ALERE INC.
Form 10-Q
August 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from __________ to __________

COMMISSION FILE NUMBER 001-16789

ALERE INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**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)(Zip code)

(781) 647-3900

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the registrant s common stock, par value of $0.001 per share, as of July 30, 2015 was 85,728,535.

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ALERE INC.

REPORT ON FORM 10-Q

For the Quarterly Period Ended June 30, 2015

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as may, could, should, would, intend, will, expect, anticipate, believe, estimate, continue or similar words. A number of important factors could cause actual results of Alere Inc. and its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, the risk factors detailed in Part I, Item 1A, Risk Factors, of Amendment No. 2 to our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2014 and other risk factors identified herein or from time to time in our periodic filings with the Securities and Exchange Commission. Readers should carefully review these risk factors, and should not place undue reliance on our forward-looking statements. These forward-looking statements are based on information, plans and estimates at the date of this report. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALERE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net product sales	$ 496,834	$ 500,358	$ 976,433	$ 991,677
Services revenue	126,628	140,436	250,484	269,144
Net product sales and services revenue	623,462	640,794	1,226,917	1,260,821
License and royalty revenue	5,694	6,604	10,392	11,816
Net revenue	629,156	647,398	1,237,309	1,272,637
Cost of net product sales	258,485	271,687	497,122	514,668
Cost of services revenue	76,753	75,893	152,334	146,254
Cost of net product sales and services revenue	335,238	347,580	649,456	660,922
Cost of license and royalty revenue	1,344	1,125	3,294	2,664
Cost of net revenue	336,582	348,705	652,750	663,586
Gross profit	292,574	298,693	584,559	609,051
Operating expenses:				
Research and development	27,198	37,430	55,214	76,129
Sales and marketing	107,184	135,801	216,263	268,845
General and administrative	60,813	130,573	153,504	234,192
Impairment and (gain) loss on dispositions, net	5,542	638	40,334	638
Operating income (loss)	91,837	(5,749)	119,244	29,247
Interest expense, including amortization of original issue discounts and deferred financing costs	(59,494)	(52,034)	(105,925)	(103,944)
Other income (expense), net	4,260	3,219	2,990	10,251
Income (loss) from continuing operations before provision for income taxes	36,603	(54,564)	16,309	(64,446)
Provision for income taxes	17,701	5,464	8,915	3,784

Income (loss) from continuing operations before equity earnings of unconsolidated entities, net of tax		18,902		(60,028)		7,394		(68,230)
Equity earnings of unconsolidated entities, net of tax		1,361		2,087		5,320		7,439
Income (loss) from continuing operations		20,263		(57,941)		12,714		(60,791)
Income from discontinued operations, net of tax				12,915		216,777		10,319
Net income (loss)		20,263		(45,026)		229,491		(50,472)
Less: Net income attributable to non-controlling interests		359		62		447		170
Net income (loss) attributable to Alere Inc. and Subsidiaries		19,904		(45,088)		229,044		(50,642)
Preferred stock dividends		(5,309)		(5,309)		(10,559)		(10,559)
Net income (loss) available to common stockholders	$	14,595	$	(50,397)	$	218,485	$	(61,201)
Basic net income (loss) per common share:								
Income (loss) from continuing operations	$	0.17	$	(0.77)	$	0.02	$	(0.87)
Income from discontinued operations				0.16		2.56		0.13
Net income (loss) per common share	$	0.17	$	(0.61)	$	2.58	$	(0.74)
Diluted net income (loss) per common share:								
Income (loss) from continuing operations	$	0.17	$	(0.77)	$	0.02	$	(0.87)
Income from discontinued operations				0.16		2.52		0.13
Net income (loss) per common share	$	0.17	$	(0.61)	$	2.54	$	(0.74)
Weighted-average shares basic		85,173		82,648		84,758		82,518
Weighted-average shares diluted		86,635		82,648		86,070		82,518

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

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ALERE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ 20,263	$ (45,026)	$ 229,491	$ (50,472)
Other comprehensive income (loss), before tax:				
Changes in cumulative translation adjustment	46,726	37,815	(33,616)	26,475
Unrealized losses on available for sale securities				(17)
Unrealized gains on hedging instruments		6		14
Minimum pension liability adjustment	(374)	(87)	(1,756)	(13)
Other comprehensive income (loss), before tax	46,352	37,734	(35,372)	26,459
Income tax provision (benefit) related to items of other comprehensive income (loss)				
Other comprehensive income (loss), net of tax	46,352	37,734	(35,372)	26,459
Comprehensive income (loss)	66,615	(7,292)	194,119	(24,013)
Less: Comprehensive income attributable to non-controlling interests	359	62	447	170
Comprehensive income (loss) attributable to Alere Inc. and Subsidiaries	$ 66,256	$ (7,354)	$ 193,672	$ (24,183)

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

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ALERE INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except par value)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 464,871	$ 378,461
Restricted cash	461,636	37,571
Marketable securities	175	259
Accounts receivable, net of allowances of $87,231 and $76,163 at June 30, 2015 and December 31, 2014, respectively	472,686	466,106
Inventories, net	366,340	365,165
Deferred tax assets	18,385	112,573
Prepaid expenses and other current assets	125,559	132,413
Assets held for sale current	28,631	315,515
Total current assets	1,938,283	1,808,063
Property, plant and equipment, net	448,302	453,570
Goodwill	2,853,551	2,926,666
Other intangible assets with indefinite lives	41,306	43,651
Finite-lived intangible assets, net	1,093,186	1,276,444
Deferred financing costs, net, and other non-current assets	67,734	67,832
Investments in unconsolidated entities	69,594	91,693
Deferred tax assets	7,633	8,569
Non-current income tax receivable	2,611	2,468
Assets held for sale non-current	129,194	
Total assets	$ 6,651,394	$ 6,678,956
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 629,371	$ 88,875
Current portion of capital lease obligations	4,643	4,241
Accounts payable	186,941	213,592
Accrued expenses and other current liabilities	309,394	375,494
Liabilities related to assets held for sale current	7,663	78,843
Total current liabilities	1,138,012	761,045
Long-term liabilities:		
Long-term debt, net of current portion	2,958,036	3,621,385

Capital lease obligations, net of current portion	6,913	10,560
Deferred tax liabilities	227,491	214,639
Other long-term liabilities	146,240	161,582
Liabilities related to assets held for sale non-current	11,527	
Total long-term liabilities	3,350,207	4,008,166
Commitments and contingencies (Note 17)		
Stockholders equity:		
Series B preferred stock, $0.001 par value (liquidation preference: $709,763 at June 30, 2015 and December 31, 2014); Authorized: 2,300 shares; Issued: 2,065 shares at June 30, 2015 and December 31, 2014; Outstanding: 1,774 shares at June 30, 2015 and December 31, 2014	606,468	606,468
Common stock, $0.001 par value; Authorized: 200,000 shares; Issued: 93,224 shares at June 30, 2015 and 91,532 shares at December 31, 2014; Outstanding: 85,545 shares at June 30, 2015 and 83,853 shares at December 31, 2014	93	92
Additional paid-in capital	3,414,982	3,355,672
Accumulated deficit	(1,450,508)	(1,679,552)
Treasury stock, at cost, 7,679 shares at June 30, 2015 and December 31, 2014	(184,971)	(184,971)
Accumulated other comprehensive loss	(227,482)	(192,110)
Total stockholders equity	2,158,582	1,905,599
Non-controlling interests	4,593	4,146
Total equity	2,163,175	1,909,745
Total liabilities and equity	$ 6,651,394	$ 6,678,956

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

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ALERE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30, 2015	2014
Cash Flows from Operating Activities:		
Net income (loss)	$ 229,491	$ (50,472)
Income from discontinued operations, net of tax	216,777	10,319
Income (loss) from continuing operations	12,714	(60,791)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Tax benefit related to discontinued operations		2,990
Non-cash interest expense, including amortization of original issue discounts and deferred financing costs	7,784	7,926
Depreciation and amortization	147,011	167,639
Non-cash stock-based compensation expense	12,279	4,582
Impairment of inventory	68	589
Impairment of long-lived assets	387	1,491
Loss on disposition of fixed assets	3,318	3,265
Equity earnings of unconsolidated entities, net of tax	(5,320)	(7,439)
Gain on sales of marketable securities	(8)	
Deferred income taxes	(40,655)	(33,894)
Loss related to impairment and net loss on dispositions	40,334	638
Loss on extinguishment of debt	3,480	
Other non-cash items	(2,332)	(5,261)
Non-cash change in fair value of contingent purchase price consideration	(52,867)	16,729
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(27,464)	15,068
Inventories, net	(46,093)	(15,329)
Prepaid expenses and other current assets	(27,077)	663
Accounts payable	(23,251)	30,437
Accrued expenses and other current liabilities	27,657	(3,769)
Other non-current liabilities	6,025	6,377
Cash paid for contingent purchase price consideration	(3,781)	(20,205)
Net cash provided by continuing operations	32,209	111,706
Net cash provided by discontinued operations	318	13,398
Net cash provided by operating activities	32,527	125,104

Cash Flows from Investing Activities:		
Increase in restricted cash	(424,025)	(4,034)
Purchases of property, plant and equipment	(47,284)	(47,283)
Proceeds from sale of property, plant and equipment	1,120	493
Cash received from dispositions, net of cash divested	586,625	5,454
Cash paid for business acquisitions, net of cash acquired		(75)
Cash received from equity method investments	14,297	980
Cash received from sales of marketable securities	93	39
Cash paid for investments		(779)
Decrease in other assets	1,750	864
Net cash provided by (used in) continuing operations	132,576	(44,341)
Net cash used in discontinued operations	(209)	(6,769)
Net cash provided by (used in) investing activities	132,367	(51,110)
Cash Flows from Financing Activities:		
Cash paid for financing costs	(15,731)	(5)
Cash paid for contingent purchase price consideration	(6,373)	(15,619)
Proceeds from issuance of common stock, net of issuance costs	56,332	21,121
Proceeds from issuance of long-term debt	2,121,851	
Payments on short-term debt	(584)	
Payments on long-term debt	(2,118,264)	(31,727)
Proceeds from issuance of short-term debt		806
Net (payments) proceeds under revolving credit facilities	(126,320)	111
Cash paid for dividends	(10,646)	(10,646)
Excess tax benefits on exercised stock options	2,511	415
Principal payments on capital lease obligations	(2,910)	(3,039)
Net cash used in continuing operations	(100,134)	(38,583)
Net cash used in discontinued operations	(76)	(167)
Net cash used in financing activities	(100,210)	(38,750)
Foreign exchange effect on cash and cash equivalents	(1,574)	1,650
Net increase in cash and cash equivalents	63,110	36,894
Cash and cash equivalents, beginning of period continuing operations	378,461	355,431
Cash and cash equivalents, beginning of period discontinued operations	23,300	6,476
Cash and cash equivalents, end of period	464,871	398,801
Less: Cash and cash equivalents of discontinued operations, end of period		8,647
Cash and cash equivalents of continuing operations, end of period	$ 464,871	$ 390,154

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

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ALERE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Basis of Presentation of Financial Information

The accompanying consolidated financial statements of Alere Inc. are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair statement. 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, comprehensive income and cash flows. Our audited consolidated financial statements for the year ended December 31, 2014 included information and footnotes necessary for such presentation and were included in Amendment No. 2 to our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission, or SEC, on May 28, 2015. 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, 2014.

