INVERNESS MEDICAL INNOVATIONS INC
Form 10-Q
May 08, 2009

Table of Contents

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

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended March 31, 2009**

**OR**

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

**For the transition period from _____ to _____**

**COMMISSION FILE NUMBER 001-16789**

**INVERNESS MEDICAL INNOVATIONS, INC.**

**(Exact Name Of Registrant As Specified In Its Charter)**

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

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

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

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

**Yes þ No** o

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

**Yes o No** o

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

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
|---|---|---|---|

(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 o No** þ

The number of shares outstanding of the registrant s common stock, par value of $0.001 per share, as of May 4, 2009 was 78,750,057.

**INVERNESS MEDICAL INNOVATIONS, INC.**
**REPORT ON FORM 10-Q**
**For the Quarterly Period Ended March 31, 2009**

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as may, could, should, would, intend, will, expect, anticipate, believe, estimate, continue or similar words. There are a number of important factors that could cause actual results of Inverness Medical Innovations, Inc. and its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, the risk factors detailed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K, as amended, for the fiscal year ending December 31, 2008 and other risk factors identified herein or from time to time in our periodic filings with the Securities and Exchange Commission. Readers should carefully review these factors as well as the Special Statement Regarding Forward-Looking Statements beginning on page 49 in this Quarterly Report on Form 10-Q and should not place undue reliance on our forward-looking statements. These forward-looking statements are based on information, plans and estimates at the date of this report. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.*

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

**TABLE OF CONTENTS**

Table of Contents

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except per share amounts)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Net product sales | $ 311,064 | $ 313,314 |
| Services revenue | 123,736 | 48,047 |
| **Net product sales and services revenue** | 434,800 | 361,361 |
| License and royalty revenue | 9,060 | 10,872 |
| **Net revenue** | 443,860 | 372,233 |
| Cost of net product sales | 153,254 | 164,522 |
| Cost of services revenue | 54,957 | 23,238 |
| Cost of license and royalty revenue | 1,447 | 4,083 |
| **Cost of net revenue** | 209,658 | 191,843 |
| **Gross profit** | 234,202 | 180,390 |
| Operating expenses: | | |
| Research and development | 27,052 | 30,925 |
| Sales and marketing | 99,444 | 80,036 |
| General and administrative | 79,552 | 54,651 |
| Total operating expenses | 206,048 | 165,612 |
| **Operating income** | 28,154 | 14,778 |
| Interest expense, including amortization of deferred financing costs | (17,871) | (25,651) |
| Other (expense) income, net | (2,800) | 4,898 |
| **Income (loss) before provision (benefit) for income taxes** | 7,483 | (5,975) |
| Provision (benefit) for income taxes | 3,689 | (880) |
| Equity earnings of unconsolidated entities, net of tax | 2,497 | 921 |
| **Net income (loss)** | 6,291 | (4,174) |
| Preferred stock dividends | (5,520) | |
| **Net income (loss) available to common stockholders** | $ 771 | $ (4,174) |
| **Net income (loss) per common share basic** | $ 0.01 | $ (0.05) |

| | | |
|---|---|---|
| **Net income (loss) per common share diluted** | $ 0.01 | $ (0.05) |
| **Weighted average shares basic** | 78,614 | 77,244 |
| **Weighted average shares diluted** | 79,637 | 77,244 |

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

Table of Contents

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

| | March 31, 2009 (unaudited) | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 205,181 | $ 141,324 |
| Restricted cash | 3,705 | 2,748 |
| Marketable securities | 1,558 | 1,763 |
| Accounts receivable, net of allowances of $10,482 and $12,835 at March 31, 2009 and December 31, 2008, respectively | 273,541 | 280,608 |
| Inventories, net | 198,497 | 199,131 |
| Deferred tax assets | 104,177 | 104,311 |
| Income tax receivable | 5,853 | 6,406 |
| Receivable from joint venture, net | | 12,018 |
| Prepaid expenses and other current assets | 65,472 | 74,234 |
| **Total current assets** | 857,984 | 822,543 |
| Property, plant and equipment, net | 287,126 | 284,483 |
| Goodwill | 3,041,310 | 3,046,083 |
| Other intangible assets with indefinite lives | 42,754 | 42,984 |
| Core technology and patents, net | 437,955 | 459,307 |
| Other intangible assets, net | 1,104,821 | 1,169,330 |
| Deferred financing costs, net, and other non-current assets | 53,716 | 46,884 |
| Investments in unconsolidated entities | 60,338 | 68,832 |
| Marketable securities | 591 | 591 |
| Deferred tax assets | 15,911 | 14,323 |
| **Total assets** | $ 5,902,506 | $ 5,955,360 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current liabilities:** | | |
| Current portion of long-term debt | $ 18,521 | $ 19,058 |
| Current portion of capital lease obligations | 502 | 451 |
| Accounts payable | 105,489 | 112,704 |
| Accrued expenses and other current liabilities | 218,278 | 233,132 |
| Payable to joint venture, net | 1,060 | |
| **Total current liabilities** | 343,850 | 365,345 |
| **Long-term liabilities:** | | |
| Long-term debt, net of current portion | 1,496,494 | 1,500,557 |
| Capital lease obligations, net of current portion | 515 | 468 |
| Deferred tax liabilities | 462,674 | 462,787 |
| Deferred gain on joint venture | 286,764 | 287,030 |

| | | |
|---|---|---|
| Other long-term liabilities | 54,532 | 60,335 |
| **Total long-term liabilities** | 2,300,979 | 2,311,177 |
| **Commitments and contingencies** (Note 17) | | |
| **Stockholders equity:** | | |
| Series B preferred stock, $0.001 par value (liquidation preference, $765,056 at March 31, 2009 and $751,479 at December 31, 2008) Authorized: 2,300 shares Issued and outstanding: 1,913 shares at March 31, 2009 and 1,879 shares at December 31, 2008 | 677,102 | 671,501 |
| Common stock, $0.001 par value Authorized: 150,000 shares Issued and outstanding: 78,714 shares at March 31, 2009 and 78,431 shares at December 31, 2008 | 79 | 78 |
| Additional paid-in capital | 3,034,677 | 3,029,694 |
| Accumulated deficit | (387,299) | (393,590) |
| Accumulated other comprehensive loss | (66,882) | (28,845) |
| **Total stockholders equity** | 3,257,677 | 3,278,838 |
| **Total liabilities and stockholders equity** | $ 5,902,506 | $ 5,955,360 |

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

Table of Contents

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| **Cash Flows from Operating Activities:** | | |
| Net income (loss) | $ 6,291 | $ (4,174) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Interest expense related to amortization of deferred financing costs | 1,511 | 1,471 |
| Non-cash stock-based compensation expense | 5,879 | 5,560 |
| Impairment of inventory | 224 | 1,069 |
| Impairment of long-lived assets | 2,659 | 12,778 |
| Loss on sale of fixed assets | 191 | 86 |
| Equity earnings of unconsolidated entities, net of tax | (2,497) | (921) |
| Interest in minority investments | 100 | 50 |
| Depreciation and amortization | 71,802 | 53,477 |
| Deferred and other non-cash income taxes | (1,009) | (4,402) |
| Other non-cash items | 3,288 | 155 |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | 1,494 | (14,238) |
| Inventories, net | (1,669) | 3,500 |
| Prepaid expenses and other current assets | 4,797 | (8,365) |
| Accounts payable | (7,448) | 9,794 |
| Accrued expenses and other current liabilities | (17,756) | (11,013) |
| Other non-current liabilities | (459) | (564) |
| **Net cash provided by operating activities** | 67,398 | 44,263 |
| **Cash Flows from Investing Activities:** | | |
| Purchases of property, plant and equipment | (20,811) | (12,517) |
| Proceeds from sale of property, plant and equipment | 155 | 34 |
| Cash received (paid) for acquisitions and transactional costs, net of cash acquired | 5,671 | (181,230) |
| Net cash received from equity method investments | 10,965 | 392 |
| Increase in other assets | (187) | (4,363) |
| **Net cash used in investing activities** | (4,207) | (197,684) |
| **Cash Flows from Financing Activities:** | | |
| (Increase) decrease in restricted cash | (976) | 140,505 |
| Cash paid for financing costs | (240) | (352) |
| Proceeds from issuance of common stock, net of issuance costs | 4,741 | 8,637 |
| Net (repayments) proceeds on long-term debt | (2,943) | 137 |
| Repayments of revolving lines-of-credit | (1,405) | (33) |
| Repayments of notes payable | | (5,182) |

| | | |
|---|---|---|
| Principal payments of capital lease obligations | (73) | (338) |
| Other | (35) | |
| **Net cash (used in) provided by financing activities** | (931) | 143,374 |
| Foreign exchange effect on cash and cash equivalents | 1,597 | (1,808) |
| Net increase (decrease) in cash and cash equivalents | 63,857 | (11,855) |
| Cash and cash equivalents, beginning of period | 141,324 | 414,732 |
| **Cash and cash equivalents, end of period** | $ 205,181 | $ 402,877 |
| **Supplemental Disclosure of Non-cash Activities:** | | |
| Fair value of stock issued for acquisitions | $ | $ 15,880 |
| Fair value of stock options exchanged | $ | $ 3,640 |

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

Table of Contents

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

**(1) Basis of Presentation of Financial Information**

The accompanying consolidated financial statements of Inverness Medical Innovations, Inc. and its subsidiaries are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair presentation. Interim results are not necessarily indicative of results to be expected for the year. These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows. Our audited consolidated financial statements for the year ended December 31, 2008 included information and footnotes necessary for such presentation and were included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission on April 10, 2009. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

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

**(2) Cash and Cash Equivalents**

We consider all highly-liquid cash investments with original maturities of three months or less at the date of acquisition to be cash equivalents. At March 31, 2009, our cash equivalents consisted of money market funds.

**(3) Inventories**

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

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials | $ 61,174 | $ 45,161 |
| Work-in-process | 59,185 | 41,651 |
| Finished goods | 78,138 | 112,319 |
| | $ 198,497 | $ 199,131 |

**(4) Stock-based Compensation**

In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123-R, *Share-Based Payment,* we recorded stock-based compensation expense in our consolidated statements of operations of $5.9 million ($4.7 million, net of tax) and $5.6 million ($3.7 million, net of tax) for the three-month period ending March 31, 2009 and 2008, respectively, as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Cost of sales | $ 432 | $ 241 |
| Research and development | 1,016 | 1,233 |
| Sales and marketing | 900 | 814 |
| General and administrative | 3,531 | 3,272 |
| | $ 5,879 | $ 5,560 |

We report excess tax benefits from the exercise of stock options as financing cash flows. For each of the three months ended March 31, 2009 and 2008, there were no excess tax benefits generated from option exercises.

Our stock option plans provide for grants of options to employees to purchase common stock at the fair market value of such shares on the grant date of the award. The options generally vest over a four-year period, beginning on

Table of Contents

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

the date of grant, with a graded vesting schedule of 25% at the end of each of the four years. We use a Black-Scholes option pricing model to calculate the grant-date fair value of options. The fair value of the stock options granted during the three month periods ended March 31, 2009 and 2008 was calculated using the following weighted-average assumptions:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| **Stock Options:** | | |
| Risk-free interest rate | 1.92% | 2.80% |
| Expected dividend yield | | |
| Expected term | 5.20 years | 5.19 years |
| Expected volatility | 43.97% | 37.00% |

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| **Employee Stock Purchase Plan:** | | |
| Risk-free interest rate | 0.28% | 3.32% |
| Expected dividend yield | | |
| Expected term | 181 days | 182 days |
| Expected volatility | 72.05% | 43.31% |

A summary of the stock option activity for the three months ended March 31, 2009 is as follows (in thousands, except price per share and contractual term):

| | **Options** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Term** | **Aggregate Intrinsic value** |
|---|---|---|---|---|
| Options outstanding, January 1, 2009 | 10,155 | $ 32.65 | | |
| Granted | 11 | $ 22.47 | | |
| Exercised | (110) | $ 18.36 | | |
| Canceled/expired /forfeited | (118) | $ 35.53 | | |
| Options outstanding, March 31, 2009 | 9,938 | $ 32.76 | 6.50 years | $ 34,774 |
| Options exercisable, March 31, 2009 | 5,836 | $ 27.37 | 4.99 years | $ 29,936 |

The weighted average grant-date fair value under a Black-Scholes option pricing model of options granted during the three months ended March 31, 2009 and 2008 was $8.92 per share and $11.37 per share, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2009 and 2008 was $0.7 million and

$13.0 million, respectively.

