Expected dividend yield				
Expected term	5.20 years	5.19 years	5.20 years	5.19 years
Expected volatility	43.79%	37.80%	44.35%	38.17%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Employee Stock Purchase Plan:				
Risk-free interest rate	0.33%	2.13%	0.30%	2.65%
Expected dividend yield				
Expected term	184 days	184 days	183 days	183 days
Expected volatility	42.72%	53.87%	57.42%	49.24%

A summary of the stock option activity for the nine months ended September 30, 2009 is as follows (in thousands, except price per share and contractual term):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic value
Options outstanding, January 1, 2009	10,155	$ 32.65		
Exchanged	315	$ 29.78		
Granted	965	$ 35.33		
Exercised	(569)	$ 15.89		
Canceled/expired /forfeited	(486)	$ 38.54		
Options outstanding, September 30, 2009	10,380	$ 33.53	6.38 years	$ 91,394
Options exercisable, September 30, 2009	6,230	$ 29.57	4.89 years	$ 72,224

The weighted average grant-date fair value under a Black-Scholes option pricing model of options granted during the nine months ended September 30, 2009 and 2008 was $14.72 per share and $11.80 per share, respectively. The weighted average grant-date fair value under a Black-Scholes option pricing model of options exchanged during the nine months ended September 30, 2009 was $13.38 per share. The total intrinsic value of options exercised during the three and nine months ended September 30, 2009 was $2.9 million and $9.3 million, respectively.

As of September 30, 2009, there was $55.9 million of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a remaining weighted-average vesting period of 1.53 years.

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

(5) Net Income (Loss) Per Common Share

The following table sets forth the computation of basic and diluted net income (loss) per common share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Basic net income (loss) per common share :				
Numerator:				
Net income (loss)	$ 20,142	$ (3,659)	$ 30,929	$ (38,181)
Less: Preferred stock dividends	5,843	5,393	17,056	8,500
Net income (loss) available to common stockholders	$ 14,299	$ (9,052)	$ 13,873	$ (46,681)
Denominator:				
Weighted average common shares outstanding	81,625	77,995	79,682	77,630
Basic net income (loss) per common share	$ 0.18	$ (0.12)	$ 0.17	$ (0.60)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Diluted net income (loss) per common share :				
Numerator:				
Net income (loss)	$ 20,142	$ (3,659)	$ 30,929	$ (38,181)
Less: Preferred stock dividends	5,843	5,393	17,056	8,500
Net income (loss) available to common stockholders	$ 14,299	$ (9,052)	$ 13,873	$ (46,681)
Denominator:				
Weighted average common shares outstanding	81,625	77,995	79,682	77,630
Stock options	1,605		1,280	
Warrants	188		148	

Total shares	83,418	77,995	81,110	77,630
Diluted net income (loss) per common share	$ 0.17	$ (0.12)	$ 0.17	$ (0.60)

We had dilutive securities outstanding on September 30, 2009 consisting of options and warrants to purchase an aggregate of 10.8 million shares of common stock at a weighted average exercise price of $33.00 per share. We had the following potential dilutive securities outstanding on September 30, 2009: $150.0 million of 3% senior subordinated convertible notes, convertible at $43.98 per share; $1.7 million of subordinated convertible promissory notes, convertible at $61.49 per share; and 2.0 million shares of our Series B convertible preferred stock, with an aggregate liquidation preference of approximately $785.0 million, convertible under certain circumstances at $69.32 per share. In addition, for the three and nine months ended September 30, 2009, we had 0.6 million and 0.3 million common stock equivalents, respectively, from the potential settlement of a portion of the deferred purchase price consideration related to the ACON Second Territory Business. These potential dilutive securities were not included in the computation of diluted net income per common share for the three and nine months ended September 30, 2009, because the effect of including such potential dilutive securities would be anti-dilutive.

We had the following potential dilutive securities outstanding on September 30, 2008: options and warrants to purchase an aggregate of 10.4 million shares of common stock at a weighted average exercise price of $32.72 per share, $150.0 million of 3% senior subordinated convertible notes, convertible at $43.98 per share, and 1.8 million shares of our Series B convertible preferred stock, convertible under certain circumstances at $69.32 per share. These potential dilutive securities were not included in the computation of diluted net loss per common share for the three and nine months ended September 30, 2008, because the effect of including such potential dilutive securities would be anti-dilutive.

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

(6) Preferred Stock

As of September 30, 2009, we had 5.0 million shares of preferred stock, $0.001 par value, authorized, of which 2.3 million shares were designated as Series B Convertible Perpetual Preferred Stock, or Series B preferred stock. On May 8, 2008, in connection with our acquisition of Matria Healthcare, Inc., or Matria, we issued 1.8 million shares of the Series B preferred stock with a fair value of approximately $657.9 million (Note 8(b)).

Each share of Series B preferred stock, which has a liquidation preference of $400.00 per share, is convertible, at the option of the holder and only upon certain circumstances, into 5.7703 shares of our common stock, plus cash in lieu of fractional shares. The initial conversion price is $69.32 per share, subject to adjustment upon the occurrence of certain events, but will not be adjusted for accumulated and unpaid dividends. Upon a conversion of shares of the Series B preferred stock, we may, at our option, satisfy the entire conversion obligation in cash or through a combination of cash and common stock. There were no conversions as of September 30, 2009.

Generally, the shares of Series B preferred stock are convertible, at the option of the holder, if during any calendar quarter beginning with the second calendar quarter after the issuance date of the Series B preferred stock, if the closing sale price of our common stock for each of 20 or more trading days within any period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price per share of common stock in effect on the last trading day of the immediately preceding calendar quarter. In addition, the shares of Series B preferred stock are convertible, at the option of the holder, in certain other circumstances, including those relating to the trading price of the Series B preferred stock and upon the occurrence of certain fundamental changes or major corporate transactions. We also have the right, under certain circumstances relating to the trading price of our common stock, to force conversion of the Series B preferred stock. Depending on the timing of any such forced conversion, we may have to make certain payments relating to foregone dividends, which payments we can make, at our option, in the form of cash, shares of our common stock, or a combination of cash and shares of our common stock.

Each share of Series B preferred stock accrues dividends at $12.00, or 3%, per annum, payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing following the first full calendar quarter after the issuance date. Dividends on the Series B preferred stock are cumulative from the date of issuance. Accrued dividends are payable only if declared by our board of directors and, upon conversion by the Series B preferred stockholder, holders will not receive any cash payment representing accumulated dividends. If our board of directors declares a dividend payable, we have the right to pay the dividends in cash, shares of common stock, additional shares of Series B preferred stock or a similar convertible preferred stock or any combination thereof.

Dividends paid in shares of Series B preferred stock are in an amount per share of Series B preferred stock equal to the quotient of (a) $3.00 divided by (b) 97% of the average of the volume-weighted average price per share of the Series B preferred stock on the New York Stock Exchange for each of the five consecutive trading days ending on the second trading day immediately prior to the record date of the dividend.

For the three and nine months ended September 30, 2009, Series B preferred stock dividends amounted to $5.8 million and $17.1 million, respectively, which reduced earnings available to common stockholders for purposes of calculating net income per common share for the three and nine months ended September 30, 2009 (Note 5). As of October 15, 2009, payments have been made covering all dividend periods through September 30, 2009. As of September 30, 2009, 2.0 million shares of Series B preferred stock are issued and outstanding which includes the accrued dividend shares.

The holders of Series B preferred stock have liquidation preferences over the holders of our common stock and other classes of stock, if any, outstanding at the time of liquidation. Upon liquidation, the holders of outstanding Series B preferred stock would receive an amount equal to $400.00 per share of Series B preferred stock, plus any accumulated and unpaid dividends. As of September 30, 2009, the liquidation preference of the outstanding Series B preferred stock was $785.0 million. The holders of the Series B preferred stock have no voting rights, except with respect to matters affecting the Series B preferred stock (including the creation of a senior preferred stock).

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

We evaluated the terms and provisions of our Series B preferred stock to determine if it qualified for derivative accounting treatment. Based upon our evaluation, these securities do not qualify for derivative accounting.

(7) Comprehensive Income (Loss)

In general, comprehensive income (loss) combines net income (loss) and other changes in equity during the year from non-owner sources. Our accumulated other comprehensive loss, which is a component of shareholders equity, includes foreign currency translation adjustments, gains (losses) on available-for-sale securities and interest rate swaps. For the three and nine months ended September 30, 2009, we generated comprehensive income of $23.9 million and $45.7 million, respectively, and for the three and nine months ended September 30, 2008, we generated a comprehensive loss of $23.6 million and $51.9 million, respectively.

(8) Business Combinations

On January 1, 2009, we adopted a new accounting standard issued by the Financial Accounting Standards Board, or FASB, related to accounting for business combinations using the acquisition method of accounting (previously referred to as the purchase method). Among the significant changes, this standard requires a redefining of the measurement date of a business combination, expensing direct transaction costs as incurred, capitalizing in-process research and development costs as an intangible asset and recording a liability for contingent consideration at the measurement date with subsequent re-measurements recorded as general and administrative expense. This standard also requires costs for business restructuring and exit activities related to the acquired company to be included in the post-combination financial results of operations and also provides new guidance for the recognition and measurement of contingent assets and liabilities in a business combination. In addition, this standard requires several new disclosures designed to enable users to better interpret the results of the business combination. Acquisitions consummated prior to January 1, 2009 were accounted for in accordance with the previously applicable guidance. In connection with the adoption of the new accounting standard, we expensed $5.1 million and $11.5 million of acquisition-related costs during the three and nine months ended September 30, 2009, respectively, in general and administrative expense. Included in the $11.5 million during the nine months ended September 30, 2009, was $3.8 million of costs associated with acquisition-related activity for transactions not consummated prior to January 1, 2009.

(a) Acquisitions in 2009

(i) Acquisition of Free & Clear

On September 28, 2009, we acquired Free & Clear, Inc., or Free & Clear, located in Seattle, Washington, a privately-owned company that specializes in behavioral coaching to help employers, health plans and government agencies improve the overall health and productivity of their covered populations. The preliminary aggregate purchase price was $127.4 million, which consisted of an initial cash payment totaling $105.3 million and a contingent consideration obligation with a fair value of $22.1 million. In addition, we assumed and immediately repaid debt totaling approximately $1.3 million.

We determined the acquisition date fair value of the contingent consideration obligation based on a probability-weighted income approach derived from 2010 revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. 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 cash flows were then discounted using a discount rate of 13%. At each reporting date, we revalue the contingent consideration obligation to the fair value and record increases and decreases in the fair value as income or expense in our consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. We recorded expense of approximately $15,000 in our consolidated statements of operations during the three and nine months ended September 30, 2009, as a result of a decrease in the discount period since the

acquisition date. As of September 30, 2009, the fair value of the contingent consideration obligation was approximately $22.1 million.

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Included in our consolidated statements of operations for the three and nine months ended September 30, 2009 is revenue totaling approximately $0.3 million related to Free & Clear. The operating results of Free & Clear are included in our health management reporting unit and business segment.

A summary of the preliminary aggregate purchase price allocation for this acquisition is as follows (in thousands):

Current assets	$ 17,183
Property, plant and equipment	1,224
Goodwill	80,766
Intangible assets	59,100
Other non-current assets	807
Total assets acquired	159,080
Current liabilities	8,042
Non-current liabilities	23,640
Total liabilities assumed	31,682
Net assets acquired	127,398
Less:	
Fair value of contingent consideration obligation	22,097
Cash consideration	$ 105,301

We do not expect the amount allocated to goodwill to be deductible for tax purposes.

Customer relationships are amortized based on patterns in which the economic benefits of customer relationships are expected to be realized. Other finite-lived identifiable assets are amortized on a straight-line basis. The following are the intangible assets acquired and their respective amortizable lives (dollars in thousands):

	Amount	Amortizable Life
Customer relationships	$ 45,700	19 years
Core technology	11,200	3 years
Trade names	2,200	3 years
Total intangible assets with finite lives	$ 59,100	

(ii) Acquisition of Concateno

On August 11, 2009, we acquired Concateno, a publicly-traded company headquartered in the United Kingdom that specializes in the manufacture and distribution of rapid drugs of abuse diagnostic products used in health care, criminal justice, workplace and other testing markets. The preliminary aggregate purchase price was $211.4 million, which consisted of $138.3 million in cash, including $0.5 million of cash paid for shares of Concateno common stock which we acquired prior to the acquisition date, 2,091,080 shares of our common stock with an aggregate fair value of $70.2 million and $2.9 million of fair value associated with Concateno employee stock options exchanged as part of the transaction. In addition, we assumed and immediately repaid debt totaling approximately $40.5 million.