As a result of the sale of our health management business in January 2015, which was the largest component of our patient self-testing reporting segment, we no longer report our financial information in four operating segments. Our current reportable operating segments are professional diagnostics, consumer diagnostics and corporate and other. Financial information by segment for the three and six months ended June 30, 2014 has been retroactively adjusted to reflect this change in reporting segments.

Certain reclassifications of prior period amounts have been made in order to retrospectively present discontinued operations. These reclassifications have no effect on net income or equity.

Certain amounts presented may not recalculate directly, due to rounding.

(2) Revision of Previously Reported Amounts

During the financial closing process for the three months ended March 31, 2015, management determined that we had incorrectly accounted for income taxes related to discontinued operations during 2014, including in connection with the divestiture of our health management business completed in January 2015 and another divestiture completed in October 2014. As a result, we restated our financial statements for the three and nine months ended September 30, 2014 and for the year ended December 31, 2014. In connection with those restatements, we corrected additional errors in 2012, 2013 and 2014 that we concluded were not material, individually or in the aggregate, to our previously issued financial statements.

Although management has determined that the errors, individually and in the aggregate, are not material to prior periods, the financial statements for the three and six months ended June 30, 2014, included herein, have been adjusted to correct for the impact of these items. The adjustments recorded in connection with the revisions related to the six months ended June 30, 2014 primarily relate to a $4.6 million decrease in general and administrative expense related to a change in the fair value of our contingent consideration obligations and a $4.2 million adjustment to revise the benefit from certain foreign tax credits which increased the benefit for income taxes. The impacts of these revisions are shown in the tables below:

Revised Consolidated Statement of Operations (in thousands, except per share data)	Three Months Ended June 30, 2014 As Previously Reported, Giving Effect to the Impact of Discontinued Operations	Adjustment	As Revised
Net product sales	$ 500,118	$ 240	$ 500,358
Net product sales and services revenue	$ 640,554	$ 240	$ 640,794
Net revenue	$ 647,158	$ 240	$ 647,398
Cost of net product sales	$ 272,192	$ (505)	$ 271,687
Cost of service revenue	$ 74,467	$ 1,426	$ 75,893
Cost of net product sales and services revenue	$ 346,659	$ 921	$ 347,580
Cost of net revenue	$ 347,784	$ 921	$ 348,705
Gross profit	$ 299,374	$ (681)	$ 298,693
General and administrative	$ 131,748	$ (1,175)	$ 130,573
Operating loss	$ (6,243)	$ 494	$ (5,749)
Other income (expense), net	$ 3,131	$ 88	$ 3,219
Loss from continuing operations before benefit for income taxes	$ (55,146)	$ 582	$ (54,564)

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Revised Consolidated Statement of Operations (in thousands, except per share data)	Three Months Ended June 30, 2014 As Previously Reported, Giving Effect to the Impact of Discontinued Operations	Adjustment	As Revised
Benefit for income taxes	$ 5,454	$ 10	$ 5,464
Loss from continuing operations before equity earnings of unconsolidated entities, net of tax	$ (60,600)	$ 572	$ (60,028)
Loss from continuing operations	$ (58,513)	$ 572	$ (57,941)
Net loss	$ (45,598)	$ 572	$ (45,026)
Net loss attributable to Alere Inc. and Subsidiaries	$ (45,660)	$ 572	$ (45,088)
Net loss available to common stockholders	$ (50,969)	$ 572	$ (50,397)
Basic and diluted loss per common share: Loss from continuing operations	$ (0.77)	$	$ (0.77)
Basic and diluted net loss per common share: Net loss per common share	$ (0.62)	$ 0.01	$ (0.61)

Revised Consolidated Statement of Operations (in thousands, except per share data)	Six Months Ended June 30, 2014 As Previously Reported, Giving Effect to the Impact of Discontinued Operations	Adjustment	As Revised
Net product sales	$ 991,437	$ 240	$ 991,677
Net product sales and services revenue	$ 1,260,581	$ 240	$ 1,260,821
Net revenue	$ 1,272,397	$ 240	$ 1,272,637
Cost of net product sales	$ 515,718	$ (1,050)	$ 514,668
Cost of service revenue	$ 143,364	$ 2,890	$ 146,254
Cost of net product sales and services revenue	$ 659,082	$ 1,840	$ 660,922
Cost of net revenue	$ 661,746	$ 1,840	$ 663,586
Gross profit	$ 610,651	$ (1,600)	$ 609,051
General and administrative	$ 241,163	$ (6,971)	$ 234,192
Operating income	$ 23,876	$ 5,371	$ 29,247
Other income (expense), net	$ 8,413	$ 1,838	$ 10,251
Loss from continuing operations before benefit for income taxes	$ (71,655)	$ 7,209	$ (64,446)
Benefit for income taxes	$ 296	$ 3,488	$ 3,784
Loss from continuing operations before equity earnings of unconsolidated entities, net of tax	$ (71,951)	$ 3,721	$ (68,230)
Loss from continuing operations	$ (64,512)	$ 3,721	$ (60,791)
Net loss	$ (54,193)	$ 3,721	$ (50,472)
Net loss attributable to Alere Inc. and Subsidiaries	$ (54,363)	$ 3,721	$ (50,642)
Net loss available to common stockholders	$ (64,922)	$ 3,721	$ (61,201)
	$ (0.91)	$ 0.04	$ (0.87)

Basic and diluted loss per common share: Loss from continuing operations						
Basic and diluted net loss per common share: Net loss per common share	$	(0.79)	$	0.05	$	(0.74)

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Revised Consolidated Statement of Comprehensive Loss (in thousands)	Three Months Ended June 30, 2014 As Previously Reported, Giving Effect to the Impact of Discontinued Operations	Adjustment	As Revised
Net loss	$ (45,598)	$ 572	$ (45,026)
Comprehensive loss	$ (7,864)	$ 572	$ (7,292)
Comprehensive loss attributable to Alere Inc. and Subsidiaries	$ (7,926)	$ 572	$ (7,354)

Revised Consolidated Statement of Comprehensive Loss (in thousands)	Six Months Ended June 30, 2014 As Previously Reported, Giving Effect to the Impact of Discontinued Operations	Adjustment	As Revised
Net loss	$ (54,193)	$ 3,721	$ (50,472)
Comprehensive loss	$ (27,734)	$ 3,721	$ (24,013)
Comprehensive loss attributable to Alere Inc. and Subsidiaries	$ (27,904)	$ 3,721	$ (24,183)

Revised Consolidated Statement of Cash Flows (in thousands)	Six Months Ended June 30, 2014 As Previously Reported, Giving Effect to the Impact of Discontinued Operations	Adjustment	As Revised
Net loss	$ (54,193)	$ 3,721	$ (50,472)
Loss from continuing operations	$ (64,512)	$ (3,721)	$ (60,791)
Deferred income taxes	$ (36,524)	$ 2,630	$ (33,894)
Accounts receivable, net	$ 15,308	$ (240)	$ 15,068
Prepaid expenses and other current assets	$ 2,501	$ (1,838)	$ 663
Accrued expenses and other current liabilities	$ (2,379)	$ (1,390)	$ (3,769)
Other non-current liabilities	$ 4,723	$ 1,654	$ 6,377
Non-cash change in fair value of contingent consideration	$ 21,329	$ (4,600)	$ 16,729
Net cash provided by continuing operations	$ 111,769	$ (63)	$ 111,706
Net cash provided by operating activities	$ 125,167	$ (63)	$ 125,104
Purchases of property, plant and equipment	$ (47,346)	$ 63	$ (47,283)
Net cash used in continuing operations	$ (44,404)	$ 63	$ (44,341)

Net cash used in investing activities	$ (51,173)	$ 63	$ (51,110)

The Company has reflected these revisions as applicable in its consolidated financial statements and also in the consolidating financial statements presented in Note 23.

(3) Discontinued Operations

On October 10, 2014, we completed the sale of our ACS subsidiary to ACS Acquisition, LLC (the Purchaser), pursuant to the terms of a Membership Interest Purchase Agreement with the Purchaser and Sumit Nagpal. In connection with the sale of ACS, we also agreed to sell our subsidiary Wellogic ME FZ LLC (Wellogic, together with ACS, the ACS Companies) to the Purchaser, subject to the satisfaction of routine requirements of Dubai law relating to the transfer of equity. The ACS Companies were included in our patient self-testing segment prior to the sale. The purchase price for the ACS Companies consisted of cash proceeds of $2.00 at closing and contingent consideration of up to an aggregate of $7.0 million, consisting of (i) payments based on the gross revenues of the ACS Companies, (ii) payments to be made in connection with financing transactions by the Purchaser or the ACS Companies and (iii) payments to be made in connection with a sale by the Purchaser of the ACS Companies. In connection with the sale, we agreed to reimburse the Purchaser for up to $750,000 of the Purchaser s and the ACS Companies transitional expenses. We accounted for our divestiture of the ACS Companies in accordance with ASC 205, *Presentation of Financial Statements.*

On January 9, 2015, we completed the sale of our health management business to OptumHealth Care Solutions for a purchase price of approximately $600.1 million, subject to a customary post-closing working capital adjustment. We used the net cash proceeds of the sale to repay $575.0 million in aggregate principal amount of outstanding indebtedness under our senior secured credit facility.