As of March 31, 2009, there was $57.0 million of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a remaining weighted-average vesting period of 1.57 years.

Table of Contents

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

**(5) Net Income (Loss) Per Common Share**

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| **Basic net income (loss) per common share:** | | |
| **Numerator:** | | |
| Net income (loss) | $ 6,291 | $ (4,174) |
| Less: Preferred stock dividends | 5,520 | |
| Net income (loss) available to common stockholders | $ 771 | $ (4,174) |
| **Denominator:** | | |
| Weighted average common shares outstanding | 78,614 | 77,244 |
| Basic net income (loss) per common share | $ 0.01 | $ (0.05) |

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| **Diluted net income (loss) per common share:** | | |
| **Numerator:** | | |
| Net income (loss) | $ 6,291 | $ (4,174) |
| Less: Preferred stock dividends | 5,520 | |
| Net income (loss) available to common stockholders | $ 771 | $ (4,174) |
| **Denominator:** | | |
| Weighted average common shares outstanding | 78,614 | 77,244 |
| Stock options | 924 | |
| Warrants | 99 | |
| Total shares | 79,637 | 77,244 |
| Diluted net income (loss) per common share | $ 0.01 | $ (0.05) |

We had the following potential dilutive securities outstanding on March 31, 2009: (a) options and warrants to purchase an aggregate of 10.4 million shares of common stock at a weighted average exercise price of $32.23 per share, (b) 3.4 million shares related to our $150.0 million of 3% senior subordinated convertible notes, convertible at $43.98 per share, and (c) 1.9 million shares of our Series B convertible preferred stock, convertible under certain circumstances at $69.32 per share into 10.8 million shares of our common stock. These potential dilutive securities were not included in the computation of diluted net income per common share for the three months ended March 31, 2009 because the effect of including such potential dilutive securities would be anti-dilutive.

We had the following potential dilutive securities outstanding on March 31, 2008: (a) options and warrants to purchase an aggregate of 8.4 million shares of common stock at a weighted average exercise price of $31.59 per share and (b) 2.9 million shares related to our $150.0 million of 3% convertible notes, convertible at $52.30 per share. These potential dilutive securities were not included in the computation of diluted net loss per common share for the three months ended March 31, 2008 because the effect of including such potential dilutive securities would be anti-dilutive.

**(6) Preferred Stock**

As of March 31, 2009, we had 5.0 million shares of preferred stock, $0.001 par value, authorized, of which 2.3 million shares were designated as Series B Convertible Perpetual Preferred Stock, or Series B preferred stock. On May 8, 2008, in connection with our acquisition of Matria Healthcare Inc., or Matria, we issued 1.8 million shares of the Series B preferred stock with a fair value of approximately $657.9 million (Note 8(a)).

Table of Contents

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

Each share of Series B preferred stock, which has a liquidation preference of $400.00 per share, is convertible, at the option of the holder and only upon certain circumstances, into 5.7703 shares of our common stock, plus cash in lieu of fractional shares. The initial conversion price is $69.32 per share, subject to adjustment upon the occurrence of certain events, but will not be adjusted for accumulated and unpaid dividends. Upon a conversion of shares of the Series B preferred stock, we may, at our option, satisfy the entire conversion obligation in cash or through a combination of cash and common stock. There were no conversions as of March 31, 2009.

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

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

On December 10, 2008, the board of directors declared a dividend of $3.00 per share on the Series B preferred stock. The dividend was paid in shares of Series B preferred stock in an amount per share of Series B preferred stock equal to the quotient of (a) $3.00 divided by (b) 97% of the average of the volume-weighted average price per share of the Series B preferred stock on the American Stock Exchange for each of the five consecutive trading days ending on the second trading day immediately prior to the record date of the dividend. The dividend totaling $5.5 million was paid on January 15, 2009 to holders of record of Series B preferred stock at the close of business on January 2, 2009. Such payment covered the amount of all dividends accrued from October 1, 2008 through December 31, 2008.

On March 20, 2009, the board of directors declared a dividend of $3.00 per share on the Series B preferred stock. The dividend was paid in shares of Series B preferred stock in an amount per share of Series B preferred stock equal to the quotient of (a) $3.00 divided by (b) 97% of the average of the volume-weighted average price per share of the Series B preferred stock on the New York Stock Exchange for each of the five consecutive trading days ending on the second trading day immediately prior to the record date of the dividend. The dividend totaling $5.6 million was paid on April 15, 2009 to holders of record of Series B preferred stock at the close of business on April 1, 2009. Such payment covered the amount of all dividends accrued from January 1, 2009 through March 31, 2009. For the three months ended March 31, 2009, Series B preferred stock dividends amounted to $5.5 million which reduced earnings available to common stockholders for purposes of calculating net income per common share for the three months ended March 31, 2009 (Note 5). As of March 31, 2009, 1.9 million shares of Series B preferred stock are issued and outstanding which includes the accrued dividend shares.

The holders of Series B preferred stock have liquidation preferences over the holders of the Company s common stock and other classes of stock, if any, outstanding at the time of liquidation. Upon liquidation, the holders of outstanding Series B preferred stock would receive an amount equal to $400.00 per share of Series B preferred stock,

plus any accumulated and unpaid dividends. As of March 31, 2009, the liquidation preference of the outstanding Series B preferred stock was $765.1 million. The holders of the Series B preferred stock have no voting rights, except with respect to matters affecting the Series B preferred stock (including the creation of a senior preferred stock).

Table of Contents

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

We evaluated the terms and provisions of our Series B preferred stock to determine if it qualified for derivative accounting treatment under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Based on our evaluation, these securities do not qualify for derivative accounting under SFAS No. 133.

**(7) Comprehensive Income (Loss)**

We account for comprehensive income (loss) as prescribed by SFAS No. 130, *Reporting Comprehensive Income*. In general, comprehensive income (loss) combines net income (loss) and other changes in equity during the year from non-owner sources. Our accumulated other comprehensive loss, which is a component of shareholders equity, includes foreign currency translation adjustments and gains (losses) on available-for-sale securities and interest rate swaps. For the three months ended March 31, 2009 and 2008, we generated a comprehensive loss of $31.7 million and $8.2 million, respectively.

**(8) Business Combinations**

Effective January 1, 2009, we account for acquired businesses using the acquisition method of accounting as prescribed by SFAS No. 141-R, *Business Combinations*. This statement replaces SFAS No. 141, but retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. This statement requires an acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values as of the acquisition date. The statement requires acquisition costs and any restructuring costs associated with the business combination to be recognized separately from the fair value of the business combination. SFAS No. 141-R establishes requirements for recognizing and measuring goodwill acquired in the business combination or a gain from a bargain purchase, as well as disclosure requirements designed to enable users to better interpret the results of the business combination. Early adoption of this statement was not permitted. Acquisitions consummated prior to January 1, 2009 were accounted for in accordance with the previously applicable guidance of SFAS No. 141. In connection with the adoption of SFAS No. 141-R, we expensed $4.7 million of acquisition-related costs during the three months ended March 31, 2009.

*(a) Acquisitions in 2008*

During the year ended December 31, 2008, we acquired the following businesses for an aggregate preliminary purchase price of $1.1 billion, in which we paid $358.0 million in cash, issued 251,085 shares of our common stock with an aggregate fair value of $14.4 million, issued 1,787,834 shares of our Series B preferred stock with an aggregate fair value of $657.9 million, recorded $21.0 million of fair value associated with employee stock options and restricted stock awards which were exchanged as part of the transactions, incurred $26.9 million in direct acquisition costs and accrued milestone and contingent consideration payments totaling $5.3 million:

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

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

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

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

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

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

10

Table of Contents

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

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

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

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

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

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

| | |
|---|---|
| Current assets | $ 157,727 |
| Property, plant and equipment | 34,913 |
| Goodwill | 953,014 |
| Intangible assets | 470,388 |
| Other non-current assets | 30,405 |
| Total assets acquired | 1,646,447 |
| Current liabilities | 393,275 |
| Non-current liabilities | 169,666 |
| Total liabilities assumed | 562,941 |
| Net assets acquired | 1,083,506 |
| Less: | |
| Acquisition costs | 26,887 |
| Fair value of common stock issued (251,085 shares) | 14,397 |
| Fair value of Series B preferred stock issued (1,787,834 shares) | 657,923 |
| Fair value of stock options/awards exchanged (1,845,893 options) | 20,973 |
| Accrued earned milestone and contingent consideration | 5,297 |
| Cash consideration | $ 358,029 |

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

| | Amount | Amortizable Life |
|---|---|---|
| Core technology | $ 66,263 | 3-20 years |
| Database | 25,000 | 10 years |

| | | |
|---|---|---|
| Trade names and other intangible assets | 22,437 | 5 months-25 years |
| Customer relationships | 339,583 | 3.5-25 years |
| Non-compete agreements | 16,263 | 0.75-5 years |
| Manufacturing know-how | 842 | 5 years |
| Total intangible assets with finite lives | $ 470,388 | |

Ameditech, Prodimol, DiaTeam, Global, Vision, Mochida and Panbio are included in our professional diagnostics reporting unit and business segment; BBI is included in our professional and consumer diagnostics reporting units and business segments; and Matria and our other healthcare acquisition are included in our health management reporting unit and business segment. Goodwill has been recognized in the Ameditech, Prodimol, DiaTeam, Global, Vision, Panbio, BBI and Matria transactions and amounted to approximately $953.0 million. Goodwill related to these acquisitions, excluding Ameditech, is not deductible for tax purposes.

Table of Contents

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

*(b) Restructuring Plans of Acquisitions*

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

| | Severance Related | Facility And Other | Total Exit Activities |
|---|---|---|---|
| Balance, December 31, 2008 | $ 10,348 | $ 4,926 | $ 15,274 |
| Acquisitions | 27 | 3,736 | 3,763 |
| Payments and other non-currency adjustments | (2,240) | (505) | (2,745) |
| Currency adjustments | | (6) | (6) |
| Balance, March 31, 2009 | $ 8,135 | $ 8,151 | $ 16,286 |

(i) 2008 Acquisitions

In connection with our acquisition of Matria, we implemented an integration plan to improve operating efficiencies and eliminate redundant costs resulting from the acquisition. The restructuring plan impacted all cost centers within the Matria organization, as activities were combined with our existing business operations. We recorded $18.6 million in exit costs, of which $15.3 million relates to change in control and severance costs to involuntarily terminate employees and $3.3 million related to facility exit costs. As of March 31, 2009, $6.6 million in exit costs remain unpaid.