Our consolidated statements of operations for the three and nine months ended September 30, 2009 included revenue totaling approximately $11.1 million related to Concateno. The operating results of Concateno are included in our professional diagnostics reporting unit and business segment.

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A summary of the preliminary aggregate purchase price allocation for this acquisition is as follows (dollars in thousands):

Current assets	$ 39,973
Property, plant and equipment	5,192
Goodwill	180,140
Intangible assets	102,734
Total assets acquired	328,039
Current liabilities	64,355
Non-current liabilities	52,328
Total liabilities assumed	116,683
Net assets acquired	211,356
Less:	
Fair value of common stock issued (2,091,080 shares)	70,218
Fair value of stock options exchanged (315,227 options)	2,881
Cash consideration	$ 138,257

We do not expect the amount allocated to goodwill to be deductible for tax purposes.

Customer relationships are amortized based on patterns in which the economic benefits of customer relationships are expected to be realized. Other finite-lived identifiable assets are amortized on a straight-line basis. The following are the intangible assets acquired and their respective amortizable lives (dollars in thousands):

	Amount	Amortizable Life
Customer relationships	$ 77,051	10-18 years
Core technology	500	5 years
Trademarks and trade names	25,183	15-20 years
Total intangible assets with finite lives	$ 102,734	

(iii) Acquisition of ACON s Second Territory Business

On April 30, 2009, we completed our acquisition of the assets of ACON Laboratories, Inc. s and certain related entities (collectively, ACON) business of researching, developing, manufacturing, distributing, marketing and selling lateral flow immunoassay and directly-related products (the Business) for the remainder of the world outside of the First Territory (as defined below), including China, Asia Pacific, Latin America, South America, the Middle East, Africa, India, Pakistan, Russia and Eastern Europe (the Second Territory Business). We acquired ACON s Business in the United States, Canada, Western Europe (excluding Russia, the former Soviet Republics that are not part of the European Union and Turkey), Israel, Australia, Japan and New Zealand (the First Territory) in March 2006. The preliminary aggregate purchase price for the Second Territory Business was approximately $192.9 million ($190.9 million present value), which consisted of cash payments totaling $106.5 million, 1,202,691 shares of our common stock with an aggregate fair value of $42.1 million and deferred purchase price consideration payable in cash

and common stock with an aggregate fair value of $42.3 million.

Our consolidated statements of operations for the three and nine months ended September 30, 2009 included revenue totaling approximately $13.7 million and $22.4 million, respectively, related to the Second Territory Business. The operating results of the Second Territory Business are included in our professional diagnostics reporting unit and business segment.

During the remainder of 2009, we expect to pay an amount equal to $15.5 million in shares of our common stock as settlement of a portion of the deferred purchase price consideration. The deferred payments made in 2009 will bear interest at a rate of 4%. The remainder of the purchase price will be due in two installments, each comprising 7.5% of the total purchase price, or approximately $28.9 million, on the dates 15 and 30 months after the acquisition date. These amounts do not bear interest and may be paid in cash or a combination of cash and up to approximately 29% of each of these payments in shares of our common stock. For purposes of determining the preliminary aggregate purchase price of $190.9 million, we present valued the final two installment payments totaling $28.9 million using a discount rate of 4%, resulting in a reduction in the deferred purchase price consideration of approximately $2.0 million.

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A summary of the preliminary aggregate purchase price allocation for this acquisition is as follows (dollars in thousands):

Current assets	$ 3,626
Property, plant and equipment	305
Goodwill	86,489
Intangible assets	100,600
Total assets acquired	191,020
Current liabilities	117
Total liabilities assumed	117
Net assets acquired	190,903
Less:	
Fair value of common stock issued (1,202,691 shares)	42,142
Present value of deferred purchase price consideration	42,261
Cash consideration paid at closing	$ 106,500

Goodwill resulting from this acquisition is generally not expected to be deductible for tax purposes depending on the tax jurisdiction.

Customer relationships are amortized based on patterns in which the economic benefits of customer relationships are expected to be realized. Other finite-lived identifiable assets are amortized on a straight-line basis. The following are the intangible assets acquired and their respective amortizable lives (dollars in thousands):

	Amount	Amortizable Life
Customer relationships	$ 94,200	10-20 years
Patents	3,000	10 years
Trademarks and trade names	1,900	10 years
Non-compete agreements	1,500	2 years
Total intangible assets with finite lives	$ 100,600	

(iv) Other acquisitions in 2009

During the first nine months of 2009, we acquired the following assets and businesses for a preliminary aggregate purchase price of $37.6 million ($35.7 million present value), which consisted of $9.6 million in cash, notes payable totaling $8.4 million, deferred purchase price consideration payable in cash with an aggregate fair value of $14.6 million, warrants with a fair value of $0.1 million and a contingent consideration obligation with a fair value of $3.1 million. In addition, we assumed and immediately repaid debt totaling approximately $0.9 million.

We determined the acquisition date fair value of the contingent consideration obligation based on a probability-weighted income approach derived from revenue estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. 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 cash flows were then discounted using a discount rate of 18%. At each reporting date, we revalue the contingent consideration obligation to the fair value and record increases and decreases in the fair value as income or expense in our consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. We recorded income of approximately $6,000 in our consolidated statements of operations during the three and nine months ended September 30, 2009, as a result of a decrease in the discount period and an increase in the discount rate since the acquisition date. As of September 30, 2009, the fair value of the contingent consideration obligation was approximately $3.1 million.

GeneCare Medical Genetics Center, Inc., or GeneCare, located in Chapel Hill, North Carolina, a medical genetics testing and counseling business (Acquired July 2009)

Certain assets from CVS Caremark s Accordant Common disease management programs, or Accordant, whereby chronically-ill patients served by Accordant Common disease management programs will be managed and have access to expanded offerings provided by Alere (Acquired August 2009)

ZyCare, Inc., or ZyCare, located in Chapel Hill, North Carolina, a provider of technology and services used to help manage many chronic illnesses (Acquired August 2009)

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Medim Schweiz GmbH., or Medim, located in Zug, Switzerland, a distributor of point-of-care diagnostics testing products primarily to the Swiss marketplace (Acquired September 2009)

The operating results of GeneCare, Accordant and Zycare are included in our health management reporting unit and business segment. The operating results of Medim are included in our professional diagnostics reporting unit and business segment. Our consolidated statements of operations for the three and nine months ended September 30, 2009 included revenue totaling approximately $6.7 million related to these businesses.

A summary of the preliminary aggregate purchase price allocation for these acquisitions is as follows (in thousands):

Current assets	$ 4,521
Property, plant and equipment	432
Goodwill	16,337
Intangible assets	20,790
Other non-current assets	17
Total assets acquired	42,097
Current liabilities	5,076
Non-current liabilities	1,272
Total liabilities assumed	6,348
Net assets acquired	35,749
Less:	
Fair value of warrants issued	57
Notes payable	8,394
Present value of deferred purchase price consideration	14,564
Fair value of contingent consideration obligation	3,131
Cash consideration	$ 9,603

Customer relationships are amortized based on patterns in which the economic benefits of customer relationships are expected to be realized. Other finite-lived identifiable assets are amortized on a straight-line basis. The following are the intangible assets acquired and their respective amortizable lives (dollars in thousands):

	Amount	Amortizable Life
Core technology	$ 5,220	5-10 years
Trade names	270	2 years
Customer relationships	13,800	5.33-16.25 years
Non-compete agreements	1,500	3-5 years
Total intangible assets with finite lives	$ 20,790	

Goodwill has been recognized in the GeneCare, Accordant, ZyCare and Medim transactions and amounted to approximately $16.3 million. Goodwill related to the acquisitions of GeneCare and Accordant, which totaled $12.5 million, is expected to be deductible for tax purposes. Goodwill related to the acquisitions of ZyCare and

Medim is not deductible for tax purposes.

(b) Acquisitions in 2008

During the year ended December 31, 2008, we acquired the following businesses for a preliminary aggregate purchase price of $1.1 billion, which consisted of $362.8 million in cash, 251,085 shares of our common stock with an aggregate fair value of $14.4 million, 1,787,834 shares of our Series B preferred stock with an aggregate fair value of $657.9 million, $21.0 million of fair value associated with employee stock options and restricted stock awards which were exchanged as part of the transactions, $26.9 million in direct acquisition costs and accrued milestone and contingent consideration payments totaling $2.2 million. In addition, we assumed and immediately repaid debt totaling approximately $279.2 million. Upon settlement of certain milestones, we recognized a $0.2 million foreign currency exchange loss which was included in the preliminary aggregate purchase price.

Ameditech, Inc., or Ameditech, located in San Diego, California, a leading manufacturer of high quality drugs of abuse diagnostic tests (Acquired December 2008)

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Prodimol Biotecnologia S.A., or Prodimol, located in Brazil, a privately-owned distributor of high quality rapid diagnostic tests predominantly to the Brazilian marketplace (Acquired October 2008)

DiaTeam Diagnostika, or DiaTeam, located in Linz, Austria, a privately-owned distributor of high quality rapid diagnostic tests predominantly to the Austrian marketplace (Acquired September 2008)

Global Diagnostics CC, or Global, located in Johannesburg, South Africa, a privately-owned contract manufacturer and distributor of high quality rapid diagnostic tests predominantly to the South African marketplace (Acquired September 2008)

Vision Biotech Pty Ltd, or Vision, located in Cape Town, South Africa, a privately-owned distributor of rapid diagnostic products predominantly to the South African marketplace (Acquired September 2008)

Privately-owned provider of care and health management services (Acquired July 2008)

Matria, a national provider of health improvement, disease management and high-risk pregnancy management programs and services (Acquired May 2008)

Certain assets from Mochida Pharmaceutical Co., Ltd, or Mochida, whereby Mochida transferred the exclusive distribution rights in Japan for certain Osteomark products (Acquired April 2008)

BBI Holdings Plc, or BBI, a publicly-traded company headquartered in the United Kingdom that specializes in the development and manufacture of non-invasive lateral flow tests and gold reagents (Acquired February 2008)

Panbio Limited, or Panbio, an Australian publicly-traded company headquartered in Brisbane, Australia, that develops and manufactures diagnostic tests for use in the diagnosis of a broad range of infectious diseases products (Acquired January 2008)

A summary of the preliminary aggregate purchase price allocation for these acquisitions is as follows (dollars in thousands):

Current assets	$ 167,615
Property, plant and equipment	34,112
Goodwill	954,982
Intangible assets	470,388
Other non-current assets	38,378
Total assets acquired	1,665,475
Current liabilities	402,935
Non-current liabilities	177,555
Total liabilities assumed	580,490
Net assets acquired	1,084,985
Less:	
Acquisition costs	26,890

Realized foreign currency exchange loss	(179)
Fair value of common stock issued (251,085 shares)	14,397
Fair value of Series B preferred stock issued (1,787,834 shares)	657,923
Fair value of stock options/awards exchanged (1,845,893 options)	20,973
Accrued milestone and contingent consideration	2,170
Cash consideration	$ 362,811

Customer relationships are amortized based on patterns in which the economic benefits of customer relationships are expected to be realized. Other finite-lived identifiable assets are amortized on a straight-line basis. The following are the intangible assets acquired and their respective amortizable lives (dollars in thousands):

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	Amount	Amortizable Life
Core technology	$ 66,263	3-20 years
Database	25,000	10 years
Trade names and other intangible assets	22,437	5 months-25 years
Customer relationships	339,583	3.5-25 years
Non-compete agreements	16,263	0.75-5 years
Manufacturing know-how	842	5 years
Total intangible assets with finite lives	$ 470,388	

Ameditech, Prodimol, DiaTeam, Global, Vision, Mochida and Panbio are included in our professional diagnostics reporting unit and business segment; BBI is included in our professional and consumer diagnostics reporting units and business segments; and Matria and our privately-owned health management acquisition are included in our health management reporting unit and business segment. Goodwill has been recognized in the Ameditech, Prodimol, DiaTeam, Global, Vision, Panbio, BBI, Matria and our privately-owned health management acquisition transactions and amounted to approximately $955.0 million. Goodwill related to these acquisitions, excluding Ameditech and the privately-owned health management acquisition, is not deductible for tax purposes.

