INVERNESS MEDICAL INNOVATIONS INC
Form S-4/A
October 05, 2007

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As filed with the Securities and Exchange Commission on October 5, 2007
Registration No. 333-145892

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

PRE-EFFECTIVE
AMENDMENT NO. 1

Form S-4/A
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INVERNESS MEDICAL INNOVATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**2835**	**04-3565120**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

51 Sawyer Road, Suite 200
Waltham, Massachusetts 02453
(781) 647-3900
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Ron Zwanziger
Chairman, Chief Executive Officer and President
51 Sawyer Road, Suite 200
Waltham, Massachusetts 02453
(781) 647-3900
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

John D. Patterson, Jr., Esq.	**HemoSense, Inc.**	**Michael Danaher, Esq.**
William R. Kolb, Esq.	**651 River Oaks Parkway**	**Robert T. Ishii, Esq.**

John D. Hancock, Esq. **Foley Hoag llp** **Seaport World Trade Center West** **155 Seaport Boulevard** **Boston, Massachusetts 02210** **(617) 832-1000**	**San Jose, California 95134** **Attn: James Merselis** **President and** **Chief Executive Officer**	**Wilson Sonsini Goodrich & Rosati** **Professional Corporation** **650 Page Mill Road** **Palo Alto, California 94304** **(650) 493-9300**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions under the merger agreement described herein.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same
offering. o – –

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o – –

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this proxy statement/prospectus is not complete and may be changed. Inverness may not sell these securities until the registration statement filed with the Securities and Exchange Commission, of which this document is a part, is declared effective. This proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Any representation to the contrary is a criminal offense.

SUBJECT TO COMPLETION, DATED OCTOBER 5, 2007

Dear HemoSense Stockholder:

You are cordially invited to attend a special meeting of HemoSense, Inc. stockholders to be held on November 6, 2007 at the offices of Wilson Sonsini Goodrich & Rosati at 650 Page Mill Road, Palo Alto, California 94304. Only HemoSense stockholders who hold shares of HemoSense common stock at the close of business on October 4, 2007, the record date for the special meeting, are entitled to vote at the special meeting. At the special meeting, HemoSense stockholders will be asked to adopt the Agreement and Plan of Reorganization dated August 6, 2007 by and among HemoSense, Inverness Medical Innovations, Inc. and Spartan Merger Sub, Inc., a wholly owned subsidiary of Inverness, and approve the merger of Spartan Merger Sub with and into HemoSense such that HemoSense will become a wholly owned subsidiary of Inverness. If the merger is completed, each outstanding share of HemoSense common stock will be converted into the right to receive 0.274192 shares of Inverness common stock. HemoSense stockholders will also be asked to give management the discretionary authority to adjourn the meeting to a later date, if necessary, in order to solicit additional proxies in favor of the approval of the merger and adoption of the merger agreement.

Inverness common stock is listed on the American Stock Exchange under the trading symbol IMA. On October 4, 2007, the closing sale price of Inverness common stock was $54.07.

HemoSense s board of directors has carefully reviewed and considered the terms and conditions of the merger agreement. Based on its review, HemoSense s board of directors has determined that the merger is advisable, fair to and in the best interests of HemoSense and its stockholders and has approved the merger agreement and recommends that you vote for the approval of the merger and adoption of the merger agreement and for the adjournment proposal.

Your vote is very important. HemoSense cannot complete the merger unless the merger agreement is adopted by the affirmative vote of the holders of at least a majority of the shares of HemoSense common stock outstanding on the record date. **Whether or not you plan to attend the special meeting, please complete, sign, date and return the enclosed proxy card as soon as possible.** If you hold your shares in street name, you should instruct your broker how to vote in accordance with your voting instruction card. If you do not submit your proxy, instruct your broker how to vote your shares or vote in person at the special meeting, it will have the same effect as a vote against the approval of the merger and adoption of the merger agreement.

The accompanying proxy statement/prospectus contains detailed information about the merger agreement, the proposed merger and the adjournment proposal and provides specific information concerning the special meeting. Please review this document carefully. In particular, you should carefully consider the matters discussed under Risk Factors beginning on page 14.

Sincerely,

/s/ James D. Merselis
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved the merger described in this proxy statement/prospectus or the Inverness common stock to be issued in connection with the merger, or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated October 5, 2007 and is first being mailed to HemoSense stockholders on or about October 9, 2007.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On November 6, 2007

To the Stockholders of HemoSense, Inc.:

Notice is hereby given that a special meeting of stockholders (referred to as the Special Meeting) of HemoSense, Inc., a Delaware corporation (referred to as HemoSense), will be held on November 6, 2007 at 9:00 a.m., local time, at the offices of Wilson Sonsini Goodrich & Rosati at 650 Page Mill Road, Palo Alto, California 94304, for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Reorganization (referred to as the merger agreement), dated as of August 6, 2007, by and among Inverness Medical Innovations, Inc. (referred to as Inverness), Spartan Merger Sub, Inc., a wholly owned subsidiary of Inverness, and HemoSense, and approve the merger of Spartan Merger Sub with and into HemoSense, as a result of which HemoSense will become a wholly owned subsidiary of Inverness, which we refer to as the merger proposal.

2. To consider and vote upon a proposal to grant management the discretionary authority to adjourn the Special Meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient votes at the time of the Special Meeting to approve the merger proposal, which we refer to as the adjournment proposal.

3. To transact such other business as may properly come before the Special Meeting or any adjournment or postponement thereof.

The merger proposal and the adjournment proposal are more fully described in the accompanying proxy statement/prospectus, which you should read carefully in its entirety before voting.

Only holders of record of HemoSense common stock at the close of business on October 4, 2007 are entitled to notice of and to vote at the Special Meeting or any adjournment or postponement thereof. A majority of the shares of HemoSense common stock outstanding on the record date must be voted in favor of the merger proposal in order for the merger to be completed. Therefore, your vote is very important. Your failure to vote your shares is the same as voting against the merger proposal.

All HemoSense stockholders are cordially invited to attend the Special Meeting in person. However, to assure your representation at the Special Meeting, please vote as soon as possible by completing, signing, dating and returning the enclosed proxy card in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the Special Meeting may vote in person even if he or she has voted using the proxy card.

The board of directors of HemoSense recommends that you vote **FOR** the approval of the merger proposal and **FOR** the adjournment proposal.

By Order of the Board of Directors

/s/ Gordon Sangster
Gordon Sangster
Vice President of Finance, Chief Financial Officer

San Jose, California
October 4, 2007

IMPORTANT: WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE VOTE BY COMPLETING AND PROMPTLY RETURNING THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED.

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ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Inverness and HemoSense from documents that each company has filed with the Securities and Exchange Commission but that have not been included in or delivered with this proxy statement/prospectus. For a listing of documents incorporated by reference into this proxy statement/prospectus, please see Where You Can Find More Information beginning on page 95 of this proxy statement/prospectus.

Inverness will provide you with copies of such documents relating to Inverness (excluding all exhibits unless Inverness has specifically incorporated by reference an exhibit in this proxy statement/prospectus), without charge, upon written or oral request to:

Inverness Medical Innovations, Inc.
51 Sawyer Road, Suite 200
Waltham, Massachusetts 02453
(781) 647-3900
Attention: Doug Guarino

HemoSense will provide you with copies of such documents relating to HemoSense (excluding all exhibits unless HemoSense has specifically incorporated by reference an exhibit in this proxy statement/prospectus), without charge, upon written or oral request to:

HemoSense, Inc.
651 River Oaks Parkway
San Jose, California 95134
(408) 719-1393
Attention: Gordon Sangster

In order for you to receive timely delivery of the documents in advance of the HemoSense special meeting, Inverness or HemoSense should receive your request no later than October 30, 2007.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following are some questions that you, as a stockholder of HemoSense, may have regarding the merger and the special meeting of HemoSense stockholders and brief answers to those questions. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section may not provide all the information that might be important to you with respect to the merger being considered at the special meeting. Additional important information is also contained in the annexes to, and the documents incorporated by reference in, this proxy statement/prospectus.

Q: Why am I receiving this proxy statement/prospectus?

A: Inverness has agreed to acquire HemoSense under the terms of a merger agreement that is described in this proxy statement/prospectus. Please see The Merger Agreement beginning on page 73 of this proxy statement/prospectus. A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A.

In order to complete the merger, HemoSense stockholders must approve the merger and adopt the merger agreement, and all other conditions to the merger must be satisfied or waived. HemoSense will hold a special meeting of its stockholders to obtain this approval.

This proxy statement/prospectus contains important information about the merger, the merger agreement and the special meeting of the stockholders of HemoSense, and you should read this proxy statement/prospectus carefully.

Your vote is very important. We encourage you to vote as soon as possible. The enclosed voting materials allow you to vote your HemoSense shares without attending the special meeting. For more specific information on how to vote, please see the questions and answers below.

Q: Why are Inverness and HemoSense proposing the merger?

A: Inverness and HemoSense believe that combining their strengths is in the best interests of each company and its stockholders. The acquisition of HemoSense by Inverness presents a unique opportunity for the companies to come together and accelerate solutions for and innovation in the blood coagulation monitoring market. By combining forces with Inverness, HemoSense expects to be able to leverage Inverness substantial world-wide distribution network, gain greater potential for expanded investment in research and development and accelerate time to market with next generation technologies and solutions. To review the reasons for the merger in greater detail, see The Merger Recommendation of HemoSense s Board of Directors and HemoSense s Reasons for the Merger beginning on page 53 and The Merger Inverness Reasons for the Merger beginning on page 62 of this proxy statement/prospectus.

Q: How does HemoSense s board of directors recommend that HemoSense stockholders vote?

A: The HemoSense board of directors recommends that HemoSense stockholders vote **FOR** the proposal to approve the merger and adopt the merger agreement. The HemoSense board of directors has determined that the merger agreement and the merger are advisable, fair to and in the best interests of HemoSense and its stockholders. Accordingly, the HemoSense board of directors has approved the merger agreement and the merger contemplated by the merger agreement. For a more complete description of the recommendation of the HemoSense board of directors, see The HemoSense Special Meeting beginning on page 47 of this proxy statement/prospectus and The Merger Recommendation of HemoSense s Board of Directors and HemoSense s Reasons for the Merger

beginning on page 53 of this proxy statement/prospectus.

Q: Am I being asked to vote on anything else?

A: Yes. The HemoSense board of directors is asking you to authorize HemoSense management to adjourn the special meeting to a date not later than December 6, 2007 if the number of shares of HemoSense common stock represented and voting in favor of approval of the merger and adoption of the merger agreement is insufficient to approve the merger and adopt the merger agreement under Delaware law. Adjourning the special meeting to a later date will give HemoSense additional time to solicit proxies to vote in favor of

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the approval of the merger and adoption of the merger agreement. The HemoSense board of directors recommends that you vote **FOR** the adjournment proposal.

Q: What will happen in the merger?

A: Pursuant to the terms of the merger agreement, Spartan Merger Sub, Inc., a wholly owned subsidiary of Inverness, will merge with and into HemoSense, and HemoSense will survive and continue as a wholly owned subsidiary of Inverness.

Q: What consideration will HemoSense stockholders receive in the merger?

A: HemoSense stockholders will receive 0.274192 shares of Inverness common stock for each share of HemoSense common stock they own. We call this number the exchange ratio. Each HemoSense stockholder will receive cash for any fractional share of Inverness common stock that such stockholder would be entitled to receive in the merger after aggregating all fractional shares to be received by such stockholder.

Q: When do Inverness and HemoSense expect the merger to be completed?

A: Inverness and HemoSense are working to complete the merger as quickly as practicable and currently expect that the merger could be completed promptly after the special meeting. However, we cannot predict the exact timing of the completion of the merger because it is subject to regulatory approvals and other conditions.

Q: What are the United States federal income tax consequences of the merger?

A: We expect the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to as the Internal Revenue Code. If the merger qualifies as a reorganization, HemoSense stockholders generally will not recognize any gain or loss upon the receipt of Inverness common stock in exchange for HemoSense common stock in connection with the merger, except for cash received in lieu of a fractional share of Inverness common stock.

HemoSense stockholders are urged to read the discussion in the section entitled The Merger Material United States Federal Income Tax Consequences of the Merger beginning on page 69 of this proxy statement/prospectus and to consult their tax advisors as to the United States federal income tax consequences of the merger, as well as the effects of state, local and foreign tax laws.

Q: What vote of HemoSense stockholders is required to approve the merger and adopt the merger agreement?

A: Approval of the merger and adoption of the merger agreement require the affirmative vote of the holders of a majority of the shares of HemoSense common stock outstanding on the record date. Only holders of record of HemoSense common stock at the close of business on October 4, 2007, which we refer to as the record date, are entitled to notice of and to vote at the special meeting. As of the record date, there were 13,386,950 shares of HemoSense common stock outstanding and entitled to vote at the special meeting.

Q: What vote of HemoSense stockholders is required to approve the adjournment proposal?

A: Approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the outstanding shares of HemoSense common stock present, either in person or by proxy, and entitled to vote at the special meeting.

Q: Are there any risks related to the merger or any risks related to owning HemoSense or Inverness common stock?

A: Yes. You should carefully review the section entitled Risk Factors beginning on page 14 of this proxy statement/prospectus.

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Q: Are any stockholders already committed to vote in favor of the merger?

A: Yes. Pursuant to voting agreements with Inverness, each director and executive officer of HemoSense and certain stockholders of HemoSense have agreed to vote all or a portion of their shares of HemoSense common stock held on the record date at the special meeting in favor of the merger proposal. These shares represented approximately 33% of the outstanding shares of HemoSense common stock as of the record date. For a more complete description of the voting agreements, see The Voting Agreements beginning on page 86 of this proxy statement/prospectus. The forms of voting agreements are also attached to this proxy statement/prospectus as Annex B and Annex C.

Q: Am I entitled to dissenters rights?

A: No. You are not entitled to dissenters rights, even if you abstain from voting or vote against the proposed merger.

Q: What will happen to HemoSense s outstanding options and warrants in the merger?

A: HemoSense s outstanding options and warrants will be assumed by Inverness in the merger. Each option or warrant so assumed will thereafter represent an option or warrant to purchase a number of shares of Inverness common stock equal to the number of shares of HemoSense common stock subject to the option or warrant immediately prior to the merger (whether or not vested) multiplied by the exchange ratio, which is 0.274192 (rounded down to the nearest whole share). The assumed options and warrants will have the same vesting and expiration provisions as the original HemoSense options and warrants. The exercise price per share for each assumed HemoSense option or warrant will be equal to the exercise price per share of the original HemoSense option or warrant divided by the exchange ratio, rounded up to the nearest whole cent.

Q: When and where will the special meeting of HemoSense stockholders be held?

A: The special meeting will be held at the offices of Wilson Sonsini Goodrich & Rosati at 650 Page Mill Road, Palo Alto, California 94304 on November 6, 2007, at 9:00 a.m., local time.

Q: Who can attend and vote at the special meeting?

A: All HemoSense stockholders of record as of the close of business on the record date are entitled to receive notice of and to vote at the special meeting.

Q: What should I do now in order to vote on the proposals being considered at the special meeting?

A: HemoSense stockholders as of the record date may vote by proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed postage paid envelope. If you hold HemoSense common stock in street name, which means that your shares are held of record by a broker, bank or other nominee, you must complete, sign, date and return the enclosed voting instruction form to the record holder of your shares with instructions on how to vote your shares. Please refer to the voting instruction form used by your broker, bank or other nominee to see if you may submit voting instructions using the Internet or telephone.

Additionally, you may also vote in person by attending the special meeting. If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in street name, and you wish to vote at the special meeting, you must bring a proxy from the record holder of the shares authorizing you to vote at the special meeting. Whether or not you plan to attend the

special meeting, you should submit your proxy card or voting instruction form as described in this proxy statement/prospectus.

Q: Do I need to send in my HemoSense stock certificates now?

A: No. You should not send in your HemoSense stock certificates now. Following the merger, a letter of transmittal will be sent to HemoSense stockholders informing them where to deliver their HemoSense stock certificates in order to receive shares of Inverness common stock and any cash in lieu of a fractional share

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of Inverness common stock. You should not send in your HemoSense common stock certificates prior to receiving this letter of transmittal.

Q: What will happen if I abstain from voting or fail to vote?

A: Your abstention or failure to vote or to instruct your broker, bank or other nominee to vote if your shares are held in street name (referred to as a broker non-vote) will have the same effect as a vote against the proposal to approve the merger and adopt the merger agreement. Your abstention will have the same effect as a vote against the adjournment proposal. Broker non-votes will have no effect on the outcome of the vote on the adjournment proposal. If you submit a signed proxy without specifying the manner in which you would like your shares to be voted, your shares will be voted **FOR** the merger proposal and the adjournment proposal.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. If you are a holder of record, you can change your vote at any time before your proxy is voted at the special meeting by:

delivering a signed written notice of revocation to the Corporate Secretary of HemoSense;

signing and delivering a new, valid proxy bearing a later date; or

attending the special meeting and voting in person, although your attendance alone will not revoke your proxy.

If your shares are held in street name, you must contact your broker, bank or other nominee to change your vote.

Q: What should I do if I receive more than one set of voting materials for the special meeting?

A: You may receive more than one set of voting materials for the special meeting, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction forms. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction form for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. For each and every proxy card and voting instruction form that you receive, please vote as soon as possible by completing, signing, dating and returning the enclosed proxy card in the postage-prepaid envelope enclosed for that purpose.

Q: Who can help answer my questions?

A: If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card or voting instructions, you should contact:

HemoSense, Inc.
651 River Oaks Parkway
San Jose, California 95134
(408) 719-1393
Attention: Gordon Sangster
Toll Free within the United States and Canada: (877) 436-4566

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SUMMARY

The following is a summary that highlights information contained in this proxy statement/prospectus. This summary may not contain all of the information that may be important to you. For a more complete description of the merger agreement and the merger contemplated by the merger agreement, we encourage you to read carefully this entire proxy statement/prospectus, including the attached annexes. In addition, we encourage you to read the information incorporated by reference into this proxy statement/prospectus, which includes important business and financial information about Inverness and HemoSense that has been filed with the Securities and Exchange Commission, referred to as the SEC. You may obtain the information incorporated by reference into this proxy statement/prospectus without charge by following the instructions in the section entitled Where You Can Find More Information beginning on page 94 of this proxy statement/prospectus.

The Companies

Inverness Medical Innovations, Inc.
51 Sawyer Road, Suite 200
Waltham, Massachusetts 02453
(781) 647-3900

Inverness is a leading global developer, manufacturer and marketer of in vitro diagnostic products for the over-the-counter pregnancy and fertility/ovulation test market and the professional rapid diagnostic test market. Its business is organized into three reportable segments: professional diagnostic products, consumer diagnostic products and vitamins and nutritional supplements. Through its professional diagnostics segment, Inverness develops, manufactures and markets an extensive array of innovative rapid diagnostic test products and other in vitro diagnostic tests to medical professionals and laboratories for detection of infectious diseases, cardiac conditions, drugs of abuse and pregnancy. Inverness consumer diagnostic segment consists primarily of manufacturing operations related to its role as the exclusive manufacturer of products for SPD Swiss Precision Diagnostics, or Swiss Precision, Inverness 50/50 joint venture with The Procter & Gamble Company, or P&G. Swiss Precision holds a leadership position in the worldwide over-the-counter pregnancy and fertility/ovulation test market. Inverness also manufactures and markets a variety of vitamins and nutritional supplements under its other brands and those of private label retailers primarily in the U.S. consumer market. Inverness has grown its businesses by leveraging its strong intellectual property portfolio and making selected strategic acquisitions. Its products are sold in approximately 90 countries through its direct sales force and an extensive network of independent global distributors.

HemoSense, Inc.
651 River Oaks Parkway
San Jose, California 95134
(408) 719-1393

HemoSense is a point-of-care diagnostic healthcare company that initially has developed, manufactures and commercializes easy-to-use, handheld blood coagulation systems for monitoring patients taking warfarin. Warfarin is an oral anticoagulation, or blood thinning, drug given to patients to prevent potentially lethal blood clots. The HemoSense INRatio (R) system consists of a small monitor and disposable test strips. It provides accurate and convenient measurement of blood clotting time, or PT/INR values. Routine measurements of PT/INR are necessary for the safe and effective management of the patient s warfarin dosing. The INRatio System represents an alternative to the current laboratory-based standard of care.

The INRatio System is 510(k) cleared by the FDA for use by healthcare professionals as well as for patient self-testing, and is also CE marked in Europe. The INRatio System is targeted to both the professional, or point-of-care, market as well as the patient self-testing market. INRatio is sold in the United States and internationally. HemoSense began selling the INRatio meter and related test strips in March 2003. Prior to that date, HemoSense was in the development stage and had been primarily engaged in developing its product technology.