In conjunction with our acquisition of Panbio, we formulated a restructuring plan to realize efficiencies and cost savings. In February 2008, we agreed upon a plan to close Panbio s facility located in Columbia, Maryland. The manufacturing operation at the Maryland-based facility has transferred to a third-party manufacturer, the sales of the products at this facility has transferred to our shared services center in Orlando, Florida and the distribution operations has transferred to our distribution facility in Freehold, New Jersey. We recorded $1.0 million in exit costs, including $0.8 million related to facility and other exit costs and $0.2 million related to severance costs to involuntarily terminate employees. As of March 31, 2009, $0.7 million in exit costs remain unpaid. See Note 9 for additional restructuring charges related to the Panbio facility closure and integration.

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

(ii) 2007 Acquisitions

In conjunction with our acquisition of Biosite Incorporated, or Biosite, we implemented an integration plan to improve efficiencies and eliminate redundant costs resulting from the acquisition. The restructuring plan impacted all cost centers within the Biosite organization, as activities were combined with our existing business operations. Since the inception of the plan, we recorded $15.4 million in exit costs, of which $15.1 million relates to change in control and severance costs to involuntarily terminate employees and $0.3 million relates to facility and other exit costs. As of March 31, 2009, $0.7 million in exit costs remain unpaid.

During 2007, we formulated restructuring plans in connection with our acquisition of Cholestech Corporation, or Cholestech, consistent with our acquisition strategy to realize operating efficiencies and cost savings. Additionally, in March 2008, we announced plans to close the Cholestech facility in Hayward, California. We are transitioning the manufacturing of the related products to our Biosite facility in San Diego, California and have transitioned the sales

and distribution of the products to our shared services center in Orlando, Florida. Since inception of the plans, we recorded $9.2 million in exit costs, of which $6.5 million relates to executive change in control agreements and severance costs to involuntarily terminate employees and $2.7 million relates to facility exit costs. As of March 31, 2009, $6.3 million in exit costs remain unpaid.

Table of Contents

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

In conjunction with our acquisition of HemoSense, Inc., or HemoSense, we formulated restructuring plans during 2007 to realize operating efficiencies and cost savings. Additionally, in March 2008, we announced plans to close the HemoSense facility in San Jose, California. We transitioned the manufacturing of the related products to our Biosite facility in San Diego, California and transitioned the sales and distribution of the products to our shared services center in Orlando, Florida. Since inception of the plans, we recorded $1.5 million in exit costs, of which $1.3 million relates to severance costs to involuntarily terminate employees and $0.2 million relates to facility and other exit costs. As of March 31, 2009, substantially all costs have been paid.

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

In conjunction with our acquisition of Matritech, Inc., or Matritech, we formulated a plan to exit the leased facility of Matritech in Newton, Massachusetts and recorded $1.5 million in facility exit costs. As of March 31, 2009, $1.0 million of the facility exit costs remain unpaid.

In conjunction with our acquisition of Alere Medical, Inc., or Alere Medical, and ParadigmHealth Inc., or ParadigmHealth, we recorded $2.2 million related to executive change in control agreements and severance costs to involuntarily terminate employees. As of March 31, 2009, $0.5 million remains unpaid.

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

*(c) Pro Forma Financial Information*

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

The pro forma results are derived from the historical financial results of the acquired business for the period presented and are not necessarily indicative of the results that would have occurred had the acquisition been consummated on January 1, 2008 (in thousands, except per share amount).

| | | **Three Months Ended March 31, 2008** |
|---|---|---|
| Pro forma net revenue | $ | 451,745 |
| Pro forma net loss available to common shareholders | $ | (14,952) |
| Pro forma net loss per common share basic and diluted (1) | $ | (0.19) |

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

**(9) Restructuring Plans**

The following table sets forth the aggregate charges associated with restructuring plans recorded in operating income for the three months ended March 31, (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Fixed asset and inventory write-off | $ 2,161 | $ 8,745 |
| Severance | 1,914 | 1,658 |
| Intangible asset write-off | | 5,103 |
| Facility and other exit costs | 91 | 789 |
| | $ 4,166 | $ 16,295 |

Table of Contents

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

*(a) 2008 Restructuring Plans*

In May 2008, we decided to close our facility located in Bedford, England and initiated steps to cease operations at this facility and transition the manufacturing operations principally to our manufacturing facilities in Shanghai and Hangzhou, China. Based upon this decision, during the three months ended March 31, 2009, we recorded $0.6 million in restructuring charges, of which $0.5 million related primarily to severance-related costs and $0.1 million related to the acceleration of facility restoration costs. Of these restructuring charges, $0.5 million was charged to our professional diagnostics business segment as follows: $0.3 million to cost of net product sales and $0.2 million to general and administrative expense. We also recorded $0.1 million related to the accelerated present value accretion of our lease restoration costs due to the early termination of our facility lease to interest expense.

In addition to the restructuring charges discussed above, $2.1 million of charges associated with the Bedford facility closure were borne by Swiss Precision Diagnostics, or SPD, our consumer diagnostics joint venture with The Procter and Gamble Company, or P&G, during the three months ended March 31, 2009. Included in these charges were $1.8 million in severance and retention costs, $0.2 million in facility and other exit costs and $0.1 million of fixed asset impairments. Of these restructuring charges, 50%, or $1.1 million, has been included in equity earnings of unconsolidated entities, net of tax, in our consolidated statements of operations for the three months ended March 31, 2009. Of the total exit costs incurred by SPD and us under this plan, including severance related costs, lease penalties and restoration costs, $11.5 million remains unpaid as of March 31, 2009.

Since inception of the plan, we recorded $13.2 million in restructuring charges, including $7.0 million related to the acceleration of facility restoration costs, $4.8 million of fixed asset impairments, $1.6 million in severance costs, $0.7 million in early termination lease penalties and $0.9 million related to a pension plan curtailment gain associated with the Bedford employees being terminated. SPD has been allocated $16.6 million since the inception of the plan, including $8.5 million of fixed asset impairments, $2.9 million in early termination lease penalties, $4.4 million in severance and retention costs, $0.7 million facility exit costs and $0.1 million related to the acceleration of facility restoration costs. We anticipate incurring additional costs of approximately $23.7 million related to the closure of this facility, including, but not limited to, severance and retention costs, rent obligations and incremental interest expense associated with our lease obligations which will terminate the end of 2011. Of these additional anticipated costs, approximately $16.7 million will be borne by SPD and $7.0 million will be borne by us. We expect the majority of these costs to be incurred by the end of 2009, which is our anticipated facility closure date.

In February 2008, we decided to cease research and development activities for one of the products in development at our Bedford, England facility, based upon comparison of the product under development with existing products acquired in the HemoSense acquisition. Based on this decision, we recorded $8.9 million in restructuring charges during the three months ended March 31, 2008, of which $6.8 million related to the impairment of fixed assets, $1.1 million related to the write-off of inventory, $0.8 million related to contractual obligations with suppliers and $0.2 million related to severance costs to involuntarily terminate employees working on the development of this product. The $8.9 million was included in our professional diagnostics business segment and included $5.5 million charged to cost of goods sold, $3.3 million charged to research and development and $0.1 million charged to sales and marketing expense. Since the inception of the plan, we recorded restructuring charges of $9.4 million, of which $6.8 million related to the impairment of fixed assets, $1.9 million related to the write-off of inventory, $0.5 million related to contractual obligations with suppliers and $0.2 million related to severance costs to involuntarily terminate employees working on the development of this product. Of the $0.7 million in contractual obligations and severance costs, all has been paid as of March 31, 2009. We do not expect to incur significant additional charges under this plan.

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

lipids used to test patients at risk of, or suffering from, heart disease and related conditions, will move to our Biosite facility in San Diego, California by the end of 2009. The HemoSense operation, which was acquired in November 2007 and manufactures and distributes the INRatio System, an easy-to-use, hand-held blood

Table of Contents

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

coagulation monitoring system for use by patients and healthcare professionals in the management of warfarin, a commonly prescribed medication used to prevent blood clots, has moved to our Biosite facility. The operations of the Panbio distribution facility, which was acquired in January 2008, have transferred to our distribution center in Freehold, New Jersey.

BioStar manufacturing ceased at the end of June 2008, with BioStar OIA products available for purchase through the end of the first quarter of 2009. During the three months ended March 31, 2009, we incurred $0.1 million in severance-related restructuring charges, which were included in our professional diagnostics business segment and were charged to general and administrative expenses. During the three months ended March 31, 2008, we incurred $6.2 million in restructuring charges related to our BioStar plans, which consisted of $0.3 million in severance related costs, $0.8 million in impairment of fixed assets and $5.1 million in impairment of intangible assets. Of the $6.2 million, $4.1 million was charged to cost of goods sold, $1.9 million was charged to sales and marketing expense and $0.1 million was charged to general and administrative expense. Since the inception of the plan, we incurred $10.7 million in restructuring charges related to this plan, which consisted of $5.1 million of intangible assets impairment, $1.5 million in severance-related costs, $0.6 million in fixed asset impairments, $1.2 million in facility exit costs and $2.3 million related to the write-off of inventory. We expect to incur an additional $0.1 million in charges under this plan during the remainder of 2009, primarily related to severance and facility exit costs. As of March 31, 2009, $0.1 million in severance and facility exit costs remain unpaid.

As a result of our plans to transition the businesses of Cholestech and HemoSense to Biosite and Panbio to Orlando, Florida and close these facilities, we incurred $3.1 million in restructuring charges during the three months ended March 31, 2009, of which $1.9 million relates to fixed asset impairments, $0.8 million relates to severance and retention costs, $0.2 million in inventory write-offs and $0.2 million in transition costs. Of the $3.1 million included in our professional diagnostics business segment, $1.8 million was charged to cost of net product sales, $0.5 million was charged to research and development expense, $0.1 million was charged to sales and marketing expense and $0.7 million was charged to general and administrative expense. We incurred $0.2 million in restructuring charges during the three months ended March 31, 2008, which related to severance and retention costs included in our professional diagnostics business segment and were primarily charged to general and administrative expense. Since the inception of the plan, we incurred $6.9 million in restructuring charges, of which $3.5 million relates to severance and retention costs, $2.3 million in fixed asset impairments, $0.7 million in transition costs, $0.2 million in inventory write-offs and $0.2 million in present value accretion of facility lease costs related to these plans. Of the $4.3 million in exit costs, $2.1 million remains unpaid as of March 31, 2009.

We anticipate incurring an additional $3.9 million in restructuring charges under our Cholestech and HemoSense plans, primarily related to severance, retention and outplacement benefits, along with other costs to transition the Cholestech operations to our Biosite facility. See Note 8(b) for further information and costs related to these plans.

In addition to transitioning the businesses of Cholestech and HemoSense to Biosite, we also made the decision to close our Innovacon facility in San Diego, California and move the operating activities to Biosite; the Innovacon business is the rapid diagnostics business that we acquired from ACON, in March 2006. Since the inception of the plan, we recorded $0.6 million in restructuring charges, of which $0.5 million relates to facility lease and exit costs and $0.1 million relates to impairment of fixed assets. As of March 31, 2009, $0.2 million in restructuring costs remain unpaid. We vacated the facility in August 2008 and do not anticipate incurring additional costs under this plan.

In April 2008, we initiated cost reduction efforts at our facilities in Stirling, Scotland, consolidating our business activities into one facility and with our Biosite operations. As a result of these efforts, we recorded $3.3 million in restructuring charges since the inception of this plan, consisting of $2.0 million in fixed asset impairments, $1.0 million in severance costs and $0.3 million in facility exit costs. Of the $1.3 million in severance and facility exit costs, $0.1 million remains unpaid at March 31, 2009. We do not expect to incur significant additional charges under this plan.