(c) Restructuring Plans of Acquisitions

In connection with several of our acquisitions consummated during 2008 and prior, we initiated integration plans to consolidate and restructure certain functions and operations, including the costs associated with the termination of certain personnel of these acquired entities and the closure of certain of the acquired entities leased facilities. These costs have been recognized as liabilities assumed in connection with the acquisition of these entities and are subject to potential adjustments as certain exit activities are refined. The following table summarizes the liabilities established for exit activities related to these acquisitions (in thousands):

	Severance Related	Facility And Other	Total Exit Activities
Balance, December 31, 2008	$ 10,348	$ 4,926	$ 15,274
Restructuring plan accruals	203	5,317	5,520
Payments	(4,260)	(2,089)	(6,349)
Currency adjustments		(3)	(3)
Balance, September 30, 2009	$ 6,291	$ 8,151	$ 14,442

(i) 2008 Acquisitions

In connection with our acquisition of Matria, we implemented an integration plan to improve operating efficiencies and eliminate redundant costs resulting from the acquisition. The restructuring plan impacted all cost centers within the Matria organization, as activities were combined with our existing business operations. We recorded $20.2 million in exit costs, of which $15.4 million relates to change in control and severance costs to involuntarily terminate employees and $4.8 million related to facility exit costs. As of September 30, 2009, $7.3 million in exit costs remain unpaid. See Note 9 for additional restructuring charges related to the Matria facility exit costs, within the health management reporting unit.

In conjunction with our acquisition of Panbio, we formulated a restructuring plan to realize efficiencies and cost savings. In February 2008, we agreed upon a plan to close Panbio s facility located in Columbia, Maryland. The manufacturing operation at the Maryland-based facility has transferred to a third-party manufacturer, the sales of the products at this facility has transferred to our shared services center in Orlando, Florida and the distribution operations has transferred to our distribution facility in Freehold, New Jersey. We recorded $1.0 million in exit costs, including $0.8 million related to facility and other exit costs and $0.2 million related to severance costs to involuntarily terminate employees. As of September 30, 2009, $0.5 million in exit costs remain unpaid. See Note 9 for additional restructuring charges related to the Panbio facility closure and integration.

Although we believe our plan and estimated exit costs for our 2008 acquisitions are reasonable, actual spending for exit activities may differ from current estimated exit costs.

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(ii) 2007 Acquisitions

In conjunction with our acquisition of Biosite Incorporated, or Biosite, we implemented an integration plan to improve efficiencies and eliminate redundant costs resulting from the acquisition. The restructuring plan impacted all cost centers within the Biosite organization, as activities were combined with our existing business operations. Since the inception of the plan, we recorded $15.4 million in exit costs, of which $15.1 million relates to change in control and severance costs to involuntarily terminate employees and $0.3 million relates to facility and other exit costs. As of September 30, 2009, substantially all exit costs have been paid.

During 2007, we formulated restructuring plans in connection with our acquisition of Cholestech Corporation, or Cholestech, consistent with our acquisition strategy to realize operating efficiencies and cost savings. Additionally, in March 2008, we announced plans to close the Cholestech facility in Hayward, California. We are transitioning the manufacturing of the related products to our Biosite facility in San Diego, California and have transitioned the sales and distribution of the products to our shared services center in Orlando, Florida. Since inception of the plans, we recorded $9.2 million in exit costs, of which $6.5 million relates to executive change in control agreements and severance costs to involuntarily terminate employees and $2.7 million relates to facility exit costs. As of September 30, 2009, $5.3 million in exit costs remain unpaid.

In conjunction with our acquisition of HemoSense, Inc., or HemoSense, we formulated restructuring plans during 2007 to realize operating efficiencies and cost savings. Additionally, in March 2008, we announced plans to close the HemoSense facility in San Jose, California. We transitioned the manufacturing of the related products to our Biosite facility in San Diego, California and transitioned the sales and distribution of the products to our shared services center in Orlando, Florida. Since inception of the plans, we recorded $1.5 million in exit costs, of which $1.3 million relates to severance costs to involuntarily terminate employees and $0.2 million relates to facility and other exit costs. As of September 30, 2009, all costs have been paid.

See Note 9 for additional restructuring charges related to the Cholestech and HemoSense facility closures and integrations.

In conjunction with our acquisition of Matritech, Inc., or Matritech, we formulated a plan to exit the leased facility of Matritech in Newton, Massachusetts and recorded $1.5 million in facility exit costs. As of September 30, 2009, $0.7 million of the facility exit costs remain unpaid.

In conjunction with our acquisition of Alere Medical, Inc., or Alere Medical, and ParadigmHealth, Inc., or ParadigmHealth, we recorded $2.2 million related to executive change in control agreements and severance costs to involuntarily terminate employees. As of September 30, 2009, $0.2 million remains unpaid.

Although we believe our plans and estimated exit costs for our 2007 acquisitions are reasonable, actual spending for exit activities may differ from current estimated exit costs.

(d) Pro Forma Financial Information

The following table presents selected unaudited financial information of our company, including the assets of Matria and the ACON Second Territory Business, as if the acquisition of these entities had occurred on January 1, 2008. Pro forma results exclude adjustments for various other less significant acquisitions completed since January 1, 2008, as these acquisitions did not materially affect our results of operations.

The pro forma results are derived from the historical financial results of the acquired businesses for the periods presented and are not necessarily indicative of the results that would have occurred had the acquisitions been consummated on January 1, 2008. There was no pro forma impact on the results of operations for the three months ended September 30, 2009, as the acquisitions of Matria and the ACON Second Territory Business closed prior to July 1, 2009 (in thousands, except per share amount).

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		Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Pro forma net revenue		$ 451,944	$ 1,454,948	$ 1,358,041
Pro forma net (loss) income		$ (3,294)	$ 31,262	$ (45,742)
Pro forma net (loss) income per common share [1]	basic	$ (0.04)	$ 0.18	$ (0.68)
Pro forma net income (loss) per common share [1]	diluted	$ (0.04)	$ 0.18	$ (0.68)

(1) Net income (loss) per common share amounts are computed as described in Note 5.

(9) Restructuring Plans

The following table sets forth the aggregate charges associated with restructuring plans recorded in operating income for the three and nine months ended September 30, (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of net revenue	$ 2,582	$ 1,880	$ 6,141	$ 16,356
Research and development	93	276	850	6,881
Sales and marketing	1,121	392	1,533	3,505
General and administrative	1,225	2,991	3,520	6,071
	$ 5,021	$ 5,539	$ 12,044	$ 32,813

(a) 2009 Restructuring Plans

In 2009, management developed plans to reduce costs and improve efficiencies in our health management reporting unit and business segment, as well as reduce costs and consolidate operating activities among several of our professional diagnostics related German subsidiaries. As a result of these plans, we recorded $2.4 million during the three and nine months ended September 30, 2009, which included $2.1 million in severance costs, $0.2 million in contract cancellation costs and $0.1 million in present value accretion on facility exit costs. Of the $2.3 million included in operating income, $2.1 million and $0.2 million was included in our health management and professional diagnostics business segments, respectively. We also recorded $0.1 million in present value accretion related to

Matria s facility exit costs to interest expense. As of September 30, 2009, $2.2 million in exit costs remain unpaid. We expect to incur an additional $0.5 million under these plans.

(b) 2008 Restructuring Plans

In May 2008, we decided to close our facility located in Bedford, England and initiated steps to cease operations at this facility and transition the manufacturing operations principally to our manufacturing facilities in Shanghai and Hangzhou, China. Based upon this decision, during the three months ended September 30, 2009, we recorded $1.0 million in restructuring charges, of which $0.3 million related primarily to severance-related costs, $0.6 million related to transition costs and $0.1 million related to the acceleration of facility restoration costs. During the nine months ended September 30, 2009, we recorded $3.3 million in restructuring charges, of which $1.7 million related primarily to severance-related costs, $0.5 million related to fixed asset impairments, $0.8 million related to transition costs and $0.3 million related to the acceleration of facility restoration costs. Of the $0.9 million included in operating income for the three months ended September 30, 2009, substantially all was charged to our professional diagnostics business segment. Of the $3.0 million included in operating income for the nine months ended September 30, 2009, $0.1 million and $2.9 million was charged to our consumer diagnostics and professional diagnostics business segments, respectively. We also recorded $0.1 million and $0.3 million during the three and nine months ended September 30, 2009, respectively, related to the accelerated present value accretion of our lease restoration costs due to the early termination of our facility lease, to interest expense. In addition to the restructuring charges discussed above, $1.9 million and $7.7 million of charges associated with the Bedford facility closure was borne by Swiss Precision Diagnostics, or SPD, our consumer diagnostics joint venture with The Procter and Gamble Company, or P&G, during the three and nine months ended September 30, 2009, respectively. Included in the $7.7

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million charges for the nine months ended September 30, 2009, was $6.2 million in severance and retention costs, $0.8 million of fixed asset and inventory impairments, $0.6 million in transition costs and $0.1 million in acceleration of facility exit costs. Of these restructuring charges, 50%, or $0.9 million and $3.9 million, has been included in equity earnings of unconsolidated entities, net of tax, in our consolidated statements of operations for the three and nine months ended September 30, 2009, respectively. Of the total exit costs incurred jointly with SPD under this plan, including severance-related costs, lease penalties and restoration costs, $15.3 million remains unpaid as of September 30, 2009.

We recorded $12.7 million in restructuring charges during the nine months ended September 30, 2008, including $6.7 million related to the acceleration of facility restoration costs, $4.6 million of fixed asset impairments, $0.7 million in early termination lease penalties and $0.7 million in severance costs. Of these restructuring charges, $6.0 million was charged to our professional diagnostics business segment. We also recorded $6.7 million related to the accelerated present value accretion of our lease restoration costs due to the early termination of our facility lease, to interest expense. During the nine months ended September 30, 2008, SPD recorded $11.2 million of charges, including $6.0 million of fixed asset impairments, $3.6 million in early termination lease penalties, $1.5 million in severance costs and $0.1 million in related to the acceleration of facility exit costs. Of these restructuring charges, 50%, or $5.6 million, has been included in equity earnings of unconsolidated entities, net of tax, in our consolidated statements of operations for the three and nine months ended September 30, 2008.

Since inception of the plan, we recorded $15.9 million in restructuring charges, including $7.2 million related to the acceleration of facility restoration costs, $5.3 million of fixed asset and inventory impairments, $2.8 million in severance costs, $0.7 million in early termination lease penalties, $0.8 million in transition costs and $0.9 million related to a pension plan curtailment gain associated with the Bedford employees being terminated. SPD has been allocated $22.2 million since the inception of the plan, including $9.2 million of fixed asset impairments, $8.8 million in severance and retention costs, $2.9 million in early termination lease penalties, $1.1 million in facility exit costs and $0.2 million related to the acceleration of facility exit costs. We anticipate incurring additional costs of approximately $13.8 million related to the closure of this facility, including, but not limited to, severance and retention costs, rent obligations, transition costs and incremental interest expense associated with our lease obligations which will terminate the end of 2011. Of these additional anticipated costs, approximately $9.9 million will be borne by SPD and $3.9 million will be borne by us. We expect the majority of these costs to be incurred by the end of the first quarter of 2010, which is our anticipated facility closure date.

In February 2008, we decided to cease research and development activities for one of the products in development at our Bedford, England facility, based upon comparison of the product under development with existing products acquired in the HemoSense acquisition. In connection with this decision, during the nine months ended September 30, 2008, we recorded restructuring charges of $9.5 million, of which $6.8 million related to the impairment of fixed assets, $1.9 million related to the write-off of inventory, $0.6 million related to contractual obligations with suppliers and $0.2 million related to severance costs to involuntarily terminate employees working on the development of this product. The $9.5 million was included in our professional diagnostics business segment. Since the inception of the plan, we recorded restructuring charges of $9.4 million, of which $6.8 million related to the impairment of fixed assets, $1.9 million related to the write-off of inventory, $0.5 million related to contractual obligations with suppliers and $0.2 million related to severance costs to involuntarily terminate employees working on the development of this product. Of the $0.7 million in contractual obligations and severance costs, all has been paid as of September 30, 2009. We do not expect to incur additional charges under this plan.

On March 18, 2008, we announced our plans to close our BioStar Inc., or BioStar, facility in Louisville, Colorado and exit production of the BioStar OIA product line, along with our plans to close two of our newly-acquired facilities in the San Francisco, California area, relating to Cholestech and HemoSense and our newly-acquired facility in Columbia, Maryland, relating to Panbio. The Cholestech operation, which was acquired in September 2007 and manufactures and distributes the Cholestech LDX system, a point-of-care monitor of blood cholesterol and related

lipids used to test patients at risk of, or suffering from, heart disease and related conditions, will move to our Biosite facility in San Diego, California by the end of 2009. The HemoSense operation, which was acquired in November 2007 and manufactures and distributes the INRatio System, an easy-to-use, hand-held blood coagulation monitoring system for use by patients and healthcare professionals in the management of warfarin, a commonly-prescribed medication used to prevent blood clots, has moved to our Biosite facility. The operations of

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the Panbio distribution facility, which was acquired in January 2008, have transferred to our distribution center in Freehold, New Jersey.

