

ALERE INC.
Form 10-Q
August 08, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-16789

ALERE INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

04-3565120

(I.R.S. Employer Identification No.)

51 SAWYER ROAD, SUITE 200

WALTHAM, MASSACHUSETTS 02453

(Address of principal executive offices)(Zip code)

(781) 647-3900

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of the registrant's common stock, par value of \$0.001 per share, as of August 1, 2011 was 85,970,763.

ALERE INC.
REPORT ON FORM 10-Q
For the Quarterly Period Ended June 30, 2011

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as may, could, should, would, intend, will, expect, anticipate, believe, estimate, continue or similar words. A number of important factors could cause actual results of Alere Inc. and its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, the risk factors detailed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2010 and other risk factors identified herein or from time to time in our periodic filings with the Securities and Exchange Commission. Readers should carefully review these risk factors, and should not place undue reliance on our forward-looking statements. These forward-looking statements are based on information, plans and estimates at the date of this report. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

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

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ALERE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended June		Six Months Ended June	
	30,		30,	
	2011	2010	2011	2010
Net product sales	\$ 398,805	\$ 350,015	\$ 806,048	\$ 700,116
Services revenue	163,575	166,865	331,127	326,169
Net product sales and services revenue	562,380	516,880	1,137,175	1,026,285
License and royalty revenue	4,805	6,080	12,474	11,929
Net revenue	567,185	522,960	1,149,649	1,038,214
Cost of net product sales	190,333	166,736	380,020	330,441
Cost of services revenue	82,495	82,424	167,211	158,209
Cost of net product sales and services revenue	272,828	249,160	547,231	488,650
Cost of license and royalty revenue	1,629	1,802	3,483	3,609
Cost of net revenue	274,457	250,962	550,714	492,259
Gross profit	292,728	271,998	598,935	545,955
Operating expenses:				
Research and development	41,348	32,760	77,890	63,753
Sales and marketing	140,388	123,819	273,597	243,410
General and administrative	94,838	93,361	200,389	188,024
Total operating expenses	276,574	249,940	551,876	495,187
Operating income	16,154	22,058	47,059	50,768
Interest expense, including amortization of original issue discounts and deferred financing costs	(68,562)	(33,606)	(106,867)	(66,741)
Other income (expense), net	437	4,112	2,773	7,156
Loss from continuing operations before benefit for income taxes	(51,971)	(7,436)	(57,035)	(8,817)
Benefit for income taxes	(42,736)	(1,243)	(47,066)	(797)
Loss from continuing operations before equity earnings (losses) of unconsolidated entities, net of tax	(9,235)	(6,193)	(9,969)	(8,020)
Equity earnings (losses) of unconsolidated entities, net of tax	(207)	4,217	804	8,257

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Income (loss) from continuing operations	(9,442)	(1,976)	(9,165)	237
Income (loss) from discontinued operations, net of tax		(35)		11,911
Net income (loss)	(9,442)	(2,011)	(9,165)	12,148
Less: Net income (loss) attributable to non-controlling interests	(40)	343	22	(327)
Net income (loss) attributable to Alere Inc. and Subsidiaries	(9,402)	(2,354)	(9,187)	12,475
Preferred stock dividends	(5,515)	(5,984)	(11,324)	(11,837)
Preferred stock repurchase	10,248		23,936	
Net income (loss) available to common stockholders	\$ (4,669)	\$ (8,338)	\$ 3,425	\$ 638
Basic net income (loss) per common share attributable to Alere Inc. and Subsidiaries:				
Income (loss) from continuing operations	\$ (0.05)	\$ (0.10)	\$ 0.04	\$ (0.13)
Income from discontinued operations, net of tax				0.14
Net income (loss) per common share	\$ (0.05)	\$ (0.10)	\$ 0.04	\$ 0.01
Diluted net income (loss) per common share attributable to Alere Inc. and Subsidiaries:				
Income (loss) from continuing operations	\$ (0.05)	\$ (0.10)	\$ 0.04	\$ (0.13)
Income from discontinued operations, net of tax				0.14
Net income (loss) per common share	\$ (0.05)	\$ (0.10)	\$ 0.04	\$ 0.01
Weighted average shares-basic	85,703	84,193	85,536	84,001
Weighted average shares-diluted	85,703	84,193	87,032	84,001