*(b) 2007 Restructuring Plans*

During 2007, we committed to several plans to restructure and integrate our worldwide sales, marketing, order management and fulfillment operations, as well as to evaluate certain research and development projects. The

Table of Contents

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

objectives of the plans were to eliminate redundant costs, improve customer responsiveness and improve operational efficiencies. As a result of these restructuring plans, we recorded $0.6 million in restructuring charges during the three months ended March 31, 2009, primarily related to severance charges and outplacement services. These restructuring charges consisted of $0.2 million charged to sales and marketing expenses and $0.4 million charged to general and administrative expenses, all of which were included in our professional diagnostics business segment. We recorded $1.0 million in restructuring charges during the three months ended March 31, 2008. The $1.0 million charge related primarily to severance costs in our professional diagnostics business segment and consisted of $0.1 million charged to cost of revenues, $0.6 million charged to sales and marketing expense and $0.3 million charged to general and administrative expense. Since inception of the plan, we have recorded $8.8 million in restructuring charges, including $4.3 million related to severance charges and outplacement services, $0.5 million related to facility exit costs and $4.0 million related to impairment charges on fixed assets. As of March 31, 2009, $0.3 million of severance-related charges and facility exit costs remain unpaid. We do not anticipate incurring additional charges related to this plan.

In addition, we recorded restructuring charges associated with the formation of our joint venture with P&G. In connection with the joint venture, we committed to a plan to close our sales offices in Germany and Sweden, as well as to evaluate redundancies in all departments of the consumer diagnostics business segment that are impacted by the formation of the joint venture. For the three months ended March 31, 2008, we recorded $0.1 million in severance costs related to this plan, which was primarily charged to research and development expense. We have recorded $1.4 million in restructuring charges since inception of the plan, of which $1.0 million relates to severance costs and $0.4 million relates to facility and other exit costs. Of the total $1.4 million in exit costs, $0.1 million remains unpaid as of March 31, 2009. We do not anticipate incurring additional charges related to this plan.

**(10) Investment in Unconsolidated Entities and Marketable Securities**

*(a) Equity Method Investments*

(i) Joint Venture with P&G

In May 2007, we completed our 50/50 joint venture with P&G for the development, manufacturing, marketing and sale of existing and to-be-developed consumer diagnostic products, outside the cardiology, diabetes and oral care fields. At the closing, we transferred our related consumer diagnostic assets totaling $63.6 million, other than our manufacturing and core intellectual property assets, to the joint venture, and P&G acquired its interest in the joint venture for a cash payment of approximately $325.0 million.

We also entered into an option agreement with P&G, pursuant to which P&G has the right, for a period of 60 days commencing on the fourth anniversary date of the agreement, to require us to acquire all of P&G s interest in the joint venture at fair market value, and P&G has the right, upon certain material breaches by us of our obligations to the joint venture, to acquire all of our interest in the joint venture at fair market value. No gain on the proceeds that we received from P&G through the formation of the joint venture will be recognized in our financial statements until P&G s option to require us to purchase its interest in the joint venture expires. The deferred gain recorded on our accompanying consolidated balance sheets as of March 31, 2009 and December 31, 2008 was $286.8 million and $287.0 million, respectively.

We also entered into a manufacturing agreement with P&G, whereby we will manufacture consumer diagnostic products and sell these products to the joint venture entity. In our capacity as the manufacturer of products for the joint venture, we recorded $25.3 million and $27.8 million in manufacturing revenue for the three months ended March 31, 2009 and 2008, respectively, which are included in net product sales in our accompanying consolidated statements of operations.

Furthermore, we entered into certain transition and long-term services agreements with the joint venture, pursuant to which we will provide certain operational support services to the joint venture. Revenue related to these service agreements amounted to $0.4 million and $0.8 million, for the three months ended March 31, 2009 and 2008, respectively, and are included in services revenue in our accompanying consolidated statements of operations.

Customer receivables associated with this revenue have been classified as other receivables within prepaid and other current assets on our accompanying consolidated balance sheets in the amount of $17.1 million and $16.2 million as

Table of Contents

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

of March 31, 2009 and December 31, 2008, respectively. In connection with the joint venture arrangement, the joint venture bears the collection risk associated with these receivables.

Upon completion of the arrangement to form the joint venture, we ceased to consolidate the operating results of our consumer diagnostics business related to the joint venture and instead account for our 50% interest in the results of the joint venture under the equity method of accounting in accordance with Accounting Principles Board ( APB ) Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock.* For the three months ended March 31, 2009 and 2008, we recorded earnings of $2.1 million and $0.6 million in equity earnings of unconsolidated entities, net of tax, in our accompanying consolidated statements of operations, which represented our 50% share of the joint venture s net income for the respective periods. In January 2009, we received $10.0 million in cash from SPD as a return of capital.

(ii) TechLab

In May 2006, we acquired 49% of TechLab, Inc., or TechLab, a privately-held developer, manufacturer and distributor of rapid non-invasive intestinal diagnostics tests in the areas of intestinal inflammation, antibiotic associated diarrhea and parasitology. The aggregate purchase price was $8.8 million which consisted of approximately 0.3 million shares of our common stock with an aggregate fair value of $8.6 million and $0.2 million in estimated direct acquisition costs. We account for our 49% investment in TechLab under the equity method of accounting, in accordance with APB Opinion No. 18. For each of the three months ended March 31, 2009 and 2008, we recorded earnings of $0.4 million in equity earnings of unconsolidated entities, net of tax, in our accompanying consolidated statements of operations, which represented our minority share of TechLab s net income for the respective period.

(iii) Vedalab

We account for our 40% investment in Vedalab S.A., or Vedalab, a French manufacturer and supplier of rapid diagnostic tests in the professional market, under the equity method of accounting in accordance with APB Opinion No. 18. For each of the three months ended March 31, 2009 and 2008, we recorded a loss of $0.1 million in equity earnings of unconsolidated entities, net of tax, in our accompanying consolidated statements of operations, which represented amortization on Vedalab s intangible assets for the respective periods.

*(b) Investment in Chembio*

At March 31, 2009, we owned approximately 5.4 million shares of common stock in Chembio Diagnostics, Inc., or Chembio, a developer and manufacturer of rapid diagnostic tests for infectious diseases. As of March 31, 2009 and December 31, 2008, the fair market value of our investment in Chembio was approximately $0.6 million. This investment was classified as marketable securities, non-current on our accompanying consolidated balance sheets. We carry an associated unrealized holding loss of approximately $1.4 million in accumulated other comprehensive loss within stockholders equity on our accompanying consolidated balance sheets as of March 31, 2009 and December 31, 2008.

*(c) Investment in StatSure*

In October 2007, we acquired 5% of StatSure Diagnostic Systems, Inc., or StatSure, a developer and marketer of oral fluid collection devices for the drugs of abuse market, through the purchase of 1.4 million shares of their common stock. The aggregate purchase price of $0.5 million was paid in cash. In addition to the common stock, we received a warrant to purchase 1.1 million shares of StatSure s common stock at $0.35 per share. StatSure s stock is publicly-traded. The warrant, accounted for as a derivative instrument, in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, had a fair value of approximately $0.3 million at the date of issuance. The fair value of this warrant was estimated at the time of issuance using the Black-Scholes pricing model assuming no dividend yield, an expected volatility of 150%, a risk-free rate of 3.9% and a contractual term of five years. We mark to market the warrant over the contractual term and recorded an unrealized loss of $0 and $0.2 million in other income (expense), net in our accompanying consolidated statements of operations for the three months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, the warrant was valued at approximately $15,000.

Table of Contents

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

**(11) Long-term Debt**

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

| | | March 31, 2009 | December 31, 2008 |
|---|---|---|---|
| First Lien Credit Agreement | Term loans | $ 958,312 | $ 960,750 |
| First Lien Credit Agreement | Revolving line-of-credit | 142,000 | 142,000 |
| Second Lien Credit Agreement | | 250,000 | 250,000 |
| 3% Senior subordinated convertible notes | | 150,000 | 150,000 |
| Lines-of-credit | | 2,988 | 3,503 |
| Other | | 11,715 | 13,362 |
| | | 1,515,015 | 1,519,615 |
| Less: Current portion | | (18,521) | (19,058) |
| | | $ 1,496,494 | $ 1,500,557 |

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

At March 31, 2009, we had term loans in the amount of $958.3 million and a revolving line-of-credit available to us of up to $150.0 million, of which $142.0 million was outstanding as of March 31, 2009, under our senior secured credit facility. Interest on these term loans, as defined in the credit agreement, is as follows: (i) in the case of Base Rate Loans, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin, each as in effect from time to time, (ii) in the case of Eurodollar Rate Loans, at a rate per annum equal to the sum of the Eurodollar Rate and the Applicable Margin, each as in effect for the applicable Interest Period, and (iii) in the case of other Obligations, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin for Revolving Loans that are Base Rate Loans, each as in effect from time to time. The Base Rate is a floating rate which approximates the U.S. Prime rate and changes on a periodic basis. The Eurodollar Rate is equal to the LIBOR rate and is set for a period of one to three months at our election. Applicable margin with respect to Base Rate Loans is 1.00% and with respect to Eurodollar Rate Loans is 2.00%. Applicable margin ranges for our revolving line-of-credit with respect to Base Rate Loans is 0.75% to 1.25% and with respect to Eurodollar Rate Loans is 1.75% to 2.25%.

At March 31, 2009, we also had term loans in the amount of $250.0 million under our junior secured credit facility. Interest on these term loans, as defined in the credit agreement, is as follows: (i) in the case of Base Rate Loans, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin, each as in effect from time to time, (ii) in the case of Eurodollar Rate Loans, at a rate per annum equal to the sum of the Eurodollar Rate and the Applicable Margin, each as in effect for the applicable Interest Period, and (iii) in the case of other Obligations, at a rate per annum equal to the sum of the Base Rate and the Applicable Margin for Base Rate Loans, as in effect from time to time. Applicable margin with respect to Base Rate Loans is 3.25% and with respect to Eurodollar Rate Loans is 4.25%.

At March 31, 2009, we had $150.0 million in indebtedness under our 3% senior subordinated convertible notes, or senior subordinated convertible notes. The senior subordinated convertible notes are convertible into 3.4 million shares of our common stock at a conversion price of $43.98.

We evaluated the agreement for the senior subordinated convertible notes for potential embedded derivatives under SFAS No. 133 and related applicable accounting literature, including Emerging Issue Task Force ( EITF ) Issue

No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* and EITF Issue No. 05-4, *The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to Issue No. 00-19*. The conversion feature and the make-whole payment were determined to not meet the embedded derivative criteria as set forth by SFAS No. 133. Accordingly, no fair value has been recorded for these items.

Table of Contents

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

For the three months ended March 31, 2009 and 2008, interest expense, including amortization of deferred financing costs, under the secured credit facilities was $15.9 million and $23.7 million, respectively. As of March 31, 2009, accrued interest related to the secured credit facilities amounted to $2.2 million. As of March 31, 2009, we were in compliance with all debt covenants related to the above debt, which consisted principally of maximum consolidated leverage and minimum interest coverage requirements.

Interest expense related to our senior subordinated convertible notes for the three months ended March 31, 2009 and 2008, including amortization of deferred financing costs, was $1.2 million and $1.3 million, respectively. As of March 31, 2009, accrued interest related to the senior subordinated convertible notes amounted to $1.7 million.

