

INVERNESS MEDICAL INNOVATIONS INC  
Form S-4  
November 07, 2002

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As filed with the Securities and Exchange Commission on November 7, 2002

Registration Statement No. 333-

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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM S-4

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

## INVERNESS MEDICAL INNOVATIONS, INC.

*(Exact name of Registrant as specified in its charter)*

**Delaware**

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

**2835**

*(Primary Standard Industrial  
Classification Number)*

**04-3565120**

*(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, President and Chief Executive Officer  
Inverness Medical Innovations, Inc.**

**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)*

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Copies to:

**Stephen W. Carr, P.C.  
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Goodwin Procter LLP  
Exchange Place  
Boston, Massachusetts 02109-2881  
(617) 570-1000**

**James R. Lisbakken, Esq.  
Faith M. Wilson, Esq.  
Patrick J. Devine, Esq.  
Perkins Coie LLP  
1201 Third Avenue, Suite 4800  
Seattle, Washington 98101-3099  
(206) 583-8888**

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**Approximate date of commencement of proposed sale to the public:** As soon as possible after the effective date of this registration statement and the effective time of the merger described in this registration statement.

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

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please 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

### CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price(2)	Amount of registration fee(3)
Common Stock, par value \$.001 per share	2,300,511	N/A	\$21,018,726	\$1,934

- (1) Represents the estimated maximum number of shares of common stock of Inverness Medical Innovations, Inc. to be issued in connection with the merger of Ostex International, Inc. with a wholly owned subsidiary of Inverness. This registration statement also relates to an indeterminate number of shares of Inverness common stock that may be issued upon stock splits, stock dividends or similar transactions in accordance with Rule 416 under the Securities Act of 1933, as amended (the "Securities Act").
- (2) Estimated solely for the purpose of calculating the registration fee in accordance with Rules 457(c) and 457(f) under the Securities Act. Based upon the average of the high and low sales prices for Ostex' common stock on November 1, 2002 as reported on the Nasdaq National Market and the maximum number of shares of Ostex common stock to be acquired in the merger (assuming exercise of all outstanding options and warrants to acquire Ostex common stock).
- (3) Calculated pursuant to Rules 457(c) and 457(f) under the Securities Act.

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 which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

### MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Inverness Medical Innovations, Inc. and Ostex International, Inc. have agreed to the acquisition of Ostex by Inverness under the terms of a merger agreement. If the merger is completed, Ostex will become a wholly owned subsidiary of Inverness and its common stock will no longer be publicly traded. Each outstanding share of Ostex common stock, except for shares held by any shareholder who effectively exercises dissenters' rights to appraisal, will be converted into the right to receive a number of shares of common stock, par value \$.001 per share, of Inverness equal to a conversion ratio that will be determined immediately prior to the closing of the merger. The per share conversion ratio is designed to provide that an aggregate of approximately 2.3 million shares of Inverness common stock will be:

issued in exchange for all outstanding Ostex common stock; and

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reserved for issuance upon exercise of outstanding stock options and warrants to purchase Ostex common stock that will be assumed by Inverness in the merger.

If the effective time of the merger was \_\_\_\_\_, 2002, the most recent practicable date prior to the date of this proxy statement/prospectus, the conversion ratio would equal \_\_\_\_\_. Inverness common stock is traded on the American Stock Exchange under the trading symbol "IMA." On \_\_\_\_\_, 2002, Inverness common stock closed at \$ \_\_\_\_\_ per share.

Ostex will hold a special meeting of its shareholders to consider and vote on the merger and other related matters. The shareholders meeting will be held on \_\_\_\_\_, at \_\_\_\_\_ a.m. local time at \_\_\_\_\_ in Seattle, Washington. Whether or not you plan to attend the shareholders meeting, please take the time to vote on the proposal to be submitted at the meeting by completing and mailing the enclosed proxy card to Ostex. Your vote is important regardless of the number of shares of Ostex common stock you own.

The Ostex board of directors has unanimously adopted the merger agreement and determined that the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders and unanimously recommends that you vote "FOR" the proposal described in this proxy statement/prospectus.

This proxy statement/prospectus provides you with detailed information concerning Inverness, Ostex, the merger and the proposal to be considered at the special meeting of Ostex shareholders. We encourage you to read this entire document carefully. You may also obtain more information about Inverness and Ostex from documents each company has filed with the Securities and Exchange Commission.

**You should carefully consider the discussion in the section of this proxy statement/prospectus titled "Risk Factors" beginning on page 20.**

Thomas A. Bologna  
Chairman, President and Chief Executive Officer  
Ostex International, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the shares of Inverness common stock to be issued in 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 \_\_\_\_\_, 2002 and is first being mailed to shareholders on or about \_\_\_\_\_, 2002.

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### REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Inverness and Ostex from other documents that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain those documents, which are incorporated by reference in this proxy statement/prospectus, by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

**For information about Inverness:**

Inverness Medical Innovations, Inc.  
51 Sawyer Road, Suite 200  
Waltham, MA 02453  
Attn: Investor Relations  
(781) 647-3900

**If you would like to request documents, please do so by meeting.**

**For information about Ostex:**

Ostex International, Inc.  
2203 Airport Way South, Suite 400  
Seattle, WA 98134  
Attn: Investor Relations  
(206) 292-8082

**, 2002 in order to receive them before Ostex' shareholders**

See also the section of this proxy statement/prospectus titled "Where You Can Find More Information" beginning on page 122.

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Suite 400  
2203 Airport Way South  
Seattle, WA 98134

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

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Dear Fellow Shareholder:

We will hold a special meeting of shareholders of Ostex International, Inc. on \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, at \_\_\_\_\_ a.m. local time, at \_\_\_\_\_, Seattle, Washington, for the following purpose:

To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of September 6, 2002, among Inverness Medical Innovations, Inc., Geras Acquisition Corp., a wholly owned subsidiary of Inverness, and Ostex. Under the merger agreement, Ostex will become a wholly owned subsidiary of Inverness and each outstanding share of Ostex common stock (other than shares held by any shareholder who effectively exercises dissenters' rights to appraisal) will be converted into the right to receive a number of shares of Inverness common stock based on a conversion ratio that will be determined immediately prior to the closing of the merger.

This proposal is more fully described in the attached proxy statement/prospectus, which you should read carefully. The merger agreement is included with the proxy statement/prospectus as Annex A.

We will conduct no other business at the Ostex shareholders' special meeting, except business that may be properly brought before the special meeting and that is within the purpose of the special meeting described above.

The Ostex board of directors believes the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders and unanimously recommends you vote "FOR" the approval of the merger agreement.

We cannot complete the merger unless the holders of at least two-thirds of the shares of Ostex common stock outstanding on the record date vote to approve the merger agreement. Holders of Ostex common stock are entitled to assert dissenters' rights with respect to the merger under Chapter 23B.13 of the Washington Business Corporation Act, as more fully described in the attached proxy statement/prospectus.

Only holders of record of Ostex common stock at the close of business on \_\_\_\_\_, 2002, the record date for the special meeting, are entitled to vote at the special meeting or any adjournment or postponement of the special meeting.

By Order of the Board of Directors  
of Ostex International, Inc.

Thomas F. Broderick  
Secretary

Seattle, Washington

\_\_\_\_\_, 2002

**Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy card and mail it promptly in the postage-paid envelope provided. You can revoke your proxy at any time before it is voted by following the procedures set forth in this proxy statement/prospectus. Please do not send in your Ostex common stock certificates at this time.**

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**QUESTIONS AND ANSWERS ABOUT VOTING PROCEDURES FOR THE SPECIAL MEETING**

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

A: Inverness and Ostex have agreed to the acquisition of Ostex by Inverness under the terms of a merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A.

In order for the parties to complete the merger, Ostex shareholders must vote to approve the merger agreement. Ostex will hold a special meeting of its shareholders to obtain this approval. This proxy statement/prospectus contains important information about the merger and the special meeting of Ostex shareholders, and you should read it carefully. The enclosed proxy card allows you to vote your shares by proxy without attending the special meeting.

**Q: What do I need to do now?**

A: You should carefully read and consider the information contained or incorporated by reference in this proxy statement/prospectus, including its annexes. It contains important information about Ostex and Inverness.

After you have read and considered this information, you should complete and sign your proxy card

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and return it in the enclosed return envelope as soon as possible so that your shares will be represented at the special meeting.

**Q: Why is my vote important?**

A: The merger agreement must be approved by holders of at least two-thirds of the outstanding shares of Ostex common stock. If you do not vote it will have the same effect as a vote against the approval of the merger agreement.

**Q: If my shares are held in street name by my broker, will my broker automatically vote my shares for me?**

A: No. Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should fill out the voter instruction form sent to you by your broker with this proxy statement/prospectus.

**Q: Can I attend the special meeting and vote my shares in person?**

A: Yes. All shareholders are invited to attend the special meeting. Shareholders of record on \_\_\_\_\_, 2002 can vote in person at the special meeting. If your shares are held by a broker, bank or other nominee, then you are not the shareholder of record and you must bring to the special meeting a letter from the broker, bank or other nominee confirming your beneficial ownership of the shares and authorizing you to vote at the special meeting.

**Q: Can I change my vote after I have mailed my signed proxy card?**

A: You can change your vote at any time before your proxy is voted at the special meeting by:

delivering a written notice bearing a date later than the date of your proxy card to W.F. Doring & Co., Inc., Ostex' proxy solicitor, stating that you revoke your proxy;

signing and delivering to W.F. Doring a new proxy card relating to the same shares and bearing a later date; or

attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

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You should send any notice of revocation or your completed new proxy card, as the case may be, to W.F. Doring at the following address:

W.F. Doring & Co., Inc.  
150 Bay Street, 8th Floor  
Jersey City, NJ 07302

**Q: Should I send in my stock certificates now?**

A: No. If the merger is completed, you will receive written instructions for exchanging your shares of Ostex common stock for shares of Inverness common stock. In the meantime, you should retain your certificate(s) because they are still valid. Please do not send in your stock certificate(s) with your proxy.

**Q: Whom should I call with questions?**

A: You should call Ostex' proxy solicitor, W.F. Doring, at 1-888-330-5111. You also may contact Inverness or Ostex at the telephone numbers listed under "References to Additional Information" on the inside of the front cover to this proxy statement/prospectus.

## SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To more fully understand the transaction, you should read this entire proxy statement/prospectus, including the materials attached as annexes, as well as the other documents to which we have referred you. See "Where You Can Find More Information" on page 122. The page references in parentheses will direct you to a more detailed description of each topic presented in this summary.

Unless the context otherwise requires, all references to "Inverness" in this proxy statement/prospectus refer collectively to Inverness Medical Innovations, Inc. and its subsidiaries, and their respective predecessor entities for the applicable periods, considered as a single enterprise.

## The Companies

### **Inverness Medical Innovations, Inc. (See page 46)**

Inverness develops, manufactures and markets consumer health care products, including self-test diagnostic products for the women's health market and vitamins and nutritional supplements. Inverness also manufactures and distributes a wide variety of clinical diagnostic products for use by medical and laboratory professionals.

Inverness' consumer self-test diagnostic products, which include home pregnancy detection tests and home ovulation prediction tests, allow individuals to obtain accurate information regarding various medical conditions on a confidential, nonprescription basis, without the expense, inconvenience and delay associated with physician visits or laboratory testing. The information gives individuals greater control over their health and their lives, allowing them to make informed decisions and take action to protect their health, alone or in consultation with health care professionals. Inverness' nutritional supplements also provide individuals with the ability to better manage their own health.

With its recent acquisition of Wampole, Inverness dramatically expanded its clinical diagnostics business and is now a leading U.S. provider of specialized in vitro diagnostic testing products to the medical profession. Its products are sold to hospitals, major reference testing laboratories, physician's offices and clinics through an extensive distribution network.

Inverness emphasizes technological leadership in all of its businesses and has more than 40 patents in the United States and more than 300 patents in various foreign countries.

Inverness is a Delaware corporation whose principal executive offices are located at 51 Sawyer Road, Suite 200, Waltham, MA 02453 and its telephone number is (781) 647-3900.

### **Ostex International, Inc. (See page 47)**

Ostex develops and commercializes products to make "disease management a reality," with osteoporosis being the first area of focus. Ostex' lead product, the Osteomark® NTx test, which is available in multiple test formats, incorporates breakthrough and patented technology for the management of osteoporosis. Ostex has formed collaborative relationships with leading reference laboratories and distributors and markets its Point-of-Care device primarily to pharmaceutical companies to aid in the commercialization of its Osteomark® technology.

Ostex is a Washington corporation whose principal executive offices are located at 2203 Airport Way South, Suite 400, Seattle, Washington 98134 and its telephone number is (206) 292-8082.

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### **The Special Meeting of Ostex Shareholders; Vote Required (See page 48)**

A special meeting of Ostex shareholders will be held at \_\_\_\_\_, Seattle, Washington on \_\_\_\_\_, \_\_\_\_\_, at \_\_\_\_\_ a.m., local time to approve the merger agreement. Only those Ostex shareholders who held their shares at the close of business on the record date for the special meeting \_\_\_\_\_, 2002, will be entitled to vote on the proposal to approve the merger agreement.



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To act on the matters presented at the special meeting of shareholders, a quorum must be present at the special meeting. To approve the merger agreement, the holders of two thirds of the outstanding shares of common stock entitled to vote, must vote in favor of the approval of the merger agreement. Ostex' directors and their affiliates, who collectively owned an aggregate of approximately % of the total outstanding common stock of Ostex as of the record date for the special meeting, have entered into a voting agreement with Inverness. Under the voting agreement, Ostex' directors and their affiliates have agreed to vote, and have granted Inverness an irrevocable proxy and power of attorney to vote, all of their shares of Ostex common stock in favor of the approval of the merger agreement. A copy of the voting agreement is attached to this proxy statement/prospectus as Annex B.

The Ostex board of directors has unanimously adopted the merger agreement and determined that the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders and unanimously recommends that you vote "FOR" the approval of the merger agreement.

### The Merger

#### Summary of the Transaction (See page 51)

Inverness and Ostex signed an agreement and plan of merger on September 6, 2002. The merger agreement provides for the merger of Geras Acquisition Corp., a wholly owned subsidiary of Inverness, with and into Ostex with Ostex being the surviving corporation. Ostex will survive the merger as a wholly owned subsidiary of Inverness.

The proposed merger will occur following approval of the proposal described in this proxy statement/prospectus by the shareholders of Ostex and satisfaction or waiver of all other conditions to the merger. The merger agreement is attached to this proxy statement/prospectus as Annex A. We encourage you to read the merger agreement because it is the legal document that governs the merger.

#### What the Holders of Ostex Common Stock Will Receive in the Merger (See page 76)

In the merger, each outstanding share of Ostex common stock will be converted into the right to receive a number of shares of common stock of Inverness equal to a conversion ratio that will be calculated by dividing 2.3 million by the sum of:

the total number of shares of Ostex common stock outstanding immediately prior to the effective time of the merger; and

the total number of shares of Ostex common stock subject to outstanding stock options and warrants that are to be assumed by Inverness in the merger.

Since some of the variables necessary to determine the conversion ratio will not be determined until immediately prior to the effective time of the merger, the precise conversion ratio will not be determined until that time. However, if the effective time of the merger was \_\_\_\_\_, 2002, the most recent practicable date prior to the date of this proxy statement/prospectus, the conversion ratio would equal \_\_\_\_\_. This conversion ratio would result in Inverness issuing approximately \_\_\_\_\_ shares of Inverness common stock in exchange for the outstanding Ostex common stock and reserving

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approximately \_\_\_\_\_ shares of Inverness common stock for issuance upon the exercise of the outstanding Ostex warrants and options.

No fractional shares of Inverness common stock will be issued in connection with the merger. Instead, Ostex shareholders will receive an amount of cash for any fractional shares that would otherwise be issued based on the average market price of Inverness common stock over the ten trading days prior to the closing of the merger.

#### Fairness Opinion of Ostex' Financial Advisor (See page 59)

In deciding to adopt the merger agreement and recommend its approval to Ostex shareholders, Ostex' board considered, among other things, an opinion from its financial advisor, SG Cowen Securities Corporation. On September 5, 2002, SG Cowen delivered its written opinion to Ostex' board of directors that as of that date and based on and subject to the considerations set forth in the opinion, the assumed conversion ratio of 0.1494 shares of Inverness common stock for each outstanding share of Ostex common stock was fair, from a financial point of view, to

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the holders of Ostex common stock. This opinion is described more fully in the section of this proxy statement/prospectus titled "The Merger Fairness Opinion of Ostex' Financial Advisor." In addition, the full text of this written opinion is attached to this proxy statement/prospectus as Annex E. We encourage you to read this opinion carefully in its entirety. The opinion of SG Cowen is directed to Ostex' board and is not a recommendation to any shareholder on how to vote on the merger agreement.

### **Inverness' Reasons for the Merger (See page 55)**

In reaching its decisions to approve the merger agreement and related transactions including the merger and the issuance of shares of Inverness common stock to the Ostex shareholders, Inverness' board consulted with its senior management, and considered, among other things, the following factors:

Ostex' leading-edge intellectual property rights in the field of osteoporosis testing;

the difficulties that Inverness would face in attempting to develop non-infringing technology in the field of osteoporosis testing that was comparable to Ostex';

expected synergies through the acquisition of Ostex' existing and in-process intellectual property and the elimination of redundancies;

Inverness' anticipated ability to increase sales of Ostex' existing products through the use of Inverness' marketing and distribution channels;

the complementary nature of Inverness' and Ostex' businesses and the opportunity for significant cost savings;

the business, operations, financial condition, earnings and prospects of each of Inverness and Ostex, taking into account Inverness' due diligence review of Ostex' business;

the terms and conditions of the merger agreement, voting agreement, stock option agreement and the loan agreement; and

the potential risks of the merger discussed in the section of this proxy statement/prospectus titled "Risk Factors Risks Relating to the Merger."

This discussion of the factors considered by the Inverness board of directors is described more fully in the section of this proxy statement/prospectus titled "The Merger Inverness' Reasons for the Merger." The Inverness board of directors has unanimously approved the merger agreement and related transactions including the merger and the issuance of shares of common stock to the shareholders of Ostex pursuant to the merger agreement.

### **Ostex' Reasons for the Merger; Recommendation of Ostex' Board of Directors (See page 56)**

In determining to adopt the merger agreement, approve the merger and the transactions contemplated by the merger agreement, and recommend that Ostex' shareholders approve the merger agreement, the Ostex board of directors consulted with Ostex' financial advisor, its accounting advisor, as well as its legal counsel, and considered, among other things, the following factors:

the opportunity for Ostex shareholders to receive a premium over the market price for shares of Ostex common stock existing before the public announcement of the merger;

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the ability of Ostex shareholders to continue to participate in the growth of the business conducted by Inverness and Ostex following the merger and to benefit from the potential appreciation in value of shares of Inverness common stock;

the likelihood that the merger would be completed;

the opinion of SG Cowen that, as of September 5, 2002 and subject to the considerations set forth in their opinion, the assumed conversion ratio of 0.1494 shares of Inverness common stock for each outstanding share of Ostex common stock was fair to shareholders of Ostex from a financial point of view;

the prospects of Ostex as an independent company;

the terms and conditions of the merger agreement, the stock option agreement and the loan agreement; and

the potential risks of the merger discussed in the section of this proxy statement/prospectus titled "Risk Factors Risks Relating to the Merger."

The above discussion of the factors considered by the Ostex board of directors is described more fully in the section of this proxy statement/prospectus titled "The Merger Ostex' Reasons for the Merger; Recommendation of Ostex' Board of Directors." The Ostex board of directors has unanimously adopted the merger agreement and determined that the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders and unanimously recommends that you vote "FOR" the approval of the merger agreement.

### Material Federal Income Tax Consequences (See page 70)

Inverness and Ostex expect the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. If the merger does qualify as a reorganization, no gain or loss will be recognized by Ostex, Inverness or Geras Acquisition Corp. by reason of the merger. If you are an Ostex shareholder, we expect that you generally will not recognize gain or loss on the exchange of your shares of Ostex common stock for shares of Inverness common stock, except with regard to any cash you receive instead of fractional shares. If you exercise dissenters' appraisal rights, we expect that you generally will recognize gain or loss on the receipt of payment for your shares of Ostex common stock as a result of your exercise of dissenters' appraisal rights. **Because the tax consequences of the merger may vary depending upon each Ostex shareholder's particular circumstances, we urge you to consult your own tax advisors about the federal, state, local or foreign tax consequences to you as a result of the merger.**

### Dissenters' Appraisal Rights (See page 72)

Under applicable Washington law, Ostex' shareholders have the right to dissent from the merger and to receive payment in cash for the appraised fair value of their shares of Ostex common stock. The appraised value of the shares of Ostex common stock of dissenting shareholders may be more than, less

than or equal to the value of the merger consideration. Each Ostex shareholder seeking to preserve statutory dissenters' rights must:

deliver to Ostex before the vote is taken at the special meeting written notice of such shareholder's intent to demand payment for such shareholder's Ostex common stock if the merger becomes effective;

not vote such shareholder's shares of Ostex common stock in person or by proxy in favor of the proposal to approve the merger agreement; and

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follow the statutory procedures for perfecting dissenters' rights under Washington law, which are described in the section entitled "The Merger Dissenters' Appraisal Rights."