BioStar manufacturing ceased at the end of June 2008, with BioStar OIA products available for purchase through the end of the first quarter of 2009. During the nine months ended September 30, 2009, we incurred $0.1 million in severance-related restructuring charges. During the three months ended September 30, 2008, we incurred $1.6 million in restructuring charges related to this plan, which consisted of $1.1 million in facility exit costs, $0.3 million in severance-related costs and $0.2 million related to the write-off of inventory. During the nine months ended September 30, 2008, we incurred $9.5 million in restructuring charges related to this plan, which consisted of $5.1 million in impairment of intangible assets, $1.4 million in severance related costs, $0.7 million in fixed asset impairments, $1.1 million in facility exit costs and $1.2 million related to the write-off of inventory. Since the inception of the plan, we incurred $10.7 million in restructuring charges related to this plan, which consisted of $5.1 million of intangible assets impairment, $1.5 million in severance-related costs, $0.6 million in fixed asset impairments, $1.2 million in facility exit costs and $2.3 million related to the write-off of inventory. All costs related to this plan have been included in our professional diagnostics business segment. We do not expect to incur additional charges under this plan. As of September 30, 2009, substantially all costs have been paid.

As a result of our plans to transition the businesses of Cholestech and HemoSense to Biosite and Panbio to Orlando, Florida and close these facilities, we incurred $1.5 million in restructuring charges during the three months ended September 30, 2009, of which $0.1 million relates to severance and retention costs, $0.8 million in transition costs and $0.6 million in inventory write-offs. During the nine months ended September 30, 2009, we recorded $5.5 million in charges, of which $2.0 million relates to fixed asset impairments, $1.3 million relates to severance and retention costs, $1.3 million in transition costs, $0.8 million in inventory write-offs and $0.1 million in present value accretion of facility lease costs. During the three and nine months ended September 30, 2009, respectively, $1.5 million and $5.4 million in charges were included in operating income of our professional diagnostics business segment. We charged $0.1 million, related to the present value accretion of facility lease costs, to interest expense for the nine months ended September 30, 2009. During the nine months ended September 30, 2008, we incurred $1.9 million, of which $1.2 million related to severance and retention costs, $0.3 million related to fixed asset impairments, $0.2 million related to transition costs and $0.2 million relates to present value accretion of facility lease costs. During the nine months ended September 30, 2008, $1.7 million was included in operating income of our professional diagnostics business segment and $0.2 million, which was related to present value accretion of facility lease costs, was included in interest expense. Since the inception of the plan, we incurred $9.3 million in restructuring charges, of which $4.0 million relates to severance and retention costs, $2.3 million in fixed asset impairments, $1.9 million in transition costs, $0.8 million in inventory write-offs and $0.3 million in present value accretion of facility lease costs related to these plans. Of the $6.2 million in severance and exit costs, $2.2 million remains unpaid as of September 30, 2009.

We anticipate incurring an additional $3.5 million in restructuring charges under our Cholestech and HemoSense plans, primarily related to severance, retention and outplacement benefits, along with other costs to transition the Cholestech operations to our Biosite facility. See Note 8(c) for further information and costs related to these plans.

In addition to transitioning the businesses of Cholestech and HemoSense to Biosite, we also made the decision to close our Innovacon facility in San Diego, California and move the operating activities to Biosite; the Innovacon business is the rapid diagnostics business that we acquired from ACON in March 2006. During the three and nine months ended September 30, 2008, we recorded $0.6 million in restructuring charges, of which $0.5 million related to facility lease and exit costs and $0.1 million related to impairment of fixed assets. These charges are included in our professional diagnostics business segment. Since the inception of the plan, we recorded $0.6 million in restructuring charges, of which $0.5 million relates to facility lease and exit costs and $0.1 million relates to impairment of fixed assets. As of September 30, 2009, all costs have been paid. We vacated the facility in August 2008 and do not anticipate incurring additional costs under this plan.

In April 2008, we initiated cost reduction efforts at our facilities in Stirling, Scotland, consolidating our business activities into one facility and with our Biosite operations. As a result of these efforts, we recorded $3.2 million in restructuring charges for the nine months ended September 30, 2008, consisting of $2.0 million in fixed asset impairments, $1.0 million in severance costs and $0.2 million in facility exit costs associated with the vacated

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facilities. We recorded $3.3 million in restructuring charges since the inception of this plan, consisting of $2.0 million in fixed asset impairments, $1.0 million in severance costs and $0.3 million in facility exit costs. All costs related to this plan are included in our professional diagnostics business segment. Of the $1.3 million in severance and facility exit costs, $0.1 million remains unpaid at September 30, 2009. We do not expect to incur significant additional charges under this plan.

(c) 2007 Restructuring Plans

During 2007, we committed to several plans to restructure and integrate our worldwide sales, marketing, order management and fulfillment operations, as well as to evaluate certain research and development projects. The objectives of the plans were to eliminate redundant costs, improve customer responsiveness and improve operational efficiencies. As a result of these restructuring plans, we recorded $0.2 million and $1.1 million in restructuring charges during the three and nine months ended September 30, 2009, respectively, primarily related to severance charges and outplacement services. We recorded $0.6 million and $1.9 million in restructuring charges during the three and nine months ended September 30, 2008, respectively, related primarily to severance costs. Since inception of the plan, we have recorded $9.3 million in restructuring charges, including $4.9 million related to severance charges and outplacement services, $0.4 million related to facility exit costs and $4.0 million related to impairment charges on fixed assets. The restructuring charges related to this plan are included in our professional diagnostics business segment. As of September 30, 2009, $0.4 million of severance-related charges and facility exit costs remain unpaid. We do not anticipate incurring significant additional charges related to this plan.

In addition, we recorded restructuring charges associated with the formation of our joint venture with P&G. In connection with the joint venture, we committed to a plan to close our sales offices in Germany and Sweden, as well as to evaluate redundancies in all departments of the consumer diagnostics business segment that are impacted by the formation of the joint venture. For the nine months ended September 30, 2008, we recorded $0.1 million in severance costs related to this plan. We have recorded $1.4 million in restructuring charges since inception of the plan, of which $1.0 million relates to severance costs and $0.4 million relates to facility and other exit costs. Of the total $1.4 million in exit costs, $0.1 million remains unpaid as of September 30, 2009. We do not anticipate incurring additional charges related to this plan.

(10) Long-term Debt

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

		September 30, 2009	December 31, 2008
First Lien Credit Agreement	Term loans	$ 953,438	$ 960,750
First Lien Credit Agreement	Revolving line-of-credit	142,000	142,000
Second Lien Credit Agreement		250,000	250,000
3% Senior subordinated convertible notes		150,000	150,000
9% Senior subordinated notes		388,132	
7.875% Senior notes		243,775	
Lines-of-credit		3,293	3,503
Other		21,458	13,362
		2,152,096	1,519,615
Less: Current portion		(18,881)	(19,058)
		$ 2,133,215	$ 1,500,557

(a) 7.875% Senior Notes

During the third quarter, we sold a total of $250.0 million aggregate principal amount of 7.875% senior notes due 2016, or the 7.875% senior notes, in two separate transactions. On August 11, 2009, we sold $150.0 million aggregate principal amount of 7.875% senior notes in a public offering. Net proceeds from this offering amounted to approximately $145.0 million, which was net of underwriters commissions totaling $2.2 million and original issue discount totaling $2.8 million. The net proceeds were used to fund our acquisition of Concateno. At September 30, 2009, we had $147.3 million in indebtedness under this issuance of our 7.875% senior notes.

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On September 28, 2009, we sold $100.0 million aggregate principal amount of 7.875% senior notes in a private placement to initial purchasers, who agreed to resell the notes only to qualified institutional buyers. We also agreed to file a registration statement with the Securities Exchange Commission, or SEC, so that the holders of these notes can exchange the notes for registered notes that have substantially identical terms as the original notes. Net proceeds from this offering amounted to approximately $95.0 million, which was net of the initial purchasers original issue discount totaling $3.5 million and offering expenses totaling approximately $1.5 million. The net proceeds were used to partially fund our acquisition of Free & Clear. At September 30, 2009, we had $96.5 million in indebtedness under this issuance of our 7.875% senior notes.

The 7.875% senior notes were issued under an Indenture dated August 11, 2009, as amended or supplemented, the Indenture. The 7.875% senior notes accrue interest from the dates of their respective issuances at the rate of 7.875% per year. Interest on the notes are payable semi-annually on February 1 and August 1, commencing on February 1, 2010. The notes mature on February 1, 2016, unless earlier redeemed.

We may redeem the 7.875% senior notes, in whole or part, at any time on or after February 1, 2013, by paying the principal amount of the notes being redeemed plus a declining premium, plus accrued and unpaid interest to (but excluding) the redemption date. The premium declines from 3.938% during the twelve months on and after February 1, 2013 to 1.969% during the twelve months on and after February 1, 2014 to zero on and after February 1, 2015. At any time prior to August 1, 2012, we may redeem up to 35% of the aggregate principal amount of the 7.875% senior notes with money that we raise in certain equity offerings so long as (i) we pay 107.875% of the principal amount of the notes being redeemed, plus accrued and unpaid interest to (but excluding) the redemption date; (ii) we redeem the notes within 90 days of completing such equity offering; and (iii) at least 65% of the aggregate principal amount of the 7.875% senior notes remains outstanding afterwards. In addition, at any time prior to February 1, 2013, we may redeem some or all of the 7.875% senior notes by paying the principal amount of the notes being redeemed plus the payment of a make-whole premium, plus accrued and unpaid interest to, but excluding, the redemption date.

If a change of control occurs, subject to specified conditions, we must give holders of the 7.875% senior notes an opportunity to sell their notes to us at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the date of the purchase.

If we or our subsidiaries engage in asset sales, we or they generally must either invest the net cash proceeds from such sales in our or their businesses within a specified period of time, prepay certain indebtedness or make an offer to purchase a principal amount of the 7.875% senior notes equal to the excess net cash proceeds, subject to certain exceptions. The purchase price of the notes will be 100% of their principal amount, plus accrued and unpaid interest.

The 7.875% senior notes are unsecured and are equal in right of payment to all of our existing and future senior debt, including our borrowing under our secured credit facilities. Our obligations under the 7.875% senior notes and the Indenture are fully and unconditionally guaranteed, jointly and severally, on an unsecured senior basis by certain of our domestic subsidiaries, and the obligations of such domestic subsidiaries under their guarantees are equal in right of payment to all of their existing and future senior debt. See Note 20 for guarantor financial information.

The Indenture contains covenants that will limit our ability and the ability of our subsidiaries to, among other things, incur additional debt; pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated debt; make certain investments; create liens on assets; transfer or sell assets; engage in transactions with affiliates; create restrictions on our or their ability pay dividends or make loans, asset transfers or other payments to us or them; issue capital stock; engage in any business, other than our or their existing businesses and related businesses; enter into sale and leaseback transactions; incur layered indebtedness; and consolidate, merge or transfer all or substantially all of our or their assets, taken as a whole. These covenants are subject to certain exceptions and qualifications.

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Interest expense related to our 7.875% senior notes for the three and nine months ended September 30, 2009, including amortization of deferred financing costs and original issue discounts, was $1.9 million. As of September 30, 2009, accrued interest related to the senior subordinated notes amounted to $2.8 million.

(b) 9% Senior Subordinated Notes

On May 12, 2009, we completed the sale of $400.0 million aggregate principal amount of 9% senior subordinated notes due 2016, or the 9% subordinated notes, in a public offering. Net proceeds from this offering amounted to $379.5 million, which was net of underwriters commissions totaling $8.0 million and original issue discount totaling $12.5 million. The net proceeds are intended to be used for general corporate purposes. At September 30, 2009, we had $388.1 million in indebtedness under our 9% subordinated notes.

The 9% subordinated notes, which were issued under an Indenture dated May 12, 2009, as amended or supplemented, the Indenture, accrue interest from the date of their issuance, or May 12, 2009, at the rate of 9% per year. Interest on the notes are payable semi-annually on May 15 and November 15, commencing on November 15, 2009. The notes mature on May 15, 2016, unless earlier redeemed.