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The Merger

(see page 50)

Inverness and HemoSense agreed to the acquisition of HemoSense by Inverness under the terms of the merger agreement that is described in this proxy statement/prospectus. Pursuant to the merger agreement, Spartan Merger Sub, Inc., a wholly owned subsidiary of Inverness, will merge with and into HemoSense, with HemoSense surviving the merger and continuing as a wholly owned subsidiary of Inverness. Throughout this proxy statement/prospectus, we refer to Inverness acquisition of HemoSense pursuant to the merger agreement as the merger. We have attached the merger agreement as Annex A to this proxy statement/prospectus. We encourage you to read carefully the merger agreement in its entirety because it is the legal document that governs the merger.

Merger Consideration and the Treatment of HemoSense Stock Options and Stock Purchase Warrants

HemoSense stockholders will receive 0.274192 shares of Inverness common stock, referred to as the exchange ratio, for each share of HemoSense common stock they own. As a result, Inverness expects to issue approximately 3.7 million shares of Inverness common stock in the merger based on the number of shares of HemoSense common stock outstanding on October 4, 2007. The stock to be issued to HemoSense stockholders by Inverness is referred to as the merger consideration. Each outstanding option or warrant to purchase HemoSense common stock will be assumed by Inverness and will be converted at the effective time of the merger into an option or warrant to acquire Inverness common stock. Each option or warrant so assumed will thereafter represent an option or warrant to purchase a number of shares of Inverness common stock equal to the number of shares of HemoSense common stock subject to the option or warrant immediately prior to the merger (whether or not vested) multiplied by the exchange ratio. The exercise price per share for each assumed HemoSense option or warrant will be equal to the exercise price per share of the original HemoSense option or warrant divided by the exchange ratio.

For a full description of the merger consideration, see The Merger Agreement Conversion of Securities beginning on page 73 of this proxy statement/prospectus. For a full description of the treatment of HemoSense stock options and stock purchase warrants, see The Merger Agreement Treatment of HemoSense Stock Options and Stock Purchase Warrants and Assumption of HemoSense Stock Option Plans beginning on page 74 of this proxy statement/prospectus.

Fractional Shares

Inverness will not issue fractional shares of Inverness common stock in the merger. As a result, HemoSense stockholders will receive cash for any fractional share of Inverness common stock that they would otherwise be entitled to receive in the merger.

For a full description of the treatment of fractional shares, see The Merger Agreement Fractional Shares beginning on page 74 of this proxy statement/prospectus.

Risk Factors

(see page 14)

In evaluating the merger, you should carefully read this proxy statement/prospectus and especially consider the factors discussed in the section entitled Risk Factors beginning on page 14 of this proxy statement/prospectus.

HemoSense Stockholders Meeting; Vote Required

(see page 46)

The special meeting of HemoSense stockholders will be held on November 6, 2007 at 9:00 a.m., local time, at the offices of Wilson Sonsini Goodrich & Rosati at 650 Page Mill Road, Palo Alto, California 94304. At the special meeting, HemoSense stockholders will be asked to approve the merger and adopt the merger

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agreement and to grant discretionary authority to HemoSense management to vote your shares to adjourn the special meeting to a date not later than December 6, 2007 to solicit additional proxies if there are not sufficient votes for approval of the merger and adoption of the merger agreement.

Only holders of record of HemoSense common stock at the close of business on October 4, 2007, the record date, are entitled to notice of and to vote at the special meeting. As of the record date, there were 13,386,950 shares of HemoSense s common stock outstanding and entitled to vote at the special meeting.

Approval of the merger and adoption of the merger agreement require the affirmative vote of the holders of a majority of the shares of HemoSense common stock outstanding on the record date. Approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the outstanding shares of HemoSense common stock present, either in person or by proxy, and entitled to vote at the special meeting.

Recommendation of HemoSense s Board of Directors

(see page 53)

HemoSense s board of directors has determined that the merger is advisable, and fair to and in the best interests of HemoSense and its stockholders, and recommends that you vote **FOR** approval of the merger and adoption of the merger agreement and **FOR** the proposal to grant discretionary authority to the persons named as proxies to vote your shares to adjourn the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to approve the merger and adopt the merger agreement.

In considering the recommendation of the HemoSense board of directors with respect to the merger, HemoSense stockholders should be aware that certain executive officers and directors of HemoSense have interests in the merger that may be different from, or in addition to, the interests of HemoSense stockholders generally. These interests include:

- severance and change of control benefits that will be owed to certain executive officers of HemoSense if they are terminated after the transaction;
- the immediate vesting of options and shares of restricted stock held by certain directors and executive officers of HemoSense;
- the positions at Inverness that certain HemoSense executive officers are expected to hold upon completion of the merger; and
- the continued indemnification and directors and officers insurance coverage of current HemoSense directors and officers following the merger.

The HemoSense board of directors was aware of these interests and considered them, among other matters, in making its recommendation.

Opinion of HemoSense s Financial Advisor

(See page 55 and Annex D)

HemoSense s financial advisor, Lazard Frères & Co. LLC, which is referred to as Lazard, delivered an opinion to the HemoSense board of directors that, as of the date of the fairness opinion and based upon and subject to the

assumptions, procedures, factors, limitations and qualifications set forth in such opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to the holders of HemoSense common stock.

The full text of the written opinion of Lazard, dated August 5, 2007, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with its opinion, is attached as Annex D. Lazard provided its opinion for the information and assistance of the HemoSense board of directors in connection with its consideration of the merger. The Lazard opinion is not a recommendation as to how any holder of HemoSense common stock should vote at any meeting to be held in connection with, or take any action with respect to, the merger. We encourage you to read the opinion, which

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is attached as Annex D, and the Section The Merger Opinion of HemoSense s Financial Advisor beginning on page 55 carefully and in their entirety.

Ownership of Inverness Following the Merger

Based on the number of shares of HemoSense common stock outstanding as of the record date, Inverness expects to issue approximately 3.7 million shares of Inverness common stock in the merger. Based on the number of shares of HemoSense common stock and the number of shares of Inverness common stock outstanding on the record date, after completion of the merger, former HemoSense stockholders are expected to own approximately 7% of the then-outstanding shares of Inverness common stock.

Share Ownership of HemoSense Directors and Executive Officers

As of the record date, the directors and executive officers of HemoSense and their affiliates beneficially owned and were entitled to vote 4,572,476 shares of HemoSense common stock, which represents approximately 34% of the HemoSense common stock outstanding on that date. Concurrently with the execution and delivery of the merger agreement, on August 6, 2007, Inverness entered into voting agreements with respect to approximately 33% of the HemoSense common stock outstanding on that date with each of the directors and executive officers of HemoSense and certain of their affiliates. For more information regarding the voting agreements, see The Voting Agreements beginning on page 86 of this proxy statement/prospectus. The forms of voting agreements are attached to this proxy statement/prospectus as Annex B and Annex C.

Listing of Inverness Common Stock and Delisting and Deregistration of HemoSense Common Stock

(see page 72)

Application will be made to have the shares of Inverness common stock issued in the merger approved for listing on the American Stock Exchange. If the merger is completed, HemoSense common stock will no longer be listed on the American Stock Exchange and will be deregistered under the Securities Exchange Act of 1934, as amended, which is referred to as the Exchange Act, and HemoSense will no longer file periodic reports with the SEC.

Conditions to Completion of the Merger

(see page 82)

A number of conditions must be satisfied before the merger will be completed. These include, among others:

- the receipt of the approval of the merger and adoption of the merger agreement by HemoSense stockholders;
- the effectiveness of a registration statement on Form S-4 and there being no pending or threatened stop order relating thereto;
- the absence of any law or order that makes the consummation of the merger illegal;
- the termination or expiration of all necessary waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, referred to as the HSR Act;
- the absence of any instituted or pending action or proceeding by any governmental entity seeking (a) to interfere with the ownership or operation by Inverness of the business of HemoSense or Inverness or any of

their subsidiaries, (b) to compel Inverness to dispose of or hold separate any portion of the business or assets of HemoSense or Inverness or any of their subsidiaries, (c) to impose limitations on the ability of Inverness to exercise full rights of ownership of the shares of HemoSense common stock; or (d) to require divestiture by Inverness or any of its subsidiaries of any shares of HemoSense common stock;

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the continued accuracy, in all material respects, of the representations and warranties of the parties regarding their capital structures and the due authorization of the merger agreement and, in the case of HemoSense, representations and warranties regarding its board approval, its fairness opinion, and the inapplicability to the merger of anti-takeover plans and statutes;

the continued accuracy of all other representations and warranties of the parties, except to the extent that breaches of such representations and warranties would not result in a material adverse effect on the party making the representation or warranty;

the performance or compliance in all material respects of each party with all agreements and covenants contained in the merger agreement and required to be performed or complied with at or before the closing;

the delivery of tax opinions of legal counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

the absence of material adverse effects with respect to either party since August 6, 2007; and

the authorization for listing on the American Stock Exchange of the shares of Inverness common stock to be issued in the merger.

Each of Inverness, Spartan Merger Sub and HemoSense may waive the conditions to the performance of its respective obligations under the merger agreement and complete the merger even though one or more of these conditions have not been met. Neither Inverness nor HemoSense can give any assurance that all of the conditions to the merger will be either satisfied or waived or that the merger will occur.

Regulatory Matters

(see page 71)

The merger is subject to antitrust laws. Inverness and HemoSense have made all required filings under applicable U.S. antitrust laws with the Antitrust Division of the United States Department of Justice, referred to as the Antitrust Division, and the United States Federal Trade Commission, referred to as the FTC.

HemoSense Is Prohibited From Soliciting Other Offers

(see page 79)

The merger agreement contains detailed provisions that prohibit HemoSense, its subsidiaries and their respective officers, directors and representatives from taking any action to solicit or engage in discussions or negotiations with any person or group with respect to an acquisition proposal, as defined in the merger agreement, including an acquisition that would result in the person or group acquiring more than a 15% interest in HemoSense s total outstanding securities, a sale of assets of HemoSense that generate or constitute more than 10% of HemoSense s net revenue, net income or assets, or a merger or other business combination. The merger agreement does not, however, prohibit HemoSense s board of directors from considering and recommending to HemoSense s stockholders an unsolicited acquisition proposal from a third party if specified conditions are met.

Termination of the Merger Agreement and Termination Fee

(see pages 84 and 85)

Under circumstances specified in the merger agreement, either Inverness or HemoSense may terminate the merger agreement. Subject to the limitations set forth in the merger agreement, the circumstances generally include if:

Inverness and HemoSense mutually agree to terminate the merger agreement;

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the merger is not consummated by February 6, 2008, unless the sole reason for the failure to consummate the merger is that the waiting period (or an extension thereof) under the HSR Act has not expired, in which case the date will be extended to June 6, 2008;

a final, non-appealable order is issued or granted by a governmental entity in the United States or any foreign jurisdiction that enjoins or otherwise prohibits the merger from proceeding; or

the HemoSense stockholders do not approve the merger and adopt the merger agreement at the special meeting.

Inverness may also terminate the merger agreement if certain triggering events identified in the merger agreement occur; these triggering events generally relate to the obligations of HemoSense s board of directors to maintain its recommendation of the approval of the merger and adoption of the merger agreement and the obligations of HemoSense regarding the solicitation or acceptance of competing proposals.

Under circumstances specified in the merger agreement, HemoSense may terminate the merger agreement to enter into a definitive agreement for a superior proposal, but only if it has complied with its obligations regarding the solicitation of competing proposals and has paid Inverness the termination fee described below.

HemoSense has agreed to pay Inverness $5.25 million as a termination fee if:

the merger agreement is terminated following the occurrence of any of the triggering events identified in the merger agreement;

either party terminates the merger agreement because the merger is not consummated by February 6, 2008, unless the sole reason for the failure to consummate the merger is that the waiting period (or an extension thereof) under the HSR Act has not expired, in which case the date will be extended to June 6, 2008, or because the HemoSense stockholders do not approve the merger and adopt the merger agreement, in either case if, prior to the termination of the merger agreement, an acquisition proposal is publicly announced and, within twelve months following the termination, HemoSense enters into a definitive agreement providing for the acquisition of HemoSense; or

HemoSense terminates the merger agreement upon a change of recommendation by its board of directors in connection with a superior offer.

Either party may also terminate the merger agreement if the other party breaches any of its covenants, agreements, representations or warranties set forth in the merger agreement such that the conditions to the terminating party s obligation to effect the merger would not be satisfied at the time of termination and the breach is not cured, or curable, within 30 days after the terminating party delivers written notice of the breach to the other party.

Material United States Federal Income Tax Consequences of the Merger

(see page 69)

Inverness and HemoSense expect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and it is a condition to closing that each of Inverness and HemoSense receive an opinion from legal counsel to the effect that the merger will so qualify. If the merger qualifies as a reorganization, HemoSense stockholders generally will not recognize any gain or loss upon the receipt of Inverness common stock in exchange for HemoSense common stock in connection with the merger, except for cash received in

lieu of a fractional share of Inverness common stock.

HemoSense stockholders are urged to read the discussion in the section entitled The Merger Material United States Federal Income Tax Consequences of the Merger beginning on page 70 of this proxy statement/prospectus and to consult their tax advisors as to the United States federal income tax consequences of the merger, as well as the effect of state, local and foreign tax laws.

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Accounting Treatment

(see page 71)

In accordance with accounting principles generally accepted in the United States, or GAAP, Inverness will account for the merger using the purchase method of accounting for business combinations.

Comparison of Rights of Inverness Stockholders and HemoSense Stockholders

(see page 87)

HemoSense stockholders, whose rights are currently governed by HemoSense s certificate of incorporation, its bylaws, and Delaware law, will, upon completion of the merger, become Inverness stockholders, and their rights will be governed by Inverness certificate of incorporation, its bylaws, and Delaware law.

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SUMMARY SELECTED HISTORICAL FINANCIAL DATA OF INVERNESS

The following selected financial data of Inverness as of and for each of the five fiscal years in the period ended December 31, 2006 have been derived from Inverness audited historical financial statements. The following selected financial data of Inverness as of and for the six months ended June 30, 2006 and 2007 have been derived from Inverness unaudited historical financial statements. The data below is only a summary and should be read in conjunction with Inverness financial statements and accompanying notes, as well as management s discussion and analysis of financial condition and results of operations, all of which can be found in publicly available documents, including those incorporated by reference into this proxy statement/prospectus. For a complete list of the documents incorporated by reference into this proxy statement/prospectus, please see Where You Can Find More Information beginning on page 94 of this proxy statement/prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	2002(1)	2003	2004	2005	2006	2006	2007
						(Unaudited)	
	(In thousands, except per share data)					(In thousands, except per share data)	
Statement of Operations Data:							
Net product sales	$ 200,399	$ 285,430	$ 365,432	$ 406,457	$ 552,130	$ 259,350	$ 305,953
License and royalty revenue	6,405	9,728	8,559	15,393	17,324	8,184	7,991
Net revenue	206,804	295,158	373,991	421,850	569,454	267,534	313,944
Cost of sales	114,653	167,641	226,987	269,538	340,231	166,784	169,266
Gross profit	92,151	127,517	147,004	152,312	229,223	100,750	144,678
Operating expenses:							
Research and development	14,508	24,367	31,954	30,992	53,666	23,724	24,119
Sales and marketing	39,570	52,504	57,957	72,103	94,445	43,512	56,311
General and administrative	38,628	35,812	52,707	59,990	71,243	33,516	90,454
Loss on dispositions, net					3,498	3,191	
Charge related to asset impairment	12,682						
Operating income (loss)	(13,237)	14,834	4,386	(10,773)	6,371	(3,193)	(26,206)
Interest expense and other expenses, net	(5,955)	(3,270)	(18,707)	(1,617)	(17,486)	(7,730)	(18,958)
(Loss) income from continuing	(19,192)	11,564	(14,321)	(12,390)	(11,115)	(10,923)	(45,164)

operations before provision for income taxes							
Provision for income taxes	3,443	2,911	2,275	6,819	5,727	2,263	3,205
(Loss) income from continuing operations	$ (22,635)	$ 8,653	$ (16,596)	$ (19,209)	$ (16,842)	$ (13,186)	$ (48,369)
(Loss) income from continuing operations available to common stockholders basic and diluted(2)	$ (34,583)	$ 7,695	$ (17,345)	$ (19,209)	$ (16,842)	$ (13,186)	$ (48,369)
(Loss) income per common share(2):							
Basic(2)	$ (3.48)	$ 0.49	$ (0.87)	$ (0.79)	$ (0.49)	$ (0.42)	$ (1.06)
Diluted(2)	$ (3.48)	$ 0.44	$ (0.87)	$ (0.79)	$ (0.49)	$ (0.42)	$ (1.06)

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	2002(1)	2003	December 31, 2004	2005	2006	June 30, 2006	2007
			(In thousands)			(Unaudited) (In thousands)	
Balance Sheet Data:							
Cash and cash equivalents	$ 30,668	$ 24,622	$ 16,756	$ 34,270	$ 71,104	$ 42,164	$ 157,056
Working capital	$ 27,685	$ 44,693	$ 62,615	$ 84,523	$ 133,313	$ 102,372	$ 285,230
Total assets	$ 356,495	$ 540,529	$ 568,269	$ 791,166	$ 1,085,771	$ 948,869	$ 3,188,047
Total debt	$ 104,613	$ 176,181	$ 191,224	$ 262,504	$ 202,976	$ 276,890	$ 1,414,264
Redeemable convertible preferred stock	$ 9,051	$ 6,185	$	$	$	$	$
Total stockholders equity	$ 161,849	$ 265,173	$ 271,416	$ 397,308	$ 714,138	$ 519,574	$ 1,087,911

(1) Upon the adoption of Statement of Financial Accounting Standards, or SFAS, No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002, Inverness recorded an impairment charge of $12.1 million, or $1.22 per basic and diluted share, and accounted for the charge as a cumulative effect of a change in accounting principle which was subtracted from loss before provision for income taxes to arrive at net loss. Consequently, net loss available to common stockholders in 2002 was $46.7 million, or $4.70 per basic and diluted share.

(2) (Loss) income available to common stockholders and basic and diluted (loss) income per common share are computed as described in Notes 2(m) and 13 of Inverness consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2006, and Note 6 of Inverness consolidated financial statements included in its Quarterly Report on Form 10-Q for the period ended June 30, 2007.

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SUMMARY UNAUDITED PRO FORMA CONDENSED FINANCIAL DATA OF INVERNESS

Since December 31, 2005, Inverness has completed a number of significant acquisitions and dispositions, including the following:

- Inverness acquisition of Cholestech Corporation in September 2007;
- Inverness acquisition of Biosite Incorporated in June 2007, including the related financing transactions;
- the formation of Inverness 50/50 joint venture with The Procter & Gamble Company, or P&G, in May 2007 for the development, manufacturing, marketing and sale of certain consumer diagnostic products, pursuant to which Inverness contributed its consumer diagnostics net assets to the joint venture and received a cash payment of $325 million;
- Inverness acquisition of Instant Technologies, Inc. in March 2007; and
- Inverness acquisition of the Innovacon business, including the ABON facility, in March 2006.

The following tables present summary unaudited pro forma condensed financial data that reflect the acquisitions and dispositions described above.

The following tables do not reflect the pro forma effect of the proposed acquisition of HemoSense, nor do they reflect the pro forma effect of other acquisitions that Inverness has completed since December 31, 2005 or that are currently pending, none of which is significant enough to require the presentation of pro forma financial information. All acquisitions are reflected using the purchase method of accounting, and the actual operating results of Biosite, Instant and the Innovacon business are included in Inverness historical financial results only from their respective dates of acquisition.

This information is derived from and should be read in conjunction with Inverness unaudited pro forma condensed combined financial statements filed with the SEC on a current report on Form 8-K dated September 5, 2007, as well as the historical financial statements and notes thereto of Inverness and each of the acquired businesses, all of which are incorporated by reference in this proxy statement/prospectus.

The unaudited pro forma condensed combined statements of operations data assume that the acquisitions of Cholestech, Biosite (including the related financing transactions), Instant and Innovacon, and the consummation of the 50/50 joint venture with P&G occurred on January 1, 2006. The unaudited pro forma condensed combined balance sheet data assume that the acquisition of Cholestech occurred on June 30, 2007. The historical Inverness balance sheet as of June 30, 2007 reflects the acquisitions of Biosite (including the related financing transactions), Instant and Innovacon, and the consummation of the 50/50 joint venture with P&G.

