

ALERE INC.
Form 10-Q
November 08, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-16789

ALERE INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

04-3565120

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

51 SAWYER ROAD, SUITE 200

WALTHAM, MASSACHUSETTS 02453

(Address of principal executive offices)(Zip code)

(781) 647-3900

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

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

Yes No

The number of shares outstanding of the registrant's common stock, par value of \$0.001 per share, as of October 31, 2011 was 86,011,860.

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

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

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

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CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net product sales	\$ 418,254	\$ 363,433	\$ 1,224,302	\$ 1,063,549
Services revenue	162,266	171,123	493,393	497,292
Net product sales and services revenue	580,520	534,556	1,717,695	1,560,841
License and royalty revenue	5,249	4,123	17,723	16,052
Net revenue	585,769	538,679	1,735,418	1,576,893
Cost of net product sales	193,899	170,549	573,919	500,990
Cost of services revenue	84,177	80,782	251,388	238,991
Cost of net product sales and services revenue	278,076	251,331	825,307	739,981
Cost of license and royalty revenue	1,731	1,802	5,214	5,411
Cost of net revenue	279,807	253,133	830,521	745,392
Gross profit	305,962	285,546	904,897	831,501
Operating expenses:				
Research and development	34,772	32,434	112,662	96,187
Sales and marketing	134,376	125,606	407,973	369,016
General and administrative	91,895	96,131	292,284	284,155
Total operating expenses	261,043	254,171	812,919	749,358
Operating income	44,919	31,375	91,978	82,143
Interest expense, including amortization of original issue discounts and deferred financing costs	(47,327)	(34,180)	(154,194)	(100,921)
Other income (expense), net	(8,250)	7,525	(5,477)	14,681
Gain on sale of joint venture interest	288,896		288,896	
Income (loss) from continuing operations before provision (benefit) for income taxes	278,238	4,720	221,203	(4,097)
Provision (benefit) for income taxes	42,652	(167)	(4,414)	(964)
	235,586	4,887	225,617	(3,133)

Income (loss) from continuing operations before equity earnings (losses) of unconsolidated entities, net of tax

Equity earnings (losses) of unconsolidated entities, net of tax	4,118	(62)	4,922	8,195
Income from continuing operations	239,704	4,825	230,539	5,062
Income from discontinued operations, net of tax		2		11,913
Net income	239,704	4,827	230,539	16,975
Less: Net income attributable to non-controlling interests	138	1,494	160	1,167
Net income attributable to Alere Inc. and Subsidiaries	239,566	3,333	230,379	15,808
Preferred stock dividends	(5,358)	(6,147)	(16,682)	(18,001)
Preferred stock repurchase			23,936	
Net income (loss) available to common stockholders	\$ 234,208	\$ (2,814)	\$ 237,633	\$ (2,193)
Basic net income (loss) per common share attributable to Alere Inc. and Subsidiaries:				
Income (loss) from continuing operations	\$ 2.84	\$ (0.03)	\$ 2.81	\$ (0.17)
Income from discontinued operations, net of tax				0.14
Net income (loss) per common share	\$ 2.84	\$ (0.03)	\$ 2.81	\$ (0.03)
Diluted net income (loss) per common share attributable to Alere Inc. and Subsidiaries:				
Income (loss) from continuing operations	\$ 2.48	\$ (0.03)	\$ 2.56	\$ (0.17)
Income from discontinued operations, net of tax				0.14
Net income (loss) per common share	\$ 2.48	\$ (0.03)	\$ 2.56	\$ (0.03)
Weighted average shares-basic	82,486	84,796	84,508	84,269
Weighted average shares-diluted	97,090	84,796	100,058	84,269

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

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

(unaudited)