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We accounted for our divestiture of the health management business in accordance with Accounting Standards Update, or ASU, No. 2014-08. The following assets and liabilities associated with the health management business have been segregated and classified as assets held for sale and liabilities related to assets held for sale, as appropriate, in the consolidated balance sheet as of December 31, 2014 (in thousands):

	December 31, 2014
Assets	
Cash and cash equivalents	$ 23,300
Restricted cash	361
Accounts receivable, net of allowances of $5,882 at December 31, 2014	50,902
Inventories, net	1,656
Deferred tax assets current	6,939
Prepaid expenses and other current assets	3,857
Property, plant and equipment, net	57,595
Goodwill	82,665
Finite-lived intangible assets, net	82,428
Deferred tax assets non-current	3,347
Other non-current assets	2,465
Total assets held for sale	$ 315,515
Liabilities	
Current portion of capital lease obligations	$ 799
Accounts payable	5,654
Accrued expenses and other current liabilities	32,822
Capital lease obligations, net of current portion	365
Deferred tax liabilities non-current	27,453
Other long-term liabilities	11,750
Total liabilities related to assets held for sale	$ 78,843

The following summarized financial information related to the businesses of the ACS Companies and the health management business has been segregated from continuing operations and has been reported as discontinued operations in our consolidated statements of operations. The results of the health management business are included in the six months ended June 30, 2015, given our January 9, 2015 divestiture of this business. The results of the ACS Companies are included in the three and six months ended June 30, 2014, given our October 31, 2014 divestiture of this business. The results are as follows (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,	
	2014	2015	2014
Net revenue	$ 90,785	$ 7,373	$ 182,168
Cost of net revenue	(50,240)	(4,413)	(101,660)

Sales and marketing	(14,862)	(996)	(28,882)
General and administrative	(28,198)	(5,001)	(58,318)
Interest expense	(117)	(9)	(253)
Other income (expense), net	(511)	160	(1,070)
Gain on disposal		366,191	
Income (loss) from discontinued operations before provision (benefit) for income taxes	(3,143)	363,305	(8,015)
Provision (benefit) for income taxes	(16,058)	146,528	(18,334)
Income from discontinued operations, net of tax	$ 12,915	$ 216,777	$ 10,319

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(4) Cash and Cash Equivalents

We consider all highly-liquid cash investments with original maturities of three months or less at the date of acquisition to be cash equivalents. At June 30, 2015, our cash equivalents consisted of money market funds.

(5) Restricted Cash

We had restricted cash of $461.6 million and $37.6 million as of June 30, 2015 and December 31, 2014, respectively. Of the $461.6 million as of June 30, 2015, $425.9 million relates to a deposit of funds with a trustee in connection with the satisfaction and discharge of our obligations associated with the October 1, 2015 scheduled redemption of our 8.625% senior subordinated notes due 2018, or the 8.625% notes.

(6) Inventories

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

	June 30, 2015	December 31, 2014
Raw materials	$ 131,213	$ 122,886
Work-in-process	66,360	82,724
Finished goods	168,767	159,555
	$ 366,340	$ 365,165

(7) Stock-based Compensation

We recorded stock-based compensation expense in our consolidated statements of operations for the three and six months ended June 30, 2015 and 2014, respectively, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of net revenue	$ 287	$ 285	$ 540	$ 572
Research and development	282	(1,811)	606	(620)
Sales and marketing	1,251	967	2,345	1,858
General and administrative	5,310	(563)	8,788	2,772
	7,130	(1,122)	12,279	4,582
Provision (benefit) for income taxes	(2,529)	655	(4,902)	(1,123)
	$ 4,601	$ (467)	$ 7,377	$ 3,459

(8) Net Income (Loss) per Common Share

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Basic and diluted net income (loss) per common share:				
Numerator:				
Income (loss) from continuing operations	$ 20,263	$ (57,941)	$ 12,714	$ (60,791)
Preferred stock dividends	(5,309)	(5,309)	(10,559)	(10,559)
Income (loss) from continuing operations attributable to common shares	14,954	(63,250)	2,155	(71,350)
Less: Net income attributable to non-controlling interest	359	62	447	170
Income (loss) from continuing operations attributable to Alere Inc. and Subsidiaries	14,595	(63,312)	1,708	(71,520)
Income from discontinued operations		12,915	216,777	10,319
Net income (loss) available to common stockholders	$ 14,595	$ (50,397)	$ 218,485	$ (61,201)

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Denominator:								
Weighted-average common shares outstanding basic		85,173		82,648		84,758		82,518
Weighted-average common shares outstanding diluted		86,635		82,648		86,070		82,518
Basic net income (loss) per common share:								
Income (loss) from continuing operations attributable to Alere Inc. and Subsidiaries	$	0.17	$	(0.77)	$	0.02	$	(0.87)
Income from discontinued operations				0.16		2.56		0.13
Basic net income (loss) per common share	$	0.17	$	(0.61)	$	2.58	$	(0.74)
Diluted net income (loss) per common share:								
Income (loss) from continuing operations attributable to Alere Inc. and Subsidiaries	$	0.17	$	(0.77)	$	0.02	$	(0.87)
Income from discontinued operations				0.16		2.52		0.13
Diluted net income (loss) per common share	$	0.17	$	(0.61)	$	2.54	$	(0.74)

The following potential dilutive securities were not included in the calculation of diluted net income (loss) per common share because the inclusion thereof would be antidilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Denominator:				
Options to purchase shares of common stock	7,627	9,380	7,627	9,380
Warrants		4	4	4
Conversion shares related to 3% convertible senior subordinated notes	3,411	3,411	3,411	3,411
Conversion shares related to subordinated convertible promissory notes	27	27	27	27
Conversion shares related to Series B convertible preferred stock	10,239	10,239	10,239	10,239
Common stock equivalents related to the settlement of a contingent consideration obligation		335		347
Total number of antidilutive potentially issuable shares of common stock excluded from diluted common shares outstanding	21,304	23,396	21,308	23,408

(9) Stockholders Equity and Non-controlling Interests

(a) Preferred Stock

For the three and six months ended June 30, 2015, Series B preferred stock dividends amounted to $5.3 million and $10.6 million, respectively, and for the three and six months ended June 30, 2014, Series B preferred stock dividends amounted to $5.3 million and $10.6 million, respectively, which reduced earnings available to common stockholders for purposes of calculating net income (loss) per common share for each of the respective periods. As of June 30, 2015, $5.3 million of Series B preferred stock dividends was accrued. As of July 15, 2015, payments have been made covering all dividend periods through June 30, 2015.

The Series B preferred stock dividends for the three and six months ended June 30, 2015 and 2014 were paid in cash.

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(b) Changes in Stockholders Equity and Non-controlling Interests

A summary of the changes in stockholders equity and non-controlling interests comprising total equity for the six months ended June 30, 2015 and 2014 is provided below (in thousands):

	Six Months Ended June 30,					
	2015			2014		
	Total Stockholders Equity	Non-controlling Interests	Total Equity	Total Stockholders Equity	Non-controlling Interests	Total Equity
Equity, beginning of period	$ 1,905,599	$ 4,146	$ 1,909,745	$ 2,073,256	$ 4,882	$ 2,078,138
Issuance of common stock under employee compensation plans	56,332		56,332	21,121		21,121
Preferred stock dividends	(10,646)		(10,646)	(10,646)		(10,646)
Stock-based compensation expense	12,279		12,279	4,582		4,582
Excess tax benefits on exercised stock options	1,346		1,346	124		124
Net income (loss)	229,044	447	229,491	(50,642)	170	(50,472)
Total other comprehensive income (loss)	(35,372)		(35,372)	26,459		26,459
Equity, end of period	$ 2,158,582	$ 4,593	$ 2,163,175	$ 2,064,254	$ 5,052	$ 2,069,306

(10) Restructuring Plans

The following table sets forth aggregate restructuring charges recorded in our consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Statement of Operations Caption	**2015**	**2014**	**2015**	**2014**
Cost of net revenue	$ 896	$ 220	$ 2,399	$ 1,053
Research and development	156	3,031	649	3,031
Sales and marketing	570	4,851	1,953	6,401
General and administrative	3,231	7,278	4,122	9,293
Total operating expenses	4,853	15,380	9,123	19,778
Interest expense, including amortization of original issue discounts and deferred financing costs	6	11	13	23
Total charges	$ 4,859	$ 15,391	$ 9,136	$ 19,801

(a) 2014 Restructuring Plans

In 2014, management developed world-wide cost reduction plans to reduce costs and improve operational efficiencies within our professional diagnostics and corporate and other business segments, primarily impacting our global sales and marketing, information technology and research and development groups, as well as closing certain business locations in Europe and Asia. The following table summarizes the restructuring activities related to our 2014 restructuring plans for the three and six months ended June 30, 2015 and 2014 and since inception of these restructuring plans (in thousands):

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Professional Diagnostics	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014	Since Inception
Severance-related costs	$ 1,264	$ 9,732	$ 4,064	$ 12,096	$ 31,870
Facility and transition costs	1,487	147	2,913	181	6,373
Cash charges	2,751	9,879	6,977	12,277	38,243
Fixed asset and inventory impairments	445	1,330	454	2,080	11,406
Total charges	$ 3,196	$ 11,209	$ 7,431	$ 14,357	$ 49,649

Corporate and Other	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014	Since Inception
Severance-related costs	$ 569	$ 2,113	$ 611	$ 2,200	$ 3,512
Facility and transition costs	(6)	1,942	(13)	1,950	11,322
Total cash charges	$ 563	$ 4,055	$ 598	$ 4,150	$ 14,834

We anticipate incurring approximately $4.4 million in additional costs under our 2014 restructuring plans related to our professional diagnostics business segment, primarily related to the closure of our manufacturing facility in Israel. We may develop additional restructuring plans over the remainder of 2015. As of June 30, 2015, $4.5 million in severance and transition costs arising under our 2014 restructuring plans remain unpaid.

(b) Restructuring Plans Prior to 2014

In 2013, management developed cost reduction plans within our professional diagnostics segment impacting businesses in our United States, Europe and Asia Pacific regions. In 2011, management developed plans to consolidate operating activities among certain of our United States, European and Asia Pacific subsidiaries, including transferring the manufacturing of our Panbio products from Australia to our Standard Diagnostics facility in South Korea and eliminating redundant costs among our newly-acquired Axis-Shield subsidiaries. Additionally, in 2008, management developed and initiated plans to transition the Cholestech business to our San Diego, California facility.

The following table summarizes the restructuring activities within our professional diagnostics business segment related to our active 2013, 2011and 2008 restructuring plans for the three and six months ended June 30, 2015 and 2014 and since inception of these plans (in thousands):

Professional Diagnostics	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014	Since Inception
Severance-related costs	$	$ 39	$	$ 936	$ 26,926
Facility and transition costs	1,094	76	1,094	335	11,574
Other exit costs	6	11	13	23	811

Cash charges	1,100	126	1,107	1,294	39,311
Fixed asset and inventory impairments					6,776
Intangible asset impairments					686
Other non-cash charges					64
Total charges	$ 1,100	$ 126	$ 1,107	$ 1,294	$ 46,837

We do not anticipate incurring significant additional costs under these plans related to our professional diagnostics business segment. As of June 30, 2015, $1.3 million in cash charges remain unpaid under our restructuring plans prior to 2014, primarily related to facility lease obligations, which are anticipated to continue through 2020.