The pro forma data in the following tables account for the Cholestech acquisition using the purchase method of accounting and represent a current estimate based on available information of the combined results of operations of Inverness and Cholestech for the periods presented. As of the date of this proxy statement/prospectus, Inverness has not completed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of the Cholestech assets acquired and liabilities assumed and the related allocations of its purchase price, nor has it identified all the adjustments necessary to conform Cholestech s data to Inverness accounting policies. Similarly, Inverness has not completed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of the assets acquired and liabilities assumed in the Biosite acquisition and the related allocation of its purchase price, nor

has it identified all the adjustments necessary to conform Biosite s data to Inverness accounting policies. However, Inverness has made certain adjustments to the historical book values of the assets and liabilities of Cholestech as of June 30, 2007 and Biosite as of June 26, 2007 (the date of the Biosite acquisition) to reflect certain preliminary estimates of the fair values necessary to prepare the unaudited pro forma condensed combined financial data. The fair value adjustments included in the unaudited pro forma condensed combined financial data represent Inverness management s estimates of these adjustments based upon currently available information. The preliminary purchase price allocations assigned value to certain identifiable intangible assets, including, among other things, customer relationships, core technology and trademarks. Actual results may differ from this unaudited pro forma combined data once Inverness has determined the respective final purchase prices for

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Cholestech and Biosite and has completed the detailed valuation studies necessary to finalize the required purchase price allocations and identified any necessary conforming accounting policy changes for Cholestech and Biosite. Accordingly, the final purchase price allocations, which will or may be determined subsequent to the closing of the HemoSense merger, and their effects on results of operations, may differ materially from the unaudited pro forma combined amounts included in this section.

The unaudited pro forma condensed combined financial data are presented for illustrative purposes only and do not purport to be indicative of the results of operations or financial position for future periods or the results that actually would have been realized had the transactions described above been consummated as of January 1, 2006 or June 30, 2007.

	Pro Forma Combined Company	
	For the Twelve Months Ended December 31, 2006	For the Six Months Ended June 30, 2007
	(Uunaudited)	
	(In thousands, except per share amounts)	
Pro forma Combined Condensed Statement of Operations Data:		
Net product sales	$ 866,305	$ 461,863
Research and license revenue	22,655	10,709
Net revenue	888,960	472,572
Cost of sales	480,886	234,233
Gross profit	408,074	238,339
Operating expenses:		
Research and development	108,136	46,706
Sales and marketing	186,139	101,642
General and administrative	167,945	57,512
Loss on dispositions, net	3,498	
Operating (loss) income	(57,644)	32,479
Interest and other income (expense), net	(106,680)	(40,283)
Loss before income tax provision	(164,324)	(7,804)
Income tax provision	4,649	3,683
Net loss	$ (168,973)	$ (11,487)
Net loss per common share:		
Basic and diluted	$ (4.00)	$ (0.22)

Pro Forma

	Combined Company as of June 30, 2007 (Unaudited) (In thousands)
Balance Sheet Data:	
Cash and short-term investments	$ 214,462
Working capital	$ 349,886
Total assets	$ 3,546,834
Total debt	$ 1,414,264
Total stockholders equity	$ 1,426,295

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SUMMARY SELECTED HISTORICAL FINANCIAL DATA OF HEMOSENSE

The following selected financial data of HemoSense as of and for each of the five fiscal years in the period ended September 30, 2006 have been derived from HemoSense s audited historical financial statements. The following selected financial data of HemoSense as of and for the nine months ended June 30, 2006 and 2007 have been derived from HemoSense s unaudited historical financial statements. The data below is only a summary and should be read in conjunction with HemoSense s financial statements and accompanying notes, as well as management s discussion and analysis of financial condition and results of operations, all of which can be found in publicly available documents, including those incorporated by reference into this proxy statement/prospectus. For a complete list of the documents incorporated by reference into this proxy statement/prospectus, please see Where You Can Find More Information beginning on page 94 of this proxy statement/prospectus.

	Year Ended September 30,					Nine Months Ended June 30,	
	2002	2003	2004	2005	2006	2006	2007
	(In thousands, except per share data)					(Unaudited) (In thousands, except per share data)	
Statement of Operations Data:							
Revenue	$	$ 427	$ 3,250	$ 8,768	$ 16,257	$ 12,049	$ 23,923
Cost of goods sold		1,519	5,065	9,371	11,906	8,880	13,935
Gross profit (loss)		(1,092)	(1,815)	(603)	4,351	3,169	9,988
Operating expenses:							
Research and development	3,354	1,681	1,398	1,259	2,728	1,913	2,128
Sales and marketing	745	3,186	5,206	6,733	7,899	5,954	7,417
General and administrative	711	912	1,499	1,962	3,996	3,181	3,275
Total operating expenses	4,810	5,779	8,103	9,954	14,623	11,048	12,820
Loss from operations	(4,810)	(6,871)	(9,918)	(10,557)	(10,272)	(7,879)	(2,832)
Interest income	142	39	16	130	580	450	547
Interest and other expense, net	(40)	(78)	(359)	(1,319)	(1,193)	(933)	(1,525)
Net loss	$ (4,708)	$ (6,910)	$ (10,261)	$ (11,746)	$ (10,885)	$ (8,362)	$ (3,810)
Net loss per common share:							
Basic and diluted	$ (14.27)	$ (20.69)	$ (30.45)	$ (4.26)	$ (0.99)	$ (0.76)	$ (0.30)

Shares used to compute net loss per common share:							
Basic and diluted	330	334	337	2,758	11,030	10,971	12,610

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	September 30,					June 30,	
	2002	2003	2004	2005	2006	2006	2007
			(In thousands)			(Unaudited) (In thousands)	
Balance Sheet Data:							
Cash, cash equivalents and short-term investments	$ 5,276	$ 5,445	$ 433	$ 11,541	$ 9,728	$ 12,071	$ 16,154
Working capital	$ 5,909	$ 5,800	$ 1,072	$ 12,861	$ 10,695	$ 13,438	$ 17,122
Total assets	$ 7,518	$ 9,458	$ 6,202	$ 19,003	$ 16,850	$ 18,690	$ 27,325
Long-term liabilities	$ 83	$ 736	$ 2,946	$ 4,766	$ 2,890	$ 3,295	$ 5,477
Redeemable convertible preferred stock	$ 25,183	$ 32,751	$ 36,679	$	$	$	$
Accumulated deficit	$ (18,269)	$ (25,179)	$ (35,440)	$ (47,186)	$ (58,071)	$ (55,548)	$ (61,881)
Total stockholders equity (deficit)	$ (18,174)	$ (24,959)	$ (35,220)	$ 10,012	$ 8,677	$ 11,081	$ 13,331

COMPARATIVE PER SHARE MARKET PRICE DATA

Inverness common stock trades on the American Stock Exchange under the symbol IMA. HemoSense common stock trades on the American Stock Exchange under the symbol HEM.

The following table sets forth the closing prices for Inverness common stock and HemoSense common stock as reported on the American Stock Exchange on August 6, 2007, the last trading day before Inverness and HemoSense announced the merger, and October 4, 2007, the last trading day before the date of this proxy statement/prospectus. The table also includes the market value of HemoSense common stock on an equivalent price per share basis, as determined by reference to the value of merger consideration to be received in respect of each share of HemoSense common stock in the merger. These equivalent prices per share reflect the fluctuating value of the Inverness common stock that HemoSense stockholders would receive in exchange for each share of HemoSense common stock if the merger was completed on either of these dates, applying the exchange ratio of 0.274192 shares of Inverness common stock for each share of HemoSense common stock.

	Inverness Common Stock	HemoSense Common Stock	Equivalent Value of HemoSense Common Stock
August 6, 2007	$ 46.46	$ 9.27	$ 12.74
October 4, 2007	$ 54.07	$ 14.72	$ 14.86

The above table shows only historical comparisons. These comparisons may not provide meaningful information to HemoSense stockholders in determining whether to approve the merger and adopt the merger agreement. HemoSense stockholders are urged to obtain current market quotations for Inverness and HemoSense common stock and to review carefully the other information contained in this proxy statement/prospectus or incorporated by reference into this

proxy statement/prospectus, when considering whether to approve the merger and adopt the merger agreement. See Where You Can Find More Information beginning on page 94 of this proxy statement/prospectus.

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RISK FACTORS

In addition to the other information included in this proxy statement/prospectus, including the matters addressed in Cautionary Statement Concerning Forward-Looking Statements beginning on page 46 of this proxy statement/prospectus, you should carefully consider the following risks before deciding whether to vote for approval of the merger and adoption of the merger agreement. In addition, you should read and consider the risks associated with each of the businesses of Inverness and HemoSense because these risks will also affect the combined company.

Risk Factors Relating to the Merger

The integration of the operations of Inverness and HemoSense may be difficult and may lead to adverse effects.

The success of the merger will depend, in part, on the ability of Inverness to realize the anticipated synergies, cost savings and growth opportunities from integrating HemoSense s business with Inverness businesses. Inverness success in realizing these benefits and the timing of this realization depend upon the successful integration of the operations of HemoSense. The integration of two independent companies is a complex, costly and time-consuming process. The difficulties of combining the operations of the companies include, among others:

- consolidating manufacturing and research and development operations, where appropriate;
- integrating HemoSense s business into Inverness financial reporting system;
- coordinating sales, distribution and marketing functions;
- preserving the important licensing, research and development, manufacturing and supply, distribution, marketing, customer and other relationships of HemoSense;
- minimizing the diversion of management s attention from ongoing business concerns; and
- coordinating geographically separate organizations.

Inverness and HemoSense may not accomplish this integration smoothly or successfully. The diversion of the attention of management from its current operations to the integration effort and any difficulties encountered in combining operations could prevent Inverness from realizing the full benefits anticipated to result from the merger and adversely affect other Inverness businesses.

The price of Inverness common stock may decline, which would decrease the value of the merger consideration to be received by HemoSense stockholders in the merger.

The price of Inverness common stock might decline from the $46.46 price per share at the close of trading on August 6, 2007, the last full trading day prior to the public announcement of the merger. The exchange ratio will not be adjusted as a result of any change in the price of Inverness common stock or HemoSense common stock. Therefore, the value of the merger consideration to be received by HemoSense stockholders will depend on the market price of Inverness common stock at the time the merger becomes effective. HemoSense does not have the right to terminate the merger agreement or resolicit the vote of its stockholders based solely on changes in the value of Inverness common stock. Accordingly, if the price of Inverness common stock declines prior to the completion of the merger, the value of the merger consideration to be received by HemoSense stockholders in the merger will decrease as compared to the value on the date the merger was announced. See The Merger Agreement Conversion of Securities

beginning on page 73 of this proxy statement/prospectus.

In addition, because the merger will be completed after the special meeting, HemoSense stockholders will not know the exact value of the Inverness common stock that will be issued in the merger when they vote on the merger proposal. As a result, a decline in the market price of Inverness common stock after the special meeting will reduce the value of the merger consideration that HemoSense stockholders will receive.

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During the twelve-month period ending on October 4, 2007, the closing price of Inverness common stock varied from a low of $35.74 to a high of $55.32, and ended that period at $54.07. We encourage you to obtain current market quotations for Inverness common stock before you vote your shares.

Inverness and HemoSense may be unable to obtain the regulatory approvals required to complete the merger.

The merger is subject to review by the Antitrust Division and the FTC under the HSR Act. Under the HSR Act, Inverness and HemoSense were required to make pre-merger notification filings and await the expiration of the statutory waiting period. Inverness and HemoSense submitted the filings required by the HSR Act, and the waiting period expired on October 1, 2007. Inverness and HemoSense do not believe that the merger is subject to review by any other governmental authorities under the antitrust laws of the other jurisdictions where Inverness and HemoSense conduct business.

While Inverness and HemoSense expect to obtain required regulatory clearances, consents and approvals, Inverness and HemoSense cannot be certain that any required approvals will be obtained, nor can they be certain that the approvals will be obtained within the time contemplated by the merger agreement. A delay in obtaining any required clearances, consents and approvals might delay and may possibly prevent the completion of the merger.

In addition, even after completion of the merger, either the Antitrust Division, the FTC, or other United States or foreign governmental authorities could challenge or seek to block the merger under the antitrust laws, as they deem necessary or desirable in the public interest. Moreover, in some jurisdictions, a competitor, customer or other third party could initiate a private action under the antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. Inverness and HemoSense cannot be sure that a challenge to the merger will not be made or that, if a challenge is made, Inverness and HemoSense will prevail. For a full description of the regulatory clearances, consents and approvals required for the merger, see The Merger Regulatory Matters beginning on page 71 of this proxy statement/prospectus.

The merger agreement limits HemoSense s ability to pursue alternatives to the merger.

The merger agreement contains provisions that make it more difficult for HemoSense to sell its business to a party other than Inverness. These provisions include the general prohibition on HemoSense soliciting any acquisition proposal or offer for a competing transaction, the requirement that HemoSense pay a termination fee of $5.25 million if the merger agreement is terminated in specified circumstances and the requirement that HemoSense submit the approval of the merger and the adoption of the merger agreement to a vote of HemoSense s stockholders even if the HemoSense board of directors changes its recommendation, unless, prior to the stockholder vote, HemoSense enters into a definitive agreement for a competing acquisition that its board of directors determines to be superior, terminates the merger agreement and pays the termination fee. Moreover, approximately 33% of the outstanding shares of HemoSense common stock are subject to voting agreements pursuant to which the holders of those shares may be required to vote against certain competing transactions. See The Merger Agreement Termination beginning on page 84 of this proxy statement/prospectus, The Merger Agreement Termination Fee beginning on page 85 of this proxy statement/prospectus, The Merger Agreement Obligation of HemoSense s Board of Directors with Respect to Its Recommendation and Holding of a Stockholders Meeting beginning on page 78 of this proxy statement/prospectus and The Voting Agreements beginning on page 86 of this proxy statement/prospectus.

These provisions might discourage a third party that might have an interest in acquiring all of or a significant part of HemoSense from considering or proposing that acquisition, even if that party were prepared to pay consideration with a higher per share market price than the current proposed merger consideration. Furthermore, the termination fee may result in a potential competing acquiror proposing to pay a lower per share price to acquire HemoSense than it might

otherwise have proposed to pay. The payment of the termination fee could also have an adverse effect on HemoSense s financial condition.

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Certain directors and executive officers of HemoSense have interests in the merger that may be different from, or in addition to, the interests of HemoSense stockholders.

When considering the HemoSense board of directors recommendation that HemoSense stockholders vote in favor of the proposal to approve the merger and adopt the merger agreement, HemoSense stockholders should be aware that some directors and executive officers of HemoSense have interests in the merger that may be different from, or in addition to, the interests of HemoSense stockholders. These interests include agreements that provide for payments under certain circumstances following a change of control, including the acceleration of the vesting of stock options, and the right to continued indemnification and insurance coverage by Inverness for acts or omissions occurring prior to the merger. As a result of these interests, these directors and officers could be more likely to recommend a vote in favor of approval of the merger and adoption of the merger agreement than if they did not hold these interests, and may have reasons for doing so that are not the same as the interests of other HemoSense stockholders. For a full description of the interests of directors and executive officers of HemoSense in the merger, see The Merger Interests of Executive Officers and Directors of HemoSense in the Merger beginning on page 64 of this proxy statement/prospectus.

Inverness expects to record a significant amount of goodwill and other intangible assets in connection with the merger, which may result in significant future charges against earnings if the goodwill and other intangible assets become impaired.

In connection with the accounting for the merger, Inverness expects to record a significant amount of goodwill and other intangible assets. Under SFAS No. 142, Inverness must assess, at least annually and potentially more frequently, whether the value of goodwill and other intangible assets has been impaired. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect Inverness results of operations in future periods.

Inverness faces different market risks from those faced by HemoSense, and these risks may cause the value of the shares of Inverness common stock issued to you to decline.

In the merger you will receive shares of Inverness common stock. The business, strategy and financial condition of Inverness are different from that of HemoSense. Inverness results of operations, as well as the price of Inverness common stock, will be affected by factors that may be different from those affecting HemoSense s results of operations and its common stock price. For a description of the businesses of Inverness and HemoSense and certain risks relating to their businesses, see the sections of this proxy statement/prospectus entitled The Companies, Risk Factors Risks Relating to Inverness and Risk Factors Risks Relating to HemoSense. For a more detailed description of the businesses of Inverness and HemoSense, see Inverness Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and HemoSense s Annual Report on Form 10-K for the fiscal year ended September 30, 2006, each of which is incorporated by reference in this proxy statement/prospectus.

Failure to complete the merger could negatively impact HemoSense s stock price and future business and operations.

If the merger is not completed for any reason, HemoSense may be subject to a number of material risks, including the following:

- HemoSense may incur approximately $1.45 million in merger-related expenses without realizing the expected benefits of the merger;

- HemoSense may be required to pay Inverness a termination fee of $5.25 million;

the price of HemoSense common stock may decline to the extent that the current market price of HemoSense common stock reflects an assumption that the merger will be completed; and

HemoSense must pay its accrued costs related to the merger, such as legal and accounting fees, even if the merger is not completed.

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In addition, HemoSense s customers may, in response to the announcement of the merger, delay or defer purchasing decisions. Any delay or deferral in purchasing decisions by HemoSense customers could have a material adverse effect on HemoSense s business, regardless of whether or not the merger is ultimately completed. Similarly, current and prospective HemoSense employees may experience uncertainty about their future role with Inverness until Inverness strategies with regard to HemoSense are announced or executed. This uncertainty may adversely affect HemoSense s ability to attract and retain key management, marketing, technical, manufacturing, administrative, sales and other personnel.

Risk Factors Relating to Inverness

Inverness business has substantial indebtedness, which could, among other things, make it more difficult for Inverness to satisfy its debt obligations, require Inverness to use a large portion of its cash flow from operations to repay and service its debt or otherwise create liquidity problems, limit its flexibility to adjust to market conditions, place it at a competitive disadvantage and expose it to interest rate fluctuations.

Inverness currently has, and will likely continue to have, a substantial amount of indebtedness. As of June 30, 2007, in addition to other indebtedness, Inverness had approximately $995 million in aggregate principal amount of indebtedness outstanding under its senior secured credit facilities, or the senior secured facility, $250 million in aggregate principal amount of indebtedness outstanding under a junior secured credit facility, or the junior secured facility (collectively with the senior secured facility, the secured credit facilities), and $150 million in indebtedness under its outstanding 3% senior subordinated convertible notes, or the senior subordinated convertible notes. Upon completion of syndication, the term loan under the senior secured facility is expected to bear interest at a rate per annum of LIBOR plus 2.00%, while the revolving line of credit is expected to bear interest at a rate per annum of LIBOR plus between 1.75% and 2.25%, depending on our consolidated leverage ratio. The junior secured facility bears interest at a rate per annum of LIBOR plus 4.25%. Inverness also had $55 million of additional borrowing capacity under the revolving portions of the senior secured facility and, subject to restrictions in Inverness secured credit facilities and the senior subordinated convertible notes, has the ability to incur additional indebtedness.

Inverness substantial indebtedness could affect its future operations in important ways. For example, it could:

- make it more difficult to satisfy Inverness obligations under the senior subordinated convertible notes, its secured credit facilities and its other debt-related instruments;
- require Inverness to use a large portion of its cash flow from operations to pay principal and interest on its indebtedness, which would reduce the amount of cash available to finance its operations and service obligations, to delay or reduce capital expenditures or the introduction of new products and/or forego business opportunities, including acquisitions, research and development projects or product design enhancements;
- limit Inverness flexibility to adjust to market conditions, leaving it vulnerable in a downturn in general economic conditions or in its business and less able to plan for, or react to, changes in its business and the industries in which it operates;
- impair Inverness ability to obtain additional financing;
- place Inverness at a competitive disadvantage compared to its competitors that have less debt; and
- expose Inverness to fluctuations in the interest rate environment with respect to its indebtedness that bears interest at variable rates.

Inverness expects to obtain the money to pay its expenses and to pay the principal and interest on the senior subordinated convertible notes, its secured credit facilities and its other debt from cash flow from its operations and from additional loans under its secured credit facilities, subject to continued covenant compliance, and potentially from other debt or equity offerings. Inverness ability to meet its expenses thus depends on its future performance, which will be affected by financial, business, economic and other factors. Inverness will not be able to control many of these factors, such as economic conditions in the markets in

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which it operates and pressure from competitors. Inverness cannot be certain that its cash flow will be sufficient to allow it to pay principal and interest on its debt and meet its other obligations. If Inverness cash flow and capital resources prove inadequate, it could face substantial liquidity problems and might be required to dispose of material assets or operations, restructure or refinance its debt, including the notes, seek additional equity capital or borrow more money. Inverness cannot guarantee that it will be able to do so on acceptable terms. In addition, the terms of existing or future debt agreements, including the credit agreements governing Inverness secured credit facilities and the indenture governing the senior subordinated convertible notes, may restrict Inverness from adopting any of these alternatives.