(in thousands, except par value)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 276,754	\$ 401,306
Restricted cash	349,551	2,581
Marketable securities	1,066	2,094
Accounts receivable, net of allowances of \$22,163 and \$20,381 at September 30, 2011 and December 31, 2010, respectively	423,437	397,148
Inventories, net	273,310	257,720
Deferred tax assets	66,560	57,111
Income tax receivable		1,383
Receivable from joint venture, net	15,668	
Prepaid expenses and other current assets	98,009	74,914
Total current assets	1,504,355	1,194,257
Property, plant and equipment, net	420,005	390,510
Goodwill	2,889,893	2,831,300
Other intangible assets with indefinite lives	14,355	28,183
Finite-lived intangible assets, net	1,569,024	1,707,581
Deferred financing costs, net and other non-current assets	98,538	57,529
Receivable from joint venture, net of current portion	15,579	23,872
Investments in unconsolidated entities	177,780	62,556
Marketable securities	2,040	9,404
Deferred tax assets	10,045	25,182
Total assets	\$ 6,701,614	\$ 6,330,374
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 45,421	\$ 16,891
Current portion of capital lease obligations	2,491	2,126
Short-term debt	6,147	
Accounts payable	145,397	126,844
Accrued expenses and other current liabilities	411,183	345,832
Payable to joint venture, net		2,787
Deferred gain on joint venture		288,378
Total current liabilities	610,639	782,858
Long-term liabilities:		
Long-term debt, net of current portion	3,018,602	2,378,566

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Capital lease obligations, net of current portion	2,334	1,402
Deferred tax liabilities	395,370	420,166
Other long-term liabilities	121,881	169,656
Total long-term liabilities	3,538,187	2,969,790
Commitments and contingencies (Note 16)		
Redeemable non-controlling interest	2,502	
Stockholders equity:		
Series B preferred stock, \$0.001 par value (liquidation preference: \$709,763 at September 30, 2011 and \$836,222 at December 31, 2010); Authorized: 2,300 shares; Issued: 2,065 shares at September 30, 2011 and 2,091 shares at December 31, 2010; Outstanding: 1,774 shares at September 30, 2011 and 2,091 shares at December 31, 2010	606,468	718,554
Common stock, \$0.001 par value; Authorized: 200,000 shares; Issued: 85,999 shares at September 30, 2011 and 84,928 shares at December 31, 2010; Outstanding: 78,320 shares at September 30, 2011 and 84,904 shares at December 31, 2010	86	85
Additional paid-in capital	3,259,573	3,232,997
Accumulated deficit	(1,122,869)	(1,377,184)
Treasury stock, at cost, 7,679 shares at September 30, 2011 and 24 shares at December 31, 2010	(184,971)	(104)
Accumulated other comprehensive income	(10,576)	690
Total stockholders equity	2,547,711	2,575,038
Non-controlling interests	2,575	2,688
Total equity	2,550,286	2,577,726
Total liabilities and equity	\$ 6,701,614	\$ 6,330,374

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

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ALERE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 230,539	\$ 16,975
Income from discontinued operations, net of tax		11,913
Income from continuing operations	230,539	5,062
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Non-cash interest expense, including amortization of original issue discounts and write-off of deferred financing costs	32,726	10,284
Depreciation and amortization	287,033	275,507
Non-cash stock-based compensation expense	16,275	22,947
Impairment of inventory	445	712
Impairment of long-lived assets	1,674	618
Impairment of intangible assets	2,938	
Gain on sale of joint venture interest	(288,896)	
Loss on sale of fixed assets	1,096	607
Gain on sales of marketable securities	(376)	
Equity earnings of unconsolidated entities, net of tax	(4,922)	(8,195)
Deferred income taxes	(30,999)	(33,256)
Other non-cash items	(8,115)	(1,378)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(30,832)	(2,553)
Inventories, net	(17,013)	(29,107)
Prepaid expenses and other current assets	(17,364)	6,752
Accounts payable	11,977	(19,423)
Accrued expenses and other current liabilities	66,769	23,121
Other non-current liabilities	(30,448)	(21,984)
Net cash provided by continuing operations	222,507	229,714
Net cash used in discontinued operations		(390)
Net cash provided by operating activities	222,507	229,324
Cash Flows from Investing Activities:		
Increase in restricted cash	(346,970)	(280)
Purchases of property, plant and equipment	(94,692)	(68,457)
Proceeds from sale of property, plant and equipment	846	642
Proceeds from disposition of business	11,491	
Cash paid for acquisitions, net of cash acquired	(127,081)	(465,583)
Proceeds from sales of (increase in) marketable securities	8,392	(17,887)
Net cash received from (paid for) equity method investments	(44,102)	10,835