We may redeem the 9% subordinated notes, in whole or part, at any time on or after May 15, 2013, by paying the principal amount of the notes being redeemed plus a declining premium, plus accrued and unpaid interest to (but excluding) the redemption date. The premium declines from 4.50% during the twelve months after May 15, 2013 to 2.25% during the twelve months after May 15, 2014 to zero on and after May 15, 2015. At any time prior to May 15, 2012, we may redeem up to 35% of the aggregate principal amount of the 9% subordinated notes with money that we raise in certain equity offerings so long as (i) we pay 109% of the principal amount of the notes being redeemed, plus accrued and unpaid interest to (but excluding) the redemption date; (ii) we redeem the notes within 90 days of completing such equity offering; and (iii) at least 65% of the aggregate principal amount of the 9% subordinated notes remains outstanding afterwards. In addition, at any time prior to May 15, 2013, we may redeem some or all of the 9% subordinated notes by paying the principal amount of the notes being redeemed plus the payment of a make-whole premium, plus accrued and unpaid interest to, but excluding, the redemption date.

If a change of control occurs, subject to specified conditions, we must give holders of the 9% subordinated notes an opportunity to sell their notes to us at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the date of the purchase.

If we or our subsidiaries engage in asset sales, we or they generally must either invest the net cash proceeds from such sales in our or their businesses within a specified period of time, prepay senior debt or make an offer to purchase a principal amount of the 9% subordinated notes equal to the excess net cash proceeds, subject to certain exceptions. The purchase price of the notes will be 100% of their principal amount, plus accrued and unpaid interest.

The 9% subordinated notes are unsecured and are subordinated in right of payment to all of our existing and future senior debt, including our borrowing under our secured credit facilities. Our obligations under the 9% subordinated notes and the Indenture are fully and unconditionally guaranteed, jointly and severally, on an unsecured senior subordinated basis by certain of our domestic subsidiaries, and the obligations of such domestic subsidiaries under their guarantees are subordinated in right of payment to all of their existing and future senior debt. See Note 20 for guarantor financial information.

The Indenture contains covenants that will limit our ability and the ability of our subsidiaries to, among other things, incur additional debt; pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated debt; make certain investments; create liens on assets; transfer or sell assets; engage in transactions with affiliates; create restrictions on our or their ability pay dividends or make loans, asset transfers or other payments to us or them; issue capital stock; engage in any business, other than our or their existing businesses and related businesses; enter into sale and leaseback transactions; incur layered indebtedness; and consolidate, merge or transfer all or substantially all of our or their assets, taken as a whole. These covenants are subject to certain exceptions and qualifications.

Interest expense related to our 9% subordinated notes for the three and nine months ended September 30, 2009, including amortization of deferred financing costs and original issue discounts, was $10.0 million and $15.2 million, respectively. As of September 30, 2009, accrued interest related to the senior subordinated notes amounted to $14.1 million.

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(c) Secured Credit Facility

In 2007, we entered into a First Lien Credit Agreement, or senior secured credit facility, and a Second Lien Credit Agreement, or junior secured credit facility, collectively, secured credit facility, with certain lenders, General Electric Capital Corporation as administrative agent and collateral agent, and certain other agents and arrangers, and certain related guaranty and security agreements.

At September 30, 2009, we had term loans in the amount of $953.4 million and a revolving line-of-credit available to us of up to $150.0 million, of which $142.0 million was outstanding as of September 30, 2009, under our senior secured credit facility. Interest on these term loans, as defined in the credit agreement, is as follows: (i) in the case of Base Rate Loans, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin, each as in effect from time to time, (ii) in the case of Eurodollar Rate Loans, at a rate per annum equal to the sum of the Eurodollar Rate and the Applicable Margin, each as in effect for the applicable Interest Period, and (iii) in the case of other Obligations, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin for Revolving Loans that are Base Rate Loans, each as in effect from time to time. The Base Rate is a floating rate which approximates the U.S. Prime rate and changes on a periodic basis. The Eurodollar Rate is equal to the LIBOR rate and is set for a period of one to three months at our election. Applicable margin with respect to Base Rate Loans is 1.00% and with respect to Eurodollar Rate Loans is 2.00%. Applicable margin ranges for our revolving line-of-credit with respect to Base Rate Loans is 0.75% to 1.25% and with respect to Eurodollar Rate Loans is 1.75% to 2.25%.

At September 30, 2009, we also had term loans in the amount of $250.0 million under our junior secured credit facility. Interest on these term loans, as defined in the credit agreement, is as follows: (i) in the case of Base Rate Loans, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin, each as in effect from time to time, (ii) in the case of Eurodollar Rate Loans, at a rate per annum equal to the sum of the Eurodollar Rate and the Applicable Margin, each as in effect for the applicable Interest Period, and (iii) in the case of other Obligations, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin for Base Rate Loans, as in effect from time to time. Applicable margin with respect to Base Rate Loans is 3.25% and with respect to Eurodollar Rate Loans is 4.25%.

For the three and nine months ended September 30, 2009, interest expense, including amortization of deferred financing costs, under the secured credit facilities was $15.9 million and $47.6 million, respectively. For the three and nine months ended September 30, 2008, interest expense, including amortization of deferred financing costs, under the secured credit facilities was $21.9 million and $64.9 million, respectively. As of September 30, 2009, accrued interest related to the secured credit facilities amounted to $1.0 million. As of September 30, 2009, we were in compliance with all debt covenants related to the secured credit facility, which consisted principally of maximum consolidated leverage and minimum interest coverage requirements.

In August 2007, we entered into interest rate swap contracts, with an effective date of September 28, 2007, that have a total notional value of $350.0 million and a maturity date of September 28, 2010. These interest rate swap contracts pay us variable interest at the three-month LIBOR rate, and we pay the counterparties a fixed rate of 4.85%. In March 2009, we extended our August 2007 interest rate hedge for an additional two-year period commencing in September 2010 at a one-month LIBOR rate of 2.54%. These interest rate swap contracts were entered into to convert $350.0 million of the $1.2 billion variable rate term loans under the secured credit facilities into fixed rate debt.

In January 2009, we entered into interest rate swap contracts, with an effective date of January 14, 2009, that have a total notional value of $500.0 million and a maturity date of January 5, 2011. These interest rate swap contracts pay us variable interest at the one-month LIBOR rate, and we pay the counterparties a fixed rate of 1.195%. These interest rate swap contracts were entered into to convert $500.0 million of the $1.2 billion variable rate term loans under the secured credit facilities into fixed rate debt.

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(d) 3% Senior Subordinated Convertible Notes

In May 2007, we sold $150.0 million aggregate principal amount of 3% senior subordinated convertible notes, or senior subordinated convertible notes. At September 30, 2009, we had $150.0 million in indebtedness under our senior subordinated convertible notes. The senior subordinated convertible notes are convertible into 3.4 million shares of our common stock at a conversion price of $43.98 per share.

Interest expense related to our senior subordinated convertible notes for both the three and nine months ended September 30, 2009 and 2008, including amortization of deferred financing costs, was $1.2 million and $3.7 million, respectively. As of September 30, 2009, accrued interest related to the senior subordinated convertible notes amounted to $1.7 million.

(11) Derivative Financial Instruments

The following tables summarize the fair value of our derivative instruments and the effect of derivative instruments on/in our accompanying consolidated balance sheets and consolidated statements of operations and in accumulated other comprehensive loss (in thousands):

Derivative Instruments	Balance Sheet Caption	Fair Value at September 30, 2009	Fair Value at December 31, 2008
Interest rate swap contracts[1]	Other long-term liabilities	$ 18,858	$ 21,132

Derivative Instruments	Location of Gain (Loss) Recognized in Income	Amount of Loss Recognized During the Three Months Ended September 30, 2009	Amount of Loss Recognized During the Three Months Ended September 30, 2008
Interest rate swap contracts[1]	Other comprehensive loss	$ (3,646)	$ (193)

Derivative Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain Recognized During the Nine Months Ended September 30, 2009	Amount of Loss Recognized During the Nine Months Ended September 30, 2008
Interest rate swap contracts[1]	Other comprehensive loss	$ 2,274	$ (356)

(1) See Note 10(c) regarding our

interest rate swaps which qualify as cash flow hedges.

We use derivative financial instruments (interest rate swap contracts) in the management of our interest rate exposure related to our secured credit facilities. We do not hold or issue derivative financial instruments for speculative purposes.

(12) 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. Our Level 1 assets and liabilities include investments in marketable securities related to a deferred compensation plan assumed in a business combination. The liabilities associated with this plan relate to deferred compensation, which is indexed to the performance of the underlying investments.

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. Our Level 2 liabilities include interest rate swap contracts.

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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. The fair value of the contingent consideration obligations related to the acquisitions of Accordant and Free & Clear are valued using Level 3 inputs.

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2009, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

Description	September 30, 2009	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$ 1,981	$ 1,981	$	$
Total assets	$ 1,981	$ 1,981	$	$
Liabilities:				
Interest rate swap liability [1]	$ 18,858	$	$ 18,858	$
Contingent consideration obligations [2]	$ 25,237	$	$	$ 25,237
Total liabilities	$ 44,095	$	$ 18,858	$ 25,237

[1] Included in other long-term liabilities on our accompanying consolidated balances sheets.

[2] The fair value measurement of the contingent consideration obligations related to the acquisitions of Accordant and Free & Clear are valued using Level 3 inputs. We determine the fair value of the contingent consideration obligations based on a probability-weighted

income approach. The measurement is based upon significant inputs not observable in the market. Changes in the value of these contingent consideration obligations are recorded as income or expense, a component of operating income in our consolidated statements of operations.

Changes in the fair value of our Level 3 contingent consideration obligations during the nine months ended September 30, 2009 were as follows (in thousands):

Fair value of contingent consideration obligations, January 1, 2009	$
Acquisition date fair value of contingent consideration obligations recorded	25,228
Payments	
Adjustments, net (income) expense	9
Fair value of contingent consideration obligations, September 30, 2009	$ 25,237

At September 30, 2009, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, receivables, accounts payable and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments.

The carrying amounts and estimated fair values of our long-term debt were $2.2 billion and $2.1 billion, respectively, at September 30, 2009. The estimated fair value of our long-term debt was determined using market sources that were derived from available market information and may not be representative of actual values that could have been or will be realized in the future.

(13) Defined Benefit Pension Plan

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

	Three Months Ended September 30,		Nine Months Ended September30,	
	2009	**2008**	**2009**	**2008**
Service cost	$	$	$	$
Interest cost	156	185	439	571
Expected return on plan assets	(115)	(161)	(324)	(497)
Net periodic benefit cost	$ 41	$ 24	$ 115	$ 74

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(14) 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 Management, Consumer Diagnostics, Vitamins and Nutritional Supplements and Corporate and Other. Our operating results include license and royalty revenue which is 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, 2009 and 2008 is as follows (in thousands):

	Professional Diagnostics	Health Management	Consumer Diagnostics	Vitamins and Nutritional Supplements	Corporate and Other	Total
Three months ended September 30, 2009:						
Net revenue to external customers	$ 340,617	$ 131,335	$ 40,713	$ 23,145	$	$ 535,810
Operating income (loss)	$ 73,849	$ (1,688)	$ 1,271	$ 757	$ (20,228)	$ 53,961
Three months ended September 30, 2008:						
Net revenue to external customers	$ 256,769	$ 124,092	$ 36,313	$ 21,626	$	$ 438,800
Operating income (loss)	$ 22,807	$ 549	$ 3,042	$ (71)	$ (13,080)	$ 13,247
Nine months ended September 30, 2009:						
Net revenue to external customers	$ 893,618	$ 376,013	$ 106,839	$ 63,590	$	$ 1,440,060
Operating income (loss)	$ 164,942	$ (3,185)	$ (296)	$ (2,367)	$ (50,542)	$ 108,552
Nine months ended September 30, 2008:						
Net revenue to external customers	$ 780,079	$ 261,780	$ 108,234	$ 62,067	$	$ 1,212,160
Operating income (loss)	$ 54,820	$ 7,832	$ 8,408	$ 513	$ (40,046)	$ 31,527
Assets:						
As of September 30, 2009	$ 4,337,615	$ 1,917,824	$ 218,734	$ 59,729	$ 448,199	$ 6,982,101
As of December 31, 2008	$ 3,687,685	$ 1,850,236	$ 223,383	$ 65,263	$ 128,793	$ 5,955,360

(15) Related Party Transactions

In May 2007, we completed our 50/50 joint venture with P&G, or SPD, 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.