Inverness has entered into agreements governing its indebtedness that subject it to various restrictions that may limit its ability to pursue business opportunities.

The agreements governing Inverness indebtedness, including the credit agreements governing its secured credit facilities and the indenture governing the senior subordinated convertible notes, subject Inverness to various restrictions on its ability to engage in certain activities, including, among other things, its ability to:

- incur additional indebtedness;
- pay dividends or make distributions or repurchase or redeem its stock;
- acquire other businesses;
- make investments;
- make loans to or extend credit for the benefit of third parties or its subsidiaries;
- enter into transactions with affiliates;
- raise additional capital;
- make capital or finance lease expenditures;
- dispose of or encumber assets; and
- consolidate, merge or sell all or substantially all of its assets.

These restrictions may limit Inverness ability to pursue business opportunities or strategies that it would otherwise consider to be in its best interests.

Inverness secured credit facilities contain certain financial covenants that it may not satisfy which, if not satisfied, could result in the acceleration of the amounts due under these facilities and the limitation of its ability to borrow additional funds in the future.

The agreements governing Inverness secured credit facilities subject it to various financial and other covenants with which it must comply on an ongoing or periodic basis. These include covenants pertaining to capital expenditures, interest coverage ratios, leverage ratios and minimum cash requirements. If Inverness violates any of these covenants, it may suffer a material adverse effect. Most notably, Inverness outstanding debt under its secured credit facilities could become immediately due and payable, its lenders could proceed against any collateral securing such indebtedness, and its ability to borrow additional funds in the future may be limited.

A default under any of the agreements governing Inverness indebtedness could result in a default and acceleration of indebtedness under other agreements.

The agreements governing Inverness indebtedness, including the credit agreements governing its secured credit facilities and the indenture governing the senior subordinated convertible notes, contain cross-default provisions whereby a default under one agreement could result in a default and acceleration of its repayment obligations under other agreements. If a cross-default were to occur, Inverness may not be able to pay its debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on commercially reasonable terms or acceptable terms. If some or all of Inverness indebtedness is in default for

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any reason, its business, financial condition and results of operations could be materially and adversely affected.

Inverness may not be able to satisfy its debt obligations upon a fundamental change or change of control, which could limit its opportunity to enter into a fundamental change or change of control transaction.

Upon the occurrence of a fundamental change, as defined in the indenture governing the senior subordinated convertible notes, each holder of Inverness senior subordinated convertible notes will have the right to require Inverness to purchase the notes at a price equal to 100% of the principal amount, together with any accrued and unpaid interest. A fundamental change includes, among other things, the acquisition of more than 50% of the Inverness common stock by any person or group, the sale of all or substantially all of the assets of Inverness or a recapitalization or similar transaction involving Inverness. Inverness failure to purchase, or give notice of purchase of, the senior subordinated convertible notes would be a default under the indenture, which would in turn be a default under its secured credit facilities. In addition, the occurrence of a change of control, as defined in the credit agreements governing Inverness secured credit facilities, will constitute an event of default under the secured credit facilities. A default under Inverness secured credit facilities would result in an event of default under its senior subordinated convertible notes and, if the lenders accelerate the debt under Inverness secured credit facilities and/or under the indenture governing the senior subordinated convertible notes, this may result in the acceleration of Inverness other indebtedness outstanding at the time. As a result, if Inverness does not have enough cash to repay all of its indebtedness or to repurchase all of the senior subordinated convertible notes, Inverness may be limited in the fundamental change or change of control transactions that it may pursue.

Inverness acquisitions may not be profitable, and the integration of these businesses may be costly and difficult and may cause disruption to its business.

Since commencing activities in November 2001, Inverness has acquired and attempted to integrate, or is in the process of integrating, into its operations Unipath Limited and its associated companies and assets, or the Unipath business, IVC Industries, Inc. (now doing business as Inverness Medical Nutritionals Group, or IMN); the Wampole Division of MedPointe Inc., or Wampole; Ostex International, Inc., or Ostex; Applied Biotech, Inc., or ABI; the rapid diagnostics business that Inverness acquired from Abbott Laboratories, or the Abbott rapid diagnostics business; Ischemia, Inc., or Ischemia; Binax, Inc., or Binax; the Determine/DainaScreen business that Inverness acquired from Abbott Laboratories in 2005, or the Determine business; Thermo BioStar Inc., BioStar; the rapid diagnostics business that Inverness acquired from ACON Laboratories, Inc., or the Innovacon business; Instant Technologies, Inc., or Instant; Biosite Incorporated, or Biosite; and Cholestech Corporation, or Cholestech. Inverness has also made a number of smaller acquisitions. The ultimate success of all of these acquisitions depends, in part, on Inverness ability to realize the anticipated synergies, cost savings and growth opportunities from integrating these businesses or assets into Inverness existing businesses. However, the successful integration of independent businesses or assets is a complex, costly and time-consuming process. The difficulties of integrating companies and acquired assets include among others:

- consolidating manufacturing and research and development operations, where appropriate;
- integrating newly acquired businesses or product lines into a uniform financial reporting system;
- coordinating sales, distribution and marketing functions;
- establishing or expanding manufacturing, sales, distribution and marketing functions in order to accommodate newly acquired businesses or product lines;

preserving the important licensing, research and development, manufacturing and supply, distribution, marketing, customer and other relationships;

minimizing the diversion of management s attention from ongoing business concerns; and

coordinating geographically separate organizations.

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Inverness may not accomplish the integration of its acquisitions smoothly or successfully. The diversion of the attention of Inverness management from current operations to integration efforts and any difficulties encountered in combining operations could prevent Inverness from realizing the full benefits anticipated to result from these acquisitions and adversely affect its other businesses. Additionally, the costs associated with the integration of Inverness acquisitions can be substantial. To the extent that Inverness incurs integration costs that are not anticipated when it finances its acquisitions, these unexpected costs could adversely impact its liquidity or force it to borrow additional funds. Ultimately, the value of any business or asset that Inverness has acquired may not be greater than or equal to the purchase price of that business or asset.

If Inverness chooses to acquire or invest in new and complementary businesses, products or technologies rather than developing them internally, such acquisitions or investments could disrupt its business and, depending on how Inverness finances these acquisitions or investments, could result in the use of significant amounts of cash.

Inverness success depends in part on its ability to continually enhance and broaden its product offerings in response to changing technologies, customer demands and competitive pressures. Accordingly, from time to time Inverness may seek to acquire or invest in businesses, products or technologies instead of developing them internally. Acquisitions and investments involve numerous risks, including:

- the inability to complete the acquisition or investment;
- disruption of Inverness ongoing businesses and diversion of management attention;
- difficulties in integrating the acquired entities, products or technologies;
- difficulties in operating the acquired business profitably;
- difficulties in transitioning key customer, distributor and supplier relationships;
- risks associated with entering markets in which Inverness has no or limited prior experience; and
- unanticipated costs.

In addition, any future acquisitions or investments may result in:

- issuances of dilutive equity securities, which may be sold at a discount to market price;
- use of significant amounts of cash;
- the incurrence of debt;
- the assumption of significant liabilities;
- unfavorable financing terms;
- large one-time expenses; and
- the creation of intangible assets, including goodwill, the write-down of which may result in significant charges to earnings.

Inverness joint venture transaction with P&G may not realize all of its intended benefits.

On May 17, 2007, Inverness completed its 50/50 joint venture transaction with P&G, creating Swiss Precision and transferring to Swiss Precision substantially all of the assets of Inverness consumer diagnostics business, other than its manufacturing and core intellectual property assets, in exchange for $325.0 million in cash. In connection with the establishment of the Swiss Precision joint venture, Inverness may experience:

difficulties in integrating the respective corporate cultures and business objectives of Inverness and P&G into the new joint venture;

difficulties or delays in transitioning clinical studies;

diversion of Inverness management s time and attention from other business concerns;

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higher than anticipated costs of integration at the joint venture;

difficulties in retaining key employees who are necessary to manage the joint venture; or

difficulties in working with an entity based in Switzerland and thus remote or inconvenient to Inverness Waltham, Massachusetts headquarters.

For any of these reasons or as a result of other factors, Inverness may not realize the anticipated benefits of the joint venture, and cash flow or profits derived from Inverness ownership interest in Swiss Precision may be less than the cash flow or profits that could have been derived had Inverness retained the transferred assets and continued to operate the consumer diagnostics business itself. P&G retains an option to require Inverness to purchase P&G s interest in Swiss Precision at fair market value during the 60-day period beginning on the fourth anniversary of the closing. Moreover, certain subsidiaries of P&G have the right, at any time upon certain material breaches by Inverness or its subsidiaries of their obligations under the joint venture documents, to acquire all of Inverness interest in the joint venture at fair market value less damages.

If goodwill and/or other intangible assets that Inverness has recorded in connection with its acquisitions of other businesses become impaired, Inverness could have to take significant charges against earnings.

In connection with the accounting for certain of its acquisitions, including the Unipath business, Wampole, Ostex, ABI, the Abbott rapid diagnostics product lines, Ischemia, Binax, the Determine business, BioStar, the Innovacon business, Instant, Biosite and Cholestech, Inverness has recorded a significant amount of goodwill and other intangible assets. Under current accounting guidelines, Inverness must assess, at least annually and potentially more frequently, whether the value of goodwill and other intangible assets has been impaired. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings which could materially adversely affect Inverness reported results of operations in future periods.

Inverness may experience manufacturing problems or delays, which could result in decreased revenues or increased costs.

Many of Inverness manufacturing processes are complex and require specialized and expensive equipment. Replacement parts for its specialized equipment can be expensive and, in some cases, can require lead times of up to a year to acquire. In addition, Inverness private label consumer diagnostic products business, and its private label and bulk nutritional supplements business in particular, rely on operational efficiency to mass produce products at low margins per unit. Inverness also relies on numerous third parties to supply production materials and in some cases there may not be alternative sources immediately available.

In addition, during 2006 Inverness closed two manufacturing facilities, and Inverness is shifting the production of products from these facilities to China. Inverness has shifted the production of other products to its manufacturing facilities in China. Moving the production of products is difficult and involves significant risk. Problems establishing relationships with local materials suppliers; acquiring or adapting the new facility and its equipment to the production of new products; hiring, training and retaining personnel and establishing and maintaining compliance with governmental regulations and industry standards can cause delays and inefficiencies which could have a material negative impact on Inverness financial performance. Inverness also currently relies on a number of significant third-party manufacturers to produce certain of its professional diagnostic products. In addition, Inverness manufactures the products acquired with the Determine business from a facility in Matsudo, Japan that is made available to Inverness by Abbott Laboratories, from whom Inverness also receives support services related to this facility. Any event which negatively impacts Inverness manufacturing facilities, its manufacturing systems or

equipment, or its contract manufacturers or suppliers, including, among others, wars, terrorist activities, natural disasters and outbreaks of infectious disease, could delay or suspend shipments of products or the release of new products or could result in the delivery of inferior products. Inverness revenues from the affected products would decline or Inverness could incur losses until such time as it is able to restore its production processes or put in place alternative contract manufacturers or suppliers. Even though Inverness carries business interruption insurance policies, Inverness

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may suffer losses as a result of business interruptions that exceed the coverage available under its insurance policies.

Inverness may experience difficulties that may delay or prevent its development, introduction or marketing of new or enhanced products.

Inverness intends to continue to invest in product and technology development. The development of new or enhanced products is a complex and uncertain process. Inverness may experience research and development, manufacturing, marketing and other difficulties that could delay or prevent its development, introduction or marketing of new products or enhancements. Inverness cannot be certain that:

any of the products under development will prove to be effective in clinical trials;

it will be able to obtain, in a timely manner or at all, regulatory approval to market any of its products that are in development or contemplated;

the products it develops can be manufactured at acceptable cost and with appropriate quality; or

these products, if and when approved, can be successfully marketed.

The factors listed above, as well as manufacturing or distribution problems, or other factors beyond the control of Inverness, could delay new product launches. In addition, Inverness cannot assure you that the market will accept these products. Accordingly, there is no assurance that Inverness overall revenues will increase if and when new products are launched.

If the results of clinical studies required to gain regulatory approval to sell Inverness products are not available when expected or do not demonstrate the anticipated utility of those potential products, Inverness may not be able to sell future products and its sales could be adversely affected.

Before Inverness can sell its products, its must conduct clinical studies intended to demonstrate that its potential products perform as expected. The results of these clinical studies are used as the basis to obtain regulatory approval from government authorities such as the FDA. Clinical studies are experiments conducted using potential products and human patients having the diseases or medical conditions that the product is trying to evaluate or diagnose. Conducting clinical studies is a complex, time-consuming and expensive process. In some cases, Inverness may spend as much as several years completing certain studies.

If Inverness fails to adequately manage its clinical studies, its clinical studies and corresponding regulatory approvals may be delayed or it may fail to gain approval for its potential product candidates altogether. Even if Inverness successfully manages its clinical studies, it may not obtain favorable results and may not be able to obtain regulatory approval. If Inverness is unable to market and sell its new products or is unable to obtain approvals in the timeframe needed to execute its product strategies, its business and results of operations would be materially and adversely affected.

If Inverness is unable to obtain required clearances or approvals for the commercialization of its products in the United States, it may not be able to sell future products and its sales could be adversely affected.

Inverness future performance depends on, among other matters, its estimates as to when and at what cost it will receive regulatory approval for new products. Regulatory approval can be a lengthy, expensive and uncertain process, making the timing, cost and ability to obtain approvals difficult to predict.

In the United States, clearance or approval to commercially distribute new medical devices is received from the FDA through clearance of a Premarket Notification, or 510(k), or through approval of a Premarket Approval, or PMA. To receive 510(k) clearance, a new product must be substantially equivalent to a medical device first marketed in interstate commerce prior to May 1976. The FDA may determine that a new product is not substantially equivalent to a device first marketed in interstate commerce prior to May 1976 or that additional information is needed before a substantial equivalence determination can be made. A not substantially equivalent determination, or a request for additional information, could prevent or delay the market introduction of new products that fall into this category. The 510(k) clearance and PMA review

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processes can be expensive, uncertain and lengthy. It generally takes from three to five months from submission to obtain 510(k) clearance, and from six to eighteen months from submission to obtain a PMA approval; however, it may take longer, and 510(k) clearance or PMA approval may never be obtained.

Modifications or enhancements that could significantly affect safety or effectiveness, or constitute a major change in the intended use of the device, require new 510(k) or PMA submissions. Inverness has made modifications to some of its products since receipt of initial 510(k) clearance or PMA approval. With respect to several of these modifications, Inverness filed new 510(k)s describing the modifications and received FDA 510(k) clearance. Inverness has made other modifications to some of its products that it believes do not require the submission of new 510(k)s or PMA. The FDA may not agree with any of our determinations not to submit a new 510(k) or PMA for any of these modifications made to our products. If the FDA requires Inverness to submit a new 510(k) or PMA for any device modification, Inverness may be prohibited from marketing the modified products until the new submission is cleared by the FDA.

Inverness is also subject to applicable regulatory approval requirements of the foreign countries in which it sells products, which are costly and may prevent or delay Inverness from marketing its products in those countries.

In addition to regulatory requirements in the United States, Inverness is subject to the regulatory approval requirements for each foreign country to which it exports its products. In the European Union, regulatory compliance requires affixing the CE mark to product labeling. Although Inverness products are currently eligible for CE marking through self-certification, this process can be lengthy and expensive. In Canada, as another example, Inverness products require approval by Health Canada prior to commercialization along with International Standards Organization, or ISO, 13485/CMDCAS certification. It generally takes three to six months from submission to obtain a Canadian Device License. Any changes in foreign approval requirements and processes may cause Inverness to incur additional costs or lengthen review times of its products. Inverness may not be able to obtain foreign regulatory approvals on a timely basis, if at all, and any failure to do so may cause Inverness to incur additional costs or prevent it from marketing its products in foreign countries, which may have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with ongoing regulation applicable to the products Inverness sells, may result in significant costs or, in certain circumstances, the suspension or withdrawal of previously obtained clearances or approvals.

Any products for which Inverness obtains regulatory approval or clearance continue to be extensively regulated by the FDA and other federal, state and foreign regulatory agencies. These regulations impact many aspects of Inverness operations, including manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping. For example, Inverness manufacturing facilities and those of its suppliers and distributors are, or can be, subject to periodic regulatory inspections. The FDA and foreign regulatory agencies may require post-marketing testing and surveillance to monitor the effects of approved products or place conditions on any product approvals that could restrict the commercial applications of those products. In addition, the subsequent discovery of previously unknown problems with a product may result in restrictions on the product, including withdrawal of the product from the market. Inverness is also subject to routine inspection by the FDA and certain state agencies for compliance with Quality System Requirement and Medical Device Reporting requirements in the United States and other applicable regulations worldwide, including but not limited to ISO regulations. In addition to product-specific regulations, Inverness is subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. Inverness may incur significant costs to comply with these laws and regulations. If Inverness fails to comply with applicable regulatory requirements, it may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products or injunctions against their distribution, disgorgement of money, operating restrictions and criminal prosecution.

Regulatory agencies may also impose new or enhanced standards that would increase Inverness costs as well as the risks associated with non-compliance. For example, Inverness anticipates that the FDA may soon

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finalize and implement good manufacturing practice, or GMP, regulations for nutritional supplements. GMP regulations would require supplements to be prepared, packaged and held in compliance with certain rules, and might require quality control provisions similar to those in the GMP regulations for drugs. While Inverness manufacturing facilities for nutritional supplements have been subjected to, and passed, third-party inspections against anticipated GMP standards, the ongoing compliance required in the event that GMP regulations are adopted would involve additional costs and would present new risks associated with any failure to comply with the regulations in the future.

If Inverness delivers products with defects, its credibility may be harmed, market acceptance of its products may decrease and it may be exposed to liability in excess of its product liability insurance coverage.

The manufacturing and marketing of consumer and professional diagnostic products involve an inherent risk of product liability claims. In addition, Inverness product development and production are extremely complex and could expose its products to defects. Any defects could harm its credibility and decrease market acceptance of its products. In addition, Inverness marketing of vitamins and nutritional supplements may cause it to be subjected to various product liability claims, including, among others, claims that the vitamins and nutritional supplements have inadequate warnings concerning side effects and interactions with other substances. Potential product liability claims may exceed the amount of its insurance coverage or may be excluded from coverage under the terms of the policy. In the event that Inverness is held liable for a claim for which it is not indemnified, or for damages exceeding the limits of its insurance coverage, that claim could materially damage its business and financial condition.

The effect of market saturation may negatively affect the sales of Inverness products, including our Biosite Triage BNP Tests.

Sales growth in Inverness recently acquired Biosite business has been driven in recent years by growth in the sales volumes of the Biosite Triage BNP Tests. For example, growth in the sales unit volume of Triage BNP Tests represented 41% and 69% of Biosite s total product sales volume growth for 2006 and 2005, respectively. The meter-based Triage BNP Test, launched domestically in January 2001, was the first blood test available to aid in the detection of heart failure and benefited from a first to market position until the entry of direct competition in June 2003.

As the acute care and initial diagnosis market segment for natriuretic testing in the U.S. hospital setting becomes saturated, Inverness expects the growth rates of sales unit volume for its Biosite Triage BNP Tests in 2007 and future periods to be lower than the growth rates experienced by Biosite over the past several years. Unless Inverness is able to successfully introduce new products into the market and achieve market acceptance of those products in a timely manner, the effect of market saturation on its existing products may negatively impact product sales, gross margins and financial results. In addition, as the market for BNP testing matures and more competitive products become available, the average sales price for the Biosite Triage BNP Tests is likely to decline, which will adversely impact Inverness product sales, gross margins and our overall financial results.

Inverness sales of branded nutritional supplements have been trending downward since 1998 due to the maturity of the market segments they serve and the age of that product line, and Inverness may experience further declines in sales of those products.

Inverness aggregate sales of all of its brand name nutritional products, including, among others, Ferro-Sequels, Stresstabs, Protegra, Posture, SoyCare, ALLBEE, and Z-BEC, have declined each year since 1998 through the year 2006, except in 2002 when they increased slightly as compared to 2001. Inverness believes that these products have under-performed because they are, for the most part, aging brands with limited brand recognition that face increasing private label competition. The overall age of this product line means that Inverness is subject to future distribution loss for under-performing brands, while its opportunities for new distribution on the existing product lines are limited. As a

result, Inverness does not expect significant sales

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growth of its existing brand name nutritional products, and it may experience further declines in overall sales of its brand name nutritional products in the future.

Inverness sales of specific vitamins and nutritional supplements could be negatively affected by media attention or other news developments that challenge the safety and effectiveness of those specific vitamins and nutritional supplements.