(c) Restructuring Reserves

The following table summarizes our restructuring reserves related to the restructuring plans described above, of which $4.9 million is included in accrued expenses and other current liabilities and $0.8 million is included in other long-term liabilities on our consolidated balance sheets (in thousands):

	Severance-related Costs	Facility and Transition Costs	Other Exit Costs	Total
Balance, December 31, 2014	$ 4,590	$ 9,868	$ 290	$ 14,748
Cash charges	4,537	3,913	13	8,463
Payments	(7,134)	(9,993)	(63)	(17,190)
Currency adjustments	(169)	(159)		(328)
Balance, June 30, 2015	$ 1,824	$ 3,629	$ 240	$ 5,693

(11) Debt

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

	June 30, 2015	December 31, 2014
A term loans(1)	$ 646,775	$
B term loans(1)	1,047,386	
Prior credit facility A term loans(2)(4)		785,938
Prior credit facility B term loans(3)(4)		1,330,810
Prior credit facility Revolving loans(4)		127,000
7.25% Senior notes	450,000	450,000
6.5% Senior subordinated notes	425,000	425,000
6.375% Senior subordinated notes	425,000	
8.625% Senior subordinated notes	400,000	400,000
3% Convertible senior subordinated notes	150,000	150,000
Other lines of credit	1,336	684
Other	41,910	40,828
	3,587,407	3,710,260
Less: Short-term debt and current portion of long-term debt	(629,371)	(88,875)
Long-term debt	$ 2,958,036	$ 3,621,385

(1) Incurred under our secured credit facility entered into on June 18, 2015.

(2) Includes A term loans and Delayed Draw term loans under our prior credit facility.

(3) Includes term loans previously referred to as Incremental B-1 term loans and Incremental B-2 term loans under our prior credit facility, which term loans had been converted into and consolidated with the B term loans under our prior credit facility.

(4) On May 15, 2015, we incurred an event of default under our prior credit facility as a result of our failure to timely deliver certain financial statements to our lenders thereunder. The event of default was subsequently cured and our prior credit facility was subsequently refinanced with our secured credit facility, so such event of default was not in existence on June 30, 2015.

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In connection with our debt issuances, we recorded interest expense, including amortization and write-offs of deferred financing costs and original issue discounts, in our consolidated statements of operations for the three-month and six-month periods ended June 30, 2015 and 2014, respectively, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Secured credit facility [1]	$ 12,851	$	$ 12,851	$
Prior credit facility [2] [3]	19,726	24,859	39,188	49,621
7.25% Senior notes	8,525	8,524	17,049	17,049
6.5% Senior subordinated notes	7,234	7,176	14,467	14,354
6.375% Senior subordinated notes	542		542	
8.625% Senior subordinated notes	9,274	9,275	18,547	18,548
3% Senior subordinated convertible notes	1,246	1,246	2,492	2,492
Other	96	954	789	1,880
	$ 59,494	$ 52,034	$ 105,925	$ 103,944

(1) Includes A term loans, B term loans and revolving line of credit loans.

(2) Includes the following loans under our prior credit facility: A term loans, including the Delayed-Draw term loans; B term loans, including the term loans previously referred to as Incremental B-1 term loans and Incremental B-2 term loans and later converted into and consolidated with the B term loans; and revolving line of credit loans. For the three and six months ended June 30, 2015, the amounts include $0.3 million and $0.7 million, respectively, related to the amortization of fees paid for certain debt modifications. For the three and six months ended June 30, 2014, the amounts include $0.3 million and $0.7 million, respectively, related to the amortization of fees paid for certain debt modifications.

(3) Includes a $3.5 million loss on extinguishment of debt associated with our prior credit facility.

(a) Secured Credit Facility

On June 18, 2015, we entered into a Credit Agreement, or secured credit facility, with certain lenders, Goldman Sachs Bank USA, as B term loan administrative agent, General Electric Capital Corporation as pro rata administrative agent and collateral agent, and certain other agents and arrangers, and, along with certain of our subsidiaries, a related guaranty and security agreement. The secured credit facility provides for (i) term loans in the aggregate amount of $1.7 billion (consisting of A term loans in the aggregate principal amount of $650.0 million and B term loans in the aggregate principal amount of $1,050.0 million), all of which were drawn at closing, and (ii) subject to our continued compliance with the terms of the secured credit facility, a $250.0 million revolving line of credit (which revolving line of credit includes a $50.0 million sublimit for the issuance of letters of credit); no amount was drawn under the revolving credit facility at closing.

We used approximately $1.68 billion of the proceeds of the term loans drawn at closing (i) to repay in full all indebtedness outstanding under our prior credit facility, whereupon such agreement was terminated (as described below), and (ii) to pay various fees and expenses associated with the transactions contemplated by the secured credit facility. Subject to certain limits and restrictions, we may use the remaining proceeds of the term loans, the proceeds of any revolving credit loans and the proceeds of any incremental term loans (described below) or incremental revolving credit commitments (described below) to finance permitted acquisitions, to finance capital expenditures, to provide working capital and for other general corporate purposes.

We must repay the A term loans in nineteen consecutive quarterly installments, beginning on September 30, 2015 and continuing through March 31, 2020, in the principal amount of $8,125,000 each, followed by a final installment on June 18, 2020, in the principal amount of $495,625,000. We must repay the B term loans in twenty-seven consecutive quarterly installments, beginning on September 30, 2015 and continuing through March 31, 2022, in the principal amount of $2,625,000 each, and a final installment on June 18, 2022, in the principal amount of $979,125,000. We may repay any future borrowings under the secured credit facility revolving line of credit at any time (without premium or penalty), but in no event later than June 18, 2020.

We are required to make mandatory prepayments of the term loans and mandatory prepayments of any revolving credit loans in various amounts if we have Excess Cash Flow (as defined in the Credit Agreement, and commencing in respect of our fiscal year ending December 31, 2016), if we issue certain types of debt, if we make certain sales of assets outside the ordinary course of business above certain thresholds or if we suffer certain property loss events above certain thresholds. We may make optional prepayments of the term loans from time to time without any premium or penalty, subject to a customary 101% soft call protection with respect to certain prepayments or a repricing event with respect to the B term loans occurring on or before December 18, 2015.

The A term loans and any borrowings under the revolving credit facility bear interest at a rate *per annum* of, at our option, either (i) the Base Rate, as defined in the Credit Agreement, plus an applicable margin of 2.00%, or (ii) the Eurodollar Rate, as defined in the Credit Agreement, plus an applicable margin of 3.00%. The B term loans bear interest at a rate *per annum* of, at our option, either (i) the Base Rate plus an applicable margin of 2.00% or 2.25% depending on our consolidated secured net leverage ratio, or (ii) the Eurodollar Rate plus an applicable margin of 3.00% or 3.25% depending on our consolidated secured net leverage ratio. The Eurodollar Rate is subject to a 1.00% floor with respect to B term loans based on the Eurodollar Rate. We are required to pay a fee on the unused portion of the revolving credit facility at a rate *per annum* equal to 0.50%. As of June 30, 2015, the A term loans and the B term loans bore interest at 3.19% and 4.25%, respectively. As of June 30, 2015, there were no borrowings under the revolving line of credit under the secured credit facility.

Subject to our *pro forma* compliance with certain financial tests and certain other terms and conditions set forth in the Credit Agreement, we may request at any time that the lenders under the Credit Agreement and/or other financial institutions that become lenders thereunder make incremental term loans or provide incremental revolving credit commitments under the Credit Agreement in addition to the committed credit facilities described above, subject to our obtaining the agreement of the relevant new or existing lender, as the case may be. The Credit Agreement also includes (i) certain provisions that allow us to add one or more new term loan facilities or new revolving credit facilities in order to refinance all or a portion of the term loans or revolving credit commitments and (ii) certain amend and extend provisions that allow us to extend the maturity date of any term loans or revolving credit commitments (and make related changes to the terms of the relevant loans), subject in each case to our obtaining the agreement of the relevant new or existing lenders, as the case may be.

We must comply with various financial and non-financial covenants under the terms of the secured credit facility, which are set forth in the Credit Agreement. The primary financial covenant under the security credit facility consists of a maximum consolidated secured net leverage ratio applicable only to the A term loans and the revolving credit loans. The non-financial covenants are subject to certain important exceptions and qualifications.

The lenders under the secured credit facility are entitled to accelerate repayment of the loans and terminate the revolving credit commitments thereunder upon the occurrence of any of various events of default.

Borrowings under the secured credit facility are guaranteed by substantially all of our domestic subsidiaries (other than unrestricted subsidiaries and domestic subsidiaries of certain of our foreign subsidiaries) and are secured by the stock of substantially all of our domestic subsidiaries (other than unrestricted subsidiaries and domestic subsidiaries of certain of our foreign subsidiaries), portions of the stock of certain of our foreign subsidiaries, and substantially all of our and our guarantor subsidiaries other property and assets, in each case subject to various exceptions.

As of June 30, 2015, aggregate borrowings under the secured credit facility amounted to $1.7 billion, consisting of A term loans in the aggregate principal amount of $650.0 million and B term loans in the aggregate principal amount of $1,050.0 million. As of June 30, 2015, we were in compliance with the maximum consolidated secured net leverage ratio under the secured credit facility.

(b) Prior Credit Facility

In connection with entering into the secured credit facility on June 18, 2015, we repaid in full all outstanding indebtedness under and terminated our prior Credit Agreement, or prior credit facility, dated as of June 30, 2011, as amended from time to time, 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. The aggregate outstanding principal amount of the loans repaid under our prior credit facility in connection with the termination thereof was approximately $1.65 billion. We assessed this repayment on a lender-by-lender basis in order to differentiate the portion constituting an extinguishment and the portion constituting a modification. Unamortized deferred financing fees relating to the extinguished portion of the prior credit facility debt were expensed, and the portion relating to modifications of the prior credit facility debt were carried forward to be amortized over the contractual life of the new secured credit facility.

(c) 6.375% Senior Subordinated Notes

On June 24, 2015, we sold a total of $425.0 million aggregate principal amount of 6.375% senior subordinated notes due 2023, or the 6.375% senior subordinated notes, in a private placement to initial purchasers, who agreed to resell the notes only to qualified institutional buyers and to persons outside the United States; we sold the 6.375% senior subordinated notes at an initial offering price of 100%. Net proceeds from this offering amounted to $417.3 million, which were net of the initial purchasers discount and offering expenses totaling approximately $7.7 million.

The 6.375% senior subordinated notes were issued under a supplemental indenture dated June 24, 2015, or the 6.375% Indenture. The 6.375% senior subordinated notes accrue interest at the rate of 6.375% *per annum*. Interest on the 6.375% senior subordinated notes is payable semi-annually on January 1 and July 1 of each year, beginning on January 1, 2016. The 6.375% senior subordinated notes mature on July 1, 2023, unless earlier redeemed.

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We may, at our option, redeem the 6.375% senior subordinated notes, in whole or part, at any time (which may be more than once) on or after July 1, 2018 by paying the principal amount of the notes being redeemed plus a declining premium, plus accrued and unpaid interest to (but excluding) the redemption date. The premium declines from 4.781% during the twelve months on and after July 1, 2018, to 3.188% during the twelve months on and after July 1, 2019, to 1.594% during the twelve months on and after July 1, 2020, to zero on and after July 1, 2021. In addition, at any time (which may be more than once) prior to July 1, 2018, we may, at our option, redeem up to 35% of the aggregate principal amount of the 6.375% senior subordinated notes with money that we raise in certain qualifying equity offerings, so long as (i) we pay 106.375% of the principal amount of the notes being redeemed, plus accrued and unpaid interest to (but excluding) the redemption date; (ii) we redeem the 6.375% senior subordinated notes within 90 days of completing such equity offering; and (iii) at least 65% of the aggregate principal amount of the 6.375% senior subordinated notes remains outstanding afterwards. In addition, at any time (which may be more than once) prior to July 1, 2018, we may, at our option, redeem some or all of the 6.375% senior subordinated notes by paying the principal amount of the 6.375% senior subordinated notes being redeemed plus a make-whole premium, plus accrued and unpaid interest to (but excluding) the redemption date.