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

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

**(12) Derivative Financial Instruments**

On January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133*. The following tables summarize the fair value of our derivative instruments and the effect of derivative instruments on/in our accompanying consolidated balance sheets and consolidated statements of operations and in accumulated other comprehensive loss (in thousands):

| **Derivative Instruments under SFAS No. 133** | **Balance Sheet Caption** | **Fair Value at March 31, 2009** | **Fair Value at December 31, 2008** |
|---|---|---|---|
| Asset Derivatives: | | | |
| Strategic investments[1] | Other non-current assets | $ 15 | $ 25 |
| Liability Derivatives: | | | |
| Interest rate swap contracts[2] | Other long-term liabilities | $ 23,047 | $ 21,132 |

| **Derivative Instruments under SFAS No. 133** | **Location of Loss Recognized in Income** | **Amount of Loss Recognized During the Three Months Ended March 31, 2009** | **Amount of Loss Recognized During the Three Months Ended March 31, 2008** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Strategic investments[1] | Other income (expense), net | $ (10) | $ (171) |
| Interest rate swap contracts[2] | Other comprehensive loss | $ (1,916) | $ (10,247) |

(1) See Note 10(c) regarding our StatSure warrants which are accounted for as derivative instruments under SFAS No. 133.

(2) See Note 11 regarding our interest rate swaps which qualify as cash flow hedges under SFAS No. 133.

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

**(13) Fair Value Measurements**

On January 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurement* , for our financial assets and liabilities. We adopted the provisions of SFAS No. 157 for non-financial assets and non-financial liabilities, which were previously deferred by Financial Accounting Standards Board ( FASB ) Staff Position ( FSP ) 157-2, on January 1, 2009. SFAS No. 157 provides a framework for measuring fair value under U.S. GAAP and requires expanded disclosures regarding fair value measurements. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value.

Table of Contents

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

SFAS No. 157 describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Our Level 1 assets and liabilities include investments in marketable securities related to a deferred compensation plan assumed in a business combination. The liabilities associated with this plan relate to deferred compensation, which is indexed to the performance of the underlying investments.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Level 2 liabilities include interest rate swap contracts.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. At March 31, 2009, we had no Level 3 assets or liabilities.

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2009, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

| Description | March 31, 2009 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) |
|---|---|---|---|
| Financial assets: | | | |
| Marketable securities | $ 2,149 | $ 2,149 | $ |
| Strategic investments (1) | 229 | 229 | |
| Total assets | $ 2,378 | $ 2,378 | $ |
| Financial liabilities: | | | |
| Interest rate swap liability (2) | $ 23,047 | $ | $ 23,047 |
| Total liabilities | $ 23,047 | $ | $ 23,047 |

(1) Represents our investment in StatSure which is included in investments in

unconsolidated entities on our accompanying consolidated balance sheets.

(2) Included in other long-term liabilities on our accompanying consolidated balances sheets.

Effective this quarter, we implemented SFAS No. 157 for our non-financial assets and liabilities that are re-measured at fair value on a non-recurring basis. The adoption of SFAS No. 157 for our non-financial assets and liabilities that are re-measured at fair value on a non-recurring basis did not materially impact our financial position or results of operations; however, adoption could have a material impact in future periods.

**(14) Defined Benefit Pension Plan**

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Service cost | $ | $ |
| Interest cost | 136 | 193 |
| Expected return on plan assets | (100) | (168) |
| Realized losses | | |
| Net periodic benefit cost | $ 36 | $ 25 |

Table of Contents

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

**(15) Financial Information by Segment**

Under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-making group is composed of the chief executive officer and members of senior management. Our reportable operating segments are Professional Diagnostics, Health Management, Consumer Diagnostics, Vitamins and Nutritional Supplements and Corporate and Other. Our operating results include license and royalty revenue which is allocated to Professional Diagnostics and Consumer Diagnostics on the basis of the original license or royalty agreement.

Included in the operating results of Professional Diagnostics for the three months ended March 31, 2009 and 2008 are expenses related to our research and development activities related to new platform development in the area of cardiology which amounted to $4.9 million and $13.0 million, respectively.

Total assets related to our cardiology research operations in Scotland and Germany, which are included in Professional Diagnostics as of March 31, 2009 and December 31, 2008 in the tables below amounted to $39.3 million and $37.9 million, respectively.

We evaluate performance of our operating segments based on revenue and operating income (loss). Segment information for the three months ended March 31, 2009 and 2008 is as follows (in thousands):

| | Professional Diagnostics | Health Management | Consumer Diagnostics | Vitamins and Nutritional Supplements | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| **Three months ended March 31, 2009:** | | | | | | |
| Net revenue to external customers | $ 268,876 | $ 122,167 | $ 34,110 | $ 18,707 | $ | $ 443,860 |
| Operating income (loss) | $ 46,817 | $ 1,052 | $ (1,557) | $ (2,292) | $ (15,866) | $ 28,154 |
| **Three months ended March 31, 2008:** | | | | | | |
| Net revenue to external customers | $ 268,243 | $ 45,230 | $ 38,271 | $ 20,489 | $ | $ 372,233 |
| Operating income (loss) | $ 22,902 | $ 3,845 | $ 3,077 | $ 422 | $ (15,468) | $ 14,778 |
| **Assets:** | | | | | | |
| As of March 31, 2009 | $ 3,650,400 | $ 1,829,561 | $ 200,477 | $ 57,712 | $ 164,356 | $ 5,902,506 |
| As of December 31, 2008 | $ 3,687,685 | $ 1,850,236 | $ 223,383 | $ 65,263 | $ 128,793 | $ 5,955,360 |

**(16) Related Party Transactions**

In May 2007, we completed our 50/50 joint venture with P&G for the development, manufacturing, marketing and sale of existing and to-be-developed consumer diagnostic products, outside the cardiology, diabetes and oral care fields. At March 31, 2009, we had a net payable to the joint venture of $1.1 million as compared to a net receivable of $12.0 million from the joint venture as of December 31, 2008. Additionally, customer receivables associated with

revenue earned after the joint venture was completed have been classified as other receivables within prepaid and other current assets on our accompanying consolidated balance sheets in the amount of $17.1 million and $16.2 million as of March 31, 2009 and December 31, 2008, respectively. In connection with the joint venture arrangement, the joint venture bears the collection risk associated with these receivables. Sales to the joint venture under our manufacturing agreement totaled $25.3 million and $27.8 million during the three months ended March 31, 2009 and 2008, respectively, and are included in net product sales in our accompanying statements of operations. Additionally, services revenue generated pursuant to the long-term services agreement with the joint venture totaled $0.4 million and $0.8 million during the three months ended March 31, 2009 and 2008, respectively, and are included in services revenue in our accompanying statements of operations. Under the terms of our product supply agreement, SPD purchases products from our manufacturing facilities in the U.K. and China. SPD in turn sells a portion of those tests back to Inverness for final assembly and packaging. Once packaged, the tests are sold to P&G for distribution to third-party customers in North America. As a result of these related transactions we have recorded $18.1 million and $15.6 million of trade receivables which are included in accounts receivable on our accompanying consolidated balance sheets as of March 31, 2009 and December 31, 2008, respectively, and $22.8 million and $18.9 million of trade accounts payable which are included in accounts payable on our accompanying consolidated balance sheets as of

Table of Contents

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

March 31, 2009 and December 31, 2008, respectively. In January 2009, we received $10.0 million in cash from SPD as a return of capital.

**(17) Material Contingencies and Legal Settlements**

Our material pending legal proceedings are described in the section of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2008 titled Item 3. Legal Proceedings, as supplemented by any material changes or additions to such legal proceedings described in Part II. Item 1. Legal Proceedings of any Quarterly Report on Form 10-Q filed subsequent to the Annual Report on Form 10-K, including this Quarterly Report on Form 10-Q.

We have contingent consideration contractual terms related to our acquisitions of Ameditech, Binax, Inc., or Binax, Bio-Stat Healthcare Group, or Bio-Stat, Gabmed GmbH, or Gabmed, Vision and our most recently-acquired healthcare business. The contingent considerations will be accounted for as increases in the aggregate purchase prices if and when the contingencies occur.

With respect to Ameditech, the terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue targets for the one-year period ending on the first anniversary of the acquisition date and the one-year period ending on the second anniversary of the acquisition date. The maximum amount of incremental consideration payable is $4.0 million.

With respect to Binax, the terms of the acquisition agreement provide for $11.0 million of contingent cash consideration payable to the Binax shareholders upon the successful completion of certain new product developments during the five years following the acquisition. As of March 31, 2009, the remaining contingent consideration to be earned is approximately $7.3 million.

With respect to Bio-Stat, the terms of the acquisition provide for contingent consideration payable in the form of loan notes to the Bio-Stat shareholders, if certain EBITDA (earnings before interest, taxes, depreciation and amortization) milestones were met for 2007. The EBITDA milestones were met in 2007 and loan notes totaling £3.4 million ($6.2 million) were issued during the third quarter of 2008. As of March 31, 2009, the loan notes remain outstanding with an approximate value of £3.4 million ($4.8 million).

With respect to Gabmed, the terms of the acquisition agreement provide for contingent consideration totaling up to 750,000 payable in up to five annual amounts beginning in 2007, upon successfully meeting certain revenue and EBIT (earnings before interest and taxes) milestones in each of the respective annual periods. The 2007 milestone, totaling 0.1 million ($0.2 million), earned and paid during 2008. As of March 31, 2009, the remaining contingent consideration to be earned is approximately 0.7 million ($0.9 million).

With respect to Vision, the terms of the acquisition agreement provide for incremental consideration payable to the former Vision shareholders. The maximum amount of incremental consideration payable is approximately $3.2 million, of which $1.0 million is guaranteed and accrued as of March 31, 2009. The remaining contingent consideration is payable upon the completion of certain milestones and successfully maintaining certain production levels and product costs during each of the two years following the acquisition date. As of March 31, 2009, no milestones have been met.

With respect to our most recently-acquired healthcare business, the terms of the acquisition agreement provide for contingent consideration payable upon successfully meeting certain revenue and EBITDA targets for the twelve months ending June 30, 2009 and December 31, 2010, respectively. At the time of acquisition, we accrued a liability in the amount of $3.8 million to avoid recognition of negative goodwill, as a result of not recognizing additional purchase price consideration that is contingent on future events. As of March 31, 2009, the $3.8 million liability remains accrued.

Table of Contents

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

**(18) Recent Accounting Pronouncements**

*Recently Issued Standards*

In April 2009, the FASB issued FSP 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*. FSP 157-4 provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157. FSP 157-4 provides additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed, is applicable to all assets and liabilities (i.e. financial and non-financial) and will require enhanced disclosures. FSP 157-4 is effective for all periods ending after June 15, 2009. We are currently in the process of evaluating the impact of this pronouncement.

In April 2009, the FASB issued FSP 115-2 and FSP 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP 115-2 and FSP 124-2 amend the other-than-temporary impairment guidance for debt securities to improve presentation and disclosure of other-than-temporary impairments of debt and equity securities in the financial statements. FSP 115-2 and FSP 124-2 are effective for all reporting periods ending after June 15, 2009. We are currently in the process of evaluating the impact of this pronouncement.

In April 2009, the FASB issued FSP 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments.* FSP 107-1 and APB 28-1, amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. FSP 107-1 and APB 28-1 is effective for all reporting periods ending after June 15, 2009. We are currently in the process of evaluating the impact of this pronouncement.

*Recently Adopted Standards*

Effective January 1, 2009, we adopted EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock*, which addresses the accounting for certain instruments as derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Under this new pronouncement, specific guidance is provided regarding requirements for an entity to consider embedded features as indexed to the entity s own stock. The adoption of EITF 07-05 did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted FASB Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled In Cash upon Conversion (Including Partial Cash Settlement)*. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP should be applied retrospectively for all periods presented. The adoption of FSP APB 14-1 did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted FSP 157-2, *Effective Date of SFAS No. 157*. FSP 157-2 delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. These include goodwill and other non-amortizable intangible assets. The adoption of FSP 157-2 did not have a material impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted FSP 142-3, *Determination of the Useful Life of Intangible Assets*. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of FSP 142-3 did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133*. This statement requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as

Table of Contents

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

well as any details of credit-risk-related contingent features contained within derivatives. It also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS No. 133 have been applied and the impact that hedges have on an entity s financial position, financial performance and cash flows. Since SFAS No. 161 only required additional disclosure, the adoption did not impact our consolidated results of operations, financial condition or cash flows.