Merely voting against the merger agreement will not preserve your dissenters' rights. Chapter 23B.13 of the Washington Business Corporation Act is reprinted in its entirety and attached to this proxy statement/prospectus as Annex F. Failure by an Ostex shareholder to precisely comply with all procedures required by Washington law may result in the loss of dissenters' rights for that shareholder.

Under the merger agreement, if the number of dissenting shares exceeds 2% of the number of shares of outstanding Ostex common stock, Inverness is not obligated to effect the merger.

### **Interests of Ostex' Directors and Officers in the Merger (See page 68)**

Ostex' directors and executive officers have interests in the merger that are different from, or in addition to, their interests as Ostex shareholders. These interests include:

the accelerated vesting of all of the officers' and directors' stock options in accordance with their terms and, if they are employees or directors of Ostex immediately prior to the effective time of the merger, the extension of the period within which they may exercise their stock options, both of which will occur at the effective time of the merger;

the severance payments to be made to Thomas A. Bologna, Chairman, President and Chief Executive Officer of Ostex, under his current employment agreement in connection with the termination of his employment after the merger;

the consulting and noncompete fees payable by Ostex to Mr. Bologna after the merger under the consulting agreement entered into in connection with the merger agreement; and

the directors' and officers' receipt of indemnification and insurance coverage with respect to acts and omissions in their capacities as officers and directors of Ostex prior to the merger.

For a more detailed discussion of these interests, see the section of this proxy statement/prospectus titled "The Merger Interests of Ostex' Directors and Officers in the Merger."

### **Treatment of Stock Options and Warrants (See page 77)**

Each option to purchase shares of Ostex common stock held by an employee or director of Ostex immediately prior to the merger and each warrant exercisable for shares of Ostex common stock outstanding immediately prior to the merger will be assumed by Inverness. At the effective time of the merger:

each assumed option will fully vest in accordance with its terms;

each assumed option will be amended to provide that it will be exercisable for its entire remaining term, regardless of whether or not the holder of the option continues to be an employee or director of Ostex or Inverness; and

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the number of shares issuable upon exercise and the exercise price of each assumed option and warrant will be adjusted to reflect the merger's conversion ratio.

### **Conditions to the Merger (See page 78)**

Inverness and Ostex will not complete the merger unless a number of conditions are satisfied or waived, including approval of the merger agreement by the Ostex shareholders and Inverness obtaining any necessary consents with respect to the transactions contemplated by the

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merger agreement required under any material loan agreement of Inverness. Additionally, under the merger agreement, if the number of dissenting shares exceeds 2% of the number of shares of outstanding Ostex common stock, Inverness is not obligated to effect the merger.

### Limitations on Considering Other Acquisition Proposals (See page 82)

Ostex has agreed not to solicit, encourage or consider any acquisition proposal, such as a business combination or other similar transaction, with a party other than Inverness while the merger is pending; however, the Ostex board may engage in discussions in response to an unsolicited bona fide proposal that represents a superior proposal. To consider a superior proposal, the board of Ostex must conclude that considering the superior proposal is required by the directors' fiduciary duties. Ostex has also agreed to promptly inform Inverness if it is approached by any third party with any acquisition proposal or any request or inquiry that could lead to an acquisition proposal.

Ostex' directors and their affiliates, who collectively owned an aggregate of approximately % of the total outstanding common stock of Ostex as of the record date for the special meeting, have entered into a voting agreement with Inverness. Under the voting agreement, Ostex' directors and their affiliates have agreed to vote, and have granted Inverness an irrevocable proxy and power of attorney to vote, all of their shares of Ostex common stock in favor of the approval of the merger agreement and against any competing acquisition proposal. Ostex' directors and their affiliates also agreed not to dispose of, or enter into any other voting arrangement with respect to, their shares of Ostex common stock. The voting agreement terminates upon the earlier of the effective time of the merger or the termination of the merger agreement in accordance with its terms.

Even if Ostex' board considers a proposal that it determines to be a superior proposal, Ostex will be required to hold the special meeting of its shareholders to consider and vote on the proposal to approve the merger agreement and Ostex' directors and their affiliates will be required to vote in favor of the approval of the merger agreement.

Additionally, Ostex and Inverness have entered into a stock option agreement whereby Ostex has granted Inverness an option to purchase up to 19.9% of its capital stock upon the occurrence of specified events that ordinarily would be associated with an acquisition or potential acquisition of Ostex by a third party. See "Other Material Agreements Relating to the Merger Stock Option Agreement" beginning on page 88.

### Termination of the Merger Agreement (See page 79)

Ostex may terminate the merger agreement for any of the following reasons:

a governmental entity has issued an injunction that prohibits the merger or the other transactions contemplated by the merger agreement and Ostex has used its reasonable best efforts to take all actions necessary or advisable to complete the merger and lift the injunction;

the merger has not occurred on or before March 31, 2003, unless Ostex' failure to comply with the merger agreement was the cause of the failure of the merger to occur on or before this date;

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Inverness has breached any of its representations, warranties, covenants or agreements contained in the merger agreement and cannot cure or has not cured the breach within a 30-day cure period, unless the breach has not had and is not reasonably likely to have a material adverse effect on Ostex;

at any time after November 15, 2002, if at that time Inverness has not obtained any necessary consent with respect to the transactions contemplated by the merger agreement required under any material loan agreement of Inverness; or

before its shareholders meeting, if:

\*

it is concurrently entering into an agreement to effect a superior proposal;

\*

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it gives Inverness five business days prior written notice of the superior proposal and, during the five business day period, it considers and discusses, and causes its financial and legal advisors to consider and discuss, with Inverness any subsequent adjustment to the terms of the merger agreement proposed by Inverness; and

\*

it pays Inverness a \$1.8 million termination fee.

Inverness may terminate the merger agreement for any of the following reasons:

a governmental entity has issued an injunction that prohibits the merger or the other transactions contemplated by the merger agreement and Inverness has used its reasonable best efforts to take all actions necessary or advisable to complete the merger and lift the injunction;

the merger has not occurred on or before March 31, 2003, unless Inverness' failure to comply with the merger agreement was the cause of the failure of the merger to occur on or before this date;

Ostex has breached any of its representations, warranties, covenants or agreements contained in the merger agreement and cannot cure or has not cured the breach within a 30-day cure period, unless the breach has not had and is not reasonably likely to have a material adverse effect on Inverness;

at any time after November 15, 2002, if at that time Inverness has not obtained any necessary consent with respect to the transactions contemplated by the merger agreement required under any material loan agreement of Inverness;

Ostex has breached any of its representations, warranties, covenants or agreements contained in Section 6.1 of the merger agreement, which relates to Ostex' covenants that it will not solicit acquisition proposals and that its board of directors will not withdraw its approval of the merger agreement or recommendation of the merger agreement to its shareholders, or the stock option agreement and cannot cure or has not cured the breach within a 30-day cure period, unless the breach has not prevented or materially delayed, and would not reasonably be expected to prevent or materially delay, the merger;

any required approval of the merger agreement or the transactions contemplated under the merger agreement by Ostex' shareholders was not obtained at a meeting of Ostex' shareholders;

Ostex' board withdraws or modifies, or resolves to withdraw or modify, its approval or recommendation of the merger agreement or any transaction under the merger agreement;

Ostex' board approves or recommends, or resolves to approve or recommend, an agreement relating to an acquisition proposal; or

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a tender or exchange offer relating to Ostex' securities is commenced by a third party and Ostex has not sent a statement recommending rejection of the offer to its shareholders within ten business days after the offer is first given.

The merger agreement may also be terminated upon the mutual written agreement of Ostex and Inverness.

### **Termination Fee and Expenses (See page 81)**

The merger agreement requires Ostex to pay Inverness a termination fee of \$1.8 million if:

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Ostex has willfully or intentionally breached any representation, warranty, covenant or agreement of the merger agreement or stock option agreement and Inverness terminates the merger agreement;

Inverness terminates the merger agreement pursuant to its termination right related to the failure of Ostex to oppose a third party tender offer or exchange offer;

Inverness terminates the merger agreement pursuant to any of its termination rights related to Ostex' board's approval of an acquisition proposal or withdrawal of its approval or recommendation of the merger agreement;

Ostex terminates the merger agreement concurrently with its entering into an agreement to effect a superior proposal in connection with its related termination right; or

the following three conditions are met:

- \*  
prior to the final adjournment of the special meeting of Ostex' shareholders, an acquisition proposal is received by Ostex or publicly announced;
- \*  
the merger agreement is terminated as a result of Ostex' shareholders' failure to approve the merger; and
- \*  
within one year after the termination of the merger agreement:

Ostex enters into an agreement relating to an acquisition proposal with a person other than Inverness;

Ostex' board recommends or resolves to recommend to its shareholders that they approve or accept an acquisition proposal with a person other than Inverness; or

Ostex' board does not recommend to its shareholders that they reject and do not accept any acquisition proposal that is in the form of an actual or proposed tender offer or exchange offer within ten business days of the making or announcement of such offer.

Also, under the merger agreement, Ostex has agreed not to enter into any agreement relating to an acquisition proposal with any person other than Inverness within one year after the termination of the merger agreement, unless that person, prior to entering into the agreement, has paid or caused to be paid to Inverness, to the extent due, any termination fee due under the merger agreement.

### **Stock Option Agreement (See page 89)**

As a condition to Inverness' willingness to enter into the merger agreement, Ostex granted Inverness an option to purchase up to 19.9% of Ostex' outstanding common stock at an exercise price of \$2.39 per share. This option is intended to increase the likelihood that the merger will be completed by, among other things, discouraging other companies from attempting to acquire Ostex during the term of the merger agreement. The option is only exercisable upon the occurrence of specified events that ordinarily would be associated with an acquisition or potential acquisition of Ostex by a third

party. If the option becomes exercisable in specified circumstances in connection with an acquisition proposal, Inverness may also cancel the option, or any portion of the option, in exchange for an amount of cash equal to the product of (a) the excess over the per share exercise price of the highest per share purchase price paid or proposed to be paid pursuant to an acquisition proposal that caused, or would cause, the option to become exercisable, or the current average market price per share, if higher, multiplied by (b) the number of shares subject to the portion of the

option that is canceled.

A copy of the stock option agreement is attached to this proxy statement/prospectus as Annex C.

**Loan Agreement (See page 90)**

In connection with the merger agreement, Inverness and Ostex entered into, and later amended and restated, a loan agreement. Under the loan agreement, Inverness has agreed to loan, or arrange for one of its affiliates to loan, up to an aggregate of \$2 million to Ostex. As of November 6, 2002, Ostex had borrowed \$334,000 under the loan agreement. Ostex may borrow an additional \$433,000 on November 12, 2002 and an additional \$233,000 on December 9, 2002. Ostex may borrow the remaining \$1 million under the loan agreement at any time on or after January 2, 2003 if, after the additional loan, the total of Ostex' cash, cash equivalents and short-term investments would not exceed its budgeted working capital needs for the next six months and other specified conditions are met.

The loans must be repaid at the earliest of:

the first business day after the effective time of the merger;

acceleration upon an event of default;

the termination of the merger agreement in specified circumstances related to Ostex' breach of the terms of merger agreement or stock option agreement or Ostex' board's approval of an acquisition proposal or withdrawal of its approval or recommendation of the merger agreement; or

September 30, 2003.

Additionally, if the merger agreement is terminated in circumstances other than those that would require Ostex to immediately repay the loans, Inverness is not required to make or arrange for any additional loans on or after the effective date of termination, if the aggregate outstanding amount of all loans made under the loan agreement, other than the initial loans with an aggregate principal amount of \$1 million, would exceed \$750,000 after making the additional loan.

A copy of the loan agreement is attached to this proxy statement/prospectus as Annex D.

**Merger-Related Expenses (See page 88 and 100)**

Ostex estimates that its merger-related fees and expenses, consisting primarily of fees and expenses of investment bankers, attorneys and accountants and financial printing and other related charges, will be approximately \$1.2 million to \$1.4 million.

If the merger is effected, Inverness estimates that its merger-related fees and expenses, consisting primarily of restructuring costs, fees and expenses of investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges, will be approximately \$3.3 million. See Notes 1 and 2(w) in "Notes to Unaudited Pro Forma Condensed Combined Financial Information."

**Comparative Shareholder Rights (See page 110)**

When the merger becomes effective, Ostex shareholders will hold shares of Inverness common stock. As Ostex shareholders' rights are presently governed by Washington law and Inverness shareholders' rights are presently governed by Delaware law and Ostex' articles of incorporation and bylaws differ from Inverness' certificate of incorporation and bylaws, Ostex shareholders will have different rights when they become holders of Inverness common stock than they currently have as holders of Ostex common stock.

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**Selected Combined Company Unaudited Pro Forma Financial Data**

The following selected combined company unaudited pro forma financial data for the year ended December 31, 2001 and the six months ended June 30, 2002 has been derived from the unaudited pro forma condensed combined financial information and related notes included



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elsewhere in this proxy statement/prospectus. This information is, in part, based on the respective audited and unaudited historical consolidated financial statements of Inverness and Ostex and after giving effect to the acquisition of Ostex and Inverness' previous acquisitions of the Unipath business, IVC and Wampole, using the purchase method of accounting for business combinations. This information is for illustrative purposes only. The companies may have performed differently had they always been combined. You should not rely on the selected combined company unaudited pro forma financial data as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger. This information should be read in conjunction with the unaudited pro forma condensed combined financial information and the historical financial statements and related notes of Inverness and Ostex included in or incorporated by reference into this proxy statement/prospectus.

	Year Ended December 31, 2001	Six Months Ended June 30, 2002
(in thousands, except per share amounts)		
<b>Pro Forma Combined Statement of Operations Data:</b>		
Net revenues	\$ 266,967	\$ 126,442
Cost of sales	144,952	72,156
Gross profit	122,015	54,286
Operating expenses:		
Research and development	14,461	8,051
Sales and marketing	63,906	25,791
General and administrative	44,428	20,538
Other noncash expenses	10,441	22,851
Total operating expenses	133,236	77,231
Operating loss	(11,221)	(22,945)
Interest and other expenses, net	(11,637)	(8,612)
Loss from continuing operations before income taxes	(22,858)	(31,557)
Provision for income taxes	7,741	1,519
Loss from continuing operations	\$ (30,599)	\$ (33,076)
Loss from continuing operations available to common stockholders	\$ (30,599)	\$ (36,878)
Loss per common share basic and diluted:		
Loss from continuing operations	\$ (3.71)	\$ (3.81)
Weighted average common shares basic and diluted	8,248	9,668
	<b>June 30, 2002</b>	
<b>Pro Forma Combined Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 22,598	
Working capital	27,319	
Total assets	380,578	
Debt obligations	106,047	
Redeemable convertible preferred stock	54,834	
Total stockholders' equity	142,252	

**Selected Historical Consolidated Financial Data of Inverness**

The following tables provide selected historical consolidated financial data of Inverness as of and for each of the fiscal years in the five year period ended December 31, 2001, as of June 30, 2002, and for each of the six month periods ended June 30, 2001 and 2002 and should be read in conjunction with Inverness' consolidated financial statements and notes incorporated by reference into this proxy statement/prospectus.

The selected historical consolidated financial data as of and for each of the fiscal years in the three-year period ended December 31, 2001 have been derived from Inverness' audited consolidated financial statements that are incorporated by reference into this proxy statement/prospectus. The selected historical consolidated financial data as of and for the years ended December 31, 1997 and 1998 has been derived from Inverness' unaudited financial statements not included in or incorporated by reference into this proxy statement/prospectus. The selected historical consolidated statement of operations data for the six-month periods ended June 30, 2001 and 2002 and the selected historical consolidated balance sheet data as of June 30, 2002 are derived from Inverness' unaudited consolidated financial statements incorporated by reference into this proxy statement/prospectus. The unaudited consolidated financial statements for the years ended December 31, 1997 and 1998 and for the six-month periods ended June 30, 2001 and 2002 have been prepared on a basis consistent with Inverness' audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of Inverness' consolidated financial position and consolidated results of operations for these periods.

Inverness was formed in May 2001 as a subsidiary of Inverness Medical Technology, Inc., and subsequently split-off as an independent public company as part of a split-off and merger transaction whereby Johnson & Johnson acquired Inverness Medical Technology on November 21, 2001. As part of the split-off and merger, Inverness acquired all rights to Inverness Medical Technology's women's health, nutritional supplement and clinical diagnostics businesses, as well as certain intellectual property. Because Inverness had not historically been operated or accounted for as a stand-alone business, the results for the periods prior to the split-off on November 21, 2001, presented below in the selected historical consolidated financial data, are derived from historical consolidated financial statements for Inverness' businesses, which have been carved out of Inverness Medical Technology's financial statements in accordance with the requirements of accounting principles generally accepted in the United States. Because the financial results for the periods prior to the split-off have been carved out of Inverness Medical Technology's past financial statements, they may not reflect what Inverness' results of operations and financial position would have been had it been a separate, stand-alone entity during those periods or be indicative of Inverness' future performance. For a discussion of certain factors that materially affect the comparability of the consolidated financial data or cause the data reflected herein not to be indicative of our future financial condition or results of operations, see the section of this proxy statement/prospectus titled "Risk Factors."

The historical financial information of Inverness presented in the following table does not include the actual results of the previously acquired entities and businesses (the Unipath business, IVC and Wampole) prior to their respective acquisition dates, December 20, 2001, March 19, 2002 and September 20, 2002. For pro forma financial information including these previously acquired entities and businesses as of June 30, 2002 and for the year ended December 31, 2001 and six months ended June 30, 2002, see the unaudited pro forma condensed combined financial statements included elsewhere in this proxy statement/prospectus.

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	Year Ended December 31,					Six Months Ended June 30,	
	1997	1998	1999	2000	2001	2001	2002
(in thousands, except per share data)							
<b>Consolidated Statement of Operations:</b>							
Net revenues	\$ 50,635	\$ 54,685	\$ 50,584	\$ 51,051	\$ 49,384	\$ 23,131	\$ 88,956
Cost of sales	24,724	26,720	26,890	25,075	25,821	11,767	48,548
Gross profit	25,911	27,965	23,694	25,976	23,563	11,364	40,408
<b>Operating expenses:</b>							
Purchased in-process research and development					6,980		
Research and development	6,210	2,323	1,396	1,360	1,809	655	6,942
Sales and marketing	12,101	13,169	11,010	10,585	10,976	3,917	19,541



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	Year Ended December 31,					Six Months Ended June 30,	
	1997	1998	1999	2000	2001	2001	2002
	(in thousands, except per share data)						
(Loss) income from continuing operations	\$ (5,312)	\$ (6,178)	\$ 357	\$ 2,780	\$ (24,462)	\$ 861	\$ (30,503)
Add back: Goodwill amortization, net of tax	1,567	2,052	557	398	398	199	
Adjusted (loss) income from continuing operations	\$ (3,745)	\$ (4,126)	\$ 914	\$ 3,178	\$ (24,064)	\$ 1,060	\$ (30,503)
Adjusted (loss) income from continuing operations available to stockholders	\$ (3,745)	\$ (4,126)	\$ 914	\$ 3,178	\$ (24,064)	\$ 1,060	\$ (34,305)
Adjusted (loss) income from continuing operations per common share basic and diluted	\$ (2.34)	\$ (1.69)	\$ 0.27	\$ 0.67	\$ (3.78)	\$ 0.17	\$ (4.40)

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**Selected Historical Financial Data of Ostex**

The following table provides selected historical financial data of Ostex as of and for each of the fiscal years in the five year period ended December 31, 2001 and as of and for each of the six-month periods ended June 30, 2002 and 2001 and should be read in conjunction with Ostex' financial statements and notes incorporated by reference into this proxy statement/prospectus. The unaudited selected statement of operations for the six-month periods ended June 30, 2002 and 2001 and the unaudited selected balance sheet data as of June 30, 2002 and 2001 have been prepared on a basis consistent with Ostex' financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of Ostex' financial position and results of operations for these periods.

For a discussion of certain factors that materially affect the data herein, see the section of this proxy statement/prospectus titled "Risk Factors."