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Increase in other assets	(55,888)	(1,717)
Net cash used in continuing operations	(648,004)	(542,447)
Net cash provided by discontinued operations		63,446
Net cash used in investing activities	(648,004)	(479,001)
Cash Flows from Financing Activities:		
Cash paid for financing costs	(66,338)	(9,590)
Cash paid for contingent purchase price consideration	(25,305)	
Proceeds from issuance of common stock, net of issuance costs	24,159	17,839
Repurchase of preferred stock	(99,068)	
Proceeds from issuance of long-term debt	1,752,708	400,000
Payments on long-term debt	(1,195,337)	(7,313)
Net proceeds (payments) under revolving credit facilities	104,808	(146,985)
Repurchase of common stock	(184,867)	
Excess tax benefits on exercised stock options	2,183	1,300
Principal payments on capital lease obligations	(3,084)	(1,270)
Other	(10,451)	(509)
Net cash provided by financing activities	299,408	253,472
Foreign exchange effect on cash and cash equivalents	1,537	(8,987)
Net decrease in cash and cash equivalents	(124,552)	(5,192)
Cash and cash equivalents, beginning of period	401,306	492,773
Cash and cash equivalents, end of period	\$ 276,754	\$ 487,581

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

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

(1) Basis of Presentation of Financial Information

The accompanying consolidated financial statements of Alere Inc. are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair presentation. Interim results are not necessarily indicative of results to be expected for the year. These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows. Our audited consolidated financial statements for the year ended December 31, 2010 included information and footnotes necessary for such presentation and were included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission, or SEC, on April 29, 2011. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2010.

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

(2) Cash and Cash Equivalents

We consider all highly-liquid cash investments with original maturities of three months or less at the date of acquisition to be cash equivalents. At September 30, 2011, our cash equivalents consisted of money market funds.

We have restricted cash of \$349.6 million and \$2.6 million as of September 30, 2011 and December 31, 2010, respectively. Of the \$349.6 million, \$347.1 million relates to a cash balance established in connection with the Axis-Shield plc, or Axis-Shield, tender offer, which we expect to consummate during the fourth quarter of 2011.

(3) Inventories

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

	September 30, 2011	December 31, 2010
Raw materials	\$ 82,582	\$ 81,640
Work-in-process	60,880	61,849
Finished goods	129,848	114,231
	\$ 273,310	\$ 257,720

(4) Stock-based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cost of net revenue	\$ 408	\$ 589	\$ 1,124	\$ 1,390
Research and development	881	1,543	3,017	5,415
Sales and marketing	1,016	1,181	3,184	3,094
General and administrative	1,981	3,950	8,950	13,048
	4,286	7,263	16,275	22,947

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Benefit for income taxes	(674)	(1,295)	(3,264)	(4,633)
	\$ 3,612	\$ 5,968	\$ 13,011	\$ 18,314

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

(5) Net Income (Loss) per Common Share

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Numerator:				
Income from continuing operations	\$ 239,704	\$ 4,825	\$ 230,539	\$ 5,062
Preferred stock dividends	(5,358)	(6,147)	(16,682)	(18,001)
Preferred stock repurchase			23,936	
Income (loss) from continuing operations attributable to common shares	234,346	(1,322)	237,793	(12,939)
Less: Net income attributable to non-controlling interest	138	1,494	160	1,167
Income (loss) from continuing operations attributable to Alere Inc. and Subsidiaries	234,208	(2,816)	237,633	(14,106)
Income from discontinued operations		2		11,913