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

Table of Contents**ALERE INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(unaudited)

(in thousands, except par value)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 556,662	\$ 401,306
Restricted cash	2,547	2,581
Marketable securities	1,177	2,094
Accounts receivable, net of allowances of \$22,683 and \$20,381 at June 30, 2011 and December 31, 2010, respectively	406,002	397,148
Inventories, net	268,346	257,720
Deferred tax assets	73,929	57,111
Income tax receivable	187	1,383
Receivable from joint venture, net	12,024	
Prepaid expenses and other current assets	116,448	74,914
Total current assets	1,437,322	1,194,257
Property, plant and equipment, net	421,888	390,510
Goodwill	2,889,388	2,831,300
Other intangible assets with indefinite lives	22,124	28,183
Finite-lived intangible assets, net	1,628,245	1,707,581
Deferred financing costs, net, and other non-current assets	99,137	57,529
Receivable from joint venture, net of current portion	16,026	23,872
Investments in unconsolidated entities	62,673	62,556
Marketable securities	2,621	9,404
Deferred tax assets	26,027	25,182
Total assets	\$ 6,605,451	\$ 6,330,374
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 36,697	\$ 16,891
Current portion of capital lease obligations	2,677	2,126
Accounts payable	139,217	126,844
Accrued expenses and other current liabilities	332,045	345,832
Payable to joint venture, net		2,787
Deferred gain on joint venture	288,784	288,378
Total current liabilities	799,420	782,858
Long-term liabilities:		
Long-term debt, net of current portion	2,728,692	2,378,566
Capital lease obligations, net of current portion	4,976	1,402

Deferred tax liabilities	385,767	420,166
Other long-term liabilities	137,587	169,656
Total long-term liabilities	3,257,022	2,969,790
Commitments and contingencies (Note 16)		
Stockholders equity:		
Series B preferred stock, \$0.001 par value (liquidation preference: \$709,763 at June 30, 2011 and \$836,222 at December 31, 2010); Authorized: 2,300 shares; Issued and outstanding: 1,774 shares at June 30, 2011 and 2,091 shares at December 31, 2010	606,468	718,554
Common stock, \$0.001 par value; Authorized: 200,000 shares; Issued and outstanding: 85,712 shares at June 30, 2011 and 84,904 shares at December 31, 2010	86	85
Additional paid-in capital	3,254,532	3,232,997
Accumulated deficit	(1,362,435)	(1,377,184)
Treasury stock, at cost, 49 shares at June 30, 2011 and 24 shares at December 31, 2010	(1,030)	(104)
Accumulated other comprehensive income	46,448	690
Total stockholders equity	2,544,069	2,575,038
Non-controlling interests	4,940	2,688
Total equity	2,549,009	2,577,726
Total liabilities and equity	\$ 6,605,451	\$ 6,330,374

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

Table of Contents**ALERE INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income (loss)	\$ (9,165)	\$ 12,148
Income from discontinued operations, net of tax		11,911
Income (loss) from continuing operations	(9,165)	237
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Non-cash interest expense, including amortization of original issue discounts and write-off of deferred financing costs	27,590	7,235
Depreciation and amortization	196,116	183,155
Non-cash stock-based compensation expense	11,989	15,684
Impairment of inventory	466	640
Impairment of long-lived assets	957	644
Impairment of intangible assets	2,935	
Loss on sale of fixed assets	1,270	514
Gain on sales of marketable securities	(331)	
Equity earnings of unconsolidated entities, net of tax	(804)	(8,257)
Deferred income taxes	(63,343)	(22,982)
Other non-cash items	(4,503)	(6,270)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(3,641)	18,632
Inventories, net	(7,299)	(14,651)
Prepaid expenses and other current assets	(36,052)	1,889
Accounts payable	13,524	(26,125)
Accrued expenses and other current liabilities	17,721	(15,169)
Other non-current liabilities	11,071	(253)
Net cash provided by continuing operations	158,501	134,923
Net cash used in discontinued operations		(1,081)
Net cash provided by operating activities	158,501	133,842
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(67,630)	(41,776)
Proceeds from sale of property, plant and equipment	835	382
Proceeds from disposition of business	11,490	
Cash paid for acquisitions, net of cash acquired	(107,360)	(377,125)
Proceeds from sales of marketable securities	7,919	
Net cash received from equity method investments	490	6,333
Increase in other assets	(32,101)	(1,443)