	Year Ended December 31,					Six Months Ended June 30,	
	1997	1998	1999	2000	2001	2001	2002
	(in thousands, except per share amounts)						
<b>Statement of Operations:</b>							
Revenues:							
Product sales and research testing services	\$ 3,658	\$ 3,047	\$ 4,732	\$ 5,552	\$ 5,734	\$ 3,021	\$ 2,495
License fees and research and development payments	450						
Total revenues	4,108	3,047	4,732	5,552	5,734	3,021	2,495
Cost of products sold	899	814	1,130	1,858	2,278	1,204	1,019
Gross margin on product sales	3,209	2,233	3,602	3,694	3,456	1,817	1,476

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(Percentage of revenue)	Year Ended December 31,					Six Months Ended June 30,	
	78%	73%	76%	67%	60%	60%	59%
<b>Operating expenses:</b>							
Point-of-care facility start-up costs				80	872	250	569
Research and development	4,470	2,901	1,734	1,611	1,834	996	871
Selling, general and administrative	8,031	8,122	3,831	4,568	3,932	2,040	1,838
<b>Total operating expenses</b>	<b>12,501</b>	<b>11,023</b>	<b>5,565</b>	<b>6,259</b>	<b>6,638</b>	<b>3,286</b>	<b>3,278</b>
<b>Loss from operations</b>	<b>(9,292)</b>	<b>(8,790)</b>	<b>(1,963)</b>	<b>(2,565)</b>	<b>(3,182)</b>	<b>(1,469)</b>	<b>(1,802)</b>
<b>Other Income:</b>							
Proceeds from legal settlement	6,200			152			
Interest, net	828	695	393	396	83	110	(73)
<b>Net loss</b>	<b>\$ (2,264)</b>	<b>\$ (8,095)</b>	<b>\$ (1,570)</b>	<b>\$ (2,017)</b>	<b>\$ (3,099)</b>	<b>\$ (1,359)</b>	<b>\$ (1,875)</b>
<b>Basic and diluted net loss per common and common equivalent share</b>	<b>\$ (0.18)</b>	<b>\$ (0.64)</b>	<b>\$ (0.13)</b>	<b>\$ (0.16)</b>	<b>\$ (0.25)</b>	<b>\$ (0.11)</b>	<b>\$ (0.15)</b>

December 31,

1997	1998	1999	2000	2001	June 30, 2002
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(in thousands)

**Balance Sheet Data:**

Cash, cash equivalents and short-term investments	\$ 18,965	\$ 10,979	\$ 8,400	\$ 6,578	\$ 3,827	\$ 1,409
Working capital	18,368	10,624	9,205	6,600	4,104	2,507
Total assets	24,112	15,065	12,297	12,311	9,635	8,219
Total debt obligations	509	324	115	1,053	1,773	1,485
Total shareholders' equity	21,644	13,488	11,709	9,906	6,932	5,097

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**Unaudited Comparative Per Share Information**

The following table presents (a) the unaudited basic and diluted loss per share and book value per share data for each of Inverness and Ostex on a historical basis, (b) the unaudited basic and diluted loss per share and book value per share data for the combined company on a pro forma basis and (c) the unaudited basic and diluted loss per share and book value per share data for Ostex on an equivalent pro forma basis. The unaudited pro forma combined financial data are not necessarily indicative of the operating results that would have been achieved had the transaction been in effect as of the beginning of the periods presented or what the financial position of Inverness would have been had the transaction occurred on June 30, 2002 and should not be construed as representative of the future financial position or operating results of Inverness. Neither Inverness nor Ostex declared any cash dividends for the periods presented below. The pro forma combined loss from continuing operations, pro forma stockholders' equity and the pro forma number of shares of Inverness common stock outstanding used in determining the amounts presented below have been derived from the unaudited pro forma condensed combined financial statements included in this proxy statement/prospectus.

This information is only a summary and should be read in conjunction with the selected historical financial data of Inverness and Ostex, the Inverness and Ostex unaudited pro forma condensed combined financial statements, and the separate historical financial statements of Inverness

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and Ostex and related notes included in or incorporated by reference into this proxy statement/prospectus.

	Inverness		Ostex	
	Historical (1)	Pro Forma Combined(2)	Historical	Pro Forma Equivalent(3)
Basic and diluted loss from continuing operations per share:				
Year ended December 31, 2001	\$ (3.84)	\$ (3.71)	\$ (0.25)	
Six months ended June 30, 2002	(4.40)	(3.81)	(0.15)	
Book value per share:				
June 30, 2002	9.85	10.74	0.41	

- (1) The historical per share information of Inverness does not include the actual results of the previously acquired entities and businesses (the Unipath business, IVC and Wampole) prior to their respective acquisition dates, December 20, 2001, March 19, 2002 and September 20, 2002. For pro forma per share information including these previously acquired entities and businesses as of June 30, 2002 and for the year ended December 31, 2001 and six months ended June 30, 2002, see the unaudited pro forma condensed combined financial statements included elsewhere in this proxy statement/prospectus.
- (2) The pro forma combined information, in addition to giving pro forma effect to Inverness' acquisition of Ostex, also gives pro forma effect to Inverness' previous acquisitions (the Unipath business, IVC and Wampole) to the extent to which those acquisitions occurred after the beginning of the periods for which the pro forma basic and diluted loss from continuing operations per share are presented or after the date for which the pro forma book value per share is presented. Actual operating results of these previous acquisitions are included in Inverness' historical per share information from the respective acquisition dates.
- (3) Pro forma equivalent amounts are calculated by multiplying the pro forma combined amounts by an assumed conversion ratio of . This assumed conversion ratio was calculated by dividing 2.3 million shares of Inverness common stock by the sum of shares of Ostex common stock outstanding as of , 2002 and shares of Ostex common stock subject to outstanding stock options and warrants as of , 2002.

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### Comparative Stock Prices and Dividends

Inverness common stock is quoted on the American Stock Exchange under the trading symbol "IMA." Ostex common stock is quoted on the Nasdaq National Market under the trading symbol "OSTX." The following table sets forth, for the periods indicated, the high and low closing sale prices per share of Inverness common stock as reported on the American Stock Exchange and the high and low closing sale price per share of Ostex common stock as reported on the Nasdaq National Market. Prior to November 23, 2001, two days after Inverness' split-off from Inverness Medical Technology, Inc., there was no established public trading market for shares of Inverness common stock.

	Inverness		Ostex	
	High	Low	High	Low
<b>Calendar Quarter 2000</b>				
First Quarter	N/A	N/A	\$ 8.13	\$ 3.00
Second Quarter	N/A	N/A	3.50	1.81
Third Quarter	N/A	N/A	2.94	1.75
Fourth Quarter	N/A	N/A	2.25	1.25
<b>Calendar Quarter 2001</b>				

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	Inverness		Ostex	
First Quarter	N/A	N/A	1.94	1.03
Second Quarter	N/A	N/A	1.99	1.06
Third Quarter	N/A	N/A	3.15	1.22
Fourth Quarter	\$ 19.35	\$ 15.47	3.35	1.76
<b>Calendar Quarter 2002</b>				
First Quarter	25.41	18.00	3.15	2.00
Second Quarter	28.21	17.45	2.50	1.37
Third Quarter	18.90	9.49	2.10	1.04
Fourth Quarter (through , 2002)				

**Recent Closing Prices**

The following table sets forth the high, low and closing sale prices per share of Inverness common stock as reported on the American Stock Exchange and Ostex common stock as reported on the Nasdaq National Market, respectively, on September 6, 2002, the last trading day before the public announcement of the merger agreement, and on , 2002, the last full trading day for which closing prices were available at the time of the printing of this proxy statement/prospectus. The equivalent per share amount is determined by multiplying the closing price of Inverness common stock by an assumed conversion ratio of . The actual conversion ratio will not necessarily equal the assumed conversion ratio.

	Inverness			Ostex			Equivalent Per Share Value of Ostex Common Stock
	High	Low	Closing	High	Low	Closing	
September 6, 2002	\$ 16.09	\$ 15.89	\$ 16.00	\$ 1.11	\$ 1.10	\$ 1.10	
, 2002							

The market price of Inverness common stock is likely to fluctuate prior to the merger. You should obtain current market quotations. We cannot predict the future prices for Inverness common stock.

**Dividend Information**

No cash dividends have ever been paid or declared on the shares of Inverness common stock or Ostex common stock. Inverness does not intend to pay cash dividends on its common stock in the foreseeable future. Inverness' present intention is to retain its earnings to finance the growth and

development of its business. Any future payment of dividends on Inverness common stock will be at its board's discretion and will depend upon, among other things, Inverness' earnings, financial condition, capital requirements, level of indebtedness and other factors that the Inverness board deems relevant.

**Number of Holders of Common Stock and Number of Shares Outstanding**

As of , 2002 there were stockholders of record of Inverness common stock who held an aggregate of shares of Inverness common stock.

As of , 2002, there were shareholders of record of Ostex common stock who held an aggregate of shares of Ostex common stock.

## RISK FACTORS

In addition to the other information included in this proxy statement/prospectus, you should consider carefully the risk factors described below in deciding how to vote on the merger proposal. You should keep these risk factors in mind when you read forward-looking statements. Please refer to the section of this proxy statement/prospectus titled "Special Note Regarding Forward-Looking Statements."

### Risks Relating to the Merger

#### **The value of Inverness common stock to be received in the merger may decline prior to closing.**

In the merger, an aggregate of approximately 2.3 million shares of Inverness common stock is to be:

issued in exchange for all outstanding Ostex common stock; and

reserved for issuance upon exercise of the outstanding stock options and warrants of Ostex that will be assumed by Inverness in the merger.

The aggregate number of Inverness shares will not be adjusted as a result of any change in the price of Inverness common stock. Therefore, the value of the merger consideration to be received by Ostex shareholders will depend on the market price of Inverness common stock at the time the merger becomes effective. The market price of Inverness common stock at the closing of the merger may be lower than its market prices on the date of this proxy statement/prospectus and on the date of the Ostex shareholders meeting. There are many factors that could cause the market price of Inverness common stock to decrease including adverse changes in the businesses, operations or prospects of Inverness or Ostex, general market and economic conditions and the other factors described in this section of the proxy statement/prospectus. Ostex does not have the right to terminate the merger agreement or resolicit the vote of its shareholders based solely on changes in the value of Inverness common stock. You are encouraged to obtain current market quotations for Inverness common stock.

#### **Inverness will be unable to acquire Ostex if its senior lenders do not consent to the merger. Additionally, if Inverness has not received the consent of its senior lenders to the merger by November 15, 2002, Inverness and Ostex each will have the right, unless and until the consent is received, to terminate the merger agreement.**

Inverness' receipt of all necessary consents to the merger required under its material loan agreements is a condition to the obligations of Inverness and Ostex to complete the merger under the merger agreement. Inverness currently has credit facilities with The Royal Bank of Scotland plc and RBS Mezzanine Limited, an entity related to The Royal Bank of Scotland, under which Inverness had approximately \$42 million of outstanding indebtedness as of September 30, 2002. Inverness would breach these credit facilities if it acquired Ostex without obtaining the consent of The Royal Bank of Scotland and RBS Mezzanine Limited. Inverness may be unable to obtain these consents or any other required consents under material loan agreements of Inverness that may be existing at the proposed closing time of the merger. If Inverness is unable to obtain the required consents under its material loan agreements then it will be unable to complete its acquisition of Ostex.

Additionally, under the merger agreement, if Inverness has not received any necessary consent to the merger required under any of its material loan agreements on or before November 15, 2002, then Inverness and Ostex will each have the right to terminate the merger agreement. These termination rights will continue unless and until Inverness receives the required consents. Inverness may be unable to obtain the required consents on or before November 15, 2002.

#### **Integration of operations 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 Ostex' 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 Ostex. 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, research and development operations;

coordinating sales, distribution and marketing functions;

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

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

coordinating geographically separate organizations.

Inverness and Ostex 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.

**Inverness may not successfully manage its growth or integrate potential future acquisitions.**

Since Inverness was split-off from Inverness Medical Technology, Inc., or IMT, on November 21, 2001, it has experienced rapid growth. Inverness has acquired IVC Industries, Inc., the Unipath business of Unilever and the Wampole Laboratories division of MedPointe Inc. Additionally, in the future, Inverness may make additional acquisitions of companies, products or technologies. Managing these acquired businesses and integrating their operations with those of Inverness will entail numerous operational and financial risks and challenges, including those described in the preceding risk factor and elsewhere in this section of the proxy statement/prospectus. Inverness may not be able to effectively manage its growth or successfully integrate its operations and its failure to do so may adversely affect its business.

**If the merger does not occur, Inverness and Ostex will have incurred substantial expenses without realizing the expected benefits.**

Inverness and Ostex have each incurred substantial expenses in connection with the transactions described in this proxy statement/prospectus. If the merger does not occur, Inverness expects to incur approximately \$1.25 million to \$1.75 million in merger related expenses and Ostex expects to incur approximately \$1.2 million to \$1.4 million in merger related expenses, excluding any termination fees, if applicable. These expenses may have a material adverse impact on the results of operations and financial condition of Inverness and/or Ostex because neither company would have realized the expected benefits of the merger. The obligations of the parties to effect the merger are subject to several conditions, some of which are outside the parties' control, and there can be no assurance that the merger will occur.

**The termination fee, the restrictions on solicitation contained in the merger agreement and the stock option may discourage other companies from trying to acquire Ostex.**

Until the merger becomes effective, and with some exceptions, Ostex is prohibited from entering into or soliciting, initiating or encouraging any inquiries or proposals that may lead to an acquisition proposal from any person other than Inverness. Ostex also agreed to pay a termination fee to Inverness

of \$1.8 million if the merger agreement is terminated in specified circumstances, including circumstances in which Ostex takes any of these prohibited actions or fails to obtain the approval of its shareholders after a proposal from an eventual third party acquiror is received by Ostex or publicly announced. In addition, Ostex has granted Inverness an option to purchase up to 19.9% of Ostex' outstanding shares of common stock at an exercise price of \$2.39 per share. Inverness may exercise this option upon the occurrence of specified events that ordinarily would be associated with an acquisition or potential acquisition of Ostex by a third party. If the option becomes exercisable in specified circumstances in connection with an acquisition proposal, Inverness may also cancel the option, or any portion of the option, in exchange for an amount of cash equal to the product of (a) the excess over the per share exercise price of the highest per share purchase price proposed to be paid pursuant to an acquisition proposal that caused, or would cause, the option to become exercisable, or the current average market price per share, if higher, multiplied by (b) the number of shares subject to the portion of the option that is canceled. These provisions could discourage other companies from trying to acquire Ostex even though those other companies might be willing to offer greater value to Ostex shareholders than Inverness has

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offered in the merger. The payment of the termination fee or cash upon the cancellation of the stock option could also have a material adverse effect on Ostex' financial condition. For a more detailed discussion of these provisions of the merger agreement and stock option agreement, see the sections of this proxy statement/prospectus titled "The Merger Agreement Material Covenants No Solicitation," "The Merger Agreement Termination Fees" and "Other Material Agreements Relating to the Merger Stock Option Agreement."

### **Officers and directors of Ostex have interests that are different from, or in addition to, interests of Ostex' shareholders generally.**

The officers and directors of Ostex have interests in the merger that are in addition to, or different from, their interests as Ostex shareholders. The Ostex board was aware of these interests when it adopted the merger agreement. These interests include:

the accelerated vesting of all of the officers' and directors' stock options in accordance with their terms and, if they are employees or directors of Ostex immediately prior to the effective time of the merger, the extension of the period within which they may exercise their stock options, both of which will occur at the effective time of the merger;

the severance payments to be made to Thomas A. Bologna, Chairman, President and Chief Executive Officer of Ostex, under his current employment agreement in connection with the termination of his employment after the merger;

the consulting and noncompete fees payable by Ostex to Mr. Bologna after the merger under the consulting agreement entered into in connection with the merger agreement; and

the directors' and officers' receipt of indemnification and insurance coverage with respect to acts and omissions in their capacities as officers and directors of Ostex prior to the merger.

For a more detailed discussion of these interests, see the section of this proxy statement/prospectus titled "The Merger Interests of Ostex' Directors and Officers in the Merger."

### **Inverness faces different market risks from those faced by Ostex, 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 Ostex. 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 Ostex' results of operations and its common stock price. For a description of Inverness' and Ostex' business and certain risks relating to their respective businesses, see the sections of this

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proxy statement/prospectus titled "The Companies," "Risk Factors Risks Relating to Inverness" and "Risk Factors Risks Relating to Ostex." For a more detailed description of Inverness' and Ostex' business, see Inverness' Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2001 and Ostex' Annual Report on Form 10-K for the fiscal year ended December 31, 2001, each of which is incorporated by reference in this proxy statement/prospectus.

### **You are unlikely to be able to exercise effective remedies against Arthur Anderson LLP, Inverness' and Ostex' former independent public accountants.**

Although each of Inverness and Ostex has dismissed Arthur Andersen LLP as its independent public accountants and has engaged Ernst & Young LLP and KPMG LLP, respectively, the following financial statements incorporated by reference into this proxy statement/prospectus were audited by Arthur Andersen:

the consolidated financial statements of Inverness as of December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001;

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the financial statements of the Unipath Division of Unilever plc as of November 30, 2001 and December 31, 2000, and for the eleven months ended November 30, 2001 and each of the two years in the period ended December 31, 2000; and

the financial statements of Ostex as of December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001.

On March 14, 2002, Arthur Andersen was indicted on federal obstruction of justice charges arising from the government's investigation of Enron Corporation. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen guilty of these federal obstruction of justice charges. In light of the jury verdict and the underlying events, Arthur Andersen subsequently substantially discontinued operations and dismissed essentially its entire workforce. You are therefore unlikely to be able to exercise effective remedies or collect judgments against Arthur Andersen. In addition, Arthur Andersen has not consented to the inclusion of its report in this document, and the requirement to file its consent has been dispensed with in reliance on Rule 437a under the Securities Act of 1933, as amended. Because Arthur Andersen has not consented to the inclusion of its report in this document, you will not be able to recover against Arthur Andersen under Section 11 of the Securities Act for any untrue statement of a material fact contained in the financial statements audited by Arthur Andersen or any omissions to state a material fact required to be stated in those financial statements.

### **Failure to complete the merger could negatively impact Ostex' stock price and future business and operations.**

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

Ostex may be required to pay Inverness a termination fee of \$1.8 million;

the stock option granted by Ostex to Inverness may become exercisable;

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

Ostex must pay its accrued costs related to the merger, such as legal, accounting and financial advisory fees, even if the merger is not completed;

Ostex will need to repay all amounts that it borrowed under the loan agreement with Inverness by September 30, 2003 at the latest;

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Ostex will need to seek immediate additional funding to meet its capital and other requirements, which funding may not be available when needed or may not be available on terms acceptable to Ostex; and

Ostex will likely be subject to delisting from the Nasdaq National Market, which delisting could adversely affect the liquidity and trading price of its common stock.

Under Nasdaq's listing maintenance standards, if Ostex' shareholders' equity is less than \$10,000,000, Nasdaq may choose to notify it that Nasdaq is delisting its common stock from the Nasdaq National Market. Ostex received notice from Nasdaq that if Ostex' shareholders' equity reflected in Ostex' first periodic report due after November 1, 2002 does not comply with Nasdaq's minimum shareholders' equity requirement of \$10,000,000, Nasdaq may send formal notification regarding the commencement of delisting procedures. As a result, there is a substantial risk that Ostex' common stock may be delisted from trading on the Nasdaq National Market. If Ostex' common stock is delisted, the delisting would most likely have a material adverse effect on the trading price and liquidity of Ostex' common stock and your ability to sell shares of Ostex common stock would be severely limited.

In addition, Ostex' customers may, in response to the announcement of the merger, delay or defer purchasing decisions. Any delay or deferral in purchasing decisions by Ostex customers could have a material adverse effect on Ostex' business, regardless of whether or not the

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merger is ultimately completed. Similarly, current and prospective Ostex employees may experience uncertainty about their future role with Inverness until Inverness' strategies with regard to Ostex are announced or executed. This uncertainty may adversely affect Ostex' ability to attract and retain key management, marketing, technical, manufacturing, administrative, sales and other personnel.

Further, if the merger is terminated and Ostex' board of directors determines to seek another merger or business combination, it may not be able to find a partner willing to pay an equivalent or more attractive price than that which would have been paid in the merger.

### Risks Relating to Inverness

#### **Inverness' business has substantial indebtedness which could result in adverse consequences for it.**

As of September 30, 2002, Inverness had approximately \$94.9 million of outstanding indebtedness under its credit facilities and other debt-related instruments. Inverness' substantial level of debt affects its future operations in several important ways, including the following:

its ability to obtain additional financing may be impaired;

its flexibility to adjust to market conditions is limited, 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;

Inverness may need 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 other business activities and may require Inverness, in order to meet its debt 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; and

Inverness may be at a competitive disadvantage compared to its competitors that have less debt.

Furthermore, there can be no assurance that Inverness' cash flow from operations and capital resources will be sufficient to pay its indebtedness. If Inverness' cash flow and capital resources prove inadequate, Inverness could face substantial liquidity problems and might be required to dispose of material assets or operations, restructure or refinance its debt or seek additional equity capital.

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Additionally, the agreements governing Inverness' indebtedness subject it to various restrictions on its ability to engage in certain activities, including, among other things, its ability to:

incur additional indebtedness;

acquire other businesses;

make investments;

make loans to or extend credit for the benefit of third parties or certain of its subsidiaries;

make capital or finance lease expenditures; and

dispose of or encumber assets.