At September 30, 2009, we had a net payable to the joint venture of $0.5, million as compared to a net receivable of $12.0 million from the joint venture as of December 31, 2008. Additionally, customer receivables associated with revenue earned after the joint venture was completed have been classified as other receivables within prepaid and other current assets on our accompanying consolidated balance sheets in the amount of $12.9 million and $16.2 million as of September 30, 2009 and December 31, 2008, 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 $31.2 million and $80.5 million during the three and nine months ended September 30, 2009, respectively, and $26.6 million and $79.0 million during the three and nine months ended September 30, 2008, respectively. Additionally, services revenue generated pursuant to the long-term services agreement with the joint venture totaled $0.5 million and $1.4 million during the three and nine months ended September 30, 2009, respectively, and $0.5 million and $1.9 million during the three and nine months ended September 30, 2008, respectively. Sales under our manufacturing agreement and long-term services agreement are included in net product sales and services revenue, respectively, in our accompanying consolidated statements of operations.

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Under the terms of our product supply agreement, SPD purchases products from our manufacturing facilities in the U.K. and China. SPD in turn sells a portion of those tests back to us for final assembly and packaging. Once packaged, 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 $17.7 million and $15.6 million of trade receivables which are included in accounts receivable on our accompanying consolidated balance sheets as of September 30, 2009 and December 31, 2008, respectively, and $21.0 million and $18.9 million of trade accounts payable which are included in accounts payable on our accompanying consolidated balance sheets as of September 30, 2009 and December 31, 2008, respectively. During 2009, we received $10.0 million in cash from SPD as a return of capital.

In July 2009, we sold one of our consumer-related Australian subsidiaries to SPD for approximately $0.2 million in connection with the original terms of the joint venture agreement to transition the distribution responsibilities of certain consumer diagnostic products to SPD. The sale of the subsidiary was completed at net book value resulting in no gain or loss on the transaction.

(16) Material Contingencies and Legal Settlements

(a) Legal Proceedings

(i) Estate of Melissa Prince Quisenberry v. Alere Medical, Inc., et al.

On September 19, 2008, the Estate of Melissa Prince Quisenberry filed a class action complaint in the Superior Court of California on behalf of herself and others similarly situated against Alere Medical Inc., or Alere Medical, and Agora Parent, Inc., both of which are wholly-owned subsidiaries; Ronald D. Geraty, MD, chief executive officer of Alere Medical and certain other individuals who were executive officers, directors and/or significant shareholders of Alere Medical; as well as certain other unaffiliated entities. On April 13, 2009, the plaintiffs filed an amended complaint, dismissing several unaffiliated entities. Under the claims as amended, plaintiff and the affected class of Alere Medical, Inc., or Alere Medical, stockholders allege that defendants approved the March 14, 2007 sale of Alere Medical to an unaffiliated entity at a price substantially lower than the price at which we bought Alere Medical in November 2007, forcing plaintiff and the class either to tender their stock or seek appraisal. Plaintiff also alleges that defendants failed to disclose material facts concerning the valuation of Alere Medical, misleading plaintiff and the class to tender their shares rather than seek appraisal. Plaintiff alleges that, through the foregoing actions, the individual defendants breached fiduciary duties of good faith, fair dealing, loyalty and candor; and that Alere Medical and its financial advisor aided and abetted those breaches. Alere Medical and the other defendants filed motions to dismiss the amended complaint for failure to state a claim on June 26, 2009. A hearing on the motion to dismiss has been set for December 7, 2009. We believe that we have strong defenses to the claims and we intend to defend them vigorously. However, an adverse outcome could potentially have a negative impact on our financial results.

(ii) Healthways, Inc. and Robert Bosch North America Corp. v. Alere Medical, Inc.

Healthways, Inc. and Robert Bosch North America Corp. filed a complaint in U.S. District Court in the Northern District of Illinois on November 5, 2008 against Alere Medical alleging infringement of 11 patents, licensed by Bosch from Healthways. Alere Medical answered the complaint and filed counterclaims seeking declarations that the patents are invalid and not infringed. The plaintiffs subsequently filed an amended complaint substituting Alere LLC, or Alere, our consolidated health management subsidiary, as the defendant in place of Alere Medical. The parties are filing briefs on claim construction, and a hearing will be scheduled once all claim construction briefs are submitted. We believe that we have strong defenses to Healthways allegations and we intend to defend them vigorously. However, a ruling against Alere could potentially have a material adverse impact on our sales, operations or financial performance or could limit our current or future business opportunities.

(b) Contingent Consideration Obligations

Effective January 1, 2009, we adopted changes issued by the FASB to accounting for business combinations. These changes apply to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies and requires: (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that

asset or liability can be determined during the measurement period; otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; and (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value. The adoption of this guidance was done on a prospective basis. For acquisitions completed prior to January 1, 2009, contingent consideration will be accounted for as an increase in the aggregate purchase price, if and when the contingencies occur.

We have contractual contingent consideration terms related to our acquisitions of Accordant, Ameditech, Binax, Inc., or Binax, Free & Clear, Gabmed GmbH, or Gabmed, Vision and our privately-owned health management business acquired in 2008.

(i) Accordant

With respect to Accordant, the terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue and cash collection targets starting after the second anniversary of the acquisition date and completed prior to the third anniversary date of the acquisition. The maximum amount of the earn-out payment is $6.0 million and, if earned, payment will be made during 2012 and 2013.

We determined the acquisition date fair value of the contingent consideration obligation based on a probability-weighted income approach derived from revenue estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. 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 cash flows were then discounted using a discount rate of 18%. At each reporting date, we revalue the contingent consideration obligation to the fair value and record increases and decreases in the fair value as income or expense in our consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. We recorded income of approximately $6,000 in our consolidated statements of operations during the three and nine months ended September 30, 2009, as a result of a decrease in the discount period and an increase in the discount rate since the acquisition date. As of September 30, 2009, the fair value of the contingent consideration obligation was approximately $3.1 million.

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(ii) Ameditech

With respect to Ameditech, the terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue targets for the one-year period ending on the first anniversary of the acquisition date and the one-year period ending on the second anniversary of the acquisition date. The maximum amount of incremental consideration payable is $4.0 million. Contingent consideration will be accounted for as an increase in the aggregate purchase price, if and when the contingency occur.

(iii) Binax

With respect to Binax, the terms of the acquisition agreement provide for $11.0 million of contingent cash consideration payable to the Binax shareholders upon the successful completion of certain new product developments during the five years following the acquisition. As of September 30, 2009, the remaining contingent consideration to be earned is approximately $7.3 million. Contingent consideration will be accounted for as an increase in the aggregate purchase price, if and when the contingencies occur.

(iv) Free & Clear

With respect to Free & Clear, the terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue and EBITDA targets during fiscal year 2010. The maximum amount of the earn-out payment is $30.0 million and, if earned, payment will be made in 2011.

We determined the acquisition date fair value of the contingent consideration obligation based on a probability-weighted income approach derived from 2010 revenue and EBITDA estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. 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 cash flows were then discounted using a discount rate of 13%. At each reporting date, we revalue the contingent consideration obligation to the fair value and record increases and decreases in the fair value as income or expense in our consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria. We recorded expense of approximately $15,000 in our consolidated statements of operations during the three and nine months ended September 30, 2009, as a result of a decrease in the discount period since the acquisition date. As of September 30, 2009, the fair value of the contingent consideration obligation was approximately $22.1 million.

(v) Gabmed

With respect to Gabmed, the terms of the acquisition agreement provide for contingent consideration totaling up to 750,000 payable in up to five annual amounts beginning in 2007, upon successfully meeting certain revenue and EBIT (earnings before interest and taxes) milestones in each of the respective annual periods. The 2007 milestone, totaling 0.1 million ($0.2 million), was earned and paid during 2008. As of September 30, 2009, the remaining contingent consideration to be earned is approximately 0.7 million ($1.0 million). Contingent consideration will be accounted for as an increase in the aggregate purchase price, if and when the contingencies occur.

(vi) Vision

With respect to Vision, the terms of the acquisition agreement provide for incremental consideration payable to the former Vision shareholders upon the completion of certain product development milestones and successfully maintaining certain production levels and product costs during each of the two years following the acquisition date. The minimum and maximum amount of incremental consideration payable is approximately $1.0 million and $3.2 million, respectively. The first milestone was achieved during the third quarter of 2009 resulting in an accrual of approximately $2.0 million as of September 30, 2009. The contingent consideration was accounted for as an increase in the aggregate purchase price.

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(vii) Privately-owned health management business

With respect to our privately-owned health management business acquired in 2008, the terms of the acquisition agreement provide for contingent consideration payable upon successfully meeting certain revenue and EBITDA targets for the twelve months ending June 30, 2009 and December 31, 2010, respectively. The revenue milestone for the twelve months ended June 30, 2009 totaling approximately 3.0 million ($4.2 million) was earned and accrued as of June 30, 2009. The earn-out totaling approximately 3.0 million ($4.4 million) was paid during the third quarter of 2009. The contingent consideration was accounted for as an increase in the aggregate purchase price.

(17) Recent Accounting Pronouncements

Recently Issued Standards

In September 2009, the FASB issued Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosure*, or ASU 2009-12. This standard provides additional guidance on using the net asset value per share, provided by an investee, when estimating the fair value of an alternate investment that does not have a readily determinable fair value and enhances the disclosures concerning these investments. Examples of alternate investments, within the scope of this standard, include investments in hedge funds and private equity, real estate and venture capital partnerships. This standard is effective for interim and annual periods ending after December 15, 2009. We are currently evaluating the potential impact of this standard.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*, or ASU 2009-05. ASU 2009-05 amends Accounting Standards Codification, or the Codification, Topic 820, *Fair Value Measurements.* Specifically, ASU 2009-05 provides clarification that, in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: (i) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets and/or (ii) a valuation technique that is consistent with the principles of Topic 820 of the Codification (e.g. an income approach or market approach). ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. This standard is effective for the first reporting period, including interim periods, beginning after issuance. We are currently evaluating the potential impact of this standard.

In June 2009, the FASB issued the following two new accounting standards, which have not yet been integrated into the Codification. Accordingly, these accounting standards will remain authoritative until integrated:

SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*

SFAS No. 166, *Accounting for Transfers of Financial Assets*, *an amendment to SFAS No. 140*

SFAS No. 167 amends the consolidation guidance applicable to variable interest entities and is effective as of January 1, 2010. We are currently evaluating the potential impact of this standard.

SFAS No. 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. This statement is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the potential impact of this standard.

Recently Adopted Standards

Effective July 1, 2009, we adopted *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard establishes only two levels of U.S. generally accepted accounting principles (GAAP), authoritative and non-authoritative. The FASB Codification became the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in

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the Codification became non-authoritative. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on the Company s consolidated financial statements.

Effective June 30, 2009, we adopted a new accounting standard for subsequent events. This standard establishes general guidance of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of this standard did not have any impact on our financial position, results of operations or cash flows.

Effective June 30, 2009, we adopted three new accounting standards which provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. They also provide additional guidelines for estimating fair value in accordance with fair value accounting. The first accounting standard provides additional guidelines for estimating fair value in accordance with fair value accounting. The second accounting standard changes accounting requirements for other-than-temporary-impairment for debt securities by replacing the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to sell an impaired security and it will not be required to sell the security before the recovery of its amortized cost basis. The third accounting standard increases the frequency of fair value disclosures. These standards were effective for fiscal years and interim periods ended after June 15, 2009. The adoption of these accounting standards did not have any impact on our financial position, results of operation or cash flows.

Effective January 1, 2009, we adopted a new accounting standard which addresses the accounting for certain instruments as derivatives. Under this new standard, specific guidance is provided regarding requirements for an entity to consider embedded features as indexed to the entity s own stock. The adoption of this standard did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted a new accounting standard for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This standard specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This standard should be applied retrospectively for all periods presented. The adoption of this standard did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted a new accounting standard related to fair value accounting for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. These include goodwill and other non-amortizable intangible assets. The adoption of this standard did not have a material impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted a new accounting standard which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The adoption of this standard did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted a new accounting standard which requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. It also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements and the impact that hedges have on an entity s financial position, financial performance and cash flows. As this standard only required additional disclosure, the adoption did not impact our consolidated results of operations, financial condition

or cash flows.

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Effective January 1, 2009, we adopted a new accounting standard for collaborative arrangements related to the development and commercialization of intellectual property. The standard concluded that a collaborative arrangement is one in which the participants are actively involved and are exposed to significant risks and rewards that depend on the ultimate commercial success of the endeavor. The nature and purpose of collaborative arrangements are to be disclosed along with the accounting policies and the classification and amounts of significant financial statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under this new standard applies to the entire collaborative agreement. This standard is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. The adoption of this standard did not have any impact on our current or prior consolidated results of operations, financial condition or cash flows.