If a change of control occurs, subject to specified conditions, we must give holders of the 6.375% senior subordinated notes an opportunity to sell their notes to us at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest to (but excluding) the date of the purchase.

If we or our restricted subsidiaries engage in asset sales, we or they generally must either invest the net cash proceeds from such sales in our or their businesses within a specified period of time, repay senior indebtedness or make an offer to purchase a principal amount of the 6.375% senior subordinated notes equal to the excess net cash proceeds, subject to certain exceptions. The purchase price of the 6.375% senior subordinated notes would be 100% of their principal amount, plus accrued and unpaid interest.

The 6.375% Indenture provides that we and our restricted subsidiaries must comply with various covenants, which are subject to certain important exceptions and qualifications, which are set forth in the 6.375% Indenture. At any time the 6.375% senior subordinated notes are rated investment grade, certain covenants will be suspended with respect to them.

The 6.375% Indenture contains events of default entitling the trustee or the holders of the 6.375% senior subordinated notes to declare all amounts owed pursuant to the 6.375% senior subordinated notes immediately payable if any such event of default occurs.

The 6.375% senior subordinated notes are our senior subordinated unsecured obligations, are subordinated in right of payment to all of our existing and future senior debt, including our borrowings under our secured credit facility and our 7.25% senior notes, and are equal in right of payment with all of our existing and future senior subordinated debt, including our 8.625% senior subordinated notes (our obligations in respect of which have been satisfied and discharged, as described below), our 6.5% senior subordinated notes and our 3% convertible senior subordinated notes. Our obligations under the 6.375% senior subordinated notes and the 6.375% Indenture are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated unsecured basis by certain of our domestic subsidiaries, and the obligations of such domestic subsidiaries under their guarantees are subordinated in right of payment to all of their existing and future senior debt and equal in right of payment to all of their existing and future senior subordinated debt. See Note 23 for guarantor financial information.

(d) 8.625% Senior Subordinated Notes

On June 24, 2015, we issued a notice of optional redemption to the holders of 8.625% notes that, on October 1, 2015 (the redemption date), we will redeem the entire principal amount of the 8.625% notes then outstanding at a redemption price equal to 102.156% of the principal amount of the 8.625% notes to be redeemed plus accrued and unpaid interest from April 1, 2015 to (but excluding) the redemption date, upon the terms set forth in the notice of optional redemption. The balance of the 8.625% notes is included in the short-term debt and current portion of long-term debt on our consolidated balance sheet as of June 30, 2015 as the redemption notice creates an obligation to pay the balance on October 1, 2015. We transferred the net proceeds received from the 6.375% notes of $417.3 million and additional cash of $8.6 million, or a total of $425.9 million, into an irrevocable trust, which will be used to fund the redemption of the 8.625% notes on October 1, 2015. The $425.9 million is classified on our consolidated balance sheet as of June 30, 2015 as restricted cash. We exercised our right immediately to satisfy and discharge all of our obligations with respect to the 8.625% notes, subject to settlement of the redemption on the redemption date.

(12) Fair Value Measurements

We apply fair value measurement accounting to value our financial assets and liabilities. Fair value measurement accounting provides a framework for measuring fair value under U.S. GAAP and requires expanded disclosures regarding fair value measurements. Fair value is defined 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. A fair value hierarchy requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value.

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Described below are the three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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.

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.

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands):

Description	**June 30, 2015**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Assets:				
Marketable securities	$ 175	$ 175	$	$
Total assets	$ 175	$ 175	$	$
Liabilities:				
Contingent consideration obligations (1)	$ 72,907	$	$	$ 72,907
Total liabilities	$ 72,907	$	$	$ 72,907

Description	**December 31, 2014**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Assets:				
Marketable securities	$ 259	$ 259	$	$
Total assets	$ 259	$ 259	$	$
Liabilities:				
Contingent consideration obligations (1)	$ 139,671	$	$	$ 139,671
Total liabilities	$ 139,671	$	$	$ 139,671

(1) We determine the fair value of the contingent consideration obligations based on a probability-weighted approach derived from earn-out criteria estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. The measurement is based upon significant inputs not observable in the market. Significant increases or decreases in any of these inputs could result in a significantly higher or lower fair value measurement. Changes in the fair value of these contingent consideration obligations are recorded as income or expense within operating income in our consolidated statements of operations. See Note 17(a) for additional information on the valuation of our contingent consideration obligations.

Changes in the fair value of our Level 3 contingent consideration obligations during the six months ended June 30, 2015 were as follows (in thousands):

Fair value of contingent consideration obligations, December 31, 2014	$ 139,671
Payments	(11,651)
Present value accretion and adjustments	(55,125)
Foreign currency adjustments	12
Fair value of contingent consideration obligations, June 30, 2015	$ 72,907

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At June 30, 2015 and December 31, 2014, the carrying amounts of cash and cash equivalents, restricted cash, receivables, accounts payable and other current liabilities approximated their estimated fair values.

The carrying amount and estimated fair value of our debt were both $3.6 billion at June 30, 2015. The carrying amount and estimated fair value of our debt were both $3.7 billion at December 31, 2014. The estimated fair value of our debt was determined using market sources that were derived from available market information (Level 2 in the fair value hierarchy) and may not be representative of actual values that could have been or will be realized in the future.

(13) 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Service cost	$	$	$	$
Interest cost	231	203	460	402
Expected return on plan assets	(237)	(192)	(472)	(380)
Amortization of prior service costs	339	112	675	222
Net periodic benefit cost	$ 333	$ 123	$ 663	$ 244

(14) Financial Information by Segment

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. As a result of the sale of our health management business in January 2015, which was the largest component of our patient self-testing reporting segment, we no longer report our financial information in four operating segments. Our current reportable operating segments are professional diagnostics, consumer diagnostics, and corporate and other. The information below for the three and six months ended June 30, 2014 has been retroactively adjusted to reflect this change in reporting segments. Our operating results include license and royalty revenue which are allocated to professional diagnostics and consumer diagnostics on the basis of the original license or royalty agreement. We evaluate performance of our operating segments based on revenue and operating income (loss). Segment information for the three and six months ended June 30, 2015 and 2014 and as of June 30, 2015 and December 31, 2014 is as follows (in thousands):

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	Professional Diagnostics	Consumer Diagnostics	Corporate and Other	Total
Three Months Ended June 30, 2015:				
Net revenue	$ 604,511	$ 24,645	$	$ 629,156
Operating income (loss)	$ 115,302	$ 1,079	$ (24,544)	$ 91,837
Impairment and (gain) loss on dispositions, net	$ 5,542	$	$	$ 5,542
Depreciation and amortization	$ 70,143	$ 725	$ 1,775	$ 72,643
Restructuring charge	$ 4,290	$	$ 563	$ 4,853
Stock-based compensation	$	$	$ 7,130	$ 7,130
Three Months Ended June 30, 2014:				
Net revenue	$ 625,680	$ 21,718	$	$ 647,398
Operating income (loss)	$ 13,145	$ 2,012	$ (20,906)	$ (5,749)
Impairment and (gain) loss on dispositions, net	$ 638	$	$	$ 638
Depreciation and amortization	$ 82,206	$ 703	$ 910	$ 83,819
Restructuring charge	$ 11,325	$	$ 4,055	$ 15,380
Stock-based compensation	$	$	$ (1,122)	$ (1,122)
Six Months Ended June 30, 2015:				
Net revenue	$ 1,190,696	$ 46,613	$	$ 1,237,309
Operating income (loss)	$ 165,092	$ 3,283	$ (49,131)	$ 119,244
Impairment and (gain) loss on dispositions, net	$ 40,334	$	$	$ 40,334
Depreciation and amortization	$ 142,566	$ 1,436	$ 3,009	$ 147,011
Restructuring charge	$ 8,525	$	$ 598	$ 9,123
Stock-based compensation	$	$	$ 12,279	$ 12,279
Six Months Ended June 30, 2014:				
Net revenue	$ 1,228,617	$ 44,020	$	$ 1,272,637
Operating income (loss)	$ 68,623	$ 2,711	$ (42,087)	$ 29,247
Impairment and (gain) loss on dispositions, net	$ 638	$	$	$ 638
Depreciation and amortization	$ 164,612	$ 1,483	$ 1,544	$ 167,639
Restructuring charge	$ 15,628	$	$ 4,150	$ 19,778
Stock-based compensation	$	$	$ 4,582	$ 4,582
Assets:				
As of June 30, 2015	$ 5,903,150	$ 211,812	$ 536,432	$ 6,651,394
As of December 31, 2014	$ 6,323,944	$ 216,451	$ 138,561	$ 6,678,956

The following tables summarize our net revenue from the professional diagnostics reporting segments by groups of similar products and services for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cardiometabolic	$ 213,661	$ 209,241	$ 416,504	$ 423,204
Infectious disease	176,630	175,001	355,386	342,614
Toxicology	157,495	169,647	306,251	325,180

Other	51,031	65,187	102,163	125,803
Total professional diagnostics net product sales and services revenue	598,817	619,076	1,180,304	1,216,801
License and royalty revenue	5,694	6,604	10,392	11,816
Total professional diagnostics net revenue	$ 604,511	$ 625,680	$ 1,190,696	$ 1,228,617

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(15) Related Party Transactions

(a) SPD Joint Venture

In May 2007, we completed the formation of SPD Swiss Precision Diagnostics GmbH, or SPD, our 50/50 joint venture with Procter & Gamble, or P&G, for the development, manufacturing, marketing and sale of existing and to-be-developed consumer diagnostic products, outside the cardiometabolic, diabetes and oral care fields. Upon completion of the arrangement to form the joint venture, we ceased to consolidate the operating results of our consumer diagnostic products 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.