Effective January 1, 2009, we adopted EITF Issue No. 07-01, *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property*. The EITF concluded that a collaborative arrangement is one in which the participants are actively involved and are exposed to significant risks and rewards that depend on the ultimate commercial success of the endeavor. Revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, and other accounting literature. Payments to or from collaborators would be evaluated and presented based on the nature of the arrangement and its terms, the nature of the entity s business, and whether those payments are within the scope of other accounting literature. The nature and purpose of collaborative arrangements are to be disclosed along with the accounting policies and the classification and amounts of significant financial statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF Issue No. 07-01 applies to the entire collaborative agreement. This Issue is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. The adoption of EITF Issue No. 07-1 did not have any impact on our current or prior consolidated results of operations, financial condition or cash flows.

Effective January 1, 2009, we adopted SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin (ARB) No. 51*. This statement amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity and should therefore be reported as equity in the consolidated financial statements. The statement also establishes standards for presentation and disclosure of the non-controlling results on the consolidated statement of operations. The adoption of SFAS No. 160 did not have a material impact on our financial position, results of operations or cash flows.

Effective January 1, 2009, we adopted SFAS No. 141-R, *Business Combinations*. This statement replaces SFAS No. 141, but retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. This statement requires an acquirer to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values as of the acquisition date. The statement requires acquisition costs and any restructuring costs associated with the business combination to be recognized separately from the fair value of the business combination. SFAS No. 141-R establishes requirements for recognizing and measuring goodwill acquired in the business combination or a gain from a bargain purchase as well as disclosure requirements designed to enable users to better interpret the results of the business combination. Early adoption of this statement was not permitted. The adoption of SFAS No. 141-R will impact our financial position, results of operations and cash flows to the extent we conduct acquisition-related activities and/or consummate business combinations.

Effective January 1, 2009, we adopted FSP 141-R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.* This FSP amends and clarifies SFAS No. 141-R, *Business Combinations*, to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Early adoption of this statement was not permitted. The impact of adopting FSP 141-R-1 on our consolidated financial statements will depend on the economic terms of any future business combinations. In connection with the adoption of SFAS No. 141-R, we expensed $4.7 million of acquisition-related costs during the three months ended March 31,

2009.

Effective January 1 2009, we adopted FSP EITF Issue No. 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. This FSP amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a*

Table of Contents

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

*Transferor in Securitized Financial Assets,* to achieve more consistent determination of whether an other-than-temporary impairment has occurred. This FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. This FSP is to be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of this FSP did not have any impact on our financial position, results of operations or cash flows.

**(19) Guarantor Financial Information**

On April 10, 2009, we filed a universal shelf registration statement on Form S-3 (the Shelf Registration Statement ), pursuant to which we may offer or sell, on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, securities, including debt securities guaranteed by certain of our consolidated subsidiaries (the Guarantor Subsidiaries ). The guarantees would be full and unconditional and joint and several. The following supplemental financial information sets forth, on a consolidating basis, balance sheets as of March 31, 2009 and December 31, 2008, and the statements of operations and cash flows for three months ended March 31, 2009 and 2008 for the Company (the Issuer ), the Guarantor Subsidiaries and the Company s other subsidiaries (the Non-Guarantor Subsidiaries ). The supplemental financial information reflects the investments of the Company and the Guarantor Subsidiaries in the Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting. We have recently announced our intention to offer and sell debt securities; however there can be no assurance that any sale of debt securities will be completed or that we will offer or sell other debt securities under the Shelf Registration Statement.

We have extensive transactions and relationships between various members of the consolidated group. These transactions and relationships include intercompany pricing agreements, intellectual property royalty agreements and general and administrative and research and development cost-sharing agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Table of Contents

**INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(unaudited)
**CONSOLIDATING STATEMENT OF OPERATIONS**
**For the Three Months Ended March 31, 2009**
(in thousands)

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net product sales | $ | $ 220,853 | $ 120,731 | $ (30,520) | $ 311,064 |
| Services revenue | | 122,350 | 1,386 | | 123,736 |
| **Net product sales and services revenue** | | 343,203 | 122,117 | (30,520) | 434,800 |
| License and royalty revenue | | 2,615 | 8,545 | (2,100) | 9,060 |
| **Net revenue** | | 345,818 | 130,662 | (32,620) | 443,860 |
| Cost of net product sales | 718 | 158,377 | 66,259 | (72,100) | 153,254 |
| Cost of services revenue | 48 | 54,399 | 510 | | 54,957 |
| Cost of license and royalty revenue | | (24) | 3,571 | (2,100) | 1,447 |
| **Cost of net revenue** | 766 | 212,752 | 70,340 | (74,200) | 209,658 |
| **Gross (loss) profit** | (766) | 133,066 | 60,322 | 41,580 | 234,202 |
| Operating expenses: | | | | | |
| Research and development | 5,828 | 15,186 | 6,038 | | 27,052 |
| Sales and marketing | 12,887 | 63,649 | 22,908 | | 99,444 |
| General and administrative | 19,004 | 46,762 | 14,561 | (775) | 79,552 |
| Total operating expenses | 37,719 | 125,597 | 43,507 | (775) | 206,048 |
| **Operating (loss) income** | (38,485) | 7,469 | 16,815 | 42,355 | 28,154 |
| Interest expense, including amortization of deferred financing costs | (17,116) | (10,085) | (2,783) | 12,113 | (17,871) |
| Other income (expense), net | 11,722 | (1,604) | (805) | (12,113) | (2,800) |
| **(Loss) income before (benefit) provision for income taxes** | (43,879) | (4,220) | 13,227 | 42,355 | 7,483 |
| (Benefit) provision for income taxes | (13,767) | 24,835 | 3,115 | (10,494) | 3,689 |
| Equity in earnings of subsidiaries, net of tax | 35,938 | | | (35,938) | |
| Equity earnings of unconsolidated entities, net of tax | 465 | | 2,067 | (35) | 2,497 |

| | | | | | |
|---|---|---|---|---|---|
| **Net income (loss)** | 6,291 | (29,055) | 12,179 | 16,876 | 6,291 |
| Preferred stock dividends | (5,520) | | | | (5,520) |
| **Net income (loss) available to common stockholders** | $ 771 | $ (29,055) | $ 12,179 | $ 16,876 | $ 771 |

Table of Contents

**INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(unaudited)
**CONSOLIDATING STATEMENT OF OPERATIONS**
**For the Three Months Ended March 31, 2008**
(in thousands)

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net product sales | $ | $ 228,868 | $ 118,216 | $ (33,770) | $ 313,314 |
| Services revenue | | 47,584 | 463 | | 48,047 |
| **Net product sales and services revenue** | | 276,452 | 118,679 | (33,770) | 361,361 |
| License and royalty revenue | | 6,682 | 6,080 | (1,890) | 10,872 |
| **Net revenue** | | 283,134 | 124,759 | (35,660) | 372,233 |
| Cost of net product sales | 6,423 | 108,692 | 81,912 | (32,505) | 164,522 |
| Cost of services revenue | 1,560 | 21,678 | | | 23,238 |
| Cost of license and royalty revenue | | 2,708 | 3,265 | (1,890) | 4,083 |
| **Cost of net revenue** | 7,983 | 133,078 | 85,177 | (34,395) | 191,843 |
| **Gross (loss) profit** | (7,983) | 150,056 | 39,582 | (1,265) | 180,390 |
| Operating expenses: | | | | | |
| Research and development | 7,392 | 12,137 | 11,396 | | 30,925 |
| Sales and marketing | 20,969 | 40,106 | 18,899 | 62 | 80,036 |
| General and administrative | 13,793 | 26,146 | 14,712 | | 54,651 |
| Total operating expenses | 42,154 | 78,389 | 45,007 | 62 | 165,612 |
| **Operating (loss) income** | (50,137) | 71,667 | (5,425) | (1,327) | 14,778 |
| Interest expense, including amortization of deferred financing costs | (24,945) | (21,088) | (1,957) | 22,339 | (25,651) |
| Other income (expense), net | 24,011 | 801 | 2,425 | (22,339) | 4,898 |
| **(Loss) income before (benefit) provision for income taxes** | (51,071) | 51,380 | (4,957) | (1,327) | (5,975) |
| (Benefit) provision for income taxes | (11,650) | 19,649 | (281) | (8,598) | (880) |
| Equity in earnings of subsidiaries, net of tax | 34,886 | | | (34,886) | |
| Equity earnings of unconsolidated entities, net of tax | 361 | | 546 | 14 | 921 |

| | | | | | |
|---|---|---|---|---|---|
| **Net (loss) income** | $ (4,174) | $ 31,731 | $ (4,130) | $ (27,601) | $ (4,174) |

Table of Contents

**INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(unaudited)
**CONSOLIDATING BALANCE SHEET**
**March 31, 2009**
(in thousands)

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 42,556 | $ 90,745 | $ 71,880 | $ | $ 205,181 |
| Restricted cash | | 1,426 | 2,279 | | 3,705 |
| Marketable securities | | 749 | 809 | | 1,558 |
| Accounts receivable, net of allowances | | 186,822 | 104,739 | (18,020) | 273,541 |
| Inventories, net | | 133,730 | 71,165 | (6,398) | 198,497 |
| Deferred tax assets | 80,926 | 22,334 | 917 | | 104,177 |
| Income tax receivable | | 2,223 | 3,630 | | 5,853 |
| Receivable from joint venture, net | | | 619 | (619) | |
| Prepaid expenses and other current assets | 3,516 | 20,262 | 24,594 | 17,100 | 65,472 |
| Intercompany receivables | 356,873 | 233,290 | 46,755 | (636,918) | |
| **Total current assets** | 483,871 | 691,581 | 327,387 | (644,855) | 857,984 |
| Property, plant and equipment, net | 2,287 | 222,814 | 64,502 | (2,477) | 287,126 |
| Goodwill | 2,018,396 | 598,545 | 422,541 | 1,828 | 3,041,310 |
| Other intangible assets with indefinite lives | | 21,255 | 21,499 | | 42,754 |
| Core technology and patents, net | 40,779 | 324,939 | 72,237 | | 437,955 |
| Other intangible assets, net | 262,743 | 744,673 | 97,405 | | 1,104,821 |
| Deferred financing costs, net, and other non-current assets | 32,300 | 6,085 | 15,331 | | 53,716 |
| Investments in unconsolidated entities | 882,392 | 1,013 | 132,145 | (955,212) | 60,338 |
| Marketable securities | 591 | | | | 591 |
| Deferred tax assets | (1,742) | | 16,858 | 795 | 15,911 |
| Intercompany notes receivable | 1,662,290 | (24,099) | 2,436 | (1,640,627) | |
| **Total assets** | $ 5,383,907 | $ 2,586,806 | $ 1,172,341 | $ (3,240,548) | $ 5,902,506 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Current portion of long-term debt | $ 9,750 | $ 2,414 | $ 6,357 | $ | $ 18,521 |

| | | | | | |
|---|---|---|---|---|---|
| Current portion of capital lease obligations | | 291 | 211 | | 502 |
| Accounts payable | 3,095 | 70,123 | 33,191 | (920) | 105,489 |
| Accrued expenses and other current liabilities | (136,245) | 270,629 | 88,572 | (4,678) | 218,278 |
| Payable to joint venture, net | | (154) | 1,833 | (619) | 1,060 |
| Intercompany payables | 49,702 | 203,365 | 383,845 | (636,912) | |
| **Total current liabilities** | (73,698) | 546,668 | 514,009 | (643,129) | 343,850 |
| **Long-term liabilities:** | | | | | |
| Long-term debt, net of current portion | 1,490,562 | 1,750 | 4,182 | | 1,496,494 |
| Capital lease obligations, net of current portion | | 203 | 312 | | 515 |
| Deferred tax liabilities | (36,397) | 461,159 | 37,912 | | 462,674 |
| Deferred gain on joint venture | 16,310 | | 270,454 | | 286,764 |
| Other long-term liabilities | 27,949 | 15,124 | 16,329 | (4,870) | 54,532 |
| Intercompany notes payable | 701,504 | 810,555 | 124,681 | (1,636,740) | |
| **Total long-term liabilities** | 2,199,928 | 1,288,791 | 453,870 | (1,641,610) | 2,300,979 |
| **Stockholders equity** | 3,257,677 | 751,347 | 204,462 | (955,809) | 3,257,677 |
| **Total liabilities and stockholders equity** | $ 5,383,907 | $ 2,586,806 | $ 1,172,341 | $ (3,240,548) | $ 5,902,506 |

