

ALERE INC.
Form 10-Q
August 08, 2013
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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.

Edgar Filing: ALERE INC. - Form 10-Q

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-3565120
(I.R.S. Employer
Identification No.)

51 SAWYER ROAD, SUITE 200

WALTHAM, MASSACHUSETTS 02453

(Address of principal executive offices)(Zip code)

(781) 647-3900

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (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**

The number of shares outstanding of the registrant's common stock, par value of \$0.001 per share, as of August 5, 2013 was 81,753,992.

Table of Contents

ALERE INC.

REPORT ON FORM 10-Q

For the Quarterly Period Ended June 30, 2013

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as may, could, should, would, intend, will, expect, anticipate, believe, estimate, continue or similar words. A number of important factors could cause actual results of Alere Inc. and its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, the risk factors detailed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2012 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.

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>a) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2013 and 2012</u>	3
<u>b) Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2013 and 2012</u>	4
<u>c) Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012</u>	5
<u>d) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012</u>	6
<u>e) Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	49
<u>Item 4. Controls and Procedures</u>	49
<u>PART II. OTHER INFORMATION</u>	49
<u>Item 6. Exhibits</u>	49
<u>SIGNATURES</u>	51

Table of Contents**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,	
	2013	2012	2013	2012
Net product sales	\$ 521,562	\$ 463,425	\$ 1,029,838	\$ 939,212
Services revenue	237,558	233,855	464,467	426,289
Net product sales and services revenue	759,120	697,280	1,494,305	1,365,501
License and royalty revenue	4,865	3,237	8,929	6,145
Net revenue	763,985	700,517	1,503,234	1,371,646
Cost of net product sales	253,189	222,498	506,267	448,052
Cost of services revenue	124,810	120,559	244,968	211,419
Cost of net product sales and services revenue	377,999	343,057	751,235	659,471
Cost of license and royalty revenue	1,499	1,852	3,255	3,496
Cost of net revenue	379,498	344,909	754,490	662,967
Gross profit	384,487	355,608	748,744	708,679
Operating expenses:				
Research and development	40,500	40,447	81,954	79,447
Sales and marketing	159,422	159,322	315,878	317,900
General and administrative	140,161	121,485	276,019	241,920
Total operating expenses	340,083	321,254	673,851	639,267
Operating income	44,404	34,354	74,893	69,412
Interest expense, including amortization of original issue discounts and deferred financing costs	(92,453)	(55,531)	(149,852)	(106,258)
Other income (expense), net	1,063	3,811	593	15,642
Loss before provision (benefit) for income taxes	(46,986)	(17,366)	(74,366)	(21,204)
Provision (benefit) for income taxes	17,867	(489)	(19,004)	(1,944)
Loss before equity earnings of unconsolidated entities, net of tax	(64,853)	(16,877)	(55,362)	(19,260)
Equity earnings of unconsolidated entities, net of tax	4,551	3,998	7,485	7,410
Net loss	(60,302)	(12,879)	(47,877)	(11,850)

Edgar Filing: ALERE INC. - Form 10-Q

Less: Net income (loss) attributable to non-controlling interests	267	36	242	(149)
Net loss attributable to Alere Inc. and Subsidiaries	(60,569)	(12,915)	(48,119)	(11,701)
Preferred stock dividends	(5,309)	(5,279)	(10,559)	(10,588)
Net loss available to common stockholders	\$ (65,878)	\$ (18,194)	\$ (58,678)	\$ (22,289)
Basic and diluted net loss per common share attributable to Alere Inc. and Subsidiaries:	\$ (0.81)	\$ (0.23)	\$ (0.72)	\$ (0.28)
Weighted-average shares-basic and diluted	81,311	80,375	81,255	80,307

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

Table of Contents**ALERE INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	\$ (60,302)	\$ (12,879)	\$ (47,877)	\$ (11,850)
Other comprehensive income (loss), before tax:				
Changes in cumulative translation adjustment	(34,428)	(36,777)	(109,783)	(838)
Unrealized gains on available for sale securities		359		790
Unrealized gains (losses) on hedging instruments		(652)	11	455
Minimum pension liability adjustment	99	4	704	(120)
Other comprehensive income (