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

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

As of September 30, 2002, Inverness had approximately \$53.4 million of outstanding indebtedness under its various credit facilities, substantially all of which was owed to The Royal Bank of Scotland plc and related entities and Congress Financial Corporation. The agreements governing these various credit facilities subject Inverness to various financial and other covenants with which Inverness must comply on an ongoing or periodic basis. These include covenants pertaining to interest coverage, cash flow coverage, leverage and EBITDA, and tangible net worth. If Inverness violates any of these covenants, there may be a material adverse effect on Inverness. Most notably, Inverness' outstanding debt under one or more of its credit facilities could become immediately due and its ability to borrow additional funds in the future may be limited. Additionally, under the terms of Inverness' credit facilities with The Royal Bank of Scotland plc and related entities, if either Ron Zwanziger or David Scott ceases to be a member of Inverness' board of directors, the full amount of Inverness' indebtedness under these credit facilities will accelerate. Mr. Zwanziger and Dr. Scott, both of whom are executive officers of Inverness, are currently serving on its board of directors; however, there is no assurance that they will continue to do so.

**Rising interest rates would increase Inverness' interest costs and reduce its earnings.**

Inverness currently has, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will Inverness' interest costs, which would adversely affect its earnings, cash flow and its ability to service debt.

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

Members of Inverness' management team have had significant experience in the diabetes field, technology Inverness owns or licenses may have potential applications to this field, and Inverness' 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 in the post-closing covenants agreement not to compete with IMT and Johnson & Johnson in the field of diabetes. In addition, Ron Zwanziger, Inverness' Chairman, President and Chief Executive Officer, and two of Inverness' senior scientists, Dr. David Scott and Dr. Jerry McAleer, have entered into consulting agreements with IMT that impose similar restrictions. Further, Inverness' license agreement with IMT

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prevents Inverness 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' acquisitions of the Unipath business, IVC and Wampole Laboratories may not be profitable or successfully integrated and may result in significant charges against earnings.**

On December 20, 2001, Inverness acquired the Unipath business from Unilever and certain affiliated entities. On March 19, 2002, Inverness acquired IVC. On September 20, 2002, Inverness acquired the Wampole Laboratories division of MedPointe Inc. The value of the Unipath business, IVC or Wampole to Inverness may not be greater than or equal to their purchase prices. Further, Inverness cannot guarantee that it will realize any of the benefits or strategic objectives it is seeking to obtain by acquiring the Unipath business, IVC or Wampole. In connection with accounting for the acquisitions of the Unipath business and Wampole, Inverness has recorded, or expects to record, a significant amount of intangible assets. Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, 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 could experience significant manufacturing delays, disruptions to its ongoing research and development and increased production costs if Unilever is unable to successfully assign or sublease to Inverness the lease for the primary operating facility of the Unipath business which is located in Bedford, England.**

The primary operating facility of the Unipath business that Inverness acquired from Unilever is located in Bedford, England. The Bedford facility is a multi-purpose facility that is registered with the U.S. Food and Drug Administration, contains state-of-the-art research laboratories

and is equipped with specialized manufacturing equipment. This facility currently provides the manufacturing for the Unipath business that Inverness acquired last year, serves as Inverness' research and development center and serves as the administrative center for its European operations. Inverness is currently using the Bedford facility pursuant to an agreement with Unilever entered into in connection with Inverness' acquisition of the Unipath business. Unilever currently leases this facility from a third party landlord. Pursuant to the terms of Unilever's lease, however, Unilever is not permitted to assign the lease or sublet the Bedford facility without obtaining the prior written consent of the landlord (which consent may not be unreasonably withheld). The landlord has indicated that it will not consent to an assignment of the lease to Inverness. Inverness, Unilever and the landlord are currently negotiating the terms of a sublease. The terms of Inverness' acquisition of the Unipath business obligate Unilever to use reasonable endeavors to obtain the landlord's consent to assignment or to a sublease of the facility and, if necessary, to pursue the assignment or sublease through the courts. There are no assurances that Unilever will be successful in obtaining the landlord's consent to assignment of the lease to Inverness or to a sublease to Inverness. If Unilever is unable to successfully acquire such consent or otherwise enable Inverness to realize the benefit of its lease of the Bedford facility, Inverness may be forced to renegotiate a lease of the Bedford facility on substantially less favorable terms or seek alternative means of producing its products, conducting its research and housing its European administrative staff. In either case, Inverness may experience manufacturing delays and disruptions to its ongoing research and development while Inverness is resolving these issues and increased production costs in the future. Additionally, there are no assurances that Inverness will be able to renegotiate a lease for the Bedford facility on terms that are acceptable to it or find an acceptable replacement for this facility. Any one or more of these events may have a material adverse effect on Inverness.

**If Inverness chooses to acquire or invest in new and complementary businesses, products or technologies instead of developing them itself, these acquisitions or investments could disrupt Inverness' business and, depending on how Inverness finances these acquisitions or investments, could result in significant dilution to its existing shareholders.**

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 itself. 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;

the inability to achieve anticipated cost savings;

potential loss of key employees, particularly those of the acquired business;

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:

dilutive issuances of 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 liabilities;

unfavorable financing terms;

large one-time expenses; and

the creation of certain intangible assets, including goodwill, the write-down of which may result in significant charges to earnings.

Any of these factors could materially harm Inverness' business or its operating results.

**Manufacturing problems or delays could severely affect Inverness' business.**

Inverness produces most of its consumer products in its manufacturing facilities located in New Jersey, Bedford, England and Galway, Ireland and its clinical diagnostic tests in its manufacturing facilities located in Bedford and Yavne, Israel. Inverness' production processes are complex and require specialized and expensive equipment. Replacement parts for Inverness' specialized equipment can be expensive and, in some cases, can require lead times of up to a year to acquire. Inverness also relies on third parties to supply production materials and in some cases there may not be alternative sources immediately available. In addition, Inverness relies on third parties to manufacture most of its recently acquired Wampole lines of products. Any event impacting these facilities, Inverness' manufacturing systems or equipment, or its contract manufacturers or suppliers could delay or suspend shipments of products, or could result in the delivery of inferior products. Inverness' revenues from the affected products would decline until such time as Inverness was able to restore its production processes or put in place alternative contract manufacturers or suppliers. Even though Inverness carries business

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

**If Inverness fails to meet strict regulatory requirements, it could be required to pay fines or even close its facilities.**

Inverness' facilities and manufacturing techniques generally must conform to standards that are established by government agencies, including those of European and other foreign governments, as well as the FDA and, to a lesser extent, the DEA and local health agencies. These regulatory agencies may conduct periodic inspections of Inverness' facilities to monitor its compliance with applicable regulatory standards. If a regulatory agency finds that Inverness fails to comply with the appropriate regulatory standards, it may impose fines on Inverness or if such a regulatory agency determines that Inverness' non-compliance is severe, it may close Inverness' facilities. Any adverse action by an applicable regulatory agency could impair Inverness' ability to produce its products in a cost-effective and timely manner in order to meet its customers' demands. These regulatory agencies may also impose new or enhanced standards that would increase Inverness' costs as well as the risks associated with non-compliance. Inverness anticipates that the FDA may soon propose "good manufacturing practice" (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. There can be no assurance that, if the FDA adopts GMP regulations for nutritional supplements, Inverness will be able to comply with the new rules without incurring substantial expenses in order to do so.

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

The manufacturing and marketing of consumer and clinical 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 Inverness' 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 Inverness' 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 Inverness' business and its financial condition.

**Sales of Inverness' branded nutritional supplements have declined each year 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.**

Sales of Inverness' branded nutritional products have declined each year since 1998 and Inverness has budgeted for future sale declines for those products. Inverness believes that those products have under-performed because they are, for the most part, aging brands with limited brand retention that face increasing private label competition. The age of this product line means that Inverness is subject to future distribution loss for under-performing brands, while Inverness' opportunities for new distribution on the existing product lines are limited.

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**The vitamin and nutritional supplements market is subject to significant fluctuations based upon media attention and new developments.**

Most growth in the vitamin and nutritional supplement industry is attributed to new products that generate attention in the marketplace. Positive media attention resulting from new scientific studies or announcements can spur rapid growth in individual segments of the market, and also impact 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 impact the profitability of Inverness' vitamin and nutritional supplements business.

**Revenue from Inverness' clinical diagnostics business may decline in the future because trends in the overall market favor direct disease detection over immune response testing.**

New technologies have made it possible to directly identify the presence of disease rather than detecting the presence of antibodies produced through an immune response. The trend of the overall market currently favors direct detection over antibody detection. Virus detection through nucleic acid testing, or NAT, is already mandatory for hepatitis C virus and other markers in France, Australia and certain other developed nations. To the extent that new technologies make possible direct detection of the infectious diseases and disorders that are currently detected through Inverness' immune response products, this trend poses a risk to Inverness' core clinical diagnostics business.

**Inverness markets its Organics clinical diagnostic products to small and medium sized customers in more than 90 countries at considerable cost that reduces the operating margins in its Organics clinical diagnostics business.**

Because small and medium sized laboratories are the principal customers of Inverness' Organics clinical diagnostic products, Inverness sells these products worldwide in order to maintain sufficient sales volume. Inverness' Organics clinical diagnostic products are marketed in more than 90 countries, including many third world and developing nations where smaller laboratories are the norm, where more expensive technologies are not affordable and where infectious diseases are often more prevalent. This worldwide sales strategy is expensive and results in lower margins than would be possible if Inverness could generate sufficient sales volume by operating in fewer markets.

**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 clinical diagnostics business. The current material legal proceedings are:



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a lawsuit by Abbott Laboratories against Inverness and Princeton BioMeditech Corporation (referred to as PBM), which manufactured products for Inverness' consumer diagnostics business while Inverness was part of IMT, claiming, among other things, that some of Inverness' products relating to pregnancy detection and ovulation prediction infringe patents to which Abbott asserts it is the exclusive licensee;

a counterclaim by PBM against Inverness in a patent infringement suit maintained by Inverness Medical Switzerland, GmbH and Unipath Diagnostics, Inc. against PBM et. al. in which PBM alleges that Inverness has breached various obligations to PBM arising out of its joint venture with Inverness and has attempted to monopolize the market for home pregnancy tests; and

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an action brought by 68 consumers in London alleging defects in Inverness' Persona contraceptive device leading to unwanted pregnancies. Any liability in this matter is fully covered by separate insurance provided by Unilever in connection with Inverness' acquisition of Unipath.

Because the above claims each seek damages and reimbursement for costs and expenses without specific amounts, Inverness is unable to assess the probable outcome of or potential liability arising from the lawsuits.

In connection with Inverness' split-off from IMT, Inverness agreed to assume, to the extent permitted by law, and indemnify IMT for, all liabilities arising out of the women's health, nutritional supplements and clinical diagnostics businesses before or after the split-off to the extent such liabilities are not otherwise retained by IMT. Through Inverness' acquisitions of the Unipath business, IVC and Wampole, Inverness also assumed or acquired substantially all of the liabilities of those businesses. Inverness is unable to assess the materiality or costs associated with these lawsuits at this time. Inverness cannot assure you that these lawsuits or any future lawsuits relating to its businesses will not have a material adverse effect on it.

### **The profitability of Inverness' consumer products businesses may suffer if Inverness is unable to establish and maintain close working relationships with its customers.**

Inverness' consumer products businesses rely to a great extent on close working relationships with its customers rather than long-term exclusive contractual arrangements. Customer concentration in these businesses is high, especially in Inverness' private label nutritional supplements business. In addition, customers of Inverness' branded and private label consumer products businesses purchase products through purchase orders only and are not obligated to make future purchases. For these reasons, the loss of a major customer or the failure to generate new accounts could significantly reduce Inverness' revenues or prevent it from achieving projected growth.

### **Inverness' private label nutritional supplements business is a low margin business susceptible to changes in costs and pricing pressures.**

Inverness' private label nutritional supplements business operates on low profit margins. Changes in raw material cost 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 mass merchandisers will auction off the right to manufacture a particular product to the lowest, often anonymous bidder.

### **Retailer consolidation poses a threat to existing retailer relationships and can result in lost revenue.**

Recent years have witnessed rapid consolidation within the mass retail industry. Drug store chains, grocery stores and mass merchandisers, the primary purchasers of Inverness' consumer diagnostic products and vitamins and nutritional supplements, have all been subject to this trend. Because these customers purchase through purchase orders, consolidation can interfere with existing retailer relationships, especially private label relationships, and result in the loss of major customers and significant revenue streams.

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

A significant number of Inverness' employees, including sales, support and research and development personnel, are located outside of the United States. Conducting business outside of the United States is subject to numerous risks, including:

decreased liquidity resulting from longer accounts receivable collection cycles typical of foreign countries;

lower productivity resulting from difficulties managing Inverness' 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; and

higher cost of sales resulting from import or export licensing requirements.

**Because Inverness' business relies heavily on foreign operations and, to a lesser extent, foreign sales, changes in foreign currency exchange rates and Inverness' ability to convert currencies may negatively affect Inverness' financial condition and results of operations.**

Inverness' business relies heavily on its foreign operations. Three of Inverness' manufacturing facilities are outside the United States, in Bedford, England, Galway, Ireland and Yavne, Israel. Inverness' wholly-owned subsidiary, Organics Ltd., has always made substantially all of its sales outside of the United States. Inverness' acquisitions of the Unipath business and IVC increased Inverness' reliance on foreign operations. The Unipath business generated approximately 70% of its net product sales outside of the United States during 2001 and IVC generated almost 14% of its net product sales outside of the United States during its fiscal year ended July 31, 2001. Because of Inverness' foreign operations and foreign sales, Inverness faces exposure to movements in foreign currency exchange rates. Inverness' primary exposures are related to the operations of its European subsidiaries. These exposures may change over time as business practices evolve and could result in increased costs or reduced revenue and could impact actual cash flow.

**Inverness' Organics subsidiary is located in Israel, and its operations could be negatively affected due to military or political tensions in the Middle East.**

Inverness' wholly-owned subsidiary, Organics Ltd., which develops, manufactures and sells certain of Inverness' clinical diagnostic products, is incorporated under the laws of the State of Israel. The administrative offices and development and manufacturing operations of Inverness' Organics business are located in Yavne, Israel. Although most of Organics's sales currently are to customers outside of Israel, political, economic and military conditions in Israel could nevertheless directly affect its operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Despite its history of avoiding adverse effects, Inverness' Organics business could be adversely affected by any major hostilities involving Israel, including the current armed conflict with the Palestinian authority or any potential armed conflict with Iraq.

**Intense competition could reduce Inverness' market share or limit its ability to increase market share, which could impair the sales of Inverness' 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 clinical 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. Inverness' future success depends upon maintaining a competitive position in the development of products and technologies in its areas of focus. Competitors may be

more successful in:

developing technologies and products that are more effective than Inverness' products or that render Inverness' technologies or products obsolete or noncompetitive;

obtaining patent protection or other intellectual property rights that would prevent Inverness from developing its potential products; or

obtaining regulatory approval for the commercialization of their products more rapidly or effectively than Inverness is in doing so.

Also, the possibility of patent disputes with competitors holding foreign patent rights may limit or delay expansion possibilities for Inverness' consumer diagnostics business 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 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 is 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 Inverness' 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 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 Inverness has filed or to which Inverness has exclusive rights may not result in issued patents or may take longer than Inverness expects to result in issued patents;

the claims of any patents which are issued may not provide meaningful protection;

Inverness may not be able to develop additional proprietary technologies that are patentable;

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the patents licensed or issued to Inverness or its customers may not provide a competitive advantage;

other companies may challenge patents licensed or issued to Inverness or its customers;

patents issued to other companies may harm Inverness' ability to do business; and

other companies may design around technologies Inverness has 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 Inverness' products. If they do not protect Inverness' rights, third parties could use Inverness' technology and its 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 property and Inverness 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 also realizes that its trade secrets may become known through other means not currently foreseen by it. Despite Inverness' efforts to protect its intellectual property, Inverness' 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 Inverness' proprietary technologies.

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

Substantial litigation over intellectual property rights exists in both the consumer and clinical diagnostic industries. Inverness expects that its products and products in these industries may increasingly be 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 on 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, require Inverness to develop non-infringing technology or enter into royalty or license agreements, which may not be available on acceptable terms, or at all. If a successful claim of infringement was made against Inverness and it 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 Inverness 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

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

Currently, Inverness has initiated a number of lawsuits against competitors who Inverness 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 its 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 Inverness' 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.

**Inverness may be unable to hire, retain or motivate key personnel, upon whom the success of its business will depend.**

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Inverness is highly dependent upon certain members of its management and scientific staff, particularly Ron Zwanziger, David Scott and Jerry McAleer. Inverness believes that its future success will depend in large part upon its ability to attract and retain highly skilled scientific, managerial and marketing personnel. Inverness faces significant competition for such personnel from other companies, research and academic institutions, government entities and other organizations. Inverness may fail to retain its key employees. Inverness will rely on certain key personnel of its recently acquired Wampole Laboratories business to assist with the successful integration of that business. Further, Inverness may fail to attract, assimilate, retain or train other needed qualified employees in the future. Inverness does not have employment agreements with all of its key employees. The loss of any of Inverness' key employees, including its scientists, may impact or disrupt its sales and marketing activities, its research and development efforts, its integration efforts, its capital-raising ability or its administrative functions.

### **Inverness may be liable for contamination or other harm caused by hazardous materials that it uses.**

Inverness' research and development processes involve the use of hazardous materials. Inverness is subject to federal, state and local regulation governing the use, manufacture, handling, storage and disposal of hazardous materials. Inverness cannot completely eliminate the risk of contamination or injury resulting from hazardous materials and it may incur liability as a result of any contamination or injury. Inverness may also incur expenses relating to compliance with environmental laws. Such expenses or liability could have a significant negative impact on Inverness' financial condition.

### **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;

the availability and extent of reimbursement for Inverness' products;

increased research and development expenses;

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the timing of any future acquisitions;

general economic conditions; or

general stock market conditions or other economic or external factors.

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

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Inverness common stock has only been listed on the American Stock Exchange since November 23, 2001. Because Inverness has been listed for only a short period of time, it cannot assure you that an active trading market in its common stock will develop or be sustained in the future. Inverness common stock may experience volatility until trading values become established. As a result, it could be difficult to make purchases or sales of Inverness common stock in the market at any particular time.

IMT shareholders immediately prior to the split-off became shareholders of Inverness immediately after the split-off. Some shareholders who received Inverness' common stock in the split-off may decide that they do not want to maintain an investment in a company involved primarily in consumer and clinical diagnostic products and vitamins and nutritional supplements or in a public company that has a limited track record as a stand-alone company. If these shareholders decide to sell all or some of their shares or if the market perceives that those sales could occur, the trading value of your shares may decline. In addition, because Inverness is a newly traded company with a limited market capitalization, it is 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.

In addition, Inverness' share price may be volatile due to its operating results, as well as factors beyond its control. It is possible that in some future periods the results of Inverness' operations will be below the expectations of the public market. In any such event, 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:

Inverness' quarterly and annual operating results, including its failure to meet the performance estimates of securities analysts;

changes in financial estimates of Inverness' 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 common stock or the perception that such sales could occur;

changes in investor perception of Inverness' industry, its businesses or its prospects;

the loss of key employees, officers or directors; or

other developments affecting Inverness or its competitors.

### **The holders of Inverness Series A Preferred Stock are entitled to receive liquidation payments in preference to the holders of Inverness common stock.**

As of November 6, 2002, there were 323,060 shares of Inverness Series A Preferred Stock outstanding. Pursuant to the terms of the certificate of designation creating the Inverness Series A Preferred Stock, upon a liquidation or a deemed liquidation of Inverness, the holders of

the shares of Inverness Series A Preferred Stock are entitled to receive a liquidation payment prior to the payment of any amount with respect to the shares of Inverness common stock. The amount of this preferential liquidation payment is \$30 per share of Inverness Series A Preferred Stock (or \$40.50 per share in certain circumstances), plus the amount of any dividends that have accrued on those shares, subject to adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting the Inverness Series A Preferred Stock. Dividends accrue on the shares of Inverness Series A Preferred Stock at the rate of up to \$2.10 per share per annum based on the percentage of trading days on which the closing market price of Inverness common stock is less than \$15.00. As a result of these terms, the holders of Inverness common stock may be disproportionately affected by any reduction in the value of Inverness' assets or fluctuations in the market price of Inverness common stock.

**The ability of Inverness' shareholders to control Inverness' policies and effect a change of control of Inverness is limited, which may not be in your best interests.**

There are provisions in Inverness' certificate of incorporation and bylaws which may discourage a third party from making a proposal to acquire Inverness, even if some of Inverness' shareholders might consider the proposal to be in their best interests. 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 shareholders from voting on the election of more than one class of directors at any annual meeting of shareholders, 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 shareholders may desire; and

Inverness' certificate of incorporation authorizes its board of directors to issue shares of preferred stock without shareholder 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.