Table of Contents

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

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

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

Table of Contents

**INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(unaudited)
**CONSOLIDATING STATEMENT OF CASH FLOWS**
**For the Three Months Ended March 31, 2009**
(in thousands)

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | | | |
| Net income (loss) | $ 6,291 | $ (30,056) | $ 12,180 | $ 17,876 | $ 6,291 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Equity in earnings of subsidiaries, net of tax | (34,938) | | | 34,938 | |
| Interest expense related to amortization of deferred financing costs | 1,511 | | | | 1,511 |
| Non-cash stock-based compensation expense | 5,879 | | | | 5,879 |
| Impairment of inventory | | 224 | | | 224 |
| Impairment of long-lived assets | | 1,937 | 722 | | 2,659 |
| Loss (gain) on sale of fixed assets | | 194 | (3) | | 191 |
| Equity earnings of unconsolidated entities, net of tax | (465) | | (2,067) | 35 | (2,497) |
| Interest in minority investments | | | 100 | | 100 |
| Depreciation and amortization | 17,881 | 44,854 | 8,939 | 128 | 71,802 |
| Deferred and other non-cash income taxes | 2 | 2,537 | (403) | (3,145) | (1,009) |
| Other non-cash items | 2,711 | 577 | | | 3,288 |
| Changes in assets and liabilities, net of acquisitions: | | | | | |
| Accounts receivable, net | (1,000) | 13,445 | (11,871) | 920 | 1,494 |
| Inventories, net | | 42,440 | (1,731) | (42,378) | (1,669) |
| Prepaid expenses and other current assets | 712 | 1,096 | 2,989 | | 4,797 |
| Accounts payable | (574) | (3,704) | (2,250) | (920) | (7,448) |
| Accrued expenses and other current liabilities | (15,533) | 7,371 | (516) | (9,078) | (17,756) |
| Other non-current liabilities | 50 | (1,885) | 422 | 954 | (459) |
| Intercompany payable (receivable) | 56,316 | (50,161) | (2,246) | (3,909) | |
| **Net cash provided by (used in) operating activities** | 38,843 | 28,869 | 4,265 | (4,579) | 67,398 |

| | | | | | |
|---|---|---|---|---|---|
| **Cash Flows from Investing Activities:** | | | | | |
| Purchases of property, plant and equipment | (68) | (13,318) | (8,095) | 670 | (20,811) |
| Proceeds from sale of property, plant and equipment | | 12 | 143 | | 155 |
| Cash received (paid) for acquisitions and transactional costs, net of cash acquired | | 6,637 | (966) | | 5,671 |
| Net cash received from equity method investments | | | 10,965 | | 10,965 |
| Decrease (increase) in other assets | 10 | 153 | (350) | | (187) |
| **Net cash (used in) provided by investing activities** | (58) | (6,516) | 1,697 | 670 | (4,207) |
| **Cash Flows from Financing Activities:** | | | | | |
| Increase in restricted cash | | (266) | (710) | | (976) |
| Cash paid for financing costs | (240) | | | | (240) |
| Proceeds from issuance of common stock, net of issuance costs | 4,741 | | | | 4,741 |
| Cash paid in lieu of fractional shares of Series B preferred stock dividends | (35) | | | | (35) |
| Net repayments on long-term debt | (2,438) | (505) | | | (2,943) |
| Repayments from revolving lines-of-credit | | (465) | (940) | | (1,405) |
| Principal payments of capital lease obligations | | (33) | (40) | | (73) |
| **Net cash provided by (used in) financing activities** | 2,028 | (1,269) | (1,690) | | (931) |
| Foreign exchange effect on cash and cash equivalents | | (137) | (2,175) | 3,909 | 1,597 |
| Net increase in cash and cash equivalents | 40,813 | 20,947 | 2,097 | | 63,857 |
| Cash and cash equivalents, beginning of period | 1,743 | 69,798 | 69,783 | | 141,324 |
| **Cash and cash equivalents, end of period** | $ 42,556 | $ 90,745 | $ 71,880 | $ | $ 205,181 |

Table of Contents

**INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(unaudited)
**CONSOLIDATING STATEMENT OF CASH FLOWS**
**For the Three Months Ended March 31, 2008**
(in thousands)

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | | | |
| Net (loss) income | $ (4,174) | $ 30,744 | $ (3,143) | $ (27,601) | $ (4,174) |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | | | |
| Equity in earnings of subsidiaries, net of tax | (26,288) | | | 26,288 | |
| Interest expense related to amortization of deferred financing costs | 1,471 | | | | 1,471 |
| Non-cash stock-based compensation expense | 5,560 | | | | 5,560 |
| Impairment of inventory | | | 1,069 | | 1,069 |
| Impairment of long-lived assets | | 5,905 | 6,873 | | 12,778 |
| Loss on sale of fixed assets | | | 86 | | 86 |
| Equity earnings of unconsolidated entities, net of tax | (361) | | (546) | (14) | (921) |
| Interest in minority investments | | | 50 | | 50 |
| Depreciation and amortization | 28,290 | 14,408 | 10,779 | | 53,477 |
| Deferred and other non-cash income taxes | (2,191) | (2,227) | 16 | | (4,402) |
| Other non-cash items | 171 | | (16) | | 155 |
| Changes in assets and liabilities, net of acquisitions: | | | | | |
| Accounts receivable, net | | (16,309) | 2,071 | | (14,238) |
| Inventories, net | | 1,937 | 809 | 754 | 3,500 |
| Prepaid expenses and other current assets | (4,235) | (1,956) | (17,460) | 15,286 | (8,365) |
| Accounts payable | 527 | 7,975 | 1,292 | | 9,794 |
| Accrued expenses and other current liabilities | (16,893) | 18,472 | 2,694 | (15,286) | (11,013) |
| Other non-current liabilities | 297 | (328) | (533) | | (564) |
| Intercompany payable (receivable) | 662 | (53,877) | 49,269 | 3,946 | |
| **Net cash (used in) provided by operating activities** | (17,164) | 4,744 | 53,310 | 3,373 | 44,263 |

| | | | | | |
|---|---|---|---|---|---|
| **Cash Flows from Investing Activities:** | | | | | |
| Purchases of property, plant and equipment | (769) | (7,132) | (5,189) | 573 | (12,517) |
| Proceeds from sale of property, plant and equipment | | | 34 | | 34 |
| Cash paid for acquisitions and transactional costs, net of cash acquired | (15,987) | (9,189) | (156,054) | | (181,230) |
| Net cash received from equity method investments | 392 | | | | 392 |
| Increase in other assets | | (2,566) | (1,797) | | (4,363) |
| **Net cash (used in) provided by investing activities** | (16,364) | (18,887) | (163,006) | 573 | (197,684) |
| **Cash Flows from Financing Activities:** | | | | | |
| Decrease in restricted cash | | | 140,505 | | 140,505 |
| Cash paid for financing costs | (352) | | | | (352) |
| Proceeds from issuance of common stock, net of issuance costs | 8,637 | | | | 8,637 |
| Net proceeds on long-term debt | | 67 | 70 | | 137 |
| Repayments of revolving lines-of-credit | | | (33) | | (33) |
| Repayments of notes payable | (2,437) | (2,745) | | | (5,182) |
| Principal payments of capital lease obligations | | (253) | (85) | | (338) |
| **Net cash provided by (used in) financing activities** | 5,848 | (2,931) | 140,457 | | 143,374 |
| Foreign exchange effect on cash and cash equivalents | | 298 | 1,840 | (3,946) | (1,808) |
| Net (decrease) increase in cash and cash equivalents | (27,680) | (16,776) | 32,601 | | (11,855) |
| Cash and cash equivalents, beginning of period | 228,178 | 123,202 | 63,352 | | 414,732 |
| **Cash and cash equivalents, end of period** | $ 200,498 | $ 106,426 | $ 95,953 | $ | $ 402,877 |

Table of Contents

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

**(20) Subsequent Event**

On April 30, 2009, we completed our previously announced acquisition of the assets of ACON Laboratories, Inc. s, or ACON, and certain related entities business of researching, developing, manufacturing, distributing, marketing and selling lateral flow immunoassay and directly-related products (the Business ) for the remainder of the world outside of the First Territory (as defined below), including China, Asia Pacific, Latin America, South America, the Middle East, Africa, India, Pakistan, Russia and Eastern Europe (the Second Territory Business ). In connection with the closing of the acquisition of the Second Territory Business, we delivered an initial payment of $80.0 million in cash to ACON. We acquired ACON s Business in the United States, Canada, Western Europe (excluding Russia, the former Soviet Republics that are not part of the European Union and Turkey), Israel, Australia, Japan and New Zealand (the First Territory ) in March 2006.

The aggregate purchase price for the Second Territory Business, including the $80.0 million initial payment described above, will be approximately $200.0 million based upon a multiple of either the Second Territory Business revenue or its pre-tax profits for calendar year 2008, as well as working capital and other customary adjustments. Except as described above, the remaining aggregate purchase price is expected to be paid on a deferred basis.

Table of Contents

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

### Financial Overview

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

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

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

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

Net revenue increased by $71.6 million, or 19%, to $443.9 million for the three months ended March 31, 2009, from $372.2 million for the three months ended March 31, 2008. Revenue increased primarily as a result of our health management segment which provided $76.9 million of incremental revenue, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. The health management segment primarily includes the activities of Alere and Quality Assured Services, Inc., or QAS.

For the three months ended March 31, 2009, we generated net income of $6.3 million, compared to a net loss of $4.2 million for the three months ended March 31, 2008.

### Recent Developments

*Acquisition of the Second Territory Business of ACON Laboratories, Inc. and Related Entities*

On April 30, 2009, we completed our previously announced acquisition of the assets of ACON Laboratories, Inc. s, or ACON, and certain related entities business of researching, developing, manufacturing, distributing, marketing and selling lateral flow immunoassay and directly-related products (the Business ) for the remainder of the world outside of the First Territory (as defined below), including China, Asia Pacific, Latin America, South America, the Middle East, Africa, India, Pakistan, Russia and Eastern Europe (the Second Territory Business ). In connection with the closing of the acquisition of the Second Territory Business, we delivered an initial payment of $80.0 million in cash to ACON. We acquired ACON s Business in the United States, Canada, Western Europe (excluding Russia, the former Soviet Republics that are not part of the European Union and Turkey), Israel, Australia, Japan and New Zealand (the First Territory ) in March 2006.