Most growth in the vitamin and nutritional supplement industry is attributed to new products that tend to generate greater attention in the marketplace than do older products. Positive media attention resulting from new scientific studies or announcements can spur rapid growth in individual segments of the market, and also affect individual brands. Conversely, news that challenges individual segments or products can have a negative impact on the industry overall as well as on sales of the challenged segments or products. Most of Inverness vitamin and nutritional supplements products serve well-established market segments and, absent unforeseen new developments or trends, are not expected to benefit from rapid growth. A few of Inverness vitamin and nutritional products are newer products that are more likely to be the subject of new scientific studies or announcements, which could be either positive or negative. News or other developments that challenge the safety or effectiveness of these products could negatively affect the profitability of Inverness vitamin and nutritional supplements business.

Inverness could suffer monetary damages, incur substantial costs or be prevented from using technologies important to its products as a result of a number of pending legal proceedings.

Inverness is involved in various legal proceedings arising out of its consumer diagnostics, nutritional supplements and professional diagnostics business. Because of the nature of Inverness business, Inverness may be subject at any particular time to commercial disputes, consumer product claims or various other lawsuits arising in the ordinary course of its business, including employment matters, and Inverness expects that this will continue to be the case in the future. Such lawsuits generally seek damages, sometimes in substantial amounts, for commercial or personal injuries allegedly suffered and can include claims for punitive or other special damages. An adverse ruling or rulings in one or more such lawsuits could, individually or in the aggregate, have a material adverse effect on Inverness sales, operations or financial performance. In addition, Inverness aggressively defends its patent and other intellectual property rights. This often involves bringing infringement or other commercial claims against third parties. These suits can be expensive and result in counterclaims challenging the validity of Inverness patents and other rights. Inverness cannot assure you that these lawsuits or any future lawsuits relating to its businesses will not have a material adverse effect on it.

Because sales of Inverness private label nutritional supplements are generally made at low margins, the profitability of these products may suffer significantly as a result of relatively small increases in raw material or other manufacturing costs.

Sales of Inverness private label nutritional supplements, which for the years ended December 31, 2006 and 2005 provided approximately 13% and 16%, respectively, of its net product sales, generate low profit margins. Inverness relies on its ability to efficiently mass produce nutritional supplements in order to make meaningful profits from these products. Changes in raw material or other manufacturing costs can drastically cut into or eliminate the profits generated from the sale of a particular product. For the most part, Inverness does not have long-term supply contracts for its required raw materials and, as a result, its costs can increase with little notice. The private label nutritional supplements business is also highly competitive such that Inverness ability to raise prices as a result of increased costs is limited. Customers generally purchase private label products via purchase order, not through long-term contracts, and they often purchase these products from the lowest bidder on a product by product basis. The Internet has enhanced price competition among private label manufacturers through the advent of on-line auctions, where customers will auction off the right to manufacture a particular product to the lowest bidder. The resulting margin

erosion in Inverness nutritionals business has resulted in a reduction in its overall gross margin over the last several years and contributed to its losses in 2006.

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Inverness financial condition or results of operations may be adversely affected by international business risks.

Approximately 41% and 42% of Inverness net revenue was generated from outside the United States for the years ended December 31, 2006 and 2005, respectively. A significant number of Inverness employees, including manufacturing, sales, support and research and development personnel, are located in foreign countries, including England, Scotland, Japan, China and Israel. Conducting business outside the United States subjects Inverness to numerous risks, including:

- increased costs or reduced revenue as a result of movements in foreign currency exchange rates;
- decreased liquidity resulting from longer accounts receivable collection cycles typical of foreign countries;
- lower productivity resulting from difficulties managing sales, support and research and development operations across many countries;
- lost revenues resulting from difficulties associated with enforcing agreements and collecting receivables through foreign legal systems;
- lost revenues resulting from the imposition by foreign governments of trade protection measures;
- higher cost of sales resulting from import or export licensing requirements;
- lost revenues or other adverse affects as a result of economic or political instability in or affecting foreign countries in which Inverness sells its products or operates; and
- adverse effects resulting from changes in foreign regulatory or other laws affecting the sales of Inverness products or its foreign operations.

Because Inverness business relies heavily on foreign operations and revenues, changes in foreign currency exchange rates and Inverness need to convert currencies may negatively affect its financial condition and results of operations.

Inverness business relies heavily on its foreign operations. Five of its manufacturing operations are conducted outside the United States, in Bedford, England; Hangzhou and Shanghai, China; Matsudo, Japan and Yavne, Israel. Inverness has consolidated much of its cardiovascular-related research and development in Scotland and it intends to establish a significant manufacturing operation there. Approximately 41% and 42% of Inverness net revenue was generated from outside the United States for the years ended December 31, 2006 and 2005, respectively. In addition, the Abbott rapid diagnostics business generates a majority of its sales outside the United States, and all of the revenues of the Determine business are derived outside of the United States. Because of its foreign operations and foreign sales, Inverness faces exposure to movements in foreign currency exchange rates. Its primary exposures are related to the operations of its European subsidiaries and its manufacturing facilities in China and Japan. These exposures may change over time as business practices evolve and could result in increased costs or reduced revenue and could affect Inverness actual cash flow.

Intense competition could reduce Inverness market share or limit its ability to increase market share, which could impair the sales of its products and harm its financial performance.

The medical products industry is rapidly evolving, and developments are expected to continue at a rapid pace. Competition in this industry, which includes both Inverness consumer diagnostics and professional diagnostics

businesses, is intense and expected to increase as new products and technologies become available and new competitors enter the market. Inverness competitors in the United States and abroad are numerous and include, among others, diagnostic testing and medical products companies, universities and other research institutions.

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Inverness future success depends upon maintaining a competitive position in the development of products and technologies in its areas of focus. Inverness competitors may:

- develop technologies and products that are more effective than Inverness products or that render Inverness technologies or products obsolete or noncompetitive;
- obtain patent protection or other intellectual property rights that would prevent Inverness from developing potential products; or
- obtain regulatory approval for the commercialization of their products more rapidly or effectively than Inverness does.

Also, the possibility of patent disputes with competitors holding foreign patent rights may limit or delay expansion possibilities for Inverness diagnostics businesses in certain foreign jurisdictions. In addition, many of Inverness existing or potential competitors have or may have substantially greater research and development capabilities, clinical, manufacturing, regulatory and marketing experience and financial and managerial resources.

The market for the sale of vitamins and nutritional supplements is also highly competitive. This competition is based principally upon price, quality of products, customer service and marketing support. There are numerous companies in the vitamins and nutritional supplements industry selling products to retailers such as mass merchandisers, drug store chains, independent drug stores, supermarkets, groceries and health food stores. As most of these companies are privately held, Inverness is unable to obtain the information necessary to assess precisely the size and success of these competitors. However, Inverness believes that a number of its competitors, particularly manufacturers of nationally advertised brand name products, are substantially larger than Inverness and have greater financial resources.

The rights Inverness relies upon to protect the intellectual property underlying its products may not be adequate, which could enable third parties to use its technology and would reduce its ability to compete in the market.

Inverness success will depend in part on its ability to develop or acquire commercially valuable patent rights and to protect its intellectual property. Inverness patent position is generally uncertain and involves complex legal and factual questions. The degree of present and future protection for Inverness proprietary rights is uncertain.

The risks and uncertainties that Inverness faces with respect to its patents and other proprietary rights include the following:

- the pending patent applications it has filed or to which it has exclusive rights may not result in issued patents or may take longer than it expects to result in issued patents;
- the claims of any patents which are issued may not provide meaningful protection;
- it may not be able to develop additional proprietary technologies that are patentable;
- the patents licensed or issued to it or its customers may not provide a competitive advantage;
- other parties may challenge patents or patent applications licensed or issued to it or its customers;
- patents issued to other companies may harm its ability to do business; and
- other companies may design around technologies it has patented, licensed or developed.

In addition to patents, Inverness relies on a combination of trade secrets, nondisclosure agreements and other contractual provisions and technical measures to protect its intellectual property rights. Nevertheless, these measures may not be adequate to safeguard the technology underlying its products. If these measures do not protect Inverness rights, third parties could use Inverness technology and Inverness ability to compete in the market would be reduced. In addition, employees, consultants and others who participate in the development of Inverness products may breach their agreements with Inverness regarding its intellectual

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property, and it may not have adequate remedies for the breach. Inverness also may not be able to effectively protect its intellectual property rights in some foreign countries. For a variety of reasons, Inverness may decide not to file for patent, copyright or trademark protection or prosecute potential infringements of its patents. Inverness trade secrets may also become known through other means not currently foreseen by it. Despite Inverness efforts to protect its intellectual property, its competitors or customers may independently develop similar or alternative technologies or products that are equal or superior to Inverness technology and products without infringing on any of Inverness intellectual property rights or design around its proprietary technologies.

Claims by others that Inverness products infringe on their proprietary rights could adversely affect Inverness ability to sell its products and could increase its costs.

Substantial litigation over intellectual property rights exists in both the consumer and professional diagnostic industries. Inverness expects that its products in these industries could be increasingly subject to third-party infringement claims as the number of competitors grows and the functionality of products and technology in different industry segments overlaps. Third parties may currently have, or may eventually be issued, patents which Inverness products or technology may infringe. Any of these third parties might make a claim of infringement against Inverness. Any litigation could result in the expenditure of significant financial resources and the diversion of management s time and resources. In addition, litigation in which Inverness is accused of infringement may cause negative publicity, have an impact on prospective customers, cause product shipment delays or require Inverness to develop non-infringing technology, make substantial payments to third parties, or enter into royalty or license agreements, which may not be available on acceptable terms, or at all. If a successful claim of infringement were made against Inverness and Inverness could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, Inverness revenue may decrease and it could be exposed to legal actions by its customers.

Inverness has initiated, and may need to further initiate, lawsuits to protect or enforce its patents and other intellectual property rights, which could be expensive and, if Inverness loses, could cause it to lose some of its intellectual property rights, which would reduce its ability to compete in the market.

Inverness relies on patents to protect a portion of its intellectual property and its competitive position. In order to protect or enforce its patent rights, Inverness may initiate patent litigation against third parties, such as infringement suits or interference proceedings. Litigation may be necessary to:

assert claims of infringement;

enforce Inverness patents;

protect Inverness trade secrets or know-how; or

determine the enforceability, scope and validity of the proprietary rights of others.

Currently, Inverness has initiated a number of lawsuits against competitors whom it believes to be selling products that infringe its proprietary rights. These current lawsuits and any other lawsuits that Inverness initiates could be expensive, take significant time and divert management s attention from other business concerns. Litigation also puts Inverness patents at risk of being invalidated or interpreted narrowly and Inverness patent applications at risk of not issuing. Additionally, Inverness may provoke third parties to assert claims against it.

Patent law relating to the scope of claims in the technology fields in which Inverness operates is still evolving and, consequently, patent positions in its industry are generally uncertain. Inverness may not prevail in any of these suits and the damages or other remedies awarded, if any, may not be commercially valuable. During the course of these

suits, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. If securities analysts or investors perceive any of these results to be negative, Inverness stock price could decline.

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In December 2005, Inverness learned that the Securities and Exchange Commission, or the SEC, had issued a formal order of investigation in connection with the previously disclosed revenue recognition matter at one of its diagnostic divisions. Inverness cannot predict what the outcome of this investigation will be.

In December 2005, Inverness learned that the SEC had issued a formal order of investigation in connection with the previously disclosed revenue recognition matter at one of its diagnostic divisions, and Inverness subsequently received a subpoena for documents. Inverness believes that it has fully responded to the subpoena and has continued to fully cooperate with the SEC s investigation. Inverness cannot predict whether the SEC will seek additional information or what the outcome of its investigation will be.

In March 2006, the FTC opened a preliminary, non-public investigation into Inverness acquisition of the Innovacon business to determine whether this acquisition may be anticompetitive. Inverness cannot predict what the outcome of this investigation will be.

In March 2006, the FTC opened a preliminary, non-public investigation into Inverness then-pending acquisition of the Innovacon business it acquired from ACON Laboratories to determine whether this acquisition may be anticompetitive, and Inverness subsequently received a Civil Investigative Demand and a subpoena requesting documents. Inverness believes that it has fully responded to the Civil Investigative Demand, and it is continuing to produce documents in connection with the subpoena and to otherwise cooperate with the FTC s investigation. Inverness cannot predict whether the FTC will seek additional information or what the outcome of this investigation will be. The FTC generally has the power to commence administrative or federal court proceedings seeking injunctive relief or divestiture of assets. In the event that an order were to be issued requiring divestiture of significant assets or imposing other injunctive relief, Inverness business, financial condition and results of operations could be materially adversely affected.

Non-competition obligations and other restrictions will limit Inverness ability to take full advantage of its management team, the technology it owns or licenses and its research and development capabilities.

Members of the Inverness management team have had significant experience in the diabetes field. In addition, technology Inverness owns or licenses may have potential applications to this field and its research and development capabilities could be applied to this field. However, in conjunction with Inverness split-off from Inverness Medical Technology, Inc., or IMT, Inverness agreed not to compete with IMT and Johnson & Johnson in the field of diabetes through 2011. In addition, Inverness license agreement with IMT prevents it from using any of the licensed technology in the field of diabetes. As a result of these restrictions, Inverness cannot pursue opportunities in the field of diabetes.

Inverness operating results may fluctuate due to various factors and as a result period-to-period comparisons of its results of operations will not necessarily be meaningful.

Factors relating to Inverness business make its future operating results uncertain and may cause them to fluctuate from period to period. Such factors include:

- the timing of new product announcements and introductions by Inverness and its competitors;
- market acceptance of new or enhanced versions of Inverness products;
- changes in manufacturing costs or other expenses;
- competitive pricing pressures;

the gain or loss of significant distribution outlets or customers;

increased research and development expenses;

the timing of any future acquisitions;

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general economic conditions; or

general stock market conditions or other economic or external factors.

Because Inverness operating results may fluctuate from quarter to quarter, it may be difficult for Inverness or its investors to predict future performance by viewing historical operating results.

Period-to-period comparisons of Inverness operating results may not be meaningful due to its acquisitions.

Inverness has engaged in a number of acquisitions in recent years, which makes it difficult to analyze Inverness results and to compare them from period to period. Significant acquisitions include Inverness acquisitions of IVC Industries, Inc. in March 2002, Wampole in September 2002, Ostex in June 2003, ABI in August 2003, the Abbott rapid diagnostics product lines in September 2003, Binax and Ischemia in March 2005, the Determine business in June 2005, BioStar in September 2005, the Innovacon business in March 2006, Instant in March 2007, Biosite in June 2007 and Cholestech in September 2007. Period-to-period comparisons of Inverness results of operations may not be meaningful due to these acquisitions and are not indications of Inverness future performance. Any future acquisitions, including the pending acquisition of HemoSense, will also make Inverness results difficult to compare from period to period in the future.

Future sales of Inverness common stock issuable upon conversion of its senior subordinated convertible notes may adversely affect the market price of Inverness common stock.

Inverness $150,000,000 principal amount of senior subordinated convertible notes are initially convertible into Inverness common stock at a conversion price of approximately $52.30 per share, or approximately 2,868,120 shares. Sales of a substantial number of shares of Inverness common stock in the public market could depress the market price of Inverness common stock and impair Inverness ability to raise capital through the sale of additional equity securities. Inverness cannot predict the effect that future sales of its common stock or other equity-related securities would have on the market price of Inverness common stock. The price of Inverness common stock could be affected by possible sales of Inverness common stock by holders of its senior subordinated convertible notes and by hedging or arbitrage trading activity that may develop involving Inverness common stock.

The conversion rate of Inverness senior subordinated convertible notes may be adjusted based upon the daily volume weighted average price per share of Inverness common stock for the thirty consecutive trading days ending on May 9, 2008, and any such adjustment will be dilutive to the holders of Inverness common stock and could have an adverse effect on the price of Inverness common stock.

The conversion rate applicable to Inverness senior subordinated convertible notes will be increased if the daily volume weighted average price per share of Inverness common stock for the thirty consecutive trading days ending on May 9, 2008 is less than $40.23 (adjusted for any stock splits, stock dividends, recapitalizations or other similar events). In that event, the conversion rate will be adjusted to be the greater of 130% of such average or $40.23 (in each case adjusted for any stock splits, stock dividends, recapitalizations or other similar events), but no such adjustment will decrease the then-applicable conversion rate. Any such adjustment will result in additional shares of Inverness common stock becoming issuable upon conversion of Inverness senior subordinated convertible notes and therefore will be dilutive to holders of Inverness common stock.

Inverness stock price may fluctuate significantly, and stockholders who buy or sell Inverness common stock may lose all or part of the value of their investment, depending on the price of Inverness common stock from time to time.

Inverness common stock has been listed on the American Stock Exchange since November 23, 2001, and it has a limited market capitalization. As a result, Inverness is currently followed by only a few market analysts and a portion of the investment community. Limited trading of Inverness common stock may therefore make it more difficult for you to sell your shares.

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In addition, Inverness share price may be volatile due to fluctuations in its operating results, as well as factors beyond Inverness control. It is possible that in some future periods the results of Inverness operations will be below the expectations of the public market. If this occurs, the market price of Inverness common stock could decline. Furthermore, the stock market may experience significant price and volume fluctuations, which may affect the market price of Inverness common stock for reasons unrelated to its operating performance. The market price of Inverness common stock may be highly volatile and may be affected by factors such as:

- quarterly and annual operating results, including failure to meet the performance estimates of securities analysts;
- changes in financial estimates of revenues and operating results or buy/sell recommendations by securities analysts;
- the timing of announcements by Inverness or its competitors of significant products, contracts or acquisitions or publicity regarding actual or potential results or performance thereof;
- changes in general conditions in the economy, the financial markets or the health care industry;
- government regulation in the health care industry;
- changes in other areas such as tax laws;
- sales of substantial amounts of Inverness common stock or the perception that such sales could occur;
- changes in investor perception of Inverness industry, businesses or prospects;
- the loss of key employees, officers or directors; or
- other developments affecting Inverness or its competitors.

Anti-takeover provisions in Inverness organizational documents and Delaware law may limit the ability of its stockholders to control its policies and effect a change of control of Inverness and may prevent attempts by Inverness stockholders to replace or remove its current management, which may not be in your best interests.

There are provisions in Inverness certificate of incorporation and bylaws that may discourage a third party from making a proposal to acquire it, even if some of Inverness stockholders might consider the proposal to be in their best interests, and may prevent attempts by Inverness stockholders to replace or remove its current management. These provisions include the following:

- Inverness certificate of incorporation provides for three classes of directors with the term of office of one class expiring each year, commonly referred to as a staggered board. By preventing stockholders from voting on the election of more than one class of directors at any annual meeting of stockholders, this provision may have the effect of keeping the current members of Inverness board of directors in control for a longer period of time than stockholders may desire;
- Inverness certificate of incorporation authorizes its board of directors to issue shares of preferred stock without stockholder approval and to establish the preferences and rights of any preferred stock issued, which would allow the board to issue one or more classes or series of preferred stock that could discourage or delay a tender offer or change in control;

Inverness certificate of incorporation prohibits its stockholders from filling board vacancies, calling special stockholder meetings or taking action by written consent;

Inverness certificate of incorporation provides for the removal of a director only with cause and by the affirmative vote of the holders of 75% or more of the shares then entitled to vote at an election of directors; and

Inverness bylaws require advance written notice of stockholder proposals and director nominations.

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Additionally, Inverness is subject to Section 203 of the Delaware General Corporation Law, which, in general, imposes restrictions upon acquirers of 15% or more of Inverness stock. Finally, the board of directors may in the future adopt other protective measures, such as a stockholder rights plan, which could delay, deter or prevent a change of control.

Because Inverness does not intend to pay dividends on its common stock, you will benefit from an investment in Inverness common stock only if it appreciates in value.

Inverness currently intends to retain future earnings, if any, to finance the expansion of its business and does not expect to pay any dividends on Inverness common stock in the foreseeable future. In addition, Inverness secured credit facilities currently prohibit the payment of cash dividends. As a result, the success of your investment in Inverness common stock will depend entirely upon any future appreciation. There is no guarantee that Inverness common stock will appreciate in value or even maintain the value at which you purchased your shares.

Risk Factors Relating to HemoSense

HemoSense has limited operating experience and a history of net losses. Unless HemoSense is able to significantly increase its revenue and reduce its costs, it may never achieve or maintain profitability.

HemoSense has a limited history of operations and has incurred net losses in each year since its inception. HemoSense received regulatory clearance to market its INRatio System in 2002 and began commercial sales in early 2003. During the past five fiscal years, HemoSense incurred net losses of $4.7 million in 2002, $6.9 million in 2003, $10.3 million in 2004 and $11.7 million in 2005 and $10.9 million in 2006. As of June 30, 2007, it had an accumulated deficit of $61.9 million. HemoSense expects that its operating expenses will increase nominally as it expands its business, devotes additional resources to its research and development, increases sales and marketing efforts and bears the costs associated with being a public company.