Effective January 1, 2009, we adopted a new accounting standard issued to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity and should therefore be reported as equity in the consolidated financial statements. The standard also establishes guidance for presentation and disclosure of the non-controlling results on the consolidated statement of operations. The adoption of this standard did not have a material impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted a new accounting standard for business combinations. This standard requires an acquiring company to measure all assets acquired and liabilities assumed, including contingent considerations and all contractual contingencies, at fair value as of the acquisition date. In addition, an acquiring company is required to capitalize in-process research and development, or IPR&D, and either amortize it over the life of the product or write it off if the project is abandoned or impaired. The standard also amended accounting for uncertainty in income taxes as required by the Codification. Previously, accounting standards generally required post-acquisition adjustments related to business combination deferred tax asset valuation allowances and liabilities for uncertain tax positions to be recorded as an increase or decrease to goodwill. This new standard does not permit this accounting and, generally, requires any such changes to be recorded in current period income tax expense. Thus, all changes to valuation allowances and liabilities for uncertain tax positions established in acquisition accounting, whether the business combination was originally accounted for under this guidance or not, will be recognized in current period income tax expense. The adoption of this standard will impact our financial position, results of operations and cash flows to the extent we conduct acquisition-related activities and/or consummate business combinations.

Effective January 1, 2009, we adopted a new accounting standard which provides guidance on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Early adoption of this statement was not permitted. The impact of adopting this accounting standard on our consolidated financial statements will depend on the economic terms of any future business combinations.

(18) Gain on Disposition

In September 2009, we disposed of our majority ownership interest in our Diamics Inc., or Diamics, operation, which was part of our professional diagnostics reporting unit and business segment. Since the date of acquisition, July 2007, under the principles of consolidation, we consolidated 100% of the operating results of the Diamics operations in our consolidated statement of operations. As a result of disposition, we recorded a gain of $3.4 million during the three and nine months ended September 30, 2009.

(19) Subsequent Event

We evaluated subsequent events occurring after the balance sheet date and up to the time of filing with the SEC on November 6, 2009 our Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2009, and concluded there was no event of which management was aware that occurred after the balance sheet date that would require any adjustment to the accompanying consolidated financial statements.

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(20) Guarantor Financial Information

Our 9% senior subordinated notes due 2016, as well as our 7.875% senior notes due 2016, are guaranteed by certain of our consolidated 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, 2009 and December 31, 2008, the statements of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008 for the Company, the Guarantor Subsidiaries and our other subsidiaries, or the Non-Guarantor Subsidiaries. The supplemental financial information reflects the investments of the Company 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.

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(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales and services revenue	$	$ 388,643	$ 165,434	$ (26,115)	$ 527,962
License and royalty revenue		2,942	7,006	(2,100)	7,848
Net revenue		391,585	172,440	(28,215)	535,810
Cost of net product sales and services revenue	988	179,403	94,253	(23,746)	250,898
Cost of license and royalty revenue	(296)	16	4,324	(2,100)	1,944
Cost of net revenue	692	179,419	98,577	(25,846)	252,842
Gross (loss) profit	(692)	212,166	73,863	(2,369)	282,968
Operating expenses:					
Research and development	7,890	14,471	5,359		27,720
Sales and marketing	2,150	81,622	33,532		117,304
General and administrative	17,487	51,644	18,207		87,338
Gain on disposition	(2,682)		(673)		(3,355)
Operating (loss) income	(25,537)	64,429	17,438	(2,369)	53,961
Interest expense, including amortization of deferred financing costs and original issue discounts	(29,400)	(9,761)	(3,113)	11,692	(30,582)
Other income (expense), net	10,885	(1,564)	3,328	(11,692)	957
(Loss) income before (benefit) provision for income taxes	(44,052)	53,104	17,653	(2,369)	24,336
(Benefit) provision for income taxes	(2,619)	24,977	5,988	(22,093)	6,253
Equity in earnings of subsidiaries, net of tax	61,048			(61,048)	
Equity earnings of unconsolidated entities, net of tax	527		1,598	(66)	2,059
Net income (loss)	20,142	28,127	13,263	(41,390)	20,142
Preferred stock dividends	(5,843)				(5,843)
Net income (loss) available to common stockholders	$ 14,299	$ 28,127	$ 13,263	$ (41,390)	$ 14,299

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CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2009
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales and services revenue	$	$ 1,081,495	$ 419,561	$ (81,584)	$ 1,419,472
License and royalty revenue		8,189	18,699	(6,300)	20,588
Net revenue		1,089,684	438,260	(87,884)	1,440,060
Cost of net product sales and services revenue	2,595	558,578	237,371	(119,936)	678,608
Cost of license and royalty revenue	(296)	(83)	11,969	(6,300)	5,290
Cost of net revenue	2,299	558,495	249,340	(126,236)	683,898
Gross (loss) profit	(2,299)	531,189	188,920	38,352	756,162
Operating expenses:					
Research and development	20,116	43,147	17,548		80,811
Sales and marketing	4,490	233,863	81,644		319,997
General and administrative	43,126	154,711	52,320		250,157
Gain on disposition	(2,682)		(673)		(3,355)
Operating (loss) income	(67,349)	99,468	38,081	38,352	108,552
Interest expense, including amortization of deferred financing costs and original issue discounts	(68,890)	(29,830)	(9,127)	35,754	(72,093)
Other income (expense), net	33,311	(3,160)	6,461	(35,754)	858
(Loss) income before (benefit) provision for income taxes	(102,928)	66,478	35,415	38,352	37,317
(Benefit) provision for income taxes	(20,133)	50,702	12,998	(31,640)	11,927
Equity in earnings of subsidiaries, net of tax	112,115			(112,115)	
Equity earnings of unconsolidated entities, net of tax	1,609		4,074	(144)	5,539
Net income (loss)	30,929	15,776	26,491	(42,267)	30,929
Preferred stock dividends	(17,056)				(17,056)

Net (loss) income available to common stockholders	$ 13,873	$ 15,776	$ 26,491	$ (42,267)	$ 13,873

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CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended September 30, 2008
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales and services revenue	$ 1,600	$ 333,891	$ 120,941	$ (23,398)	$ 433,034
License and royalty revenue		2,703	5,335	(2,272)	5,766
Net revenue	1,600	336,594	126,276	(25,670)	438,800
Cost of net product sales and services revenue	(8,763)	160,628	70,147	(13,003)	209,009
Cost of license and royalty revenue		(3,484)	3,240	1,887	1,643
Cost of net revenue	(8,763)	157,144	73,387	(11,116)	210,652
Gross profit (loss)	10,363	179,450	52,889	(14,554)	228,148
Operating expenses:					
Research and development	3,056	12,391	10,246		25,693
Sales and marketing	(173)	80,982	23,787	11	104,607
General and administrative	16,724	51,401	16,476		84,601
Total operating expenses	19,607	144,774	50,509	11	214,901
Operating (loss) income	(9,244)	34,676	2,380	(14,565)	13,247
Interest expense, including amortization of deferred financing costs and original issue discounts	(21,778)	(18,167)	(2,482)	18,827	(23,600)
Other income (expense), net	31,826	(12,597)	(1,554)	(18,827)	(1,152)
Income (loss) before (benefit) provision for income taxes	804	3,912	(1,656)	(14,565)	(11,505)
(Benefit) provision for income taxes	(9,335)	3,035	1,517	87	(4,696)
Equity in earnings of subsidiaries, net of tax	(14,125)			14,125	
Equity earnings of unconsolidated entities, net of tax	327		2,896	(73)	3,150
Net (loss) income	(3,659)	877	(277)	(600)	(3,659)
Preferred stock dividends	(5,393)				(5,393)

Net (loss) income available to common stockholders	$ (9,052)	$ 877	$ (277)	$ (600)	$ (9,052)

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2008
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales and services revenue	$ 1,600	$ 915,902	$ 356,777	$ (83,595)	$ 1,190,684
License and royalty revenue		12,462	15,481	(6,467)	21,476
Net revenue	1,600	928,364	372,258	(90,062)	1,212,160
Cost of net product sales and services revenue	7,095	411,036	218,747	(46,842)	590,036
Cost of license and royalty revenue		4,360	11,378	(8,254)	7,484
Cost of net revenue	7,095	415,396	230,125	(55,096)	597,520
Gross (loss) profit	(5,495)	512,968	142,133	(34,966)	614,640
Operating expenses:					
Research and development	15,128	36,978	34,320		86,426
Sales and marketing	50,496	164,780	65,896	125	281,297
General and administrative	44,266	119,166	51,958		215,390
Total operating expenses	109,890	320,924	152,174	125	583,113
Operating (loss) income	(115,385)	192,044	(10,041)	(35,091)	31,527
Interest expense, including amortization of deferred financing costs and original issue discounts	(68,855)	(55,402)	(13,233)	58,728	(78,762)
Other income (expense), net	61,030	(11,099)	3,408	(58,728)	(5,389)
(Loss) income before (benefit) provision for income taxes	(123,210)	125,543	(19,866)	(35,091)	(52,624)
(Benefit) provision for income taxes	(43,702)	51,316	2,362	(23,250)	(13,274)
Equity in earnings of subsidiaries, net of tax	40,002			(40,002)	
Equity earnings (losses) of unconsolidated entities, net of tax	1,325	(23)	(27)	(106)	1,169
Net (loss) income	(38,181)	74,204	(22,255)	(51,949)	(38,181)
Preferred stock dividends	(8,500)				(8,500)

Net (loss) income available to common stockholders	$ (46,681)	$ 74,204	$ (22,255)	$ (51,949)	$ (46,681)

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
CONSOLIDATING BALANCE SHEET
September 30, 2009
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 363,992	$ 96,827	$ 95,052	$	$ 555,871
Restricted cash		1,426	1,672		3,098
Marketable securities		907			907
Accounts receivable, net of allowances		222,717	154,441	(14,104)	363,054
Inventories, net		137,421	93,616	(7,934)	223,103
Deferred tax assets	80,926	32,281	1,483	(24,636)	90,054
Income tax receivable	1,000	1,368	3,580		5,948
Receivable from joint venture, net			323	(323)	
Prepaid expenses and other current assets	1,087	18,803	39,374	14,104	73,368
Intercompany receivables	744,910	292,658	8,033	(1,045,601)	
Total current assets	1,191,915	804,408	397,574	(1,078,494)	1,315,403
Property, plant and equipment, net	1,838	244,840	81,620	(4,278)	324,020
Goodwill	2,125,975	598,010	707,167	(5,468)	3,425,684
Other intangible assets with indefinite lives		21,255	21,925		43,180
Core technology and patents, net	31,915	327,597	81,947		441,459
Other intangible assets, net	67,983	902,726	307,314		1,278,023
Deferred financing costs, net, and other non-current assets	44,022	5,967	21,534		71,523
Investments in unconsolidated entities	1,474,038	(359)	36,884	(1,447,803)	62,760
Marketable securities	1,074				1,074
Deferred tax assets	(1,029)	8,596	21,660	(10,252)	18,975
Intercompany notes receivable	1,435,545	63,894	42,171	(1,541,610)	
Total assets	$ 6,373,276	$ 2,976,934	$ 1,719,796	$ (4,087,905)	$ 6,982,101
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 9,750	$ 1,926	$ 7,205	$	$ 18,881

Current portion of capital lease obligations		473	258		731
Accounts payable	6,966	79,970	55,588		142,524
Accrued expenses and other current liabilities	(131,819)	342,354	135,136	(38,394)	307,277
Payable to joint venture, net		(676)	1,509	(323)	510
Intercompany payables	259,335	220,695	565,571	(1,045,601)	
Total current liabilities	144,232	644,742	765,267	(1,084,318)	469,923
Long-term liabilities:					
Long-term debt, net of current portion	2,127,688	893	4,634		2,133,215
Capital lease obligations, net of current portion		721	462		1,183
Deferred tax liabilities	(11,757)	450,637	90,656	(23,462)	506,074
Deferred gain on joint venture	16,309		272,316		288,625
Other long-term liabilities	57,781	22,452	34,660	(10,495)	104,398
Intercompany notes payable	592,503	776,056	168,839	(1,537,398)	
Total long-term liabilities	2,782,524	1,250,759	571,567	(1,571,355)	3,033,495
Stockholders equity	3,446,520	1,081,433	382,962	(1,432,232)	3,478,683
Total liabilities and stockholders equity	$ 6,373,276	$ 2,976,934	$ 1,719,796	$ (4,087,905)	$ 6,982,101