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 shareholder 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 its future earnings, if any, to finance the expansion of its business and does not expect to pay any cash dividends on its common stock in the foreseeable future. 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 after the offering or even maintain the price at which you purchased your shares.

**Inverness faces several risks relating to its split-off from Inverness Medical Technology.**

On November 21, 2001, Inverness was split-off from Inverness Medical Technology, Inc., or IMT, and became an independent, publicly owned company as part of a transaction by which IMT was

acquired by Johnson & Johnson. Prior to that time, Inverness had been a majority owned subsidiary of IMT, and the businesses that Inverness acquired in connection with the restructuring that preceded the split-off represented approximately 20% of IMT's net product sales during the calendar quarter concluded immediately prior to the split-off. Inverness continues to face a unique set of challenges and risks arising out of the split-off. The following risk factors specifically relate to Inverness' risks arising out of the split-off.

**Inverness' businesses will face challenges as part of a stand-alone company that Inverness did not experience as part of IMT.**

As an independent, publicly owned company, Inverness now faces new issues and challenges that it did not experience when it was part of IMT. Examples of potential issues include:

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Inverness' inability to rely on the long-term financial strength of IMT;

Inverness' inability to rely on the earnings, cash flow, assets and goodwill of IMT's diabetes business;

Inverness' inability to rely on the experience and business relationships of some personnel who remained with IMT;

greater difficulty in obtaining financing on terms satisfactory to Inverness, if needed;

greater difficulty in obtaining and maintaining insurance on terms that are acceptable to Inverness;

increased costs of hiring and retaining employees in departments previously shared by all the businesses of IMT, including the legal, risk management, tax, treasury, human resources and public relations departments; and

generally increased overhead and administrative costs as a result of establishing a stand-alone company.

Inverness may not resolve these issues or overcome these challenges. As a result, Inverness may not succeed in generating and expanding customer relationships, containing costs and expenses and enhancing its business.

### **Inverness' businesses traditionally relied on IMT for financial assistance and may have difficulty with liquidity and capital requirements without this assistance.**

Prior to the split-off, Inverness' businesses relied on the earnings, assets and cash flow of IMT for liquidity, capital requirements and administrative services. In the past, when the liquidity needs of Inverness' businesses exceeded their cash flow, IMT provided the necessary funds. As a result of the split-off, Inverness can no longer rely on IMT for financial assistance. Accordingly, if Inverness is unable to generate sufficient cash flow or borrow sufficient amounts under its credit facilities to fund its working capital needs and to pay its debts, Inverness will need to obtain additional financing. Inverness does not know if it can obtain additional financing or if the terms of any required financing will be acceptable to it. If Inverness is unable to fund its working capital needs and additional growth through its existing credit facilities, cash flow, or additional financing, or if additional financing is not available under acceptable terms to it, its business prospects, results of operations, cash flow and future growth will be negatively affected.

### **Inverness' historical financial information may not be representative of its results as a separate company.**

The historical financial information relating to any periods beginning period to November 21, 2001 included in Inverness' reports filed with the Securities and Exchange Commission report on time

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periods prior to the split-off and reflect the operating history of Inverness' businesses when they were a part of IMT. As a result, the financial information may not reflect what Inverness' results of operations, financial position and cash flows would have been had Inverness been a separate, stand-alone company during those periods. This financial information also may not reflect what Inverness' results of operations, financial position and cash flows will be in the future. This is not only related to the various risks associated with the fact that Inverness has not been a stand-alone company for a long period of time, but also because:

various adjustments and allocations have been made to produce these financial statements because IMT did not account for Inverness as a single stand-alone business for the period presented; and

the information, to the extent it does not report on a period ending on or after November 21, 2001, does not reflect many significant changes that occurred in Inverness' financial condition, capital structure and operations as a result of its separation from IMT.



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The adjustments and allocations Inverness made in preparing the financial information for any periods beginning period to November 21, 2001, may not appropriately reflect its operations during those periods as if Inverness had operated as a stand-alone company.

### **The change of some personnel in Inverness' company in conjunction with the split-off may impact its business.**

Some of IMT's personnel became Inverness' initial employees, while others did not. In particular, certain significant employees of IMT who were engaged primarily in the diabetes care products business remained with that business. In addition, some members of IMT's management who worked substantially for IMT's diabetes care products business became Inverness' employees. Finally, some IMT personnel who provided services beneficial to Inverness' businesses through their work in IMT's accounting, sales, marketing, operations, quality assurance, regulatory compliance and other areas did not become part of Inverness after the split-off or, in certain cases, their services may only be available to Inverness on a transitional basis for a short period of time. The loss of certain significant employees, the transition of personnel from IMT's diabetes business to Inverness and the loss of other IMT personnel who did not become Inverness' employees may impact or disrupt Inverness' sales and marketing activities, its research and development efforts or its administrative functions.

### **Inverness is obligated to indemnify IMT and others for liabilities which could require Inverness to pay IMT amounts that it may not have.**

The restructuring agreement, post-closing covenants agreement and related agreements entered into in connection with the split-off and merger transaction with Johnson & Johnson provide that Inverness will indemnify IMT and other related persons for specified liabilities related to its businesses, statements in the proxy statement/prospectus issued in connection with the split-off and merger about its businesses and breaches of its obligations under the restructuring agreement, post-closing covenants agreement and related agreements. Inverness is also required to indemnify IMT for losses, if any, arising from the failure to amend some outstanding warrants for the purchase of IMT common stock.

In addition, under Inverness' tax allocation agreement with IMT and Johnson & Johnson, Inverness will indemnify Johnson & Johnson and IMT for any unpaid tax liabilities attributable to the pre-split-off operation of its consumer diagnostics, vitamins and nutritional supplements and clinical diagnostics businesses.

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While no claims for indemnification have yet been made, and may never be made, Inverness is unable to predict the amount, if any, that may be required for it to satisfy its indemnification obligations under these agreements. However, if claims are made for indemnification and Inverness is liable for such claims, the amount could be substantial. In such an event, Inverness may not have sufficient funds available to satisfy its potential indemnification obligations. In addition, Inverness may be unable to obtain the funds on terms satisfactory to it, if at all. If Inverness is unable to obtain the necessary funds, it will need to consider other alternatives, including sales of assets, to raise necessary funds.

### **Risks Relating to Ostex**

#### **Ostex has a history of losses.**

Ostex has not been profitable for any year since its formation in 1989. Ostex had an accumulated deficit through June 30, 2002 of \$40,784,000. Ostex expects to incur additional costs as it continues with its existing operations, marketing and sales efforts for its products, and research and development activities. Ostex' lead product, the Osteomark® NTx Urine test, became commercially available in May 1995 in the United States, but sales to date have not been significant enough to generate net income. Ostex' ability to achieve long-term profitability is dependent upon successfully manufacturing, marketing, and commercializing existing products. Ostex expects to continue to incur additional losses in the near-term future and Ostex is unable to predict when, if ever, it will achieve profitability. These matters may raise substantial doubt about Ostex' ability to continue as a going concern. Ostex' ability to continue as a going concern is dependant upon numerous factors, including its ability to obtain additional financing, its ability to increase its level of future revenues and its ability to reduce operating expenses.

#### **The market acceptance and demand for Ostex' products is uncertain.**

The Osteomark® NTx Urine test, became commercially available in May 1995 in the United States, but sales to date have not been significant enough to generate net income. There can be no assurance that Ostex' Osteomark® NTx tests will gain widespread acceptance from the medical community, clinical or hospital laboratories, pharmaceutical companies, physicians or patients as readily as other forms for testing or any newly developed test. There can be no assurance that Ostex will be able to develop significant market share for its products or maintain or increase its current market share. Ostex did not deliver as many NTx Point-of-Care devices to Procter & Gamble or Aventis Pharmaceuticals as anticipated in the second half of 2001 due to product supply difficulties. In addition, because of delays encountered with the start-up of Ostex'

Point-of-Care manufacturing facility, Ostex was unable to deliver NTx Point-of-Care devices to Procter & Gamble and Aventis during most of the first half of 2002. As a result, Procter & Gamble and Aventis cancelled a portion of their NTx Point-of-Care back orders or switched to Ostex' Osteomark® NTx Urine test in the microtiter plate format.

Ostex' Point-of-Care manufacturing facility was validated to produce a high volume of devices. The production capacity exceeds the production plan for devices in the near-term and may exceed the production plan for devices in the long-term. If this were to occur, the resulting excess capacity may have a negative impact to Ostex' margins in future periods. The inability of Ostex to increase market acceptance and demand for its products could have a material adverse effect on Ostex' business, financial condition and results of operations.

**The loss of a significant Ostex customer could harm Ostex' business.**

Ostex' current operations are dependent upon a relatively small number of customers, which change from time to time. Ostex' most significant customers during the first six months of 2002 were

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Mochida Pharmaceutical Co., Ltd., Quest Diagnostics Incorporated, Covance Central Lab Services, Johnson & Johnson Clinical Diagnostics, Inc. and Fisher Scientific. These customers collectively accounted for approximately 47% of Ostex' total sales during that period. Ostex generally does not have long-term purchase contracts with its customers, who order products on a purchase order basis. In certain circumstances, customer orders may be cancelled, changed or delayed on short notice. There can be no assurance that Ostex' current significant customers will continue to buy products at their current or increased levels. Ostex lost a number of orders from significant customers as a result of manufacturing delays encountered with the start-up of Ostex' Point-of-Care manufacturing facility in late 2001 and early 2002. Loss of a significant Ostex customer or further reduction of the level of orders from a significant Ostex customer could have a material adverse effect on Ostex' operating results.

**Ostex is dependent on therapeutics developed by others.**

Acceptance of and demand for Ostex' products will be affected by physicians' perceived needs to test for bone resorption for the purposes of the prevention, treatment and monitoring of osteoporosis. There are currently a limited number of therapies that are effective in preventing, treating and monitoring osteoporosis or other bone disorders. In the event new therapies do not receive regulatory approval or experience delayed market acceptance, Ostex could be adversely affected. Unfavorable publicity concerning an Ostex product or therapeutic products for osteoporosis could also have an adverse effect on Ostex' ability to obtain regulatory approvals or to achieve market acceptance.

**Ostex has limited sales, marketing and distribution experience and resources.**

Ostex has limited sales, marketing and distribution experience and resources. To market any of its products directly or indirectly, Ostex must develop and implement a substantial sales and marketing effort with technical expertise and supporting distribution capability. Ostex may need to increase its sales and marketing resources significantly in order for its products to gain relatively significant market acceptance. Ostex intends to continue to market and sell its products in the United States through research and clinical laboratories and distributors, establish relationships with a pharmaceutical company or companies, and to establish business arrangements to sell its products in other markets through distributors and a pharmaceutical company or companies. There can be no assurance that Ostex will be able to establish effective sales and marketing and distribution capabilities or that its collaborators will be successful in gaining market acceptance for Ostex' products or that Ostex will achieve or maintain significant market share for its products.

**Ostex has limited manufacturing experience.**

Ostex has, through an agreement with Metrika, Inc., developed an adaptation of its core technology for use in physicians' offices, called the Osteomark® NTx Point-of-Care device. Until year-end 2001, Ostex depended upon the efforts of Metrika for the production of the NTx Point-of-Care device. In the second quarter of 2002, Ostex itself began manufacturing the NTx Point-of-Care device, but continues to rely on Metrika for supply of certain components. Ostex has limited manufacturing experience and technical expertise with a product like the NTx Point-of-Care device. Failure by Ostex to manufacture the NTx Point-of-Care device and other products in significant quantities in a cost-effective manner could adversely affect Ostex' results of operations. Because of delays encountered with the start-up of Ostex' Point-of-Care manufacturing facility, Ostex was unable to deliver NTx Point-of-Care devices to customers during the second half of 2001 and most of the first half of 2002. Any similar interruptions in the manufacturing process in the future could have a material adverse effect on Ostex' results of operations.

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**Ostex is dependent on licensed patents and proprietary rights.**

Ostex' success is dependent in part on obtaining, maintaining and enforcing its patents and other proprietary rights and its ability to avoid and defend against allegations of infringing the proprietary rights of others. Patent law relating to the scope of claims in the biotechnology field in which Ostex operates is still evolving and, consequently, patent positions in Ostex' industry may not be as strong as in other better-established fields. Accordingly, the United States Patent and Trademark Office, or PTO, and foreign patent offices may not issue patents from the patent applications owned by or licensed to Ostex. If issued, the patents may not give Ostex an advantage over competitors with similar technology.

Ostex is the exclusive licensee of 58 patents in North America, Europe, and Asia. However, the issuance of a patent is not conclusive as to its validity or enforceability and it is uncertain how much protection, if any, will be given to Ostex' patents if it attempts to enforce them and they are challenged in court or in other proceedings, such as oppositions, which may be brought in foreign jurisdictions to challenge the validity of a patent. A third party may challenge the validity or enforceability of a patent after its issuance by the PTO or a foreign patent office. It is possible that a competitor may successfully challenge Ostex' patents or that a challenge will result in limiting their coverage. Moreover, the cost of litigation to uphold the validity of patents and to prevent infringement can be substantial. If the outcome of litigation is adverse to Ostex, third parties may be able to use Ostex' patented invention without payment to Ostex. Moreover, it is possible that competitors may infringe Ostex' patents or successfully avoid them through design innovation. To stop these activities, Ostex may need to file a lawsuit. These lawsuits are expensive and would consume time and other resources, even if Ostex is successful in stopping the violation of its patent rights. In addition, there is a risk that a court would decide that Ostex' patents are not valid and that Ostex does not have the right to stop the other party from using the inventions. There is also the risk that, even if the validity of Ostex' patents are upheld, a court would refuse to stop the other party on the ground that its activities do not infringe Ostex' patents.

Further, once a patent has expired, the technology is no longer protected. Ostex' Type I collagen patents will begin to expire in late 2007 for the United States and in 2010 for Europe and Japan. Ostex is the exclusive worldwide licensee of Metrika's patents relating to point-of-care devices and subcomponents thereof for the measurement of NTx and other connective tissue markers. The Metrika patents will begin to expire in 2013.

In addition to the intellectual property rights described above, Ostex relies on unpatented technology, trade secrets and confidential information. Therefore, others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose Ostex' technology. Ostex may not be able to effectively protect its rights in unpatented technology, trade secrets and confidential information. Ostex requires each of its employees, consultants and advisors to execute a confidentiality agreement at the commencement of an employment or consulting relationship with Ostex. However, these agreements may not provide effective protection of Ostex' information or, in the event of unauthorized use or disclosure, they may not provide adequate remedies.

**Ostex' patent rights could conflict with the patent rights of others.**

Ostex' competitors or others may have or acquire patent rights that they could enforce against Ostex. If they do so, Ostex may be required to alter its products, pay licensing fees or cease activities. If Ostex' products conflict with patent rights of others, third parties could bring legal actions against Ostex claiming damages and seeking to enjoin manufacturing and marketing and sales of the affected products. If these legal actions are successful, in addition to any potential liability for damages, Ostex could be required to obtain a license in order to continue to manufacture or market the affected products. Ostex may not prevail in any legal action and a required license under the patent may not be available on acceptable terms or at all.

In December 2001, Osteometer Biotech A/S, also known as Nordic Bioscience A/S, and its licensee Roche Diagnostics GmbH sent Ostex two notification letters concerning Osteometer's European Patent No. 0742902 which issued November 21, 2001. The patent claims synthetic NTx peptides in assays for bone resorption. Ostex believes that its Osteomark® products do not infringe upon the Osteometer patent and that the patent is invalid in light of prior art that was not taken into consideration by the issuing European Patent Office. In January 2002, Ostex filed an action in the Court of Monza, Italy, seeking a pan-European declaration of noninfringement. This action included a request to stay any such noninfringement determination pending the outcome of an opposition proceeding that Ostex initiated on August 20, 2002, in the European Patent Office against this patent. By letter dated October 24, 2002, Nordic Bioscience A/S informed Ostex that it had filed infringement proceedings in July 2002 against Ostex before the District Court of Düsseldorf, Germany.

**Ostex may be subject to significant costs of litigation relating to Ostex' intellectual property.**

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The cost to Ostex of any litigation or other proceedings relating to intellectual property rights, even if resolved in Ostex' favor, could be substantial. Some of Ostex' competitors may be better able to sustain the costs of complex patent litigation because they have substantially greater resources. If third parties file patent applications, or are issued patents claiming technology also claimed by Ostex in pending applications, Ostex may be required to participate in interference proceedings in the PTO, or opposition proceedings abroad, to determine priority of invention. Ostex may be required to participate in interference or opposition proceedings involving its issued patents and pending applications. Ostex may be required to cease using the technology or license rights from prevailing third parties as a result of an unfavorable outcome in an interference proceeding. Such a prevailing party may not offer Ostex a license on commercially acceptable terms.

### **Ostex is subject to lengthy regulatory processes and the uncertainty of regulatory approvals.**

The manufacture and marketing and sales of Ostex' products and research and development activities are subject to regulation for safety and quality by the FDA in the United States and comparable authorities in other countries.

The process of obtaining FDA and other required regulatory approvals can be lengthy and expensive. The time required for approvals is uncertain, and often depends on the type, complexity and novelty of the product. There can be no assurance that regulatory agencies will act favorably or quickly in their review of any submission by Ostex. Significant difficulties or costs may be encountered by Ostex in its efforts to obtain approvals that could delay or preclude Ostex from marketing and selling its products. The FDA may request the development of additional data following original submissions, causing Ostex to incur further cost and delay. Additionally, the FDA may restrict the intended use of a submitted product as a condition for clearance.

The requirements governing the conduct of clinical studies, manufacturing and marketing and selling of Ostex' products outside the United States can vary widely from country to country. Foreign approvals may take longer than FDA approvals and can involve additional testing. Foreign regulatory approval processes involve similar risks associated with the FDA approval processes. Also, approval of a product by the FDA does not ensure approval of the same product by health authorities of other countries.

Ostex has completed an EC Declaration of Conformity, permitting the sale of its Point-of-Care device in the European Union. Ostex' other products sold in the European Union will be required to meet this regulation as well by December 31, 2003. Ostex is in the process of preparing an EC Declaration of Conformity for these products. For the products currently sold in Canada, Ostex is in the process of fulfilling the quality system requirements and submitting the quality system certificate

required by Health Canada by November 1, 2003. If Ostex does not meet these deadlines, it will not be able to continue to sell these products in the respective markets.

### **Ostex is subject to extensive continuing government regulation.**

The research, development, manufacturing, marketing and sales of Ostex' products are subject to extensive continuing regulation by numerous governmental authorities in the United States and certain other countries, and Ostex, its products, and its manufacturing facilities are subject to continual review and periodic inspection. The regulatory standards for manufacturing are applied stringently by the FDA. Discovery of previously unknown problems with a product, manufacturer, or facility may result in restrictions on such product, manufacturer or facility, including warning letters, fines, suspensions of regulatory approvals, product recalls, operating restrictions, delays in obtaining new product approvals, withdrawal of the product from the market, and criminal prosecution. Other violations of FDA requirements can result in similar penalties. Ostex is also subject to numerous environmental, health and workplace safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens, and the handling of biohazardous materials. Any violation of, and the cost of compliance with, these laws and regulations could adversely impact Ostex' operations. Ostex is unable to predict the extent or likelihood of adverse government regulation that might arise from future U.S. or foreign government action.

### **The market for Ostex' products is subject to intense competition.**

Competition from biotechnology companies, diagnostics companies, pharmaceutical companies, and research and academic institutions is intense and is based on price as well as product performance. Ostex' main competitors are Osteometer Biotech A/S, also known as Nordic Bioscience A/S, and Quidel Corporation and licensees and distributors of their technologies and products. A number of tests and procedures for the detection of osteoporosis and other bone disorders currently exist and others are in development, and the manufacturers of these tests will continue to improve them. In addition, the diagnostics industry is subject to rapid technological change. Ostex' competitors may succeed in developing products which are more effective or less expensive than those that have been or are being developed by Ostex or which would render Ostex' core technology obsolete, uneconomical or non-competitive. Many of Ostex' competitors have, or have access to substantially

greater financial, technical and human resources than Ostex. In addition, many of these competitors have significantly greater experience and resources than Ostex in undertaking clinical trials and other regulatory approval procedures, as well as in marketing and sales and achieving manufacturing efficiencies. There are also small companies, academic institutions, governmental agencies and other research organizations that are conducting research in the area of osteoporosis and other collagen-related diseases. These entities are becoming increasingly aware of the commercial value of their findings and more active in seeking patent and other proprietary rights, as well as licensing revenues.