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Net cash used in continuing operations	(186,357)	(413,629)
Net cash provided by discontinued operations		63,446
Net cash used in investing activities	(186,357)	(350,183)
Cash Flows from Financing Activities:		
Decrease in restricted cash	34	42
Cash paid for financing costs	(64,699)	(1,491)
Cash paid for contingent purchase price consideration	(24,707)	
Proceeds from issuance of common stock, net of issuance costs	17,829	12,957
Repurchase of preferred stock	(99,068)	
Proceeds from issuance of long-term debt	1,552,124	
Payments on long-term debt	(1,193,315)	(4,875)
Net proceeds (payments) under revolving credit facilities	3,335	(3,696)
Repurchase of common stock	(926)	
Excess tax benefits on exercised stock options	1,704	1,218
Principal payments on capital lease obligations	(1,294)	(975)
Other	(10,417)	(75)
Net cash provided by financing activities	180,600	3,105
Foreign exchange effect on cash and cash equivalents	2,612	(13,494)
Net increase (decrease) in cash and cash equivalents	155,356	(226,730)
Cash and cash equivalents, beginning of period	401,306	492,773
Cash and cash equivalents, end of period	\$ 556,662	\$ 266,043

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

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ALERE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation of Financial Information

The accompanying consolidated financial statements of Alere Inc. are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair 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, 2010 included information and footnotes necessary for such presentation and were included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission, or SEC, on April 29, 2011. 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, 2010.

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

(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 June 30, 2011, 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):

	June 30, 2011	December 31, 2010
Raw materials	\$ 75,767	\$ 81,640
Work-in-process	61,206	61,849
Finished goods	131,373	114,231
	\$ 268,346	\$ 257,720

(4) Stock-based Compensation

We recorded stock-based compensation expense in our consolidated statements of operations for the three and six months ended June 30, 2011 and 2010, respectively, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cost of sales	\$ 366	\$ 395	\$ 716	\$ 801
Research and development	1,191	1,506	2,136	3,872
Sales and marketing	1,209	900	2,168	1,913
General and administrative	3,415	5,313	6,969	9,098
	6,181	8,114	11,989	15,684
Benefit for income taxes	(1,304)	(1,917)	(2,590)	(3,338)
	\$ 4,877	\$ 6,197	\$ 9,399	\$ 12,346

(5) Net Income (Loss) per Common Share

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

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ALERE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

	Three Months Ended June		Six Months Ended June	
	2011	30, 2010	2011	30, 2010
Numerator:				
Income (loss) from continuing operations	\$ (9,442)	\$ (1,976)	\$ (9,165)	\$ 237
Preferred stock dividends	(5,515)	(5,984)	(11,324)	(11,837)
Preferred stock repurchase	10,248		23,936	
Income (loss) from continuing operations attributable to common shares	(4,709)	(7,960)	3,447	(11,600)
Less: Net income (loss) attributable to non-controlling interest	(40)	343	22	(327)
Income (loss) from continuing operations attributable to Alere Inc. and Subsidiaries	(4,669)	(8,303)	3,425	(11,273)
Income (loss) from discontinued operations		(35)		11,911
Net income (loss) available to common stockholders	\$ (4,669)	\$ (8,338)	\$ 3,425	\$ 638
Denominator:				
Weighted-average common shares outstanding basic	85,703	84,193	85,536	84,001
E				