We had a net payable to SPD of $2.0 million as of June 30, 2015 and a net payable to SPD of $4.0 million as of December 31, 2014. Included in the $2.0 million payable balance as of June 30, 2015 and the $4.0 million payable balance as of December 31, 2014 is approximately $1.6 million of costs incurred in connection with our 2008 SPD-related restructuring plans. We have also recorded a long-term receivable totaling approximately $9.4 million and $10.9 million as of June 30, 2015 and December 31, 2014, respectively, related to the 2008 SPD-related restructuring plans. Additionally, customer receivables associated with revenue earned after the formation of the joint venture have been classified as other receivables within prepaid and other current assets on our consolidated balance sheets in the amount of $8.4 million and $9.6 million as of June 30, 2015 and December 31, 2014, 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 $21.7 million and $41.2 million during the three and six months ended June 30, 2015, respectively, and $20.6 million and $41.2 million during the three and six months ended June 30, 2014, respectively. Additionally, services revenue generated pursuant to the long-term services agreement with the joint venture totaled $0.3 million and $0.6 million during the three and six months ended June 30, 2015, respectively, and $0.3 million and $0.7 million during the three and six months ended June 30, 2014, respectively. Sales under our manufacturing agreement and long-term services agreement are included in net product sales and services revenue, respectively, in our consolidated statements of operations.

Under the terms of our product supply agreement, SPD purchases products from our manufacturing facilities in China. SPD in turn sells a portion of those tests back to us for final assembly and packaging. Once packaged, a portion of 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 $10.6 million and $10.5 million of trade receivables which are included in accounts receivable on our consolidated balance sheets as of June 30, 2015 and December 31, 2014, respectively, and $22.2 million and $30.8 million of trade accounts payable which are included in accounts payable on our consolidated balance sheets as of June 30, 2015 and December 31, 2014, respectively.

The following table summarizes our related party balances with SPD within our consolidated balance sheets (in thousands):

Balance Sheet Caption	**June 30, 2015**	**December 31, 2014**
Accounts receivable, net of allowances	$ 10,629	$ 10,465
Prepaid expenses and other current assets	$ 8,363	$ 9,635
Deferred financing costs, net, and other non-current assets	$ 9,432	$ 10,875
Accounts payable	$ 24,163	$ 34,816

SPD is currently involved in civil litigation brought by a competitor in the United States with respect to the advertising of one of SPD s products in the United States. While the court held that SPD violated certain laws with respect to the advertising of such product, SPD has filed an appeal of the court s ruling. We are unable to determine the ultimate resolution of this matter at this time, or the impact it may have on SPD or us, including whether such resolution of the litigation or any damages imposed by the court would have a material adverse impact on SPD and, ultimately, by virtue of our 50% interest in SPD, on our financial position or results of operations.

(b) Entrustment Loan Arrangement with SPD Shanghai

Our subsidiary Alere (Shanghai) Diagnostics Co., Ltd., or Alere Shanghai, and SPD s subsidiary SPD Trading (Shanghai) Co., Ltd., or SPD Shanghai, entered into an entrustment loan arrangement for a maximum of CNY 23 million (approximately $3.8 million at June 30, 2015), in order to finance the latter s short-term working capital needs, with the Royal Bank of Scotland (China) Co., Ltd. Shanghai Branch, or RBS. The agreement governs the setting up of an Entrustment Loan Account with RBS, into which Alere Shanghai deposits certain monies. This restricted cash account provides a guarantee to RBS of amounts borrowed from RBS by SPD Shanghai. The Alere Shanghai RBS account is recorded as restricted cash on our balance sheet and amounted to $3.8 million at June 30, 2015.

(16) Other Arrangements

In September 2014, we entered into a contract with the U.S. Department of Health and Human Services Biomedical Advanced Research and Development Authority, or BARDA, to develop diagnostic countermeasures for pandemic influenza. Under the terms of the 3.5 year contract, BARDA will provide up to $12.9 million to us to support the development of a rapid, molecular, low-cost influenza diagnostic device with PCR-like performance at the point-of-care. The project is designed to help support future preparedness and medical response to an influenza pandemic. Funding from BARDA is subject to successful completion of various interim feasibility and development milestones as defined in the agreement. For the three and six months ended June 30, 2015, we had incurred $0.9 million and $1.4 million, respectively, of qualified expenditures under the contract, for which we had received cash reimbursement from BARDA in the amount of $0.6 million and $1.0 million, respectively, and $0.4 million was recorded as a receivable as of that date. Reimbursements of qualified expenditures under this contract are recorded as a reduction of our related qualified research and development expenditures.

In February 2013, we entered into an agreement with the Bill and Melinda Gates Foundation, or the Gates Foundation, whereby we were awarded a grant by the Gates Foundation in the amount of $21.6 million to support the development and commercialization of a validated, low-cost, nucleic-acid assay for clinical Tuberculosis, or TB, detection and drug-resistance test cartridges and adaptation of an analyzer platform capable of operation in rudimentary laboratories in low-resource settings. In connection with this agreement, we also entered into a loan agreement with the Gates Foundation, or the Gates Loan Agreement, which provides for the making of subordinated term loans by the Gates Foundation to us from time to time, subject to the achievement of certain milestones, in an aggregate principal amount of up to $20.6 million. Funding under the Gates Loan Agreement will be used in connection with the purchase of equipment for an automated high-throughput manufacturing line and other uses as necessary for the manufacture of the TB and HIV-related products. All loans under the Gates Loan Agreement are evidenced by promissory notes that we have executed and delivered to the Gates Foundation, bear interest at the rate of 3% per annum and, except to the extent earlier repaid by us, mature and are required to be repaid in full on December 31, 2019. As of June 30, 2015, we had borrowed no amounts under the Gates Loan Agreement. As of June 30, 2015, we had received approximately $19.7 million in grant-related funding from the Gates Foundation, which was recorded as restricted cash and deferred grant funding. As of June 30, 2015, we had deferred grant funding of $0.3 million relating to our agreement with the Gates Foundation, which is classified within accrued expenses and other current liabilities on our consolidated balance sheet. As qualified expenditures are incurred under the terms of the grant, we use the deferred funding to recognize a reduction of our related qualified research and development expenditures. For the three and six months ended June 30, 2015, we incurred $1.5 million and $3.6 million, and for the three and six months ended June 30, 2014, we incurred $0.1 million and $2.2 million, respectively, of qualified expenditures, for which we reduced our deferred grant funding balance and recorded an offset to our research and development expenses.

(17) Commitments and Contingencies

(a) Acquisition-related Contingent Consideration Obligations

We have contractual contingent purchase price consideration obligations related to certain of our acquisitions. We determine the acquisition date fair value of the contingent consideration obligations based on a probability-weighted approach derived from the overall likelihood of achieving certain performance targets, including product development milestones or financial metrics. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement, as defined in fair value measurement accounting. The resultant probability-weighted earn-out payments are discounted using a discount rate based upon the weighted-average cost of capital. At each reporting date, we revalue the contingent consideration obligations to the reporting date fair values and record increases and decreases in the fair values as income or expense in our consolidated statements of operations.

Increases or decreases in the fair values of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of earn-out criteria and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

During the three months ended June 30, 2015, we revised the fair value estimates for the milestones related to the TwistDx, Inc. contingent consideration obligation to incorporate increased probabilities of success as a result of positive technological developments of related technology and regulatory approvals of certain related platforms. Accordingly, we recorded a charge associated with the resulting change in fair value of $15.6 million, which is included in general and administrative expense in our accompanying consolidated statement of operations.

Additionally, during the three months ended June 30, 2015, we revised the fair value estimates for the milestones related to the Epocal contingent consideration obligation to reflect decreased probabilities of success and delayed cash inflows and clinical development timelines due to a strategic shift and re-allocation of research and development resources. As a result, we recorded income associated with the resulting change in fair value of $31.2 million, which is included in general and administrative expense in our accompanying consolidated statement of operations.

Furthermore, we also recorded income of $24.5 million associated with a change in the fair value of our Ionian contingent consideration obligation to zero, which was included in the general and administrative expense in our accompanying consolidated statement of operations. The remaining product development milestones under the agreement were not achieved by the July 2015 deadline and, as such, the probability of making the related milestone payments was reduced to zero.

The following table summarizes our contractual contingent purchase price consideration obligations related to certain of our acquisitions, as follows (in thousands):

Acquisition	**Acquisition Date**	**Acquisition Date Fair Value**	**Maximum Remaining Earn-out Potential as of June 30, 2015**	**Remaining Earn-out Period as of June 30, 2015**	**Estimated Fair Value as of June 30, 2015**	**Estimated Fair Value as of December 31, 2014**	**Payments Made during 2015**
TwistDx, Inc.[1]	March 11, 2010	$ 35,600	$ 103,376	2015 2025[5]	$ 51,600	$ 41,100	$ 5,248
Ionian Technologies, Inc. [2]	July 12, 2010	$ 24,500	$ 50,000	2015		24,500	
DiagnosisOne, Inc. [3]	July 31, 2012	$ 22,300	$			21,000	6,000
Epocal[4]	February 1, 2013	$ 75,000	$ 65,500	2015 2018	16,300	47,200	
Other	Various	$ 30,373	$ [6]	2015 2016	5,007	5,871	403
					$ 72,907	$ 139,671	$ 11,651

(1) The terms of the acquisition agreement require us to pay an earn-out upon successfully meeting certain revenue and product development targets through 2025.
(2) The terms of the acquisition agreement require us to pay earn-outs upon successfully meeting multiple product development milestones during the five years following the acquisition.
(3) On March 25, 2015, the remaining earn-out was settled for $6.0 million, of which $4.5 million was paid on March 27, 2015 and $1.5 million was paid on April 3, 2015.
(4) The terms of the acquisition agreement require us to pay earn-outs and management incentive payments upon successfully meeting certain product development and United States Food and Drug Administration regulatory approval milestones from the date of acquisition through December 31, 2018.
(5) The maximum earn-out period ends on the fifteenth anniversary of the acquisition date.
(6) The maximum remaining earn-out potential for the other acquisitions is not determinable due to the nature of one of the earn-outs, which is tied to an unlimited revenue metric.

(b) Legal Proceedings

Matters Relating to our San Diego Facility

On October 9, 2012, we received a warning letter from the FDA referencing inspectional observations set forth in an FDA Form 483 received in June 2012. The observations were the result of an inspection of our San Diego facility conducted earlier during 2012 relating to our Alere Triage products, which resulted in two recalls of certain Alere Triage products and revised release specifications for our Alere Triage meter-based products. We submitted evidence of our completion of most of the actions we committed to in response to the FDA Form 483 and warning letter. In September 2014, as follow up to a further inspection of our San Diego facility, the FDA notified us that this most recent inspection was classified voluntary action indicated, meaning that the objectionable conditions or practices found in the inspection do not meet the threshold of significance requiring regulatory action, but that formal close-out of the October 2012 warning letter could not occur until after a future inspection.

In May 2012, we also received a subpoena from the Office of Inspector General of the Department of Health and Human Services, or the OIG, seeking documents relating primarily to the quality control testing and performance characteristics of Alere Triage products. We are cooperating with the OIG and have provided documents in response to the OIG under the subpoena.

We are unable to predict when these matters will be resolved or what further action, if any, the government will take in connection with them.