HemoSense expects that the price of its common stock will fluctuate substantially.

The average daily trading volume of HemoSense stock is low, and its stock price may move significantly from the trading of relatively few shares. The market price for HemoSense s common stock will be affected by a number of factors, including:

- its quarterly operating performance;
- changes in earnings estimates or recommendations by securities analysts;
- changes in the availability of reimbursement for the use of its products in the United States or other countries;
- the announcement of new products or product enhancements by HemoSense or its competitors;
- announcements of technological or medical innovations in PT/INR monitoring or anticoagulation treatment;
- HemoSense s ability to develop, obtain regulatory clearance for and market new and enhanced products on a timely basis;
- product liability claims or other litigation;

changes in governmental regulations or in HemoSense s marketing approvals or applications from or with regulatory authorities; and

general market conditions and other factors, including factors unrelated to HemoSense s operating performance or the operating performance of its competitors.

Changes in the price of its common stock will be unpredictable and any of these factors could cause HemoSense s stock price to fluctuate substantially.

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HemoSense may be unable to accurately predict its future performance, which could harm its stock price.

HemoSense provides guidance regarding future operating performance and its stock price is based, in part, upon those predictions. Because HemoSense has only recently become a publicly-traded company and has been in a commercial stage for a relatively short time, it may be difficult for HemoSense to accurately predict its operating performance each quarter, and HemoSense believes that its quarterly results will fluctuate as a result of many factors outside of its control, such as:

- demand for its product;
- timing of orders and shipments;
- the performance of HemoSense s distributors on its behalf;
- HemoSense s mix of sales between its distributors and its direct sales force;
- foreign currency fluctuations;
- seasonality, in Europe, relating to mechanical heart valve surgeries;
- the ability of HemoSense s vendors to deliver materials in the time and in quantities it needs,
- new product introductions by HemoSense s competitors; and
- the timing and uncertainty of United States and foreign reimbursement decisions with respect to the use of HemoSense s products.

HemoSense believes that its stock price would decline if it is unable to meet or exceed its predicted performance.

HemoSense depends upon a single product. If HemoSense s INRatio System fails to continue to gain market acceptance its business will suffer.

The INRatio System is HemoSense s only product. Sales of this product will account for substantially all of HemoSense s revenue for the foreseeable future. HemoSense cannot be sure that it will be successful in convincing patients and healthcare professionals to use its product. Certain competitors have products that are established in HemoSense s target markets, and HemoSense may not be able to convince users of those products to switch to the INRatio System. Healthcare professionals may be hesitant to recommend HemoSense s product to their patients given its short operating history and the fact that HemoSense is a relatively small company. If HemoSense s product fails to gain further acceptance in the point-of-care and patient self-testing markets, its business will be harmed.

HemoSense will be unable to achieve profitability unless it increases revenue and decreases the cost of manufacturing its test strips.

HemoSense will need to both significantly increase the revenue it receives from sales of its product and, to the extent possible, reduce its costs in order to achieve profitability. It is possible that HemoSense will never generate sufficient revenue to achieve profitability. HemoSense s failure to achieve and maintain profitability would negatively affect its business and financial condition and the trading price of its common stock.

The performance of HemoSense s product may not be perceived as being comparable with established laboratory methods, which may limit the market acceptance of HemoSense s product.

The majority of PT/INR testing has historically been and continues to be performed by large hospital or commercial laboratories. Healthcare professionals responsible for managing patients on warfarin therapy have experience with and confidence in the results generated by these large laboratories. In addition, these professionals influence many treatment decisions, including aspects critical to HemoSense s business such as how often testing is to be performed, who is to perform the testing, and where testing is to be performed. In some instances, these decision makers may determine that HemoSense s INRatio System test results lack the clinical history, accuracy and reliability of large laboratories. If HemoSense is unable to demonstrate to

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physicians satisfaction that the performance of its INRatio System closely matches the results produced by these laboratories, market acceptance of its product will be limited.

HemoSense is subject to FDA inspection and possible enforcement action in the event of regulatory violations.

HemoSense s product and facilities are subject to continual review and periodic inspections by the FDA and other regulatory bodies. In particular, HemoSense is required to comply with quality system regulations, or QSR, and other regulations, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage, shipping and post market surveillance of its product. The FDA enforces the QSR through both scheduled and unannounced inspections. During May, June and July of 2006, HemoSense underwent an inspection of its facilities by the FDA, which resulted in the issuance of an FDA Form 483 and, subsequently, a warning letter, because the FDA believed that HemoSense s Form 483 response did not provide sufficient detail and documentation for the FDA to evaluate whether HemoSense s corrective actions would be adequate to prevent recurrence of the inspection observations. The FDA has accepted HemoSense s response to the warning letter, but there can be no assurance that the FDA will not impose more serious enforcement actions which may include the following sanctions:

warning letter;

fines, injunctions and civil penalties;

recall or seizure of HemoSense s products;

operating restrictions, partial suspension or total shutdown of production;

delays in clearance or approval, or failure to obtain approval of HemoSense s products or product modifications;

withdrawal of clearances or approvals; and

criminal prosecution.

If any of these actions were to occur, it would harm HemoSense s reputation and cause its product sales and profitability to suffer. Responding to inspectional observations may be time consuming and costly.

The success of HemoSense s business is largely dependent upon the growth of the PT/INR patient self-testing market. If that market fails to develop as HemoSense anticipates, its results will be adversely affected.

HemoSense s business plan is, in part, targeted at the emerging PT/INR patient self-testing market and its product has been designed to address that market. HemoSense cannot be sure that this market will grow as it anticipates. Such growth will require greater advocacy of patient self-testing from both healthcare professionals and patients than currently exists. Future research and clinical data may not sufficiently support patient self-testing as a safe or effective alternative to clinical laboratory testing or point-of-care testing, which could inhibit adoption of patient self-testing. If healthcare professionals fail to advocate self-testing for their patients or if patients do not become comfortable with it, self-testing may fail to become the standard practice for PT/INR measurement. If patient self-testing fails to be adopted at the rate HemoSense expects, its anticipated growth will be adversely affected and its results will suffer.

HemoSense operates in a highly competitive market and faces competition from large, well-established medical device manufacturers with significant resources. If HemoSense fails to compete effectively, its business will suffer.

The market for point-of-care and patient self-testing PT/INR measurement systems is intensely competitive, subject to rapid change, new product introductions and other activities of industry participants. HemoSense currently competes directly against Roche Diagnostics, the largest diagnostic company in the world, and International Technidyne Corporation, a division of Thoratec. Together these two companies

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currently account for substantially all of the competition in the point-of-care and patient self-testing PT/INR measurement market. Several other companies, including Inverness, have announced that they are developing new products that would compete directly against HemoSense, and HemoSense expects one or more new products to become available in the near future. In addition, other companies, including Johnson & Johnson and Beckman Coulter, have developed or acquired directly competitive products for the PT/INR market in the past, and while they are not current competitors, they could re-enter the market at any time. Additionally, these and other potential competitors hold intellectual property rights that could allow them to develop or sell the right to develop new products that could compete effectively with HemoSense s INRatio System. All of these companies are larger than HemoSense and enjoy several competitive advantages, including:

- significantly greater name recognition;
- established relationships with healthcare professionals, patients and insurance providers;
- large, direct sales forces and established independent distribution networks;
- additional product lines and the ability to offer rebates, bundled products, and higher discounts or incentives;
- access to material information about HemoSense s business, which HemoSense is required to publicly disclose, while not having to disclose their own comparable information, because it is an immaterial part of their overall operations;
- greater experience in conducting research and development, manufacturing and marketing activities; and
- greater financial and human resources for product development, sales and marketing and litigation.

Because of these competitive advantages, these companies may be able to engage in aggressive practices that may harm HemoSense s business, without HemoSense being able to effectively respond. In 2005, following the issuance by the FDA of a warning letter, HemoSense experienced a brief impact on its overseas sales performance as a competitor attempted to use a warning letter issued by the FDA to disrupt HemoSense s customer relationships. If a warning letter were to be issued in the future, HemoSense could experience a similar adverse effect on its sales. If HemoSense is not able to compete effectively against these companies or their products, its business will be harmed.

HemoSense has limited test strip manufacturing capabilities and personnel. If HemoSense cannot produce an adequate supply of test strips, its growth will be limited and its business will be harmed.

The components of the INRatio System are the INRatio meter and INRatio disposable test strips. HemoSense manufactures INRatio test strips at its facility, and contracts with an electronic manufacturing services supplier to manufacture the INRatio meter. To be successful, HemoSense must manufacture its test strips in substantial quantities and at acceptable costs. HemoSense currently has limited experience manufacturing its test strips, and no experience manufacturing in the quantities that it anticipates it will need in the foreseeable future. There are technical challenges to increasing HemoSense s manufacturing capacity in a significant manner, including:

- maintaining the consistency of its incoming raw materials;
- equipment design and automation;
- material procurement;

production yields; and

quality control and assurance.

In order to meet its increasing demand for test strips, HemoSense recently added a third shift to its strip production. The increase in capacity should allow HemoSense to meet its anticipated demand for approximately one year. In addition, HemoSense intends to soon start a production automation project which would

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further expand its capacity. If HemoSense is not successful in this project HemoSense faces the risk of not being able to meet customer demand in a timely manner.

Developing high volume manufacturing facilities will require HemoSense to invest substantial additional funds and to hire and retain additional management and technical personnel who have the necessary manufacturing qualifications and experience. HemoSense may not successfully complete any required increase in manufacturing capacity in a timely manner or at all. If HemoSense is unable to manufacture a sufficient supply of its product, maintain control over expenses or otherwise adapt to anticipated growth, or if HemoSense underestimates growth, HemoSense may not have the capability to satisfy market demand or improve its sales growth sufficiently to achieve profitability.

If alternative drugs or other treatments reduce the need for warfarin, the market for HemoSense s product will be limited.

HemoSense s INRatio System is used to measure the rate of blood coagulation in patients using warfarin. As a result, the size of HemoSense s market is directly dependent upon the number of warfarin users. If a new drug or other anticoagulation treatment that does not require regular monitoring of PT/INR levels is successfully developed, approved and adopted, the size of the market for HemoSense s product will be adversely affected. HemoSense is aware that pharmaceutical companies are researching and developing potential alternatives to warfarin. Advances in the treatment of underlying conditions could also affect the use of warfarin. For example, improvements in replacement tissue heart valves have reduced, and may in the future further reduce the use of mechanical heart valves, one of the leading indications for chronic warfarin use. Additionally, several companies are pursuing new surgical procedures to treat atrial fibrillation, another leading indication for warfarin use and monitoring. Any development that renders warfarin obsolete or diminishes the need for PT/INR testing by patients in HemoSense s target markets would negatively affect its business and prospects.

HemoSense s ability to successfully market and sell its product is dependent on the availability of adequate reimbursement from Medicare and other insurance providers.

In the United States, purchasers of medical devices, including HemoSense s INRatio System, generally rely on Medicare and other insurance providers to cover all or part of the cost of the product. Currently reimbursement for PT/INR testing is available in the point-of-care environment for monitoring all uses of warfarin. However, Medicare currently only reimburses PT/INR self-testing for patients with mechanical heart valves, or approximately 400,000 mechanical heart valve patients on warfarin, which represents approximately 10% of four million United States patients taking warfarin on a daily basis. Whether Medicare expands reimbursement for PT/INR patient self-testing for other indications, such as atrial fibrillation, will be partially dependent on the outcome of ongoing and future clinical studies that HemoSense neither participates in nor has any direct control over. Coverage and reimbursement determinations are subject to change over time and HemoSense cannot provide any assurance that Medicare will not reduce or change coverage and reimbursement policies.

Although many other insurance providers follow Medicare coverage determinations, Medicare coverage does not and will not guarantee widespread coverage by other insurance providers. These organizations are not required to offer the same level of coverage as Medicare, or any coverage at all, and their coverage policies are determined on a regional basis, carrier-by-carrier, so that obtaining nationwide coverage from all the major insurance providers will be a time-consuming process. HemoSense cannot provide any assurance that adequate coverage, if any, will be obtained. Further, coverage decisions for individual patients may be made on a case-by-case basis and may require the patient to seek and obtain prior authorization before being provided access to HemoSense s product. Future legislation, regulation or reimbursement policies of insurance providers may adversely affect the demand for HemoSense s product or HemoSense s ability to sell its product on a profitable basis. The lack of insurance coverage or the inadequacy of reimbursement could have a material adverse effect on HemoSense s business, financial condition and results of

operations.

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Reimbursement and healthcare payment systems in international markets vary significantly by country and include both government-sponsored healthcare and private insurance. Obtaining international approvals is a lengthy process, and reimbursement policies may limit the marketability of HemoSense s product in certain countries. International reimbursement approvals may not be obtained in a timely manner, if at all, or may provide for inadequate reimbursement levels. After international reimbursement is established, it may be severely limited or eliminated in future years. HemoSense s failure to receive international reimbursement approvals could have a material adverse effect on market acceptance of its product in the markets in which those approvals are sought.

If HemoSense is unable to establish sufficient sales and marketing capabilities or enter into and maintain appropriate arrangements with third parties to sell, market and distribute its product, its business will be harmed.

HemoSense has limited experience as a company in the sale, marketing and distribution of its INRatio System. HemoSense maintains a relatively small sales and marketing team which as of June 30, 2007 was comprised of 41 employees and expects to depend heavily on third parties to sell its product both in the United States and internationally for the foreseeable future. To achieve commercial success, HemoSense must further develop its sales and marketing capabilities and enter into and maintain successful arrangements with others to sell, market and distribute its product.

HemoSense currently has agreements with seven national and four regional distributors in the United States. HemoSense also has agreements with 15 international distributors of its product. Three of HemoSense s distributors, Quality Assured Services, Medline and National Distribution & Contracting, Inc., each accounted for between 9% to 23% and 46% in the aggregate, of its total revenue in the nine months ended June 30, 2007. HemoSense s success is dependent upon developing and maintaining current and future distribution relationships. HemoSense has only recently entered into most of its distribution relationships, which makes it difficult for HemoSense to predict their future success. Some of HemoSense s distribution agreements allow either party to terminate the relationship on short notice and without fault. Additionally, HemoSense may be unable to renew a distribution agreement upon its expiration on favorable terms, or at all. Distribution partners may fail to commit the necessary resources to market and sell HemoSense s product to the level of its expectations. In particular, several of HemoSense s distribution partners also distribute the products of its competitors, and as a result, HemoSense competes for the attention of these distributors against the experienced and well funded efforts of its competitors. If in the future HemoSense s distribution partners elect to focus on selling the products of its competitors rather than HemoSense s products, HemoSense s sales efforts will be seriously compromised. If HemoSense is unable to establish and maintain adequate sales, marketing and distribution capabilities, independently or with others, it may not be able to generate product revenue and may not become profitable. If HemoSense s current or future partners do not perform adequately, or if HemoSense is unable to locate or retain partners, as needed, in particular geographic areas or in particular markets, its ability to achieve its expected revenue growth rate will be harmed.

If HemoSense s commercial partners fail to provide customer service on its behalf, its business will be harmed.

In the United States, Independent Diagnostic Testing Facilities, or IDTFs, are intermediary parties that provide HemoSense s INRatio meters and test strips to patients and are often responsible for communicating patient results back to the prescribing physician and for monitoring patient compliance with the prescribed testing plan. As such, HemoSense s success is tied to how well its IDTF partners can:

- convince prescribing physicians of the benefit of weekly PT/INR testing;
- ensure patient compliance; and
- provide timely, quality customer service to patients and physicians.

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Since self-testing is relatively new, IDTFs will play a critical role in the acceptance of home testing among patients and physicians and the creation of awareness of HemoSense s INRatio System. If HemoSense s IDTF partners are not successful in performing their role, its business will be adversely affected.

Because of its limited experience, HemoSense has in the past manufactured, and may in the future manufacture, defective test strips that have to be discarded, which increases its costs of operations and may delay shipment of product to customers.

HemoSense manufactures its test strips in large lots that must be tested with blood from warfarin patients in order to determine if its product has acceptable performance. There are many elements to manufacturing each lot of strips that can cause variability in PT/INR measurement beyond acceptable limits. Variability is not detected until the entire lot is complete and selected strips are tested with patient blood samples. If the performance is not acceptable, HemoSense discards the entire lot after it has incurred substantially all the material and labor costs required to manufacture the test strips in the lot. In order to manufacture test strips that will produce PT/INR measurement results that are sufficiently calibrated to clinical laboratory equipment, HemoSense is dependent upon its suppliers to deliver various components in conformity with its specifications. HemoSense has in the past had to, and may in the future have to, discard lots because they fail to meet specifications, which increases costs of operations and may delay shipment of product to customers.

HemoSense depends on clinical sites to assist it in verifying the calibration of its test strips, and if they fail in that role HemoSense may be unable to produce test strips in a timely manner.

HemoSense must calibrate each lot of test strips that it manufactures using blood samples from patients who are taking therapeutic levels of warfarin as well as from individuals who are not on anticoagulant therapy. HemoSense has contracts in place with clinical sites that give HemoSense access to their patients on a regular basis to permit it to perform the testing HemoSense needs to complete its manufacturing process. If these clinical sites fail to enroll a sufficient number of patients for HemoSense s calibration requirements or if they fail to ensure that the patients meet the inclusion criteria HemoSense specifies in its protocols, HemoSense s ability to properly calibrate its product may be compromised and HemoSense may be unable to produce its test strips in a timely manner.

HemoSense s product could be misused or produce inaccurate results, which could lead to injury to the patient and potential liability for HemoSense.

HemoSense expects its product to be used by patients without direct physician supervision. Many users will be elderly Medicare patients, who may have difficulty following the instructions for the use of its product. Additionally, in the point-of-care setting, practitioners familiar with competitors products that function differently may fail to follow HemoSense s directions and misuse its product. For example, HemoSense is aware of a few situations in which practitioners have applied blood drawn from a vein using a syringe rather than capillary blood using a finger stick, which caused inaccurate readings. Warfarin management is complex, and there are many drugs, diseases and other factors that may affect warfarin metabolism and the ability of HemoSense s test to perform as intended in the presence of these factors. Additionally, there may be biologic variations and clinical conditions that exist in some patients that may have an adverse effect on the performance of HemoSense s product. HemoSense has in the past taken, and may in the future take, corrective action in its manufacturing procedure and labeling in order to respond to complaints that its test strips were producing inaccurate results. If HemoSense s product is misused or otherwise produces an incorrect reading, a patient could be either underdosed or overdosed with warfarin, which could lead to serious injury or death and expose HemoSense to potential liability.

HemoSense s manufacturing operations are dependent upon several single source suppliers, making HemoSense vulnerable to supply disruption, which could harm its business.

Currently, HemoSense has five single source suppliers: Dade Behring, which produces a reagent used in HemoSense s test strips, Auer Precision Company, Inc. and White Electronic designs Corp. who produce components for HemoSense s test strip, Haematologic Technologies, which produces its control reagents, and

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Flextronics, which manufactures HemoSense s meters. HemoSense s suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow HemoSense s protocols and procedures, failure to comply with applicable regulations, or equipment malfunction, any of which could delay or impede their ability to meet HemoSense s demand. Its reliance on these outside suppliers also subjects HemoSense to other risks that could harm its business, including:

- HemoSense may not be able to obtain an adequate supply of quality raw materials or component parts in a timely manner or on commercially reasonable terms;
- suppliers may make errors in manufacturing components that could negatively affect the performance of HemoSense s product, cause delays in shipment of its product or lead to returns;
- significant lot-to-lot variation in its test strips could negatively affect the performance of HemoSense s product or cause delays in shipment of the product;
- HemoSense may have difficulty locating and qualifying on a timely basis alternative suppliers for its single sourced supplies;
- switching components may require product redesign and new submissions to the FDA, either of which could significantly delay production;
- HemoSense s suppliers manufacture products for a range of customers, and fluctuations in demand for the products these suppliers manufacture for others may affect their ability to deliver components to HemoSense in a timely manner; and
- HemoSense s suppliers may encounter financial hardships either related or unrelated to HemoSense s demand for components, which could inhibit their ability to fulfill HemoSense s orders and meet its requirements.

Additionally, HemoSense may become involved in a contractual dispute with any one of these suppliers, or may be unable to negotiate the renewal of an expiring contract, either of which could mean an interruption or delay in the supplied component or material. Any interruption or delay in the supply of components or materials, or HemoSense s inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair its ability to meet the demand of its customers and cause them to cancel orders or switch to competitive products, which would harm HemoSense s business.