**Ostex is dependent on its core technology and may not be able to adapt this technology to different formats.**

Ostex currently relies exclusively upon its core technology for the development of products associated with osteoporosis and other collagen-related diseases. Ostex' Type I collagen patents will begin to expire in late 2007 for the United States and in 2010 for Europe and Japan. Ostex is the exclusive worldwide licensee of Metrika's patents relating to point-of-care devices and subcomponents thereof for the measurement of NTx and other connective tissue markers. The Metrika patents will begin to expire in 2013. Competitors of Ostex may succeed in developing new or more efficient or cost effective tests that are more readily accepted than Ostex' products. Ostex may require additional development work to adapt its core technology to different, additional or more cost-effective formats, instruments and other delivery platforms that currently exist or may be developed. In particular,

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additional research and development will be required to adapt its core technology to high-speed, high-volume automated instruments typically used in large clinical laboratories or companies through which Ostex may seek to expand the market for its products. In addition, further research and development will be required to lower the cost of the NTx Point-of-Care device beyond volume considerations and to enhance its performance. Ostex may not be successful in adapting and further developing its core technology to meet such needs. In addition, technological changes or medical advancements could diminish or eliminate the commercial viability of the Osteomark® tests or future products based upon Ostex' core technology. The failure to adapt Ostex' core technology to different or more cost effective formats, instruments, and other delivery platforms, or otherwise to commercialize such core technology, could have a material adverse effect on Ostex' results of operations.

**Ostex is reliant on collaborative agreements and other relationships.**

Ostex has entered into collaborative, distribution or co-promotional agreements, arrangements, or programs with several partners, including, among others, Johnson & Johnson Clinical Diagnostics, Inc., Mochida Pharmaceutical Co., Ltd., Procter & Gamble, Aventis Pharmaceuticals and Quest Diagnostics Incorporated. The level of each collaborator's involvement and support and the amount and timing of resources it will give or the amount of product it will purchase from Ostex under these agreements, arrangements, or programs are not within the control of Ostex and can significantly impact Ostex' ability to achieve its objectives. There can be no assurance that these collaborators will perform their contractual obligations or intentions as expected or that Ostex will derive revenue from such arrangements. Moreover, the agreements or business could be terminated. Ostex expects to rely on these and additional agreements, arrangements, or programs to develop, commercialize, promote and sell its present and future products. Ostex may not be able to negotiate acceptable agreements in the future. Moreover, new agreements or existing agreements may not be successful. If any collaborator breaches or terminates its agreement, or fails to conduct its collaborative activities in a timely manner, the commercialization of existing and future products could be slowed down or blocked completely. Disputes may arise between Ostex and its collaborators on a variety of matters, including financial or other obligations under the business relationships and arrangements between the companies. These disputes may be both expensive and time consuming and may result in delays in the development and commercialization of Ostex' products.

**Product liability claims with respect to Ostex' products in excess of the amount of insurance could adversely affect Ostex' financial condition.**

The testing, manufacturing, marketing and sale of Ostex' products may subject Ostex to product liability claims. Ostex maintains coverage against product liability risks up to a \$2,000,000 aggregate limit. However, continuing insurance coverage may not be available at an acceptable cost, if at all. Ostex may not be able to obtain insurance coverage that will be adequate to satisfy any liability that may arise. Regardless of merit or eventual outcome, product liability claims may result in decreased demand for a product, injury to its reputation, withdrawal of clinical trial volunteers and loss of revenues. As a result, regardless of whether Ostex is insured, a product liability claim or product recall may result in losses that could be material to Ostex.

**Ostex has limited suppliers.**

The majority of the raw materials, technologies and purchased components used to manufacture Ostex' products are readily available. However, certain of these materials, technologies and related support such as solid phase membranes and electronics modules for Ostex' NTx Point-of-Care device, are from a sole supplier or a limited group of suppliers. There can be no assurance that Ostex' reliance on these suppliers

will not result in problems with product supply. Interruptions in the availability of products could have a material adverse effect on Ostex' results of operations.

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**The healthcare reimbursement for Ostex' products is uncertain.**

Ostex' ability to commercialize its products will depend in part on the extent to which reimbursement for the cost of such products and related treatment will be available from third-party payors, such as government health administration authorities, private health coverage insurers and other organizations, and the amount of such reimbursement. The status of the scope of healthcare programs worldwide is uncertain and there can be no assurance that adequate third-party coverage will be available for Ostex to maintain price levels sufficient for realization of an appropriate return on its investment in product development. Third-party payors are increasingly challenging the price and cost effectiveness of medical products and services. There can be no assurance that Ostex' existing or any future products will provide sufficient value or be considered cost effective and that reimbursement to the consumer will be available or sufficient to allow Ostex to sell its products on a competitive basis. The U.S. Department of Health and Human Services Centers for Medicare & Medicaid Services issued its Final Rule for National Medicare Coverage in November 2001. The Rule established mandatory national Medicare coverage for the use of the Osteomark® NTx Urine test. However, because the Rule was negotiated based on earlier clinical studies with urine tests, the rulemaking did not extend to the Osteomark® NTx Serum test. In the absence of a national coverage decision, Medicare contractors will have local discretion in deciding whether the Osteomark® NTx Serum test is reimbursable as a medically necessary procedure for assessing and monitoring bone loss resorption.

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**SPECIAL STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including:

statements about the benefits of the acquisition by Inverness of Ostex, including future financial and operating results that may be realized from the transaction;

statements with respect to Inverness' and Ostex' plans, objectives, expectations and intentions and other statements that are not historical facts; and

other statements identified by words such as "may," "could," "should," "would," "believes," "expects," "anticipates," "estimates," "intends," "plans," "targets" and similar expressions.

You should read statements that contain these words carefully because they discuss Inverness' and Ostex' future expectations, contain projections of Inverness' or Ostex' future results of operations or financial condition or state other "forward-looking" information. There may be events in the future that neither Inverness nor Ostex is able to predict accurately or control and that may cause actual results to differ materially from the expectations described in the forward-looking statements contained in this proxy statement/prospectus. All forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed in this proxy statement/prospectus. Readers should not place undue reliance on the forward-looking statements contained in this proxy statement/prospectus. In evaluating these forward-looking statements, you should consider the risks and uncertainties described above, in the section of this proxy statement/prospectus titled "Risk Factors" and in the reports and documents filed by Inverness or Ostex with the Securities and Exchange Commission. Neither Inverness nor Ostex undertakes any obligation to update any forward-looking statements contained in this proxy statement/prospectus as a result of future events or developments.

**THE COMPANIES**

**Inverness Medical Innovations, Inc.**

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Inverness Medical Innovations, Inc., a Delaware corporation, was initially formed in May 2001 as a wholly owned subsidiary of Inverness Medical Technology, Inc., or IMT, in anticipation of Johnson & Johnson's acquisition of IMT's diabetes business. On November 21, 2001, Inverness received all of IMT's non-diabetes businesses, i.e., its women health, nutritional supplements and clinical diagnostics businesses, and was split-off from IMT simultaneously with Johnson & Johnson's acquisition of IMT. Inverness' principal executive offices are located at 51 Sawyer Road, Suite 200, Waltham, Massachusetts 02453 and its telephone number is (781) 647-3900.

Inverness develops, manufactures and markets consumer healthcare products, including self-test diagnostic products for the women's health market and vitamins and nutritional supplements. Inverness also manufactures and distributes a wide variety of clinical diagnostic products for use by medical and laboratory professionals. Inverness' consumer self-test diagnostic products allow a wide variety of individuals to obtain accurate information regarding various medical conditions on a confidential, non-prescription basis, without the expense, inconvenience and delay associated with physician visits or laboratory testing. This information gives individuals greater control over their health and their lives, allowing them to make informed decisions and take action to protect their health, alone or in consultation with healthcare professionals. Inverness' nutritional supplements also provide individuals with the ability to better manage their own health. Inverness' existing self-test products are targeted at the women's health market, one of the largest existing markets for self-care diagnostics, and include home pregnancy detection tests and home ovulation prediction tests. Inverness sells a wide variety of vitamins and nutritional supplements.

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On September 20, 2002, Inverness acquired the Wampole Laboratories division of MedPointe Inc., a U.S. point-of-care medical diagnostics company, for \$70 million in cash. Wampole is a leader in enzyme immunoassay testing within the clinical laboratory marketplace and also offers a broad line of visually-read assays for point-of-care testing. The acquisition of Wampole dramatically expanded Inverness' clinical diagnostics business. Wampole's products are sold to hospitals, major reference testing laboratories, physician's offices and clinics through an extensive distribution network.

You can find additional information regarding Inverness in Inverness' filings with the Securities and Exchange Commission referenced in the section of this proxy statement/prospectus titled "Where You Can Find More Information."

### **Ostex International, Inc.**

Ostex International, Inc., a Washington corporation, develops and commercializes products to make "disease management a reality," with osteoporosis being the first area of focus. Ostex' lead product, the Osteomark® NTx test, which is available in multiple test formats, incorporates breakthrough and patented technology for the management of osteoporosis. Ostex has formed collaborative relationships with leading reference laboratories and distributors and markets its Point-of-Care device primarily to pharmaceutical companies to aid in the commercialization of its Osteomark® technology. Ostex' principal executive offices are located at 2203 Airport Way South, Suite 400, Seattle, Washington 98134 and its telephone number is (206) 292-8082.

You can find additional information regarding Ostex in Ostex' filings with the Securities and Exchange Commission referenced in the section of this proxy statement/prospectus titled "Where You Can Find More Information."

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## **THE SPECIAL MEETING OF OSTEX SHAREHOLDERS**

### **Date, Time, Place and Purpose of Ostex' Special Meeting**

The special meeting of Ostex' shareholders will be held at \_\_\_\_\_ a.m. local time on \_\_\_\_\_, \_\_\_\_\_, located at \_\_\_\_\_, Seattle, Washington. At the special meeting, Ostex' shareholders as of the record date will be asked to approve the merger agreement with Inverness.

### **Record Date; Outstanding Shares; Shares Entitled to Vote**

Only holders of record of Ostex common stock at the close of business on the record date, \_\_\_\_\_, 2002, are entitled to notice of and to vote at the special meeting. As of the record date, there were \_\_\_\_\_ shares of Ostex common stock outstanding, held of record by approximately \_\_\_\_\_ shareholders. A list of Ostex shareholders as of the record date will be available for review by any Ostex shareholder or the

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agent or attorney of any Ostex shareholder at Ostex' principal executive offices during regular business hours for a period of ten days before the special meeting. Each holder of Ostex common stock is entitled to one vote for each share of Ostex common stock that he or she owned as of the record date. If you do not vote, either in person or by proxy, it will have the same effect as voting against the merger agreement.

### **Quorum; Vote Required**

The required quorum for the transaction of business at the special meeting is a majority of the shares of Ostex common stock outstanding on the record date, represented in person or by proxy.

The affirmative vote of the holders of at least two-thirds of the outstanding shares of Ostex common stock is required to approve the merger agreement.

### **Recommendation of Ostex' Board of Directors**

THE OSTEX BOARD OF DIRECTORS HAS UNANIMOUSLY ADOPTED THE MERGER AGREEMENT AND DETERMINED THAT THE MERGER IS ADVISABLE AND FAIR TO, AND IN THE BEST INTERESTS OF, OSTEX AND ITS SHAREHOLDERS AND RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE MERGER AGREEMENT.

### **Share Ownership of Management**

As of the record date, Ostex' directors and executive officers collectively owned \_\_\_\_\_ shares of Ostex common stock, or approximately \_\_\_\_\_ % of Ostex' outstanding shares. Ostex' directors and their affiliates, who collectively owned an aggregate of approximately \_\_\_\_\_ % of the total outstanding common stock of Ostex as of the record date for the special meeting, have entered into a voting agreement with Inverness. Under the voting agreement, Ostex' directors and their affiliates have agreed to vote, and have granted Inverness an irrevocable proxy and power of attorney to vote, all of their shares of Ostex common stock in favor of the approval of the merger agreement.

### **Voting of Proxies**

The Ostex board of directors requests that you return the proxy card accompanying this proxy statement/prospectus for use at the special meeting. Please complete, date and sign the proxy card and promptly return it to W.F. Doring & Co., Inc., the firm that Ostex has retained to provide proxy solicitation services, in the enclosed envelope. All properly signed proxies received by W.F. Doring and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, if no instructions are given, to approve the merger agreement.

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We do not expect that any matter other than approval of the merger agreement will be brought before the special meeting. If other matters are properly presented and are within the purpose of the special meeting, the persons named as proxies will vote in accordance with their judgment with respect to those matters.

If you have questions or need assistance in completing or submitting your proxy card, please contact W.F. Doring at the following address and telephone number:

W.F. Doring & Co., Inc.  
150 Bay Street, 8<sup>th</sup> Floor  
Jersey City, NJ 07302  
(888) 330-5111

### **How to Revoke Your Proxy**

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

delivering a written notice bearing a date later than the date of your proxy card to W.F. Doring, stating that you revoke your proxy;



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signing and delivering to W.F. Doring a new proxy card relating to the same shares and bearing a later date; or

attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

You should send any notice of revocation or your completed new proxy card, as the case may be, to W.F. Doring at the following address:

W.F. Doring & Co., Inc.  
150 Bay Street, 8<sup>th</sup> Floor  
Jersey City, NJ 07302

### **Voting in Person**

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 of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring to the special meeting a letter from the broker, bank or other nominee confirming your beneficial ownership of the shares.

### **Abstentions and Broker Non-Votes**

Only shares affirmatively voted "FOR" the approval of the merger agreement, including shares represented by properly executed proxies that do not contain voting instructions, will be counted as votes "FOR" the approval of the merger agreement.

Brokers who hold shares of Ostex common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer's shares with respect to the action proposed in this proxy statement/prospectus without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your Ostex stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this proxy statement/prospectus. Accordingly, you are urged to mark and return the enclosed proxy card to indicate your vote, and fill out the voter instruction form, if applicable.

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Abstentions and broker non-votes will be included in determining the presence of a quorum at the special meeting, but will have the same effect as voting against the approval of the merger agreement.

### **Proxy Solicitation**

The enclosed proxy is solicited by and on behalf of Ostex' board of directors. Ostex will pay the expenses of soliciting proxies to be voted at the meeting, except that Ostex and Inverness have each agreed to share equally the costs of preparing, printing, filing and mailing this proxy statement/prospectus, other than attorneys' and accountants' fees which will be paid by the party incurring the expense. Following the original mailing of the proxies and other soliciting materials, Ostex and its agents also may solicit proxies by mail, telephone, facsimile or in person. No additional compensation will be paid to directors, officers or other employees of Ostex for making these solicitations. Ostex has retained a proxy solicitation firm, W.F. Doring & Co., Inc., to aid it in the solicitation process. Ostex will pay that firm a fee of approximately \$5,000, plus reasonable expenses. Ostex intends to reimburse persons who hold Ostex stock of record but not beneficially, such as brokers, custodians, nominees and fiduciaries, for their reasonable expenses in forwarding copies of proxies and other soliciting materials to, and requesting authority for the exercise of proxies from, the persons for whom they hold the shares.

### **Dissenters' Rights of Appraisal**

Under applicable Washington law, Ostex' shareholders have the right to dissent from the merger and to receive payment in cash for the appraised fair value of their shares of Ostex common stock. The appraised value of their shares of Ostex common stock may be more than, less than or equal to the value of the merger consideration. Each Ostex shareholder seeking to preserve statutory dissenters' rights must:

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deliver to Ostex before the vote is taken at the special meeting written notice of such shareholder's intent to demand payment for such shareholder's Ostex common stock if the merger becomes effective;

not vote such shareholders' shares of Ostex common stock in person or by proxy in favor of the proposal to approve the merger agreement; and

follow the statutory procedures for perfecting dissenters' rights under Washington law, which are described in the section of this proxy statement/prospectus titled "The Merger Dissenters' Appraisal Rights."

Merely voting against the merger agreement will not preserve your dissenters' rights. Chapter 23B.13 of the Washington Business Corporation Act is reprinted in its entirety and attached to this proxy statement/prospectus as Annex F. Failure by an Ostex shareholder to precisely comply with all procedures required by Washington law may result in the loss of dissenters' rights for that shareholder.

Under the merger agreement, if the number of dissenting shares exceeds 2% of the number of shares of outstanding Ostex common stock, Inverness is not obligated to effect the merger.

**YOU SHOULD NOT SEND IN ANY CERTIFICATES REPRESENTING OSTEX COMMON STOCK AT THIS TIME. FOLLOWING THE EFFECTIVE TIME OF THE MERGER, YOU WILL RECEIVE INSTRUCTIONS FOR THE SURRENDER AND EXCHANGE OF YOUR OSTEX STOCK CERTIFICATES.**

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## THE MERGER

### General

The Inverness board of directors has unanimously approved, the merger agreement and the Ostex board of directors has unanimously adopted the merger agreement and has determined that the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders. At the effective time of the merger, Geras Acquisition Corp., a wholly owned subsidiary of Inverness, will be merged with and into Ostex, and Ostex will become a wholly owned subsidiary of Inverness. In connection with the merger, each outstanding share of Ostex common stock, except for shares held by any shareholder who effectively exercises dissenters' rights to appraisal, will be converted into the right to receive a number of shares of Inverness common stock equal to the conversion ratio described in detail in this proxy statement/prospectus. For a description of the material terms of the merger agreement, which governs the merger, see the section of this proxy statement/prospectus titled "The Merger Agreement." We encourage you to read carefully this entire proxy statement/prospectus, including the merger agreement, which is attached to this proxy statement/prospectus as Annex A, for a complete understanding of the merger.

### Background of the Merger

Approximately four years ago, in 1998, Mr. Thomas Bologna, the Chairman, President and Chief Executive Officer of Ostex, met Mr. Ron Zwanziger, the Chairman, President and Chief Executive Officer of Inverness. At the time, Mr. Zwanziger was the Chairman, President and Chief Executive Officer of Selfcare, Inc., which later changed its name to Inverness Medical Technology, Inc., the former parent of Inverness. At this meeting and in subsequent conversations, Messrs. Zwanziger and Bologna discussed the possibility of Ostex and Selfcare entering into a distribution agreement, taking into account the complementary nature of Ostex' NTx technology and Selfcare's calcium supplements.

On February 13, 2001, Ostex entered into an agreement with SG Cowen Securities Corporation whereby SG Cowen agreed to serve as financial advisor to Ostex in connection with a possible sale of the company.

From mid-February 2001 through June 2001, SG Cowen, at the direction of Ostex, contacted several potentially interested parties about the possibility of acquiring Ostex. Inverness Medical Technology was one of the parties contacted by SG Cowen. As part of this process, SG Cowen sent Inverness Medical Technology an information package on Ostex. Also, on or about May 1, 2001, Mr. Bologna met with Mr. Zwanziger,

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who was still at Inverness Medical Technology, to discuss Ostex' products, markets and opportunities. Messrs. Zwanziger and Bologna did not discuss any terms of a potential acquisition at this meeting and, after reviewing the information package it received from SG Cowen, Inverness Medical Technology declined to pursue an acquisition of Ostex.

From June 2001 through early 2002, Ostex continued to evaluate potential strategic alternatives.

On November 21, 2001, Inverness Medical Technology was acquired by Johnson & Johnson in a transaction in which Inverness was simultaneously split-off from Inverness Medical Technology as an independent public company. In connection with this transaction, Mr. Zwanziger became the Chairman, President and Chief Executive Officer of Inverness.

On February 21, 2002, the Ostex board met in a telephonic meeting to discuss, among other things, strategic alternatives for Ostex.

On March 12, 2002, Messrs. Bologna and Zwanziger had a telephone conversation in which they discussed the possibility of a strategic combination of Ostex and Inverness. Messrs. Bologna and Zwanziger continued their conversation by telephone on March 18, 2002, at which time

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Messrs. Bologna and Zwanziger agreed that Inverness and Ostex would enter into a mutual confidentiality agreement to enable the parties to more fully investigate the possibility of a potential acquisition of Ostex by Inverness. On March 26, 2002, Ostex and Inverness entered into a mutual confidentiality agreement containing customary terms.

On March 27, 2002, the Ostex board met in a regularly scheduled meeting to discuss, among other things, possible strategic transactions involving Ostex. Mr. Bologna informed the board about his discussions with Inverness regarding a possible business combination, and discussed possible transactions with other companies. The board authorized Mr. Bologna to continue to pursue strategic alternatives.

On April 1, 2002, the Inverness board met in a special meeting. At this meeting, among other things, Mr. Zwanziger reported to the Inverness board that Inverness had entered into a mutual confidentiality agreement with Ostex and that members of its senior management were investigating a possible acquisition of Ostex.

On April 10 and April 16, 2002, Messrs. Bologna and Zwanziger had telephone conversations regarding the major terms of the potential acquisition of Ostex by Inverness.

On May 2, 2002, Messrs. Bologna and Zwanziger met at the offices of Inverness to discuss the potential acquisition and due diligence.

On May 22, 2002, the Ostex board met in a regularly scheduled meeting to discuss, among other things, pending strategic matters, including the potential acquisition by Inverness. At the meeting the board discussed materials provided by SG Cowen and other items regarding the business of Inverness since its split-off from Johnson & Johnson.

On May 30, 2002, Messrs. Bologna and Zwanziger had a telephone conversation to discuss further terms regarding the potential acquisition.