Matters Related to Theft of Laptop

In September 2012, a password-protected laptop containing personally identifiable information of approximately 116,000 patients was stolen from an employee of Alere Home Monitoring, or AHM. On January 24, 2013, a class action complaint was filed in the U.S. District Court for the Northern District of California against AHM, asserting claims for damages and other relief under California state law, including under California s Confidentiality of Medical Information Act, or CMIA, arising out of this theft. On October 7, 2014, the class action was dismissed with leave to amend the complaint. On October 28, 2014, an amended complaint was filed, and on November 17, 2014 AHM responded by filing another motion to dismiss. On February 23, 2015, AHM s motion to dismiss was granted in part, but denied as to the plaintiffs amended CMIA claims. The parties to the litigation have reached a settlement in principle that, if approved, will result in a nominal payment by us.

Claims in the Ordinary Course and Other Matters

We are not a party to any other pending legal proceedings that we currently believe could have a material adverse impact on our business. However, on December 10, 2014, we and our subsidiary, Avee Laboratories Inc., or Avee, received subpoenas from the United States Attorney for the District of New Jersey seeking marketing materials and other documents relating primarily to billing and marketing practices related to toxicology testing. We are cooperating with the investigation and have begun to provide documents responsive to the subpoenas. Our subsidiary, Arriva Medical, LLC, or Arriva, is also in the process of responding to a Civil Investigative Demand, or CID, from the United States Attorney for the Middle District of Tennessee in connection with an investigation of possible improper claims submitted to Medicare and Medicaid. The CID requests patient and billing records. Both investigations are in preliminary stages, and we cannot predict what effect, if any, the investigations, or any resulting claims, could have on Alere or its subsidiaries.

Our diabetes, toxicology and patient self-testing business areas are subject to audit and claims for reimbursement brought in the ordinary course by private third-party payers, including health insurers, Zone Program Integrity Contractors, or ZPICs, and Medicare Administrative Contractors, or MACs, to monitor compliance with coverage and reimbursement rules and guidelines. These types of audits and claims can include, but are not limited to, claims relating to proper documentation and support or claims relating to the medical necessity of certain testing and can lead to assertions or determinations that certain claims should not have been, or will no longer be, paid by the private third-party payer or by Medicare or Medicaid. In such cases, the payer or program may seek to recoup or offset amounts they assert have been paid in error.

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Our businesses may also be subject at any time to other commercial disputes, product liability claims, including claims arising from or relating to product recalls, negligence claims or various other lawsuits arising in the ordinary course of business, including infringement, employment or investor matters, and we expect that this will continue to be the case in the future. Such lawsuits or claims generally seek damages or reimbursement, sometimes in substantial amounts.

(18) Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies that we must adopt by the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position, results of operations, comprehensive income or cash flows upon adoption. Please also see Note 4, *Summary of Significant Accounting Policies*, to our consolidated financial statements included within Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended December 31, 2014.

Recently Issued Standards

In April 2015, the FASB issued Accounting Standards Update, or ASU, No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* or ASU 2015-03. ASU 2015-03 is intended to simplify the presentation of debt issuance costs. It requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2015-03 on our consolidated financial statements and expect, upon adoption, we will revise our current presentation of debt issuance costs on our consolidated balance sheet.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09 as a new Topic, Accounting Standards Codification Topic 606. ASU 2014-09 sets forth a new revenue recognition standard that provides for a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB finalized a one-year delay in the effective date of this standard, which will now be effective for us on January 1, 2018; however, early adoption is permitted any time after the original effective date, which for us is January 1, 2017. We have not yet selected a transition method and are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements.

Recently Adopted Standards

None.

(19) Equity Investments

We account for the results from our equity investments under the equity method of accounting in accordance with Accounting Standards Codification, or ASC, 323, *Investments Equity Method and Joint Ventures,* based on the percentage of our ownership interest in the business. Our equity investments primarily include the following:

(a) SPD

We recorded earnings of $0.6 million and $4.2 million during the three and six months ended June 30, 2015, respectively, and earnings of $1.8 million and $6.9 million during the three and six months ended June 30, 2014, respectively, in equity earnings of unconsolidated entities, net of tax, in our consolidated statements of operations, which represented our 50% share of SPD s net income for the respective periods. During the three and six months ended June 30, 2015, we received $12.1 million in cash from SPD as a return of capital.

(b) TechLab

We own 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. We recorded earnings of $0.4 million and $0.8 million during the three and six months ended June 30, 2015, respectively, and earnings of $0.4 million and $0.7 million during the three and six months ended June 30, 2014, respectively, in equity earnings of unconsolidated entities, net of tax, in our consolidated statements of operations, which represented our minority share of TechLab s net income for the respective periods. During the three and six months ended June 30, 2015, we received $2.2 million in cash from TechLab as a return of capital.

Summarized financial information for SPD and TechLab on a combined basis is as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Combined Condensed Results of Operations:	**2015**	**2014**	**2015**	**2014**
Net revenue	$ 53,159	$ 41,203	$ 101,016	$ 90,136
Gross profit	$ 34,559	$ 37,432	$ 67,830	$ 80,412
Net income after taxes	$ 3,039	$ 4,328	$ 11,096	$ 15,158

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Combined Condensed Balance Sheet:	June 30, 2015	December 31, 2014
Current assets	$ 75,612	$ 90,546
Non-current assets	33,292	33,697
Total assets	$ 108,904	$ 124,243
Current liabilities	$ 44,878	$ 35,954
Non-current liabilities	2,184	5,884
Total liabilities	$ 47,062	$ 41,838

As of June 30, 2015, we met the held for sale criteria with respect to our 49% investment in TechLab. We intend to use all or a portion of the proceeds from any sale of this investment to repay a portion of the indebtedness outstanding under our secured credit facility. Accordingly, we have classified our investment in TechLab in Assets held for sale non-current in our consolidated balance sheet as of June 30, 2015.

(20) Impairment and (Gain) Loss on Dispositions, Net

In May 2015, we sold our Alere Analytics business, which was part of our professional diagnostics reporting unit and business segment. Under the terms of the sale we received nominal consideration and agreed to contribute working capital of $2.7 million to Alere Analytics, of which $2.4 million was contributed in cash immediately prior to the closing of the sale and the remaining $0.3 million of which was deposited in escrow pending the performance by the buyers under certain contracts. As a result of this transaction we recorded a loss of $4.7 million during the second quarter of 2015. During the three months ended March 31, 2015, before identifying a buyer for Alere Analytics, our management decided to close the business, and in connection with this decision we recorded an impairment charge of $26.7 million during the period, including the write-off of $26.2 million of acquisition-related intangible assets and $0.5 million of fixed assets.

In March 2015, we sold certain assets of our AdnaGen GmbH business, which was part of our professional diagnostics reporting unit and business segment, for approximately $4.6 million in cash proceeds and, as a result of this transaction, we recorded a gain of $0.2 million during the six months ended June 30, 2015.

In March 2015, we sold our Gesellschaft fur Patientenhilfe DGP GmbH subsidiary, which was part of our professional diagnostics reporting unit and business segment, for 7.6 million (approximately $8.2 million at March 31, 2015) and, as a result of this transaction, we recorded a loss on disposition of $7.6 million during the first quarter of 2015.

In December 2014, our management decided to close our Alere Connect, LLC subsidiary, which is part of our professional diagnostics reporting unit and business segment. During the six months ended June 30, 2015, in connection with this decision, we recorded impairment charges of $1.0 million, consisting primarily of severance costs, inventory write-offs and other closure-related expenses.

In April 2014, we sold the Glucostabilizer business of Alere Informatics, Inc., which was part of our professional diagnostics reporting unit and business segment, to Medical Decision Network, LLC, or MDN, for $1.1 million in cash proceeds and a $1.5 million note receivable, which we fully reserved for based on our assessment of collectability. As a result of this transaction, we recorded a loss on disposition of $0.6 million during the three months ended June 30, 2014.

The financial results for the above businesses are immaterial to our consolidated financial results.

(21) Direct-response Advertising

In connection with our mail order diabetes business, we incurred direct-response advertising and associated costs in connection with the placement of advertisements. Direct-response advertising and associated costs payable to third parties for the period presented are capitalized and amortized to selling, general and administrative expenses on an accelerated basis in the month following the broadcast month. Management assesses the realizability of the amounts of direct-response advertising costs reported as assets at each balance sheet date by comparing the net carrying value of capitalized advertising to the net present value of estimated future orders expected to result directly from such advertising. Advertising that does not meet the capitalization requirements is expensed in the current period.

Any change in existing accounting rules or a business change that impacts expected future orders or that shortens the period over which such net future benefits are estimated to be realized could result in accelerated charges against our earnings. In addition, new or different marketing initiatives that may not qualify for direct-response advertising could result in accelerated charges against our earnings. Whether there is an impairment loss or not is determined by comparing the net carrying value of direct-response advertising costs capitalized as assets at each balance sheet date to the probable remaining future orders expected to result directly from such advertising. If the net carrying value of the assets exceeds the probable remaining future orders expected to result directly from such assets, an impairment loss is recognized in an amount equal to that excess. Future benefits are determined by calculating the net present value of estimated future orders per cost pool. Net present value is calculated based upon the value of an order multiplied by the estimated future orders. Estimate of future orders is determined based on historical customer reorder rates. We perform the impairment test of our direct-response advertising asset in the quarter following the advertising broadcast quarter.

(22) Provision (Benefit) for Income Taxes

The provision for income taxes increased by $12.3 million to a $17.7 million provision for the three months ended June 30, 2015, from a $5.4 million provision for the three months ended June 30, 2014. The provision for income taxes increased by $5.1 million to an $8.9 million provision for the six months ended June 30, 2015, from a $3.8 million provision for the six months ended June 30, 2014. The effective tax rate for the three months ended June 30, 2015 and 2014 was 48.4% and (10.0)%, respectively. The effective tax rate for the six months ended June 30, 2015 and 2014 was 54.7% and (5.9)%, respectively. Our effective tax rate is based on our year-to-date results and projected income (loss) and is primarily impacted by changes in the geographical mix of consolidated pre-tax income (loss) as well as items that are accounted for discretely in the quarter. The change in the effective tax rate for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 is primarily a result of our forecasted jurisdictional mix of income (loss), limitations on the utilization of foreign tax credits, and loss entity valuation allowance changes. The increase in the effective tax rate from the six months ended June 30, 2014 to the six months ended June 30, 2015 is primarily a result of our forecasted jurisdictional mix of income (loss), limitations on the utilization of foreign tax credits, and loss entity valuation allowance changes.

(23) Guarantor Financial Information

Our 7.25% senior notes due 2018, our 8.625% senior subordinated notes due 2018, our 6.5% senior subordinated notes due 2020 and our 6.375% senior subordinated notes due 2023 are guaranteed by certain of our consolidated 100% owned subsidiaries, or the Guarantor Subsidiaries. The guarantees are full and unconditional and joint and several. The following supplemental financial information sets forth, on a consolidating basis, balance sheets as of June 30, 2015 and December 31, 2014, the related statements of operations and comprehensive income (loss) for each of the three and six months ended June 30, 2015 and 2014, respectively, and the statements of cash flows for the six months ended June 30, 2015 and 2014, respectively, for Alere Inc., the Guarantor Subsidiaries and our other subsidiaries, or the Non-Guarantor Subsidiaries. The supplemental financial information reflects the investments of Alere Inc. and the Guarantor Subsidiaries in the Guarantor and Non-Guarantor Subsidiaries using the equity method of accounting.