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
CONSOLIDATING BALANCE SHEET
December 31, 2008
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,743	$ 69,798	$ 69,783	$	$ 141,324
Restricted cash		1,160	1,588		2,748
Marketable securities		1,347	416		1,763
Accounts receivable, net of allowances		199,385	97,459	(16,236)	280,608
Inventories, net		131,918	71,478	(4,265)	199,131
Deferred tax assets	80,926	22,334	1,051		104,311
Income tax receivable		2,792	3,614		6,406
Receivable from joint venture, net			15,227	(3,209)	12,018
Prepaid expenses and other current assets	10,887	20,181	26,930	16,236	74,234
Intercompany receivables	455,746	248,177	75,686	(779,609)	
Total current assets	549,302	697,092	363,232	(787,083)	822,543
Property, plant and equipment, net	2,395	221,345	62,422	(1,679)	284,483
Goodwill	2,020,528	599,517	427,251	(1,213)	3,046,083
Other intangible assets with indefinite lives		21,195	21,789		42,984
Core technology and patents, net	43,700	331,892	83,715		459,307
Other intangible assets, net	277,389	772,457	119,484		1,169,330
Deferred financing costs, net, and other non-current assets	36,876	6,872	3,136		46,884
Investments in unconsolidated entities	872,848	751	57,681	(862,448)	68,832
Marketable securities	591				591
Deferred tax assets	(1,742)		16,065		14,323
Intercompany notes receivable	1,633,174	(50,660)	2,454	(1,584,968)	
Total assets	$ 5,435,061	$ 2,600,461	$ 1,157,229	$ (3,237,391)	$ 5,955,360
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 9,750	$ 2,870	$ 6,438	$	$ 19,058

Current portion of capital lease obligations		265	186		451
Accounts payable	4,173	72,627	35,904		112,704
Accrued expenses and other current liabilities	(120,656)	263,380	93,617	(3,209)	233,132
Intercompany payables	155,443	198,939	425,229	(779,611)	
Total current liabilities	48,710	538,081	561,374	(782,820)	365,345
Long-term liabilities:					
Long-term debt, net of current portion	1,493,000	2,302	5,255		1,500,557
Capital lease obligations, net of current portion		66	402		468
Deferred tax liabilities	(36,399)	459,501	39,685		462,787
Deferred gain on joint venture	16,310		270,720		287,030
Other long-term liabilities	26,830	17,864	15,641		60,335
Intercompany notes payable	607,772	853,470	119,594	(1,580,836)	
Total long-term liabilities	2,107,513	1,333,203	451,297	(1,580,836)	2,311,177
Stockholders equity	3,278,838	729,177	144,558	(873,735)	3,278,838
Total liabilities and stockholders equity	$ 5,435,061	$ 2,600,461	$ 1,157,229	$ (3,237,391)	$ 5,955,360

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2009
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net income	$ 30,929	$ 15,776	$ 26,491	$ (42,267)	$ 30,929
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in earnings of subsidiaries, net of tax	(112,115)			112,115	
Interest expense related to amortization of deferred financing costs and original issue discounts	6,018		443		6,461
Depreciation and amortization	3,937	184,082	38,159	(124)	226,054
Non-cash stock-based compensation expense	20,287				20,287
Impairment of inventory		838			838
Impairment of long-lived assets		1,272	1,909		3,181
Loss on sale of property, plant and equipment	4	562	45		611
Equity earnings of unconsolidated entities, net of tax	(1,609)		(4,074)	144	(5,539)
Interest in minority investments			465		465
Deferred and other non-cash income taxes	2	(16,489)	(660)	6,526	(10,621)
Other non-cash items	292	1,450	(673)		1,069
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable, net		(12,434)	(28,208)	35	(40,607)
Inventories, net		39,862	(9,063)	(40,380)	(9,581)
Prepaid expenses and other current assets	1,408	3,975	(2,346)		3,037
Accounts payable	2,407	3,788	12,603		18,798
Accrued expenses and other current liabilities	(15,010)	56,485	(44,789)	(7,075)	(10,389)
Other non-current liabilities	1,032	5,774	3,500		10,306
Intercompany (receivable) payable	(47,636)	(213,151)	289,647	(28,860)	
Net cash (used in) provided by operating activities	(110,054)	71,790	283,449	114	245,299

Cash Flows from Investing Activities:					
Purchases of property, plant and equipment	(184)	(55,185)	(22,074)	2,713	(74,730)
Proceeds from sale of property, plant and equipment		231	441		672
Cash (paid) received for acquisitions and transactional costs, net of cash acquired	(158,528)	14,397	(253,416)	80	(397,467)
Cash received from investments in minority interests and marketable securities	980		11,019	4	12,003
Increase in other assets		(1,140)	(3,593)	(323)	(5,056)
Net cash (used in) provided by investing activities	(157,732)	(41,697)	(267,623)	2,474	(464,578)
Cash Flows from Financing Activities:					
(Increase) decrease in restricted cash		(267)	15		(252)
Cash paid for financing costs	(15,331)				(15,331)
Proceeds from issuance of common stock, net of issuance costs	15,539				15,539
Proceeds from long-term debt	631,176		11	(11)	631,176
Repayments of long-term debt	(7,312)	(1,032)	50	(50)	(8,344)
Repayments from revolving lines-of-credit and other debt		(1,283)	(2,171)	1	(3,453)
Tax benefit on exercised stock options	2,152				2,152
Principal payments on capital lease obligations		(478)	(170)		(648)
Other	(115)				(115)
Net cash provided by (used in) financing activities	626,109	(3,060)	(2,265)	(60)	620,724
Foreign exchange effect on cash and cash equivalents	3,926		11,704	(2,528)	13,102
Net increase in cash and cash equivalents	362,249	27,033	25,265		414,547
Cash and cash equivalents, beginning of period	1,743	69,794	69,787		141,324
Cash and cash equivalents, end of period	$ 363,992	$ 96,827	$ 95,052	$	$ 555,871

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INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2008
(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net (loss) income	$ (38,181)	$ 74,204	$ (22,255)	$ (51,949)	$ (38,181)
Adjustments to reconcile net (loss) income to net cash provided (used in) by operating activities:					
Equity in earnings of subsidiaries, net of tax	(16,752)			16,752	
Interest expense related to amortization of deferred financing costs and original issue discounts	4,432				4,432
Depreciation and amortization	63,993	98,209	32,001		194,203
Non-cash stock-based compensation expense	19,716				19,716
Impairment of inventory		1,215	1,893		3,108
Impairment of long-lived assets		6,109	13,363		19,472
Loss on sale of property, plant and equipment	1	86	154		241
Equity (earnings) loss of unconsolidated entities, net of tax	(1,325)	23	27	106	(1,169)
Interest in minority investments			167		167
Deferred and other non-cash income taxes	(30,195)	2,494	(621)		(28,322)
Other non-cash items	2,645	1,150	(16)		3,779
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable, net		(25,348)	(8,309)		(33,657)
Inventories, net		(63,755)	(9,989)	33,977	(39,767)
Prepaid expenses and other current assets	2,463	11,238	(23,469)	5,111	(4,657)
Accounts payable	(1,762)	24,112	(196)		22,154
Accrued expenses and other current liabilities	(40,963)	24,862	9,794	(5,111)	(11,418)
Other non-current liabilities	108	(866)	4,968		4,210
Intercompany payable (receivable)	109,870	(170,357)	64,028	(3,541)	
Net cash provided by (used in) operating activities	74,050	(16,624)	61,540	(4,655)	114,311

Cash Flows from Investing Activities:					
Purchases of property, plant and equipment	(770)	(28,886)	(18,472)	1,114	(47,014)
Proceeds from sale of property, plant and equipment		33	208		241
Cash (paid) received for acquisitions and transactional costs, net of cash acquired	(446,759)	9,890	(177,306)		(614,175)
Cash received (paid) from investments in minority interests and marketable securities	1,372	(593)	11,021		11,800
Increase in other assets	(500)	(4,770)	(3,288)		(8,558)
Net cash (used in) provided by investing activities	(446,657)	(24,326)	(187,837)	1,114	(657,706)
Cash Flows from Financing Activities:					
(Increase) decrease in restricted cash		(1,006)	139,225		138,219
Issuance costs associated with preferred stock	(351)				(351)
Cash paid for financing costs	(986)				(986)
Proceeds from issuance of common stock, net of issuance costs	18,566				18,566
Repayments on long-term debt	(7,312)	(3,368)			(10,680)
Proceeds (repayments) from revolving lines-of-credit and other debt	142,000	(2,080)	(1,650)		138,270
Tax benefit on exercised stock options	420				420
Principal payments on capital lease obligations		(665)	(251)		(916)
Net cash provided by (used in) financing activities	152,337	(7,119)	137,324		282,542
Foreign exchange effect on cash and cash equivalents		(607)	(2,643)	3,541	291
Net (decrease) increase in cash and cash equivalents	(220,270)	(48,676)	8,384		(260,562)
Cash and cash equivalents, beginning of period	228,178	123,133	63,421		414,732
Cash and cash equivalents, end of period	$ 7,908	$ 74,457	$ 71,805	$	$ 154,170

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

Financial Overview

We enable individuals to take charge of improving their health and quality of life at home by developing new capabilities in near patient diagnosis, monitoring and health management. Our global-leading products and services, as well as our new product development efforts, focus on cardiology, women s health, infectious disease, oncology and drugs of abuse. We expect to continue to expand in all of these product categories through focused research and development projects and further development of our distribution capabilities.

During 2007 and 2008, we entered the growing health management market with our acquisitions of Alere Medical, Inc., or Alere Medical, ParadigmHealth, Inc., or ParadigmHealth, and more recently, Matria Healthcare, Inc., or Matria. Today, Matria, ParadigmHealth and Alere Medical, each a leader in their respective areas, are united as one business under the name Alere. Our most recent acquisitions of GeneCare Medical Genetics Center, Inc., or GeneCare, Free & Clear, Inc., or Free & Clear, and CVS Caremark s Accordant Common disease management programs, or Accordant, are also joined under the Alere name. Alere is a leader in the health management field offering a broad range of services aimed at lowering costs for health plans, hospitals, employers and patients. Our health management services are focused in the areas of women s and children s health, cardiology and oncology. We are confident that our ability to offer near patient monitoring tools combined with value-added healthcare services will improve care and lower healthcare costs for both providers and patients.

Our research and development programs have two general focuses. We are developing new technology platforms that will facilitate our primary objective of enabling individuals to take charge of improving their health and quality of life by moving testing out of the hospital and central laboratory, and into the physician s office and ultimately the home. Additionally, through our strong pipeline of novel proteins or combinations of proteins that function as disease biomarkers, we are developing new tests targeted towards all of our areas of focus.

We continue to advance toward our goal of establishing a worldwide distribution network that will allow us to bring both our current and future diagnostic products to the global professional market. In addition, we continue to focus on improving our margins through consolidation of certain of our higher cost manufacturing operations into lower cost facilities, including our 300,000 square foot manufacturing facility located in Hangzhou, China, as well as our jointly-owned facility in Shanghai, China, and we are already seeing improved margins on some of our existing products that we have moved to these facilities. Our business integration activities remain on track and we have seen positive results from the integrations completed to date and as we continue to aggressively integrate acquired operations in order to achieve further synergies within expected timelines.

Net revenue increased by $97.0 million, or 22%, to $535.8 million for the three months ended September 30, 2009, from $438.8 million for the three months ended September 30, 2008. Revenue increased partially as a result of our acquisitions which provided $37.4 million of incremental revenue, comparing the three months ended September 30, 2009 to the three months ended September 30, 2008. Additionally, as a result of the H1N1 flu outbreak, revenues from our North American flu sales increased approximately $33.6 million comparing the three months ended September 30, 2009 to the three months ended September 30, 2008. Organic growth from our professional diagnostics business segment also contributed to the increase in net revenue during the three months ended September 30, 2009, as compared to the three months ended September 30, 2008. Net revenue increased by $227.9 million, or 19%, to $1.4 billion for the nine months ended September 30, 2009, from $1.2 billion for the nine months ended September 30, 2008. Revenue increased partially as a result of our acquisitions which provided $168.0 million of incremental revenue, comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008. Additionally, as a result of the H1N1 flu outbreak, revenues from our North American flu sales increased approximately $35.1, million comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008. Organic growth from our professional diagnostics business segment also contributed to the increase in net revenue during the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008.

For the three and nine months ended September 30, 2009, we generated net income of $20.1 million and $30.9 million, respectively, compared to a net loss of $3.7 million and $38.2 million for the three and nine months

ended September 30, 2008, respectively.

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