On June 5 and June 6, 2002, personnel from Inverness met with Ostex management at Ostex' offices to conduct due diligence. At this time, the Inverness personnel conducted due diligence regarding Ostex' products and manufacturing operations, technology, marketing and sales, patents and vendor and distributor arrangements and toured Ostex' manufacturing facilities.

On June 10 and July 3, 2002, Messrs. Bologna and Zwanziger had telephone conversations regarding the terms of the potential acquisition.

On July 8, 2002, Messrs. Bologna and Zwanziger met in Waltham, Massachusetts to discuss the major terms of the potential acquisition, including the number of shares of Inverness common stock to be exchanged for Ostex common stock and the treatment of Ostex' options and warrants in the proposed transaction.

On July 9, 2002, Mr. Bologna notified KPMG LLP, Ostex' independent auditors, that Ostex was in merger discussions with Inverness and requested that KPMG assist in performing certain due diligence tasks relating to Inverness for the proposed transaction. Mr. Bologna had further discussions with KPMG on July 12, 2002 to discuss the scope of their due diligence review.

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On July 9, 2002, the Ostex board met in a telephonic board meeting to discuss the status of the proposed merger transaction with Inverness. After discussion, the board authorized proceeding with the negotiation of the proposed transaction.

On July 10 and July 11, 2002, a representative of Inverness conducted a due diligence review of Ostex at Ostex' offices. Additionally, throughout the negotiations, Ostex continued to make available, and representatives of Inverness and its counsel continued to review, due diligence materials concerning Ostex.

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On July 12, 2002, Goodwin Procter LLP, counsel to Inverness, distributed the first draft of a merger agreement to Perkins Coie LLP, counsel for Ostex. From this date through approximately July 24, 2002, when negotiations were suspended, Inverness' counsel distributed initial drafts of the voting agreement and the stock option agreement and representatives and counsel of Inverness and Ostex engaged in extensive initial negotiations regarding the merger agreement and the other transaction documents. During these negotiations, among other things, the parties discussed the basic terms of the loan agreement and Inverness indicated that a consulting agreement between Mr. Bologna and Ostex that would take effect after completion of the proposed transaction would be required.

On July 12, 2002, the Inverness board met in a special meeting to, among other things, discuss and consider the proposed merger transaction. At the meeting, Mr. Zwanziger made a presentation regarding Ostex and the negotiation process in connection with Inverness' proposed acquisition of Ostex. Mr. Zwanziger also discussed with the board how the acquisition of Ostex would affect Inverness from a financial viewpoint using an analysis prepared by Inverness' financial advisor, Covington Associates LLC. After discussion, the Inverness board approved the acquisition of Ostex substantially on the terms presented at the meeting. The board also authorized Inverness' management to continue negotiating and complete the proposed acquisition of Ostex and to execute the merger agreement and any other transaction documents deemed necessary or advisable by Inverness' management in connection with the proposed acquisition of Ostex.

On July 15 and July 16, 2002, SG Cowen and counsel for Ostex conducted a due diligence review of Inverness at the offices of Inverness.

On July 16 and July 17, 2002, Mr. Bologna, Mr. Paul Hempel, General Counsel of Inverness, and counsel for Ostex and Inverness met in Seattle, Washington, to discuss the proposed merger transaction and negotiate terms and conditions of the transaction, and to discuss the results of the due diligence reviews.

On July 17, 2002, Mr. Bologna met in Calgary, Canada with Mr. David Toohey, Inverness' Vice President of European Operations, a senior member of Inverness' research and development staff and representatives of Procter & Gamble's Canadian operations. During this meeting, the parties discussed the Ostex/Procter & Gamble point-of-care program and point-of-care market opportunity. From July 19 through July 21, 2002, Mr. Bologna and Mr. Zwanziger had several telephone conversations discussing this meeting with Procter & Gamble.

On July 22, 2002, Messrs. Bologna and Zwanziger met at the offices of Ostex and discussed, among other things, the status of the proposed transaction. During the week of July 22, 2002, Messrs. Bologna and Zwanziger exchanged telephone messages regarding the proposed transaction. On or about July 24, 2002, following completion of Inverness' technical and business due diligence to date, Mr. Zwanziger informed Mr. Bologna via telephone message that Inverness was discontinuing negotiations of the proposed transaction. Shortly thereafter, Inverness requested its counsel and Ostex requested its counsel and KPMG to discontinue their efforts with respect to the proposed transaction.

On July 26, 2002, the Ostex board met in a telephonic board meeting and discussed the status of the proposed merger transaction and related agreements and documents, including Inverness' decision to discontinue negotiations. The board also discussed other strategic alternatives, including consideration of another company as a potential merger candidate.

On July 31, 2002, Ostex sent a letter to Inverness requesting the return of all due diligence documents that had been provided by Ostex in connection with its discussions with Inverness regarding Inverness' proposed acquisition of Ostex.

On July 31, 2002, the Inverness board met in a regularly scheduled meeting. At the meeting Mr. Zwanziger reported that Inverness had discontinued negotiations regarding the potential acquisition of Ostex.

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During the week of July 29, 2002, Mr. Bologna called SG Cowen to discuss the status of the proposed merger transaction with Inverness. From August 2 through August 11, 2002, SG Cowen had telephone conversations with Mr. Bologna and, at Ostex' direction, Mr. Zwanziger to discuss resuming negotiations regarding Inverness' proposed acquisition of Ostex. During this time period Messrs. Bologna and Zwanziger also had several telephone conversations regarding the terms of a proposed transaction.

On August 12, 2002, Messrs. Bologna and Zwanziger met at the offices of Inverness to continue their renewed negotiations of the proposed merger transaction. At this meeting, Messrs. Bologna and Zwanziger discussed major terms of the transaction, including the number of shares of Inverness common stock to be exchanged for Ostex common stock and the assumption of Ostex' options and warrants in the proposed transaction.

On August 13, 2002, Messrs. Bologna and Zwanziger had a telephone conversation to further discuss the terms of the transaction. Messrs. Bologna and Zwanziger agreed to a purchase price of 2.3 million shares of Inverness common stock, subject to the completion of agreed upon outstanding due diligence tasks, the negotiation of satisfactory formal documents and the approval of Ostex' board of directors.

On August 13, 2002, counsel for Ostex and counsel for Inverness resumed the negotiation and exchange of drafts of the merger agreement and other transaction documents. From August 13, 2002 through the date of signing, September 6, 2002, representatives of and counsel for Inverness and Ostex engaged in extensive negotiations by telephone regarding the merger agreement and the other transaction documents.

On August 16, 2002, Ostex notified KPMG to resume its efforts in performing certain due diligence tasks relating to Inverness with respect to the proposed transaction.

On August 20, 2002, a representative of Inverness met with personnel of Ostex at the offices of Ostex to conduct a further due diligence review of Ostex.

On August 27, 2002, Messrs. Bologna, Zwanziger and Hempel, and counsel for Inverness and Ostex held a conference call to negotiate terms and conditions of the merger agreement and the other transaction documents.

On August 29, 2002, the Ostex board met in a telephonic meeting to review the terms of the proposed merger transaction and receive an update on the status of the transaction negotiations and the due diligence review of Inverness. At this meeting, representatives from Perkins Coie LLP gave a general presentation on subjects related to the proposed transaction and the results of the due diligence review of Inverness, and representatives of SG Cowen discussed several topics related to the transaction.

On September 5, 2002, the Ostex board held a special meeting at which it was briefed on the status of discussions between Inverness and Ostex and reviewed the possible transaction. At the meeting:

representatives of KPMG gave a presentation summarizing the findings from the due diligence tasks it performed relating to Inverness;

representatives of SG Cowen gave a presentation to the board regarding the financial aspects of the proposed transaction and delivered SG Cowen's oral opinion to the Ostex board, subsequently confirmed in writing, as of the same date, that, as of that date and subject to the considerations set forth in their opinion, the assumed conversion ratio of 0.1494 shares of Inverness common stock for each outstanding share of Ostex common stock was fair to shareholders of Ostex, from a financial point of view; and

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representatives from Perkins Coie LLP gave a presentation on the general subjects of the final terms of the proposed merger documents, required regulatory and other approvals and a proposed amendment of Ostex' shareholder rights plan in contemplation of the proposed transaction.

There followed a board discussion of the potential benefits and detriments of the proposed merger and whether the transaction was in the best interests of Ostex and its shareholders. The existence and nature of director conflicts of interest, including but not limited to Mr. Bologna's proposed consulting agreement, were disclosed and discussed. The board also reviewed the fiduciary duties and liabilities of directors under Washington law. Following this discussion, the Ostex board unanimously determined that the proposed merger was advisable and fair to, and in the best interests of, Ostex and its shareholders, and adopted the merger agreement and approved the other transaction documents and resolved

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to recommend to the Ostex shareholders that they approve and adopt the merger agreement and approve the merger. The board also authorized Ostex' management to negotiate the remaining outstanding terms of the proposed transaction with Inverness and approved an amendment to Ostex' shareholder rights plan to prevent the proposed transaction from triggering various rights under the plan.

On September 6, 2002, Messrs. Bologna and Hempel and counsel for Inverness and Ostex held a conference call to discuss remaining details of the transaction terms relating to the loan agreement and Ostex' options.

On the evening of September 6, 2002, the parties executed the merger agreement, the voting agreements, the stock option agreement, the loan agreement, the consulting agreement with Mr. Bologna and other transaction documents.

On the morning of September 9, 2002, before trading commenced on the American Stock Exchange and the Nasdaq National Market, Inverness and Ostex issued a joint press release announcing the execution of the merger agreement and the related agreements.

### **Inverness' Reasons for the Merger**

In evaluating the proposed merger, Inverness' board of directors reviewed presentations from and consulted with its management and advisors, including its legal counsel, Goodwin Procter LLP, and its financial advisor, Covington Associates LLC, and considered the following information and factors:

Ostex' leading-edge intellectual property rights in the field of osteoporosis testing;

the difficulties that Inverness would face in attempting to develop non-infringing technology in the field of osteoporosis testing that was comparable to Ostex';

Inverness' familiarity with the expected consumer market for a point-of-care osteoporosis testing device;

Inverness' anticipated ability to use its existing intellectual property in the field of in vitro diagnostics to enhance Ostex' current products;

expected synergies through the acquisition of Ostex' existing and in-process intellectual property and the elimination of redundancies;

the anticipated enhancement of Inverness' ability to develop, market, manufacture and distribute a cost-effective point-of-care osteoporosis testing device;

Inverness' anticipated ability to increase sales of Ostex' existing products through the use of Inverness' marketing and distribution channels;

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the complementary nature of Inverness' and Ostex' businesses and the opportunity for significant cost savings;

the business, operations, financial condition, earnings and prospects of each of Inverness and Ostex, taking into account Inverness' due diligence review of Ostex' business;

the terms and conditions of the merger agreement, including the prohibition against Ostex' solicitation or encouragement of acquisition proposals; and

the terms and conditions of the voting agreement and stock option agreement.

The Inverness board of directors weighed these advantages against the potential risks of the merger discussed in the section of this proxy statement/prospectus titled "Risk Factors Risks Relating to the Merger."

The foregoing discussion of the information and factors considered by the Inverness board of directors is not intended to be exhaustive but is believed to include all material factors considered by the Inverness board. In view of the wide variety of factors considered by the Inverness board, the Inverness board did not find it practicable to quantify or otherwise assign relative weight to the specific factors considered. In addition, the Inverness board did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. Individual members of the Inverness board may have given different weight to different factors. However, after taking into account all of the factors set forth above, the Inverness board unanimously approved the merger agreement and the merger.

### **Ostex' Reasons for the Merger; Recommendation of Ostex' Board of Directors**

#### **Ostex' Reasons for the Merger**

The Ostex board of directors believes that a merger with Inverness is advisable and fair to, and in the best interests of, Ostex and its shareholders. At a meeting held on September 5, 2002, the Ostex board of directors unanimously adopted the merger agreement and determined that the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders and resolved to recommend that Ostex' shareholders vote "FOR" the approval of the merger agreement.

In making its determination to adopt the merger agreement, the Ostex board of directors considered reasons why the merger should be beneficial to Ostex and its shareholders. These potential benefits include the following:

the opportunity for Ostex shareholders to receive a premium over the market price for shares of Ostex common stock existing before the public announcement of the merger;

the ability of Ostex shareholders to continue to participate in the growth of the business conducted by Inverness and Ostex following the merger and to benefit from the potential appreciation in value of shares of Inverness common stock; and

the larger public float of shares of Inverness common stock compared to the public float of shares of Ostex common stock, which would provide Ostex shareholders, to the extent that they receive Inverness common stock, with the opportunity to gain greater liquidity in their investment.

In the course of deliberations, Ostex' board reviewed historical, present and projected financials of Ostex under various scenarios, historical and short-and long-term strategic objectives of Ostex, the opportunities in the marketplace that Ostex is pursuing and the risks associated therewith. The board

also reviewed with its legal, accounting and financial advisors a number of additional factors relevant to the merger, including:

information concerning conditions in the biotechnology industry in general;

information concerning the recent and historical stock price performance, volatility and trading volume of Ostex common stock and Inverness common stock;

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comparisons of historical financial and operational measures for Ostex and Inverness including revenues and earnings, technology, management and competitive position;

the likelihood that the merger would be completed;

the expected qualification of the merger as a tax-free reorganization under Section 368(a) of the Internal Revenue Code;

the opinion of SG Cowen that, as of September 5, 2002 and subject to the considerations set forth in their opinion, the assumed conversion ratio of 0.1494 shares of Inverness common stock for each outstanding share of Ostex common stock was fair to shareholders of Ostex from a financial point of view;

views concerning the financial condition, results of operations and businesses of Inverness and Ostex before and after giving effect to the merger based on due diligence and publicly available earnings estimates;

terms and conditions of the merger agreement, including termination fees and closing conditions;

the belief that the terms of the merger agreement, loan agreement and the stock option agreement, including the parties' representations, warranties and covenants, and the conditions to the parties' respective obligations, are reasonable;

the prospects of Ostex as an independent company, including:

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Ostex' need to secure additional funding;

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the ability of Ostex to raise funds in the present economic environment and discussions management had with potential investors, including terms under which the funding would be obtained;

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the challenges faced by Ostex in developing its new point-of-care manufacturing facility;

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the challenges associated with Ostex being operated with minimal financial and other resources;

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the resources needed to grow Ostex' business in the immediate, foreseeable and long-term future; and

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the likelihood of Ostex' common stock being delisted from the Nasdaq National Market;

the views of the Ostex board as to the potential and timing for third parties to enter into strategic relationships with or to combine with Ostex;

the impact of the merger on Ostex' customers and employees; and

reports from Perkins Coie LLP, KPMG LLP and SG Cowen as to the results of their due diligence investigation of Inverness.



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The Ostex board also considered a number of potentially negative factors in its deliberations concerning the merger, including:

the risk that because the conversion ratio will not be adjusted for changes in the market price of either Inverness common stock or Ostex common stock, the per share value of the consideration to be received by Ostex shareholders might be less than the price per share implied by the conversion ratio immediately prior to the announcement of the merger due to fluctuations in the market value of Inverness common stock and Ostex common stock;

the fact that shareholders of Ostex will not receive the full benefit of any future growth in the value of their equity that Ostex may have achieved as an independent company, and the potential disadvantage to Ostex shareholders who receive Inverness common stock in the event that Inverness does not perform as well in the future as Ostex may have performed as an independent company;

the risk that the merger might not be completed;

the possibility that some provisions of the merger agreement, including the nonsolicitation and termination fee provisions, together with the stock option and loan agreements, might have the effect of discouraging other persons potentially interested in merging with or acquiring Ostex from pursuing such an opportunity;

the potential loss of revenues and business opportunities for Ostex as a result of uncertainty in the marketplace resulting from the announcement of the merger, and the possible exploitation of such uncertainty by Ostex' and Inverness' competitors;

the possibility of management and employee disruption associated with the merger and integration of the operations of the companies, and the risk that, despite the efforts of the combined company, key management, technical and other personnel of Ostex might not continue with the combined company;

the risk that the benefits sought to be achieved by the merger will not be realized; and

other applicable risks described in the section of this proxy statement/prospectus titled "Risk Factors."

Ostex' board concluded that overall these risks were outweighed by the potential benefits of the merger, and unanimously adopted the merger agreement and determined that the merger was advisable and fair to, and in the best interests of, Ostex and its shareholders.

The above discussion does not include all of the information and factors considered by Ostex' board. In view of the variety of factors considered in connection with its evaluation of the merger agreement, Ostex' board did not find it practicable to and did not quantify or otherwise assign relative weight to the specific factors considered in reaching its determination. The Ostex board did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. In addition, individual members of Ostex' board may have given different weight to different factors.

### **Recommendation of Ostex' Board of Directors**

After carefully evaluating these factors described above, both positive and negative, the Ostex board of directors has unanimously adopted the merger agreement and determined the merger is advisable and fair to, and in the best interests of, Ostex and its shareholders and unanimously recommends that Ostex' shareholders vote "FOR" the approval of the merger agreement.

In considering the recommendation of the Ostex board of directors with respect to the merger, you should be aware that the directors and officers of Ostex have interests in the merger that are different

from, or are in addition to, the interests of Ostex shareholders generally. The Ostex board of directors was aware of these interests when it adopted the merger agreement. Please see the section of this proxy statement/prospectus titled "The Merger Interests of Ostex' Directors and Officers in the Merger."

#### Fairness Opinion of Ostex' Financial Advisor

Pursuant to an engagement letter dated February 13, 2001, Ostex retained SG Cowen Securities Corporation to render an opinion to the board of directors of Ostex as to the fairness, from a financial point of view, to the holders of Ostex common stock of the assumed conversion ratio of 0.1494 shares of Inverness common stock for each outstanding share of Ostex common stock.

On September 5, 2002, SG Cowen delivered certain of its written analyses and its oral opinion to the Ostex board and subsequently confirmed in writing as of the same date that, subject to the considerations set forth therein, as of September 5, 2002, the assumed conversion ratio was fair, from a financial point of view, to the common shareholders of Ostex. **The full text of the written opinion of SG Cowen, dated September 5, 2002, is attached to this proxy statement/prospectus as Annex E and is incorporated by reference. Holders of Ostex common stock are urged to read the opinion in its entirety for the assumptions made, procedures followed, other matters considered and limits of the review by SG Cowen. The summary of the written opinion of SG Cowen set forth herein is qualified in its entirety by reference to the full text of such opinion. SG Cowen's analyses and opinion were prepared for and addressed to the Ostex board and are directed only to the fairness, from a financial point of view, of the assumed conversion ratio, and do not constitute an opinion as to the merits of the merger or a recommendation to any shareholder as to how to vote on the proposed merger.** The conversion ratio was determined through negotiations between Ostex and Inverness and not pursuant to recommendations of SG Cowen.

In arriving at its opinion, SG Cowen reviewed and considered the financial and other matters that it deemed relevant, including, among other things:

a draft of the merger agreement dated August 29, 2002;

publicly available information for Ostex and other relevant financial and operating data furnished to SG Cowen by Ostex management;

publicly available information for Inverness and other relevant financial and operating data furnished to SG Cowen by Inverness management;

internal financial analyses, financial forecasts, reports and other information concerning Ostex (which we refer to as the Ostex forecasts) and Inverness (which we refer to as the Inverness forecasts) prepared by the management of Ostex and Inverness, respectively;

First Call estimates and financial projections in Wall Street analyst reports for Inverness;

discussions SG Cowen had with members of the managements of Ostex and Inverness concerning the historical and current business operations, financial conditions and prospects of Ostex and Inverness and other matters that SG Cowen deemed relevant;

operating results and the reported price and trading histories of the shares of the common stock of Ostex and Inverness as compared to the operating results and the reported price and trading histories of other publicly traded companies that SG Cowen deemed relevant;

financial terms of the merger as compared to the financial terms of other selected business combinations that SG Cowen deemed relevant;

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based on the Ostex forecasts, the cash flows generated by Ostex on a stand-alone basis to determine the present value of the discounted cash flows;

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based on the Inverness forecasts, the cash flows generated by Inverness on a stand-alone basis to determine the present value of the discounted cash flows;

pro forma financial effects of the merger on an accretion/dilution basis; and

other information, financial studies, analyses and investigations and other factors that SG Cowen deemed relevant for the purposes of its opinion.

In conducting its review and arriving at its opinion, SG Cowen, with Ostex' consent, assumed and relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided to it by Ostex or Inverness or which was publicly available. SG Cowen did not undertake any responsibility for the accuracy, completeness or reasonableness of, or to independently verify, this information. In addition, SG Cowen did not conduct or assume any obligation to conduct any physical inspection of the properties or facilities of Ostex or Inverness. SG Cowen further relied upon the assurance of management of Ostex that they were unaware of any facts that would make the information provided to SG Cowen incomplete or misleading in any respect. SG Cowen, with Ostex' consent, assumed that the Ostex forecasts and the Inverness forecasts were reasonably prepared by the respective managements of Ostex and Inverness, and reflected the best available estimates and good faith judgments of these managements as to the future performance of Ostex and Inverness, and that each of the Ostex forecasts and the Inverness forecasts utilized in SG Cowen's analyses provided a reasonable basis for its opinion.