Certain of its manufacturing operations are dependent upon a single source contract manufacturer, making HemoSense vulnerable to production disruption, which could harm its business.

In March 2006, HemoSense executed a Packaging Agreement with J-PAC, a third party manufacturer, to provide pouching and packaging services to support HemoSense s production of INRatio test strips in support of the INRatio PT/INR Monitoring System product line. J-PAC may encounter problems carrying out these aspects of the manufacture of HemoSense s products and carrying out its services to HemoSense due to a variety of reasons, including failure to follow HemoSense s protocols and procedures, inability to meet HemoSense s manufacturing supply requirements if demand for its product grows too quickly, supply shortages or equipment malfunction, any of which could delay or impede J-PAC s ability to meet HemoSense s demand. Its reliance on J-PAC also subjects HemoSense to other risks that could harm its business, including:

- J-PAC carries out manufacturing services for a range of customers, and fluctuations in demand for J-PAC s services for others may affect their ability to deliver finished goods to HemoSense in a timely manner;

Risk of damage or loss of HemoSense s product while in transit between sites;

J-PAC may encounter financial hardship either related or unrelated to HemoSense s demand, which could inhibit their ability to fulfill HemoSense s orders and meet its requirements; and

HemoSense may have difficulty locating and qualifying on a timely basis an alternative for J-PAC s services.

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Additionally, HemoSense may become involved in a contractual dispute with J-PAC, or may be unable to negotiate the renewal of its contract with J-PAC, either of which could mean an interruption or delay in obtaining J-PAC s services. Any interruption or delay in J-PAC s services, or HemoSense s inability to obtain the same finished goods or services from alternate sources at acceptable prices in a timely manner, could impair HemoSense s ability to meet the demand of its customers and cause them to cancel orders or switch to competitive products, which would harm HemoSense s business.

HemoSense faces the risk of product liability claims or recalls and may not be able to maintain or obtain insurance.

Its business exposes HemoSense to the risk of product liability claims that are inherent in the testing, manufacturing and marketing of medical devices, including those which may arise from the misuse or malfunction of, or design flaws in, its product. HemoSense may be subject to such claims if its product causes, or merely appears to have caused, an injury. Claims may be made by patients, healthcare providers or others selling HemoSense s product.

In addition, HemoSense may be subject to claims even if the apparent injury is due to the actions of others. For example, HemoSense relies on the expertise of physicians to determine if a patient is capable of performing patient self-testing. HemoSense similarly relies on IDTFs and other medical personnel to properly train patients to test themselves using its device. If these professionals are not properly trained or are negligent, HemoSense s product may be used improperly or the patient may suffer critical injury, which may subject HemoSense to liability. These liabilities could prevent or interfere with HemoSense product commercialization efforts. Defending a lawsuit, regardless of merit, could be costly, could divert management attention and might result in adverse publicity, which could result in the withdrawal of, or reduced acceptance of, HemoSense s product in the market.

Although HemoSense has product liability insurance that it believes is adequate, this insurance is subject to deductibles and coverage limitations. If HemoSense is unable to obtain insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect against potential product liability claims, HemoSense will be exposed to significant liabilities, which may harm its business. A product liability claim or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could result in significant costs and significant harm to HemoSense s business.

The FDA has the authority to require the recall of HemoSense s product in the event of material deficiencies, defects in design, manufacture or labeling, or other product problems that could cause serious adverse health consequences or death. Comparable governmental entities in other countries have similar authority. Even where product problems do not present a risk of serious adverse health consequences or death, HemoSense may need to conduct a voluntary recall, if its product presents a risk to health. A government mandated or voluntary recall by HemoSense could occur as a result of component failures, manufacturing errors or design defects. Any recall would divert managerial and financial resources and harm HemoSense s reputation with its customers.

HemoSense faces the risk that modifications to its device may require new 510(k) clearance which may not be obtained.

HemoSense may be forced to make modifications to its product as a result of:

obsolescence of a key single-sourced component;

termination of a key supplier relationship;

identification of a critical product defect;

intellectual property issues; or

enforcement action by a regulatory agency.

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The FDA requires device manufacturers to initially make and document a determination of whether or not a modification requires a new approval, supplement or clearance; however, the FDA can review a manufacturer s decision. Any modifications to an FDA-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use would require a new 510(k) clearance or possibly a premarket approval. HemoSense may not be able to obtain additional 510(k) clearances or premarket approvals for new products, product modifications, or new indications for its product in a timely fashion, or at all. Delays in obtaining required future clearances would adversely affect HemoSense s ability to introduce new or enhanced products in a timely manner, which in turn would harm its future growth. HemoSense has made modifications to its INRatio System in the past and may make additional modifications in the future that HemoSense believes do not or will not require additional clearances or approvals. If the FDA disagrees and requires new clearances or approvals for the modifications, HemoSense may be required to recall and to stop marketing the INRatio System as modified, which would harm its operating results and require HemoSense to redesign the INRatio System. In these circumstances, HemoSense may be subject to significant enforcement actions.

HemoSense s operations may be directly or indirectly affected by various broad state and federal healthcare fraud and abuse laws, including the federal Anti-Kickback Statute, which prohibit any person from knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, to induce or reward either the referral of an individual, or the furnishing or arranging for an item or service, for which payment may be made under federal healthcare programs, such as the Medicare and Medicaid programs. If HemoSense s past or present operations, including, but not limited to, its consulting arrangements with physicians, or its promotional or discount programs, are found to be in violation of these laws, HemoSense or its officers may be subject to civil or criminal penalties, including large monetary penalties, damages, fines, imprisonment and exclusion from Medicare and Medicaid program participation.

HemoSense may be subject to false claims laws which could result in substantial penalties.

Because its customers will most likely file claims for reimbursement with government programs such as Medicare and Medicaid, HemoSense may be subject to the federal False Claims Act if HemoSense knowingly causes the filing of false claims. Violations of the Act may lead to government enforcement actions resulting in substantial civil penalties, including treble damages. The federal False Claims Act also contains provisions that allow private individuals to bring actions on behalf of the government alleging that the defendant has defrauded the government. Various states have enacted laws modeled after the federal False Claims Act. HemoSense is unable to predict whether it could be subject to actions under the federal False Claims Act, or the impact of such actions.

However, the costs of defending claims under the False Claims Act, as well as sanctions imposed under the Act, could significantly harm HemoSense s operations.

HemoSense s financial controls and procedures may not be sufficient to ensure timely and reliable reporting of financial information, which, as a public company, could materially harm its stock price and AMEX listing.

HemoSense cannot provide assurance that its finance department has or will maintain adequate resources to ensure that HemoSense will not have any future material weakness in its system of internal controls. The effectiveness of HemoSense s controls and procedures may in the future be limited by a variety of factors including:

- faulty human judgment and simple errors, omissions or mistakes;
- fraudulent action of an individual or collusion of two or more people;

inappropriate management override of procedures; and

the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial information.

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If HemoSense fails to have effective controls and procedures for financial reporting in place, HemoSense could be unable to provide timely and accurate financial information and be subject to American Stock Exchange, or AMEX, delisting, Securities and Exchange Commission, or SEC, investigation, and civil or criminal sanctions.

HemoSense may have warranty claims that exceed its reserves, which could adversely affect its operating results.

The INRatio meter carries a product warranty against defects in materials and workmanship. HemoSense has established a warranty reserve based on anticipated failure and return rates for its product. Unforeseen changes in factors affecting its estimates could occur and adversely affect HemoSense s operating results.

HemoSense s inability to adequately protect its intellectual property could allow its competitors and others to produce products based on its technology, which could substantially impair its ability to compete.

HemoSense s success and ability to compete is dependent, in part, upon its ability to protect the INRatio System through its intellectual property rights. HemoSense relies on a combination of patent, copyright and trademark law, trade secrets and nondisclosure agreements to protect its intellectual property. However, such methods may not be adequate to protect HemoSense or permit it to gain or maintain a competitive advantage. HemoSense s European patent application, or any future U.S. or foreign application, may not issue as a patent or may issue as a patent in a form that may not be advantageous to HemoSense. Its issued patents, and those that may issue in the future, may be challenged, invalidated or circumvented, which could limit its ability to stop competitors from marketing related products.

To protect its proprietary rights, HemoSense may in the future need to assert claims of infringement or misappropriation against third parties. The outcome of litigation to enforce its intellectual property rights in patents, copyrights, trade secrets or trademarks is highly unpredictable, could result in substantial costs and diversion of resources, and could have a material adverse effect on HemoSense s financial condition and results of operations regardless of the final outcome of such litigation. In the event of an adverse judgment, a court could hold that some or all of its asserted intellectual property rights are not infringed, invalid or unenforceable, and could award attorney fees to these third parties.

Despite its efforts to safeguard its unpatented and unregistered intellectual property rights, HemoSense may not be successful in doing so or the steps taken by HemoSense in this regard may not be adequate to detect or deter misappropriation of its technology or to prevent an unauthorized third party from copying or otherwise obtaining and using its product, technology or other information that HemoSense regards as proprietary. Additionally, third parties may be able to design around its patents. Furthermore, the laws of foreign countries may not protect HemoSense s proprietary rights to the same extent as the laws of the United States. HemoSense s inability to adequately protect its intellectual property could allow its competitors and others to produce products based on its technology, which could substantially impair its ability to compete.

HemoSense may become subject to claims of infringement or misappropriation of the intellectual property rights of others, which could be costly and harm its business.

Third parties have in the past asserted, and could in the future assert, infringement or misappropriation claims against HemoSense with respect to its current or future products. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Therefore, HemoSense cannot be certain that it has not infringed the intellectual property rights of others. Its competitors may assert that its product or the methods HemoSense employs in the use or manufacture of its product are covered by United States or foreign patents held by them. This risk is exacerbated by the fact that there are numerous issued patents and pending patent applications

related to HemoSense s business that are held by others. For example, in April 2003, Inverness filed suit against HemoSense, alleging that disposable test strips for HemoSense s INRatio System infringed certain of Inverness patent rights. Inverness sought monetary damages and injunctive relief. In July 2004, HemoSense entered into a settlement and mutual release

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agreement with Inverness pursuant to which HemoSense received a license to the patent rights in exchange for a product royalty and a lump sum payment. Additionally, HemoSense has been in discussions with Beckman Coulter regarding coverage of its test strip by one or more of their patents. While HemoSense is still evaluating such patents, HemoSense currently does not believe that they cover its test strip or that HemoSense needs to obtain a license under such patents.

Because patent applications may take years to issue, there may be applications now pending of which HemoSense is unaware that may later result in issued patents that its product infringes. There could also be existing patents of which HemoSense is unaware that one or more components of its system may inadvertently infringe. As the number of competitors in the market for point-of-care and patient self-testing systems grows, the possibility of inadvertent patent infringement by HemoSense, or a patent infringement claim against HemoSense, increases.

Any infringement or misappropriation claim, with or without merit, could cause HemoSense to strain its financial resources, divert management s attention from its business and harm its reputation. If a third party patent were upheld as valid and enforceable and HemoSense were found to infringe such patent, HemoSense could be prohibited from selling its product unless HemoSense could obtain a license to the patent or were able to design around the patent. HemoSense may be unable to obtain such a license on terms acceptable to HemoSense, if at all, and HemoSense may not be able to redesign its product to avoid infringement. A court could also order HemoSense to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm HemoSense s reputation, business, financial condition and operating results.

A court also could enter orders that temporarily, preliminarily or permanently enjoin HemoSense and its customers from making, using, selling, offering to sell or importing its product, or could enter an order mandating that HemoSense undertake certain remedial activities. Depending on the nature of the relief ordered by the court, HemoSense could become liable for additional damages to third parties.

The prosecution and enforcement of patents licensed to HemoSense by third parties are not within HemoSense s control, and without these technologies, its product may not be successful and its business would be harmed if the patents were infringed or misappropriated without action by such third parties.

HemoSense has obtained licenses from Dade Behring for a reagent and, as part of a settlement of an infringement claim, from Inverness for a material used in its INRatio test strips. These licenses allow HemoSense to use these third parties technologies in its product. HemoSense does not control the maintenance, prosecution, enforcement or strategy for the licensed patents and as such are dependent on its licensors to maintain their viability. Without access to these technologies, HemoSense s ability to conduct its business would be impaired significantly.

HemoSense may be subject to damages resulting from claims that HemoSense or its employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of HemoSense s employees were previously employed at other diagnostic companies, including its competitors. Although no claims against HemoSense are currently pending, HemoSense may be subject to claims that these employees or HemoSense has used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if HemoSense is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If HemoSense fails in defending such claims, in addition to paying monetary damages, HemoSense may lose valuable intellectual property rights or personnel.

A loss of key research personnel or their work product could hamper or prevent HemoSense s ability to market existing or new products, which could severely harm its business.

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HemoSense has potential exposure to environmental liabilities, including liability for contamination or other harm caused by materials that HemoSense uses, generates, disposes of, releases or discharges.

HemoSense s research and development and clinical processes involve the use of potentially harmful biological materials as well as hazardous materials. HemoSense is subject to federal, state and local laws and regulations governing the use, handling, storage, labeling, discharge, release and disposal of hazardous and biological materials and HemoSense incurs expenses relating to compliance with these laws and regulations. Certain of these laws require HemoSense to obtain and operate under permits and authorizations that are subject to periodic renewal or modification. HemoSense could be held liable for damages, penalties and costs of investigation and remedial actions in connection with violations of environmental, health and safety laws or permits. HemoSense is also subject to potential liability for the investigation and clean up of any contamination at properties that HemoSense currently or formerly owned, operated or leased and off-site locations where HemoSense disposed of or arranged for disposal of hazardous materials. Liability for any such contamination can be joint, strict and several without regard to comparative fault under certain environmental laws. HemoSense may also be subject to related claims by private parties alleging property damage and/or personal injury due to exposure to hazardous materials at or in the vicinity of such properties. These expenses or this liability could have a significant negative impact on HemoSense s financial condition. HemoSense may violate or have liability under environmental, health and safety laws in the future as a result of human error, equipment failure, or other causes.

Environmental laws or permit conditions could become more stringent over time, imposing greater compliance costs, including capital investments, and increasing risks and penalties associated with violations. For example, the European Parliament has recently finalized the Waste Electrical and Electronic Equipment Directive, or WEEE Directive, which makes producers of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. As a producer of electronic equipment, HemoSense will incur financial responsibility for the collection, recycling, treatment or disposal of products covered under the WEEE Directive. HemoSense expects to incur increased costs to comply with future legislation which implements this Directive and potentially other related Directives, but HemoSense cannot currently estimate the extent of such increased costs. However, to the extent that such cost increases or delays are substantial, its operating results could be materially adversely affected. In addition, similar legislation may be enacted in other countries, including the United States. HemoSense is also subject to potentially conflicting and changing regulatory agendas of political, business, and environmental groups. Changes to or restrictions on permitting requirements or processes, hazardous or biological material storage or handling might require HemoSense to make an unplanned capital investment or relocation.

All of HemoSense s operations are conducted at a single location. Any disruption at HemoSense s facility could adversely affect its operations and increase its expenses.

All of HemoSense s operations are conducted at a single location in San Jose, California. HemoSense takes precautions to safeguard its facility, including insurance, health and safety protocols. However, a natural disaster, such as a fire, flood or earthquake, could cause substantial delays in its operations, damage or destroy its manufacturing equipment or inventory, and cause HemoSense to incur additional expenses. The insurance HemoSense maintains against fires, floods, earthquakes and other natural disasters may not be adequate to cover its losses in any particular case.

HemoSense s success will depend on its ability to attract and retain key personnel, particularly members of management and scientific staff.

HemoSense believes its future success will depend upon its ability to attract and retain employees including scientists, members of management and other highly skilled personnel. Its employees may terminate their employment with HemoSense at any time and are generally not subject to employment contracts. HemoSense may experience additional

difficulties retaining existing employees and hiring new employees as a result of its pending acquisition by Inverness. Hiring qualified scientific and management personnel will be difficult due to the limited number of qualified professionals and the fact that competition for these types of

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employees is intense. If HemoSense fails to attract and retain key personnel, it may not be able to execute its business plan.

The cost of public company compliance with the securities laws and regulations is substantial and recently enacted and proposed changes to these laws and regulations will further increase HemoSense s general and administrative expenses.

The cost of complying with the reporting requirements under the Securities and Exchange Act of 1934 are substantial. In addition, the Sarbanes-Oxley Act of 2002, along with other recent rules from the SEC and AMEX, have required further legal and financial compliance costs, and made some corporate actions more difficult. For example, compliance with the internal control requirements of Sarbanes-Oxley Section 404 requires HemoSense to commit significant resources to document and review the adequacy of its internal controls. While HemoSense is expending significant resources in developing the required documentation and testing procedures required by Section 404, it can provide no assurance as to conclusions by HemoSense or its external auditors with respect to the effectiveness of its internal controls over financial reporting. If HemoSense determines it has a material weakness in its internal controls under Section 404, it will have to issue a report that its internal controls are not effective, which could cause the market price of its stock to decline.

In addition, the changes in securities laws and regulations may make it more difficult and more expensive for HemoSense to maintain directors and officers liability insurance, and HemoSense may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments also could make it more difficult for HemoSense to attract and retain qualified executive officers and members of its board of directors, particularly with regard to its audit committee.

HemoSense s principal stockholder owns a significant percentage of its stock, and as a result, can take actions that may be adverse to its other stockholders interests.

MPM Capital and its affiliates own approximately 33% of HemoSense s common stock. This significant concentration of share ownership may adversely affect the trading price for its common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. This stockholder will have the ability to exert substantial influence over all matters requiring approval by HemoSense s stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of HemoSense s assets. In addition, it could dictate the management of HemoSense s business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation, takeover or other business combination that could be favorable to HemoSense s other stockholders.

HemoSense s charter documents and Delaware law may inhibit a takeover that stockholders consider favorable and could also limit the market price of your stock.

HemoSense s amended and restated certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control of its company. Some of these provisions:

- authorize the issuance of preferred stock which can be created and issued by the board of directors without prior stockholder approval, commonly referred to as blank check preferred stock, with rights senior to those of common stock;
- prohibit stockholder actions by written consent; and
- provide for a classified board of directors.

In addition, HemoSense is governed by the provisions of Section 203 of Delaware General Corporate Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of its outstanding voting stock, from merging or combining with HemoSense. These and other provisions in its amended and restated certificate of incorporation and bylaws and under Delaware law could reduce the price that investors might be willing to pay for shares of HemoSense s common stock in the future and result in the market price being lower than it would be without these provisions.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This proxy statement/prospectus contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this proxy statement/prospectus, and they may also be made a part of this proxy statement/prospectus by reference to other documents filed with the SEC, which is known as incorporation by reference.

Words such as may, anticipate, estimate, expects, projects, intends, plans, believes and words and terms substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements represent present expectations of Inverness and HemoSense management regarding future events and are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks include, but are not limited to, the risks and uncertainties set forth in Risk Factors, beginning on page 14 of this proxy statement/prospectus, as well as those set forth in the other SEC filings incorporated by reference herein.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this proxy statement/prospectus or in any document incorporated by reference might not occur. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this proxy statement/prospectus or the date of the document incorporated by reference in this proxy statement/prospectus. Inverness and HemoSense do not undertake any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to Inverness or HemoSense, or to any person acting on their behalf, are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

THE HEMOSENSE SPECIAL MEETING

Date, Time and Place

The special meeting of HemoSense stockholders will be held on November 6, 2007 at 9:00 a.m., local time, at the offices of Wilson Sonsini Goodrich & Rosati at 650 Page Mill Road, Palo Alto, California 94304.

Purpose; Other Matters

At the special meeting, HemoSense stockholders will be asked to consider and vote upon a proposal to approve the merger and adopt the merger agreement. Upon completion of the merger, each outstanding share of HemoSense common stock will be converted into the right to receive 0.274192 shares of Inverness common stock. A copy of the Agreement and Plan of Reorganization dated August 6, 2007 among HemoSense, Inverness and Spartan Merger Sub is attached to this proxy statement/prospectus as Annex A. In addition, HemoSense stockholders will be asked to consider and vote upon a proposal to grant HemoSense management the discretionary authority to adjourn the special meeting to a date not later than December 6, 2007 in order to enable the HemoSense board of directors to solicit additional proxies in favor of the approval of the merger and adoption of the merger agreement.

HemoSense stockholders may also be asked to consider and vote upon such other business as may properly come before the special meeting, or any adjournment or postponement of the special meeting. HemoSense is not aware of any business to be acted upon at the special meeting other than the proposals set forth in this proxy statement/prospectus. If, however, other matters incident to the conduct of the special meeting are properly brought

before the special meeting, or any adjournment or postponement of the special meeting, the persons named as proxies will vote in accordance with their best judgment with respect to those matters. If you vote **AGAINST** the merger proposal, the proxies are not authorized to vote for any

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adjournments, postponements, continuations or reschedulings of the meeting, including for the purpose of soliciting additional proxies, unless you so indicate by marking the appropriate box on the proxy card.