Table of Contents

The aggregate purchase price for the Second Territory Business, including the $80.0 million initial payment described above, will be approximately $200.0 million based upon a multiple of either the Second Territory Business revenue or its pre-tax profits for calendar year 2008, as well as working capital and other customary adjustments. Except as described above, the remaining aggregate purchase price is expected to be paid on a deferred basis.

**Results of Operations**

**Net Product Sales, Total and by Business Segment.** Total net product sales decreased by $2.3 million, or 1%, to $311.1 million for the three months ended March 31, 2009, from $313.3 million for the three months ended March 31, 2008. Excluding the impact of currency translation, net product sales for the three months ended March 31, 2009 increased by $14.7 million, compared to the three months ended March 31, 2008. Net product sales by business segment for the three months ended March 31, 2009 and 2008 are as follows (in thousands):

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| Professional diagnostics | $ 253,968 | $ 252,468 | 1% |
| Health management | 6,343 | 5,101 | 24% |
| Consumer diagnostics | 32,046 | 35,256 | (9)% |
| Vitamins and nutritional supplements | 18,707 | 20,489 | (9)% |
| Total net product sales | $ 311,064 | $ 313,314 | (1)% |

*Professional Diagnostics*

Net product sales of our professional diagnostic products increased by $1.5 million, or 1%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. Excluding the impact from currency translation, net product sales of our professional diagnostic products increased by $15.4 million, or 6%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. Of the currency-adjusted increase, revenue increased primarily as a result of our acquisitions of BBI Holdings Plc., or BBI, in February 2008, which contributed additional product revenue of $3.5 million, and various less significant acquisitions, which contributed an aggregate of $5.1 million of such increase. Offsetting the increased net product sales contributed by acquisitions were lower flu-related net product sales during the three months ended March 31, 2009, as compared to the three months ended March 31, 2008. Net product sales from our North American flu sales declined approximately $12.4 million, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008, as a result of a weaker than normal flu season. Excluding the impact of the decrease in flu-related sales during the comparable periods, the currency adjusted organic growth for our professional diagnostics net product sales, excluding the impact of acquisitions, was 8%.

*Health Management*

Our health management net product sales increased $1.2 million, or 24%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. The increase relates principally to the continued growth of our QAS business.

*Consumer Diagnostics*

Net product sales of our consumer diagnostic products decreased by $3.2 million, or 9%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. Excluding the impact from foreign currency translation, net product sales for our consumer diagnostic products were flat, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. The decrease was primarily driven by a decrease of approximately $2.6 million of manufacturing revenue associated with our manufacturing agreement with the joint venture, whereby we manufacture and sell consumer diagnostic products to the joint venture. The decrease in manufacturing revenue associated with the manufacturing agreement with the joint venture can be partially attributed to lower product revenues sold by the joint venture during the three months ended March 31, 2009, as compared to the three months ended March 31, 2008.

34

Table of Contents

*Vitamins and Nutritional Supplements*

Our vitamins and nutritional supplements net product sales decreased by $1.8 million, or 9%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008.

**Services Revenue, Total and by Business Segment.** Services revenue was $123.7 million for the three months ended March 31, 2009, as compared to $48.0 million for the three months ended March 31, 2008. Services revenue is principally related to our health management business segment which primarily includes our acquisitions of QAS, Alere Medical, ParadigmHealth and Matria. Services revenue growth in our health management business segment was principally related to our May 2008 acquisition of Matria as well as the continuing shift of QAS home coagulation revenues from a products sales model to a services-based offering. Services revenue also includes revenue generated by our professional drugs of abuse testing and screening business, along with revenue associated with our long-term services agreement related to our consumer diagnostics joint venture formed with P&G in May 2007, pursuant to which we provide certain operational support services to the joint venture.

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | 2009 | 2008 | Change |
| Professional diagnostics | $ 7,470 | $ 7,167 | 4% |
| Health management | 115,824 | 40,129 | 189% |
| Consumer diagnostics | 442 | 751 | (41)% |
| Total services revenue | $ 123,736 | $ 48,047 | 158% |

*Professional Diagnostics*

Services revenue provided by our professional diagnostics business segment increased by $0.3 million, or 4%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008.

*Health Management*

Services revenue provided by our health management business segment increased by $75.7 million, or 189%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. Services revenue increased primarily as a result of our acquisition of Matria in May 2008, which contributed services revenue of $70.6 million during the three months ended March 31, 2009. Contributing to the increase in health management services revenue was organic growth from QAS, Alere Medical and ParadigmHealth totaling $3.9 million.

*Consumer Diagnostics*

Services revenue provided by our consumer diagnostics business segment decreased by $0.3 million, or 41%, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. Services revenue provided by our consumer diagnostics business segment represents revenue related to our long-term services agreements with our 50/50 joint venture with P&G formed in May 2007, pursuant to which we provide certain operational support services to the joint venture.

**License and Royalty Revenue.** License and royalty revenue represents license and royalty fees from intellectual property license agreements with third parties. License and royalty revenue decreased by approximately $1.8 million, or 17%, to $9.1 million for the three months ended March 31, 2009, from $10.9 million for the three months ended March 31, 2008. Included in license and royalty revenue for the three months ended March 31, 2009 was a $5.0 million royalty received in connection with a license arrangement in the field of animal health diagnostics. The comparable period in 2008 also benefited from a royalty received in connection with a license fee from a non-exclusive licensing agreement in the amount of $3.4 million. Offsetting the net benefit of these royalties was an overall decrease in royalty payments received under existing licensing agreements during the three months ended March 31, 2009, as compared to the three months ended March 31, 2008.

**Gross Profit and Margin.** Gross profit increased by $53.8 million, or 30%, to $234.2 million for the three months ended March 31, 2009, from $180.4 million for the three months ended March 31, 2008. Gross profit during the three months ended March 31, 2009 benefited primarily from the additional gross margin provided by Matria, which totaled

approximately $41.9 million for the three months ended March 31, 2009. Restructuring charges associated with our various restructuring plans to integrate our businesses totaling $2.0 million were included in cost of net revenue during the three months ended March 31, 2009, representing a decrease of approximately

Table of Contents

$7.7 million from the comparable period in 2008. Cost of net revenue during the three months ended March 31, 2008 included a write-off in the amount of $1.7 million relating to inventory write-ups recorded at fair value in connection with the acquisitions of Panbio Limited, or Panbio, and BBI during the first quarter of 2008.

Cost of net revenue included amortization expense of $10.0 million and $11.9 million for the three months ended March 31, 2009 and March 31, 2008, respectively.

Overall gross margin for the three months ended March 31, 2009 was 53%, compared to 48% for the three months ended March 31, 2008.

**Gross Profit (Loss) from Net Product Sales, Total and by Business Segment.** Gross profit from net product sales represents net product sales less cost of net product sales. Gross profit from net product sales increased by $9.0 million, or 6%, to $157.8 million for the three months ended March 31, 2009, from $148.8 million for the three months ended March 31, 2008. Gross profit (loss) from net product sales by business segment for the three months ended March 31, 2009 and 2008 are as follows (in thousands):

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | **2009** | **2008** | **Change** |
| Professional diagnostics | $152,958 | $138,266 | 11% |
| Health management | 1,856 | 2,011 | (8)% |
| Consumer diagnostics | 3,225 | 5,417 | (40)% |
| Vitamins and nutritional supplements | (229) | 3,098 | (107)% |
| Total gross profit from net product sales | $157,810 | $148,792 | 6% |

*Professional Diagnostics*

Gross profit from net product sales for our professional diagnostics segment increased by $14.7 million, or 11%, to $153.0 million for the three months ended March 31, 2009, compared to $138.3 million for the three months ended March 31, 2008. Restructuring charges associated with our various restructuring plans to integrate our newly-acquired businesses totaling $2.0 million were included in cost of net product sales for our professional diagnostics business segment during the three months ended March 31, 2009, representing a decrease of approximately $7.7 million from the comparable period in 2008. Additionally, the cost of net product sales for our professional diagnostics segment during the three months ended March 31, 2008, included a write-off in the amount of $1.7 million relating to inventory write-ups recorded in connection with the acquisitions of Panbio and BBI during the first quarter of 2008. The increase in gross profit was also impacted by the additional net product sales generated by our acquisition of BBI and various less significant acquisitions.

As a percentage of our professional diagnostics net product sales, gross margin for the three months ended March 31, 2009 and 2008 was 60% and 55%, respectively.

*Health Management*

Gross profit from net product sales for our health management segment decreased by $0.2 million, or 8%, to a gross profit of $1.9 million for the three months ended March 31, 2009, compared to a gross profit $2.0 million for the three months ended March 31, 2008.

As a percentage of our health management net product sales, gross margin was 29% for the three months ended March 31, 2009 and 39% for the three months ended March 31, 2008.

*Consumer Diagnostics*

Gross profit from net product sales for our consumer diagnostics segment decreased by $2.2 million, or 40%, to $3.2 million for the first quarter of 2009, compared to $5.4 million for the first quarter of 2008. The decrease in gross profit is primarily a result of decreased net product sales during the three months ended March 31, 2009, compared to the three months ended March 31, 2008.

As a percentage of net product sales, gross margin from net product sales for our consumer diagnostics business segment was approximately 10% and 15%, for the three months ended March 31, 2009 and 2008, respectively.

36

Table of Contents

*Vitamins and Nutritional Supplements*

Gross profit (loss) from our vitamins and nutritional supplements business decreased by $3.3 million, or 107%, to a gross loss of $0.2 million from a gross profit of $3.1 million, comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. The decrease is primarily the result of product sales mix during the three months ended March 31, 2009, compared to the three months ended March 31, 2008.

As a percentage of net product sales, gross margin for our vitamins and nutritional supplements business was a negative 1% for the three months ended March 31, 2009 and 15% for the three months ended March 31, 2008.

**Gross Profit from Services Revenue, Total and by Business Segment.** Gross profit from services revenue increased by $44.0 million, or 177%, to $68.8 million during the three months ended March 31, 2009, compared to $24.8 million for the three months ended March 31, 2008. Gross profit from services revenue represents gross profit related to services revenue associated with our health management business segment, which primarily includes our acquisitions of QAS, Alere, ParadigmHealth and Matria, our professional drugs of abuse testing and screening businesses, and our long-term services agreement related to our consumer diagnostics joint venture formed with P&G in May 2007.

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | **2009** | **2008** | **Change** |
| Professional diagnostics | $2,533 | $3,765 | (33)% |
| Health management | 65,804 | 20,293 | 224% |
| Consumer diagnostics | 442 | 751 | (41)% |
| Total gross profit from services revenue | $68,779 | $24,809 | 177% |

*Professional Diagnostics*

Gross profit from services revenue for our professional diagnostics business segment decreased by $1.2 million, or 33%, to $2.5 million during the three months ended March 31, 2009, compared to $3.8 million for the three months ended March 31, 2008. Gross profit from services revenue represents gross profit related to the services provided by our professional drugs of abuse testing and screening business.

As a percentage of our professional diagnostics services revenue, gross margin was approximately 34% and 53% for the three months ended March 31, 2009 and 2008, respectively.

*Health Management*

Gross profit from services revenue for our health management business segment increased by $45.5 million, or 224%, to $65.8 million during the three months ended March 31, 2009, compared to $20.3 million for the three months ended March 31, 2008. Gross profit from services revenue for our health management business segment increased primarily as a result of our acquisition of Matria in May 2008, which contributed gross profit from services revenue of $41.9 million during the three months ended March 31, 2009. Contributing to the increase was incremental gross profit generated by organic growth in our services revenue from QAS, Alere Medical and ParadigmHealth totaling $1.4 million.

As a percentage of our health management services revenue, gross margin was approximately 57% and 51% for the three months ended March 31, 2009 and 2008, respectively.

*Consumer Diagnostics*