SG Cowen did not make or obtain any independent evaluations, valuations or appraisals of the assets or liabilities of Ostex or Inverness, nor was SG Cowen furnished with these materials. With respect to all legal matters relating to Ostex and Inverness, SG Cowen relied on the advice of legal counsel to Ostex. SG Cowen's services to Ostex in connection with the merger were comprised of rendering an opinion from a financial point of view of the assumed conversion ratio. SG Cowen's opinion was necessarily based upon economic and market conditions and other circumstances as they existed and could be evaluated by SG Cowen on the date of its opinion. It should be understood that although subsequent developments may affect its opinion, SG Cowen does not have any obligation to update, revise or reaffirm its opinion and SG Cowen expressly disclaims any responsibility to do so.

In rendering its opinion, SG Cowen assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement are true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the merger agreement and that all conditions to the consummation of the merger will be satisfied without waiver thereof. SG Cowen assumed that the final form of the merger agreement would be substantially similar to the last draft received by SG Cowen prior to rendering its opinion. SG Cowen also assumed that all governmental, regulatory and other consents and approvals contemplated by the merger agreement would be obtained and that, in the course of obtaining any of those consents, no restrictions would be imposed or waivers made that would have an adverse effect on the contemplated benefits of the merger. Ostex informed SG Cowen, and SG Cowen assumed that the merger will be treated as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

SG Cowen's opinion does not constitute a recommendation to any shareholder as to how the shareholder should vote on the proposed merger. SG Cowen's opinion does not imply any conclusion as to the likely trading range for Inverness common stock following consummation of the merger or otherwise, which may vary depending on numerous factors that generally influence the price of securities. SG Cowen's opinion is limited to the fairness to the common shareholders of Ostex, from a financial point of view, of the assumed conversion ratio. SG Cowen expresses no opinion as to the underlying business reasons that may support the decision of the Ostex board to approve, or Ostex' decision to consummate, the merger.

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The following is a summary of the principal financial analyses performed by SG Cowen to arrive at its opinion. Some of the summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions

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underlying the analyses, could create a misleading or incomplete view of the financial analyses. SG Cowen performed certain procedures, including each of the financial analyses described below, and reviewed with the management of Ostex and Inverness the assumptions on which such analyses were based and other factors, including the historical and projected financial results of Ostex and Inverness. No limitations were imposed by the Ostex board with respect to the investigations made or procedures followed by SG Cowen in rendering its opinion.

### **Analysis of Premiums Paid in Selected Transactions**

SG Cowen reviewed the premium of the offer price over the trading prices of the corresponding target's stock one trading day and four weeks prior to the announcement date, to the extent the target's stock was publicly traded on those dates, of selected transactions in the diagnostic industry announced since January 24, 1997. The selected transactions were (listed as target/acquiror):

Wampole Laboratories (MedPointe Inc.)/Inverness Medical Innovations, Inc.

Visible Genetics Inc./Bayer Corporation (Diagnostics Division)

Digene Corp./Cytoc Corp.

Unilever U.K. Holdings plc (Unipath Business)/Inverness Medical Innovations, Inc.

Vysis, Inc./Abbott Laboratories

Pro-Duct Health, Inc./Cytoc Corp.

MiniMed Inc./Medtronic, Inc.

Inverness Medical Technologies, Inc./Johnson & Johnson

Wyntek Diagnostics, Inc./Genzyme Corp.

LXN Corp./Inverness Medical Technologies, Inc.

Medizin-Technologie GmbH/ResMed, Inc.

Organon Teknika BV/BioMerieux SA

Integ, Inc./Inverness Medical Technologies, Inc.

STC Technologies, Inc./Epitope, Inc.

Nycomed Pharma AS' Diagnostics Division/Axis-Shield plc

Pasteur Sanofi Diagnostics, Inc./Bio-Rad Laboratories, Inc.

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NeoPath, Inc./AutoCyte, Inc.

Metra Biosystems, Inc./Quidel Corp.

Clontech Laboratories, Inc./Becton, Dickinson & Company

Hemoliance/Grupo CH-Werfen SA (Instrumentation Laboratory)

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CN Biosciences, Inc./Merck AG (EM Industries)

Centocor, Inc.'s Oncology Diagnostics Business/Fujirebio, Inc.

Chiron Diagnostics/Bayer AG

Biostar, Inc./Thermo Bioanalysis Corp.

Can-Am Care Corp./Inverness Medical Technologies, Inc.

BioWhittaker, Inc./Cambrex Corp.

Incstar Corp./American Standard Companies, Inc.

The following table presents the median and mean percentage premiums of the offer price over the trading prices one day and four weeks prior to the announcement date, to the extent the relevant target's stock was publicly traded on those dates, of the selected diagnostic industry transactions and the percentage premiums implied for Ostex, based on the assumed conversion ratio and on the closing sale prices of Inverness and Ostex common stock on August 30, 2002.

	<b>Premiums Paid for Selected Diagnostic Industry Transactions</b>		<b>Premium Implied by Assumed Conversion Ratio for Ostex</b>
	<b>Median</b>	<b>Mean</b>	
Premiums Paid to Stock Price:			
1 Day Prior to Announcement	27.1%	29.8%	106.0%
4 Weeks Prior to Announcement	51.9	54.3	89.7

### **Analysis of Selected Transactions**

SG Cowen reviewed the financial terms, to the extent publicly available, of the selected diagnostic industry transactions.

SG Cowen reviewed the enterprise value (defined as the market capitalization of common stock plus total debt less cash and equivalents) paid in the selected diagnostic industry transactions as a multiple of latest reported twelve month period (referred to as LTM) revenue, earnings before interest expense, income taxes, depreciation and amortization (referred to as EBITDA) and earnings before interest expense and income taxes (referred to as EBIT), and also examined the multiples of equity value (defined as the market capitalization of common stock) paid in the selected diagnostic industry transactions to LTM earnings.

The following table presents, for the periods indicated, the low, mean, median and high multiples from the multiples implied by (1) the ratio of enterprise value to LTM revenues, EBIT and EBITDA, and (2) the ratio of equity value to LTM earnings for the selected diagnostic industry transactions compared to the corresponding multiples for Ostex implied by the assumed conversion ratio. The multiples implied by the assumed conversion ratio for Ostex are based on the closing sale price of Inverness common stock on August 30, 2002.

	Multiples for Selected Diagnostic Industry Transactions				Multiples Implied by Assumed Conversion Ratio for Ostex
	Low	Mean	Median	High	
Enterprise Value as a Ratio of:					
LTM Revenue	0.46x	4.88x	2.35x	17.21x	6.01x
LTM EBITDA	9.7	26.2	15.4	55.0	NM
LTM EBIT	5.6	33.0	19.9	73.8	NM
Equity Value as a Ratio of:					
LTM Earnings	6.4x	48.5x	45.0x	85.6x	NM

"NM" means not meaningful

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Although the selected diagnostic industry transactions were used for comparison purposes, none of those transactions is directly comparable to the merger, and none of the companies in those transactions is directly comparable to Ostex or Inverness. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the companies involved and other factors that could affect the acquisition value of these companies or Ostex, to which they are being compared.

#### Analysis of Selected Publicly Traded Companies Compared to Ostex

To provide contextual data and comparative market information, SG Cowen compared selected historical operating and financial data and ratios for Ostex to the corresponding financial data and ratios of selected point-of-care diagnostics companies and selected other clinical testing companies whose securities are publicly traded and which SG Cowen believes have operating, market valuation and trading valuations similar to what might be expected of Ostex. The selected point-of-care diagnostics companies were:

Axis-Shield plc

Biosite Inc.

Cholestech Corp.

IGEN International, Inc.

i-STAT Corp.

Quidel Corp.

Radiometer A/S

Therasense, Inc.

The selected clinical testing companies were:

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Abbott Laboratories

Bayer AG

Beckman Coulter

Diagnostic Products Corp.

Johnson & Johnson

Roche Group

The data and ratios included the enterprise value of both the selected point-of-care diagnostics companies and the selected clinical testing companies as multiples of LTM, estimated 2002 calendar year and projected 2003 calendar year revenues.

The following tables present, for the periods indicated, the low, mean, median and high multiples from the multiples implied by the ratio of enterprise value to LTM, estimated 2002 calendar year and projected 2003 calendar year revenues for the selected point-of-care diagnostics companies and the selected clinical testing companies compared to the corresponding multiples for Ostex implied by the

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assumed conversion ratio. The multiples implied by the assumed conversion ratio for Ostex are based on the closing sale price of Inverness common stock on August 30, 2002.

	<b>Selected Point-Of-Care Diagnostics Company Multiples</b>				<b>Multiples Implied by Assumed Conversion Ratio for Ostex</b>
	<b>Low</b>	<b>Mean</b>	<b>Median</b>	<b>High</b>	
<b>Enterprise Value as a Ratio of Revenues:</b>					
LTM	0.76x	2.55x	2.07x	4.46x	6.01x
CY2002E	0.80	2.11	1.95	3.41	5.91
CY2003P	1.22	1.80	1.86	2.62	5.00
	<b>Selected Clinical Testing Company Multiples</b>				<b>Multiples Implied by Assumed Conversion Ratio for Ostex</b>
	<b>Low</b>	<b>Mean</b>	<b>Median</b>	<b>High</b>	
<b>Enterprise Value as a Ratio of Revenues:</b>					
LTM	1.21x	3.22x	3.84x	4.77x	6.01x
CY2002E	0.99	2.97	3.42	4.54	5.91
CY2003P	0.96	2.72	3.10	4.11	5.00

Although the selected point-of-care diagnostics companies and the selected clinical testing companies were used for comparison purposes, none of those companies is directly comparable to Ostex. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the selected point-of-care diagnostics companies and the selected clinical testing companies and other factors that could affect the public trading value of the selected point-of-care diagnostics companies and the selected clinical testing companies or Ostex, to which they are being compared.

### Analysis of Selected Publicly Traded Companies Compared to Inverness

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To provide contextual data and comparative market information, SG Cowen compared selected historical operating and financial data and ratios for Inverness to the corresponding financial data and ratios of the selected point-of-care diagnostics companies and the selected clinical testing companies.

The data and ratios included the enterprise value of both the selected point-of-care diagnostics companies and the selected clinical testing companies as multiples of LTM, estimated 2002 calendar year and projected 2003 calendar year revenues, EBITDA and EBIT. SG Cowen also examined the ratios of the share prices as of August 30, 2002 of both the selected point-of-care diagnostics companies and the selected clinical testing companies to earnings per share (referred to as EPS) for the LTM and estimated 2002 calendar year and projected 2003 calendar year EPS (in each case, as available from First Call or, if not so available, research analyst reports) for the selected point-of-care diagnostics companies and for the selected clinical testing companies.

The following tables present, for the periods indicated, the low, mean, median, and high multiples from the multiples implied by (1) the ratio of enterprise value to LTM, estimated 2002 calendar year and projected 2003 calendar year revenues, EBITDA and EBIT and (2) the ratio of share price as of August 30, 2002 to LTM, estimated 2002 calendar year and projected 2003 calendar year EPS for the selected point-of-care diagnostics companies and the selected clinical testing companies compared to

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the corresponding multiples for Inverness. The multiples for Inverness are based on the closing sale price of its common stock on August 30, 2002.

	Selected Point-Of-Care Diagnostics Company Multiples				Inverness Multiples
	Low	Mean	Median	High	
<b>Enterprise Value as a Ratio of Revenues:</b>					
LTM	0.76x	2.55x	2.07x	4.46x	1.31x
CY2002E	0.80	2.11	1.95	3.41	1.35
CY2003P	1.22	1.80	1.86	2.62	1.22
<b>Enterprise Value as a Ratio of EBITDA:</b>					
LTM	9.6x	19.2x	16.5x	37.2x	NA
CY2002E	8.6	13.9	15.6	16.7	13.6x
CY2003P	6.4	8.6	8.9	11.0	11.5
<b>Enterprise Value as a Ratio of EBIT:</b>					
LTM	14.0x	24.3x	25.7x	31.8x	NM
CY2002E	12.0	18.7	19.6	25.3	31.9x
CY2003P	7.6	11.3	10.5	16.8	24.5
<b>Price as a Ratio of EPS:</b>					
LTM	22.2x	36.9x	36.4x	52.4x	NM
CY2002E	19.2	24.9	27.0	29.7	NM
CY2003P	8.8	15.6	14.8	21.1	48.5x
	Selected Clinical Testing Company Multiples				Inverness Multiples
	Low	Mean	Median	High	
<b>Enterprise Value as a Ratio of Revenues:</b>					
LTM	1.21x	3.22x	3.84x	4.77x	1.31x
CY2002E	0.99	2.97	3.42	4.54	1.35
CY2003P	0.96	2.72	3.10	4.11	1.22
<b>Enterprise Value as a Ratio of EBITDA:</b>					
LTM	9.1x	12.4x	12.9x	15.7x	NA
CY2002E	7.2	11.0	11.8	14.4	13.6x



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	Selected Clinical Testing Company Multiples				
	6.1	9.8	10.4	12.7	
CY2003P					11.5
<b>Enterprise Value as a Ratio of EBIT:</b>					
LTM	13.7x	20.4x	18.6x	34.1x	NM
CY2002E	11.7	16.1	16.4	19.9	31.9x
CY2003P	10.5	13.9	14.1	17.5	24.5
<b>Price as a Ratio of EPS:</b>					
LTM	17.1x	24.0x	25.9x	27.8x	NM
CY2002E	15.6	20.5	20.1	24.1	NM
CY2003P	10.8	16.9	17.6	20.9	48.5x

"NM" means not meaningful; "NA" means not available

Although the selected point-of-care diagnostics companies and the selected clinical testing companies were used for comparison purposes, none of those companies is directly comparable to Inverness. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the selected point-of-care diagnostics companies and the selected clinical testing companies and other factors that could affect the public trading value of the

selected point-of-care diagnostics companies and the selected clinical testing companies or Inverness, to which they are being compared.

### Historical Exchange Ratio Analysis

SG Cowen analyzed the ratios of the closing sale prices of Ostex common stock to those of Inverness common stock over various periods beginning from Inverness' split-off from Johnson & Johnson on November 23, 2001 and ending August 30, 2002. The table below illustrates the ratios for those periods and the premium or discount to those historical ratios implied by the assumed conversion ratio.

Historical Exchange	Closing Sale Price Ratio	Premium (Discount) Implied by Assumed Conversion Ratio
Current	0.0725x	106.0%
High	0.2004	(25.4)
Low	0.0660	126.2
One Month Prior	0.0748	99.8
Three Months Prior	0.1036	44.2
Six Months Prior	0.1069	39.7
Average Since November 23, 2001	0.1059	41.0
Latest One Month Average	0.0776	92.5
Latest Two Months Average	0.0833	79.3
Latest Three Months Average	0.0874	70.9
Latest Six Months Average	0.0932	60.3
Assumed Conversion Ratio for Ostex	0.1494	

### Stock Trading History

To provide contextual data and comparative market data, SG Cowen reviewed the historical market prices of Ostex common stock for the twelve month period ended August 30, 2002. SG Cowen noted that over the indicated period the high and low closing sale prices for shares of Ostex common stock as reported on the Nasdaq National Market were \$3.35 and \$1.04, respectively.

SG Cowen also reviewed the historical market prices of Inverness common stock from November 23, 2001 (the first trading day of Inverness common stock) to August 30, 2002. SG Cowen noted that over the indicated period the high and low closing sale prices for shares of Inverness common stock as reported on the American Stock Exchange were \$28.21 and \$15.45, respectively.

**Contribution Analysis**

SG Cowen analyzed the respective contributions of estimated 2002 calendar year, and projected 2003, 2004, 2005 and 2006 calendar year revenue, gross profit, EBITDA, EBIT and net income of Ostex and Inverness to the combined company, based upon the Ostex forecasts and the Inverness forecasts.

**Pro Forma Ownership Analysis**

SG Cowen analyzed the pro forma ownership in the combined company by the holders of Ostex common stock and noted that holders of Ostex common stock would own, on a fully diluted basis, approximately 11.1% of the combined company.

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**Discounted Cash Flow Analysis for Ostex**

SG Cowen estimated a range of values for Ostex common stock based upon the discounted present value of the projected after-tax cash flows of Ostex described in the Ostex forecasts for the fiscal years ended December 31, 2002 through December 31, 2006, and of the terminal value of Ostex at December 31, 2006, based upon multiples of EBITDA. After-tax cash flow was calculated by taking projected EBIT and subtracting from this amount projected taxes, capital expenditures and changes in working capital and adding back projected depreciation and amortization. This analysis was based upon certain assumptions described by, projections supplied by and discussions held with the management of Ostex. In performing this analysis, SG Cowen utilized discount rates ranging from 25% to 35% and used terminal multiples of EBITDA ranging from 15.0 times to 17.0 times. Utilizing this methodology, the per share equity value of Ostex ranged from \$1.89 to \$3.20 per share, based on the Ostex forecasts.

**Discounted Cash Flow Analysis for Inverness**

SG Cowen estimated a range of values for Inverness common stock based upon the discounted present value of the projected after-tax cash flows of Inverness described in the Inverness forecasts for the fiscal years ended December 31, 2002 through December 31, 2006, and of the terminal value of Inverness at December 31, 2006, based upon multiples of EBITDA. After-tax cash flow was calculated by taking projected EBIT and subtracting from this amount projected taxes, capital expenditures and changes in working capital and adding back projected depreciation and amortization. This analysis was based upon certain assumptions described by, projections supplied by and discussions held with the management of Inverness. In performing this analysis, SG Cowen utilized discount rates ranging from 15% to 25% and used terminal multiples of EBITDA ranging from 15.0 times to 17.0 times. Utilizing this methodology, the per share equity value of Inverness ranged from \$13.49 to \$23.34 per share, based on the Inverness forecasts.

**Pro Forma Earnings Analysis**

SG Cowen analyzed the potential effect of the proposed merger on the projected combined financial forecasts of Ostex and Inverness for the 2003-2006 calendar years. This analysis was based upon (1) the projected financial forecasts of Ostex and Inverness and (2) the terms of the merger. This analysis, with Ostex' management's consent, used Inverness' and Ostex' management forecasts. SG Cowen's pro forma earnings analysis did not take into account the possible effect of any cost savings or synergies in the proposed merger. The table below summarizes the results.

Year	Accretion/(Dilution) \$	Accretion/(Dilution) %	Pretax Synergies Required to be EPS Neutral (in millions)
CY2003P	\$ (0.26)	(79.8)%	\$ 6.9
CY2004P	(0.24)	(42.6)	6.3
CY2005P	(0.11)	(13.3)	2.9
CY2006P	0.18	18.2	NM

"NM" means not meaningful

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The summary set forth above does not purport to be a complete description of all the analyses performed by SG Cowen. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. SG Cowen did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, notwithstanding the separate factors summarized above, SG Cowen believes, and has advised the Ostex board, that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete view of the process underlying its opinion. In performing its analyses, SG Cowen made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of Ostex and Inverness. These analyses performed by SG Cowen are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by the analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. None of Ostex, Inverness, SG Cowen or any other person assumes responsibility if future results are materially different from those projected. The analyses supplied by SG Cowen and its opinion were among several factors taken into consideration by the Ostex board in making its decision to enter into the merger agreement and should not be considered as determinative of that decision.

SG Cowen was selected by the Ostex board to render an opinion to the Ostex board because SG Cowen is a nationally recognized investment banking firm and because, as part of its investment banking business, SG Cowen is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. SG Cowen is providing financial services for Ostex for which it will receive customary fees. In addition, in the ordinary course of its business, SG Cowen and its affiliates may trade the equity securities of Ostex and Inverness for their own account and for the accounts of their customers, and, accordingly, may at any time hold a long or short position in these securities. SG Cowen and its affiliates in the ordinary course of business have from time to time provided, and in the future may continue to provide, commercial and investment banking services to Ostex and Inverness, including serving as a financial advisor on potential acquisitions and as an underwriter on equity offerings, and have received and may in the future receive fees for the rendering of such services. In particular, SG Cowen acted as sole underwriter of Inverness' follow-on offering completed on May 22, 2002.

Pursuant to the SG Cowen engagement letter, if the merger is consummated, SG Cowen will be entitled to receive a customary transaction fee. Ostex has also agreed to pay a customary fee to SG Cowen for rendering its opinion, which fee will be credited against any transaction fee paid. Additionally, Ostex has agreed to reimburse SG Cowen for its out-of-pocket expenses, including attorneys' fees, and has agreed to indemnify SG Cowen against certain liabilities, including liabilities under the federal securities laws. The terms of the fee arrangement with SG Cowen, which are customary in transactions of this nature, were negotiated at arm's length between Ostex and SG Cowen, and the Ostex board was aware of the arrangement, including the fact that a significant portion of the fee payable to SG Cowen is contingent upon th