HemoSense s Board of Directors Recommendation

HemoSense s board of directors has carefully reviewed and considered the terms and conditions of the merger agreement. Based on its review, HemoSense s board of directors has determined that the merger is advisable, fair to and in the best interests of HemoSense and its stockholders and recommends that you vote **FOR** the approval of the merger and the adoption of the merger agreement and **FOR** the proposal to grant discretionary authority to HemoSense management to vote your shares to adjourn the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to approve the merger and adopt the merger agreement.

In considering such recommendation, HemoSense stockholders should be aware that some HemoSense directors and officers have interests in the merger that are different from, or in addition to, those of HemoSense stockholders generally. See the section entitled The Merger Interests of Executive Officers and Directors of HemoSense in the Merger beginning on page 65 of this proxy statement/prospectus.

Record Date, Outstanding Shares and Voting Rights

Only holders of record of HemoSense s common stock at the close of business on October 4, 2007, the record date, are entitled to notice of and to vote at the special meeting. Such stockholders are entitled to cast one vote for each share of common stock held as of the record date on each matter properly submitted for the vote of stockholders at the special meeting. As of the record date, there were 13,386,950 shares of HemoSense s common stock outstanding and entitled to vote at the special meeting.

Quorum and Vote Required

The presence of the holders of a majority of the outstanding shares of HemoSense common stock entitled to vote generally at the special meeting is necessary to constitute a quorum at the special meeting. Stockholders are counted as present at the special meeting if they are present in person or have voted by properly submitting a proxy card. HemoSense intends to include abstentions and broker non-votes as present or represented for purposes of establishing a quorum for the transaction of business. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

The proposal to approve the merger and adopt the merger agreement requires the affirmative vote of the holders of a majority of the shares HemoSense common stock outstanding on the record date. Because the required vote of HemoSense stockholders to approve the merger and adopt the merger agreement is based upon the number of shares of HemoSense common stock outstanding on the record date, rather than upon the shares actually voted, the failure by the holder of any such shares to submit a proxy or vote in person at the special meeting, including abstentions and broker non-votes, will have the same effect as a vote against the approval of the merger and adoption of the merger agreement. The adjournment proposal requires the affirmative vote of the holders of a majority of the outstanding shares of HemoSense common stock present, either in person or by proxy, and entitled to vote at the special meeting. Abstentions from voting on the adjournment proposal will have the same effect as a vote against the adjournment proposal. Broker non-votes will have no effect on the outcome of the vote on the adjournment proposal.

Voting by HemoSense Directors and Executive Officers

As of the record date, the directors and executive officers of HemoSense and their affiliates beneficially owned and were entitled to vote 4,572,476 shares of HemoSense common stock, which represents approximately 34% of the HemoSense common stock outstanding on that date. Concurrently with the execution and delivery of the merger agreement, on August 6, 2007, Inverness entered into voting agreements with each of the directors and executive officers of HemoSense. In addition to the directors and executive officers of

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HemoSense, Vanguard V, L.P. and four entities affiliated with MPM Asset Management, LLC also entered into voting agreements with Inverness. Affiliates of each of these entities serve as directors of HemoSense. Approximately 4,371,975 shares, or 33%, of the HemoSense common stock outstanding on the record date are subject to the voting agreements. For more information regarding the voting agreements, see The Voting Agreements on page 87 of this proxy statement/prospectus and the forms of the voting agreements attached as Annex B and Annex C.

Voting by Proxies

Voting by proxy card

All shares entitled to vote and represented by properly executed proxies received prior to the special meeting, and not revoked, will be voted at the special meeting in accordance with the instructions indicated on those proxies. If no instructions are indicated on a properly executed proxy, the shares represented by that proxy will be voted as recommended by HemoSense s board of directors. If any other matters are properly presented for consideration at the special meeting, the persons named in the enclosed proxy and acting thereunder will have discretion to vote on those matters in accordance with their best judgment. HemoSense does not currently anticipate that any other matters will be raised at the special meeting.

Voting by attending the special meeting

A stockholder may also vote his or her shares in person at the special meeting. If a stockholder attends the special meeting, he or she may submit his or her vote in person, and any previous votes that were submitted by the stockholder will be superseded by the vote that such stockholder casts at the special meeting.

Voting shares held in street name

If you hold HemoSense common stock in street name, which means that your shares are held of record by a broker, bank or other nominee, you must complete, sign, date and return the enclosed voting instruction form to the record holder of your shares with instructions on how to vote your shares. Please refer to the voting instruction form used by your broker, bank or other nominee to see if you may submit voting instructions using the Internet or telephone.

If your shares are held in street name and you wish to vote at the special meeting, you must bring a proxy from the record holder of the shares authorizing you to vote at the special meeting.

Revocability of Proxies

If a stockholder has voted by returning a proxy card, such stockholder may change his or her vote before the special meeting. A stockholder may revoke any proxy given pursuant to this solicitation at any time before it is voted by (1) delivering to HemoSense s Corporate Secretary, at or before the taking of the vote at the special meeting, a written notice of revocation or a duly executed proxy, in either case dated later than the previously submitted proxy relating to the same shares, or (2) attending the special meeting and voting in person (although attendance at the special meeting will not of itself revoke a proxy). Any written notice of revocation or subsequent proxy must be received by HemoSense s Corporate Secretary prior to the taking of the vote at the special meeting. Such written notice of revocation or subsequent proxy should be hand-delivered to HemoSense s Corporate Secretary or sent to HemoSense s Corporate Secretary at 651 River Oaks Parkway, San Jose, California 95134.

Solicitation of Proxies; Expenses

HemoSense is soliciting proxies for the special meeting from HemoSense stockholders. HemoSense generally will bear all expenses in connection with the solicitation of proxies, except that HemoSense and Inverness have agreed to share equally all expenses incurred in connection with the filing with the SEC of the registration statement of which this proxy statement/prospectus forms a part, and the printing and mailing of this proxy statement/prospectus and related proxy materials. HemoSense may reimburse brokerage firms and

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other persons representing beneficial owners of shares for their reasonable expenses in forwarding solicitation materials to such beneficial owners. Proxies may also be solicited by certain of HemoSense s directors, officers, and regular employees, without additional compensation, personally or by telephone, telegram, letter, electronic mail or facsimile.

Stockholders should not send stock certificates with their proxies. A letter of transmittal with instructions for the surrender of HemoSense common stock certificates will be mailed to HemoSense stockholders shortly after completion of the merger.

Assistance

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact Gordon Sangster at (408) 719-1393 or toll free at (877) 436-4566.

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PROPOSAL ONE THE MERGER

The following is a description of the material aspects of the merger, including the merger agreement. While Inverness and HemoSense believe that the following description covers the material terms of the merger, the description may not contain all of the information that is important to you. Inverness and HemoSense encourage you to read carefully this entire proxy statement/prospectus, including the merger agreement attached to this proxy statement/prospectus as Annex A, for a more complete understanding of the merger.

Background of the Merger

The following is a description of the material aspects of the proposed merger and related transactions. The following description may not contain all of the information that is important to you. You should read this entire proxy statement/prospectus, including the section entitled Risk Factors beginning on page 14, and the other documents we refer to carefully for a more complete understanding of the merger and the related transactions.

Background of the Merger

The board of directors of HemoSense has from time to time investigated the possibility of entering into strategic transactions with various companies, including potential acquisitions by HemoSense of other companies or acquisitions of HemoSense by other companies. HemoSense retained Lazard in March 2006 to represent it in connection with exploring certain strategic transactions.

During the first half of 2006, the HemoSense board of directors authorized Lazard to contact a limited number of third parties that HemoSense and Lazard believed might be interested in an acquisition of HemoSense. Lazard contacted twelve parties during this period, seven of which signed confidentiality agreements and received preliminary diligence information.

In April 2006, one of the parties contacted by Lazard, referred to as Company A, submitted a non-binding indication of interest to acquire HemoSense for a purchase price between $7.00 and $8.00 per share in cash and stock. None of the other parties contacted by Lazard submitted a proposal. Subsequent to the offer from Company A, the HemoSense board met and authorized management and Lazard to continue the diligence process. In May 2006, after conducting further due diligence on HemoSense, Company A submitted a revised non-binding indication of interest to acquire HemoSense for a purchase price of $7.95 per share, consisting of a mixture of cash and Company A s stock. The discussions with Company A were discontinued when the parties could not agree on the terms of a potential transaction.

During the second half of 2006, HemoSense and Lazard explored the possibility of HemoSense s acquiring complementary companies, businesses or technologies. In addition, the HemoSense board of directors authorized Lazard to contact additional third parties regarding a potential acquisition of HemoSense. As authorized, during this period Lazard contacted seven additional parties regarding a potential acquisition of HemoSense. None of these seven additional parties indicated an interest in pursuing an acquisition of HemoSense at that time.

In this period, two of the parties previously contacted by Lazard in the first half of 2006, referred to as Company B and Company C, contacted HemoSense and Lazard about the possibility of continuing earlier discussions regarding a potential acquisition of HemoSense. After reviewing both inquiries, the HemoSense board of directors instructed Lazard and management to permit both parties to engage in due diligence. In November 2006, Company B submitted a non-binding indication of interest to acquire HemoSense for a purchase price between $4.50 and $5.50 per share in cash, and Company C provided an oral indication of interest to acquire HemoSense at a premium to the stock price at

that time. The HemoSense board of directors concluded that the proposal from Company B was not acceptable and discontinued discussions with Company B. Company C subsequently withdrew its oral indication of interest and decided not to pursue an acquisition of HemoSense.

During the first six months of 2007, HemoSense and Lazard continued to explore the possibility of acquiring complementary companies, businesses or technologies. From time to time HemoSense and Lazard

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revisited discussions with certain third parties that had been contacted previously about their potential interest in an acquisition of HemoSense. HemoSense and Lazard did not contact any new counterparties during this period.

During the spring of 2007, Inverness had preliminarily considered approaching HemoSense regarding its interest in being acquired by Inverness, but no discussions took place at that time.

On July 12, 2007, Ron Zwanziger, Chairman, Chief Executive Officer and President of Inverness, made a telephone call to James Merselis, President and Chief Executive Officer of HemoSense, in which Mr. Zwanziger inquired about HemoSense s interest in being acquired by Inverness and, if so, whether HemoSense preferred to receive cash or Inverness stock as the consideration for such an acquisition. Mr. Merselis indicated that the HemoSense board of directors would evaluate and respond to any formal offer made by Inverness to acquire HemoSense.

On July 13, 2007, Mr. Zwanziger made a telephone call to Mr. Merselis following up on their July 12, 2007 conversation. Mr. Merselis reiterated that the HemoSense board of directors would review and respond to any formal offer made by Inverness. Mr. Zwanziger indicated that a formal offer would be delivered by Inverness early the following week.

Also on or about July 13, 2007, Covington & Associates LLC, Inverness financial advisor, and Lazard had a telephone conversation regarding a possible transaction between Inverness and HemoSense.

Between July 12 and July 15, 2007, Mr. Merselis telephonically advised individual members of the HemoSense board of directors regarding his communications with Inverness.

On July 16, 2007, Inverness delivered to HemoSense a non-binding letter of intent for a potential all-stock business combination pursuant to which each share of HemoSense common stock would be exchanged for 0.226 of a share of Inverness common stock, which, based on a five-day trailing average of Inverness closing stock price as of July 13, 2007, would equate to approximately $11.50 per HemoSense share. The closing price of HemoSense stock on July 13, 2007 was $9.85 per share.

On July 16 and 17, 2007, as authorized by HemoSense, Lazard contacted certain parties which Lazard had previously contacted during the process in 2006 regarding their interest in a potential acquisition of HemoSense and which had shown a continued interest in acquiring HemoSense, including Company B. Company A was not contacted because it had recently announced an agreement to be acquired and Company C was not contacted because it had previously indicated that it was no longer interested in acquiring HemoSense.

On July 17, 2007, HemoSense s board of directors held a telephonic board meeting, which was also attended by members of HemoSense s senior management and representatives of Lazard and Wilson Sonsini Goodrich & Rosati, Professional Corporation, or WSGR, counsel to HemoSense. At this meeting, Mr. Merselis updated the board on the Inverness offer. Representatives of WSGR discussed the board s fiduciary duties in connection with the board s consideration of the offer. The board then discussed the terms of the offer in detail. The board of directors also considered and analyzed the various alternatives available to HemoSense, including the advantages and disadvantages of continuing to operate as an independent company. At the conclusion of the meeting, the board authorized management and Lazard to continue discussions with Inverness to attempt to increase the price and request that the transaction be all cash.

On July 18, 2007, Mr. Merselis and a representative of Lazard contacted Mr. Zwanziger regarding the possible acquisition of HemoSense by Inverness. Also on that day, Mr. Merselis forwarded a draft confidentiality agreement to Mr. Zwanziger.

On or about July 19, 2007, Mr. Merselis and Mr. Zwanziger had a telephone conversation in which Mr. Merselis indicated, as authorized by the board, that the HemoSense board had considered the Inverness offer but had deemed the acquisition price inadequate. Mr. Merselis also informed Mr. Zwanziger of the HemoSense board s preference that Inverness pay cash to HemoSense stockholders in an acquisition transaction.

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On July 24, 2007, HemoSense s board of directors held a regularly scheduled board meeting at which Mr. Merselis updated the board regarding the discussion with Mr. Zwanziger. Also in attendance were representatives of Lazard and WSGR and members of HemoSense s senior management team. None of the parties recently contacted by Lazard had indicated an interest in participating in a process to acquire HemoSense at that time.

On July 25, 2007, HemoSense provided certain financial information to Inverness on the basis of Inverness agreement to maintain the confidentiality of that information. Also on that date, members of HemoSense s management team held a telephonic due diligence call with members of Inverness management team.

On July 26, 2007, at a regular meeting of Inverness board of directors, Mr. Zwanziger reported on his initial discussions with HemoSense. Mr. Zwanziger discussed the merits of the potential acquisition with the board. A representative of Covington & Associates made a presentation to the board regarding an accretion analysis and answered questions concerning the financial analysis and HemoSense s current financial status. The board of directors authorized Mr. Zwanziger to proceed with the proposed acquisition of HemoSense.

On July 27, 2007, Inverness delivered to HemoSense a revised non-binding letter of intent for a potential all-stock business combination pursuant to which each share of HemoSense common stock would be exchanged for Inverness common stock worth $13.00, with the specific exchange ratio to be set upon the execution of a definitive merger agreement using a five-day trailing average of Inverness closing stock price.

On July 29, 2007, Mr. Zwanziger made a telephone call to Mr. Merselis to discuss the revised non-binding letter of intent. Mr. Zwanziger also explained that, due to the deterioration of the credit markets and Inverness substantial indebtedness, Inverness had determined that it would offer only stock as the merger consideration.

Also on July 29, 2007, Mr. Merselis updated the members of the HemoSense board of directors via electronic mail regarding the revised Inverness letter of intent. Mr. Merselis subsequently had telephone calls with individual members of the board of directors to discuss the transaction status and answer questions.

Later on July 29, 2007, Mr. Merselis made two telephone calls to Mr. Zwanziger in which Mr. Merselis informed Mr. Zwanziger that HemoSense would accept Inverness stock as the sole form of consideration in an acquisition transaction, and Messrs. Merselis and Zwanziger discussed the process for reaching a definitive agreement. That same day, representatives of Covington & Associates spoke with representatives of Lazard regarding the proposed transaction.

On July 30, 2007, Inverness and HemoSense entered into a customary mutual nondisclosure agreement and representatives of Foley Hoag LLP, counsel to Inverness, delivered an initial draft of a merger agreement to representatives of WSGR.

Between July 30 and August 5, 2007, representatives of HemoSense and Inverness, and their respective legal counsel, engaged in negotiations regarding the terms of the merger agreement, voting agreements and related documentation, while continuing to conduct due diligence investigations of the other party.

On August 1, 2007, senior members of management of HemoSense and representatives of Lazard and WSGR met with Inverness management and representatives of Covington & Associates at WSGR s Palo Alto offices. HemoSense management gave a presentation, and Inverness conducted due diligence on HemoSense. Also on August 1, 2007, Inverness management and advisors were given access to an electronic due diligence data site established by HemoSense in order to facilitate Inverness due diligence efforts.

On August 1, 2007, the HemoSense board of directors held a telephonic board meeting to receive an update on the status of the proposed transaction. Representatives of Lazard and WSGR and members of HemoSense s senior management team also attended the meeting. Representatives of Lazard discussed with the board a summary of the transaction and certain financial analyses of the merger terms and of Inverness. The board authorized management to continue negotiations with Inverness.

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On August 1 and August 2, 2007, members of Inverness management conducted additional due diligence on HemoSense at the offices of WSGR in Palo Alto and HemoSense s San Jose offices.

On August 3, 2007, members of HemoSense s and Inverness management teams, as well as representatives of their respective financial advisors, assembled for meetings at Inverness corporate offices in Waltham, Massachusetts to conduct a due diligence review of Inverness and discuss various issues in connection with the potential business combination between the companies.

On August 5, 2007, HemoSense s board of directors held a meeting which was also attended by members of HemoSense s senior management and representatives of WSGR and Lazard. At this meeting, Mr. Merselis apprised the board of the status of negotiations with Inverness regarding the proposed transaction. The WSGR representatives outlined the terms and conditions of the merger agreement and the voting agreements, as well as the board s fiduciary duties in connection with its consideration of the proposed transaction. WSGR noted that the voting agreements would terminate upon termination of the merger agreement. Representatives of Lazard reviewed with the board certain financial analyses, noted that none of the third parties it had contacted had expressed interest in or the ability to make an offer to acquire HemoSense and rendered to the board its oral opinion, which opinion was subsequently confirmed by delivery of its written opinion dated August 5, 2007, that, as of such date and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth in its opinion, the exchange ratio of 0.274912 of a share of Inverness common stock per share of HemoSense common stock pursuant to the merger agreement was fair from a financial point of view to the holders of HemoSense common stock. After discussion and consideration of the foregoing, the members of the board in attendance at the meeting unanimously determined that the merger on the terms discussed at the meeting was fair to, and in the best interests of, HemoSense and its stockholders and approved and declared the merger agreement advisable and resolved to recommend that HemoSense s stockholders adopt the merger agreement. The board of directors then authorized the management to finalize the remaining terms and conditions of the merger agreement not yet agreed upon by the parties.

On August 6, 2007, Inverness and HemoSense executed the merger agreement. Also on August 6, 2007, Inverness entered into voting agreements with respect to approximately 33% of the HemoSense common stock outstanding on that date with each of the directors and executive officers of HemoSense and certain of their affiliates, who held an aggregate of approximately 38% of the HemoSense common stock outstanding on that date. For a discussion of the merger agreement and the voting agreements, see the sections of this proxy statement/prospectus entitled The Merger Agreement beginning on page 73 and The Voting Agreements beginning on page 86.

On August 6, 2007, Inverness and HemoSense issued a joint press release announcing the execution of the merger agreement.

Recommendation of HemoSense s Board of Directors and HemoSense s Reasons for the Merger

The HemoSense board of directors recommends that HemoSense stockholders vote **FOR** the proposal to approve the merger and adopt the merger agreement. HemoSense s board of directors determined that the proposed merger is advisable, fair to, and in the best interests of HemoSense and its stockholders and approved the merger agreement. HemoSense s board of directors consulted with senior management, its legal counsel and its financial advisors in reaching its decision to approve the merger. HemoSense s board of directors also took into account a number of factors in its deliberations concerning the merger, including, but not limited to, the following:

By combining HemoSense with Inverness, HemoSense s stockholders will participate in the benefits of synergies expected to be derived from the merger. For example, following the merger:

the combined company is expected to be able to leverage Inverness and HemoSense s extensive research and development and other technological resources in order to provide customers more innovative, diverse and compelling products and to get products to market more quickly and at more competitive prices;

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given the complementary nature of the technology and products of HemoSense and Inverness, the combined company is expected to be able to serve the cardiovascular diagnostic market more effectively and efficiently;

the combined experience, financial resources, size and breadth of product offerings of the combined company may allow the combined company to respond more quickly and effectively to technological change, increased competition and market demands in an industry experiencing rapid innovation and change

the combined company is expected to generate significant cost synergies, including from sales and marketing efforts and through the elimination of the costs of operating HemoSense as an independent company; and

the combined company may be able to compete more effectively than HemoSense alone due to greater marketing resources and financial strength, which may present improved opportunities for marketing the products of the combined company.