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.

For comparative purposes, certain amounts for prior periods have been reclassified to conform to the current period classification. Prior periods have been presented on a basis that is consistent with the current period, giving retrospective effect to the impact of discontinued operations.

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CONSOLIDATING STATEMENT OF OPERATIONS

For the Three Months Ended June 30, 2015

(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales	$	$ 212,604	$ 350,063	$ (65,833)	$ 496,834
Services revenue		114,983	11,645		126,628
Net product sales and services revenue		327,587	361,708	(65,833)	623,462
License and royalty revenue		3,233	5,710	(3,249)	5,694
Net revenue		330,820	367,418	(69,082)	629,156
Cost of net product sales	417	120,939	194,199	(57,070)	258,485
Cost of services revenue	80	77,884	7,477	(8,688)	76,753
Cost of net product sales and services revenue	497	198,823	201,676	(65,758)	335,238
Cost of license and royalty revenue	19	410	4,164	(3,249)	1,344
Cost of net revenue	516	199,233	205,840	(69,007)	336,582
Gross profit (loss)	(516)	131,587	161,578	(75)	292,574
Operating expenses:					
Research and development	3,241	13,993	9,964		27,198
Sales and marketing	1,570	52,101	53,513		107,184
General and administrative	24,390	51,288	(14,865)		60,813
Impairment and (gain) loss on dispositions, net	44,378	(39,412)	576		5,542
Operating income (loss)	(74,095)	53,617	112,390	(75)	91,837
Interest expense, including amortization of original issue discounts and deferred financing costs	(59,086)	(3,060)	(4,702)	7,354	(59,494)
Other income (expense), net	3,596	4,576	3,442	(7,354)	4,260
Income (loss) from continuing operations before provision (benefit) for income taxes	(129,585)	55,133	111,130	(75)	36,603
Provision (benefit) for income taxes	(16,306)	11,277	22,768	(38)	17,701
Income (loss) from continuing operations before equity in earnings	(113,279)	43,856	88,362	(37)	18,902

of subsidiaries and unconsolidated entities, net of tax					
Equity in earnings of subsidiaries, net of tax	132,620			(132,620)	
Equity earnings of unconsolidated entities, net of tax	922		424	15	1,361
Net income	20,263	43,856	88,786	(132,642)	20,263
Less: Net income attributable to non-controlling interests			359		359
Net income attributable to Alere Inc. and Subsidiaries	20,263	43,856	88,427	(132,642)	19,904
Preferred stock dividends	(5,309)				(5,309)
Net income available to common stockholders	$ 14,954	$ 43,856	$ 88,427	$ (132,642)	$ 14,595

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CONSOLIDATING STATEMENT OF OPERATIONS

For the Three Months Ended June 30, 2014

(in thousands)

	Issuer	Guarantor Subsidiaries	Non - Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales	$	$ 199,339	$ 358,657	$ (57,638)	$ 500,358
Services revenue		122,436	18,000		140,436
Net product sales and services revenue		321,775	376,657	(57,638)	640,794
License and royalty revenue		3,835	6,001	(3,232)	6,604
Net revenue		325,610	382,658	(60,870)	647,398
Cost of net product sales	691	119,442	203,035	(51,481)	271,687
Cost of services revenue	70	73,993	8,674	(6,844)	75,893
Cost of net product sales and services revenue	761	193,435	211,709	(58,325)	347,580
Cost of license and royalty revenue		47	4,310	(3,232)	1,125
Cost of net revenue	761	193,482	216,019	(61,557)	348,705
Gross profit (loss)	(761)	132,128	166,639	687	298,693
Operating expenses:					
Research and development	7,163	15,590	14,677		37,430
Sales and marketing	3,196	60,175	72,430		135,801
General and administrative	25,952	46,458	58,163		130,573
Loss on disposition		638			638
Operating income (loss)	(37,072)	9,267	21,369	687	(5,749)
Interest expense, including amortization of original issue discounts and deferred financing costs	(51,385)	(5,019)	(4,590)	8,960	(52,034)
Other income (expense), net	2,423	5,073	4,683	(8,960)	3,219
Income (loss) from continuing operations before provision (benefit) for income taxes	(86,034)	9,321	21,462	687	(54,564)
Provision (benefit) for income taxes	(12,977)	8,620	9,620	201	5,464
Income (loss) from continuing operations before equity in earnings of subsidiaries and unconsolidated entities, net of tax	(73,057)	701	11,842	486	(60,028)

Equity in earnings of subsidiaries, net of tax	12,596	164		(12,760)	
Equity earnings of unconsolidated entities, net of tax	422		1,673	(8)	2,087
Income (loss) from continuing operations	(60,039)	865	13,515	(12,282)	(57,941)
Income (loss) from discontinued operations, net of tax	15,013	(2,044)	(54)		12,915
Net income (loss)	(45,026)	(1,179)	13,461	(12,282)	(45,026)
Less: Net income attributable to non-controlling interests			62		62
Net income (loss) attributable to Alere Inc. and Subsidiaries	(45,026)	(1,179)	13,399	(12,282)	(45,088)
Preferred stock dividends	(5,309)				(5,309)
Net income (loss) available to common stockholders	$ (50,335)	$ (1,179)	$ 13,399	$ (12,282)	$ (50,397)

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CONSOLIDATING STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2015

(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales	$	$ 429,812	$ 673,260	$ (126,639)	$ 976,433
Services revenue		223,040	27,444		250,484
Net product sales and services revenue		652,852	700,704	(126,639)	1,226,917
License and royalty revenue		6,430	10,073	(6,111)	10,392
Net revenue		659,282	710,777	(132,750)	1,237,309
Cost of net product sales	833	234,130	374,245	(112,086)	497,122
Cost of services revenue	130	151,921	15,872	(15,589)	152,334
Cost of net product sales and services revenue	963	386,051	390,117	(127,675)	649,456
Cost of license and royalty revenue	(21)	1,218	8,208	(6,111)	3,294
Cost of net revenue	942	387,269	398,325	(133,786)	652,750
Gross profit (loss)	(942)	272,013	312,452	1,036	584,559
Operating expenses:					
Research and development	5,543	28,912	20,759		55,214
Sales and marketing	2,830	105,328	108,105		216,263
General and administrative	44,913	89,058	19,533		153,504
Impairment and (gain) loss on dispositions, net	80,901	(8,804)	(31,763)		40,334
Operating income (loss)	(135,129)	57,519	195,818	1,036	119,244
Interest expense, including amortization of original issue discounts and deferred financing costs	(105,184)	(6,345)	(8,745)	14,349	(105,925)
Other income (expense), net	7,243	8,875	1,221	(14,349)	2,990
Income (loss) from continuing operations before provision (benefit) for income taxes	(233,070)	60,049	188,294	1,036	16,309
Provision (benefit) for income taxes	(36,973)	13,097	32,483	308	8,915
Income (loss) from continuing operations before equity in earnings	(196,097)	46,952	155,811	728	7,394

of subsidiaries and unconsolidated entities, net of tax					
Equity in earnings of subsidiaries, net of tax	205,553			(205,553)	
Equity earnings of unconsolidated entities, net of tax	1,346		3,992	(18)	5,320
Income from continuing operations	10,802	46,952	159,803	(204,843)	12,714
Income (loss) from discontinued operations, net of tax	218,689	(1,912)			216,777
Net income	229,491	45,040	159,803	(204,843)	229,491
Less: Net income attributable to non-controlling interests			447		447
Net income attributable to Alere Inc. and Subsidiaries	229,491	45,040	159,356	(204,843)	229,044
Preferred stock dividends	(10,559)				(10,559)
Net income available to common stockholders	$ 218,932	$ 45,040	$ 159,356	$ (204,843)	$ 218,485

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CONSOLIDATING STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2014

(in thousands)

	Issuer	Guarantor Subsidiaries	Non - Guarantor Subsidiaries	Eliminations	Consolidated
Net product sales	$	$ 408,623	$ 694,395	$ (111,341)	$ 991,677
Services revenue		233,087	36,057		269,144
Net product sales and services revenue		641,710	730,452	(111,341)	1,260,821
License and royalty revenue		7,319	11,020	(6,523)	11,816
Net revenue		649,029	741,472	(117,864)	1,272,637
Cost of net product sales	1,379	230,460	386,795	(103,966)	514,668
Cost of services revenue	143	141,701	16,675	(12,265)	146,254
Cost of net product sales and services revenue	1,522	372,161	403,470	(116,231)	660,922
Cost of license and royalty revenue		139	9,048	(6,523)	2,664
Cost of net revenue	1,522	372,300	412,518	(122,754)	663,586
Gross profit (loss)	(1,522)	276,729	328,954	4,890	609,051
Operating expenses:					
Research and development	12,778	30,435	32,916		76,129
Sales and marketing	5,064	121,114	142,667		268,845
General and administrative	44,708	82,527	106,957		234,192
Loss on disposition		638			638
Operating income (loss)	(64,072)	42,015	46,414	4,890	29,247
Interest expense, including amortization of original issue discounts and deferred financing costs	(102,643)	(10,513)	(9,134)	18,346	(103,944)
Other income (expense), net	7,117	11,032	10,506	(18,404)	10,251
Income (loss) from continuing operations before provision (benefit) for income taxes	(159,598)	42,534	47,786	4,832	(64,446)
Provision (benefit) for income taxes	(45,293)	29,239	18,179	1,659	3,784
Income (loss) from continuing operations before equity in earnings of	(114,305)	13,295	29,607	3,173	(68,230)

subsidiaries and unconsolidated entities, net of tax					
Equity in earnings of subsidiaries, net of tax	47,665	232		(47,897)	
Equity earnings of unconsolidated entities, net of tax	827		6,737	(125)	7,439
Income (loss) from continuing operations	(65,813)	13,527	36,344	(44,849)	(60,791)
Income (loss) from discontinued operations, net of tax	15,341	(5,803)	781		10,319
Net income (loss)	(50,472)	7,724	37,125	(44,849)	(50,472)
Less: Net income attributable to non-controlling interests			170		170
Net income (loss) attributable to Alere Inc. and Subsidiaries	(50,472)	7,724	36,955	(44,849)	(50,642)
Preferred stock dividends	(10,559)				(10,559)
Net income (loss) available to common stockholders	$ (61,031)	$ 7,724	$ 36,955	$ (44,849)	$ (61,201)

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CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2015

(in thousands)

	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 20,263	$ 43,856	$ 88,786	$ (132,642)	$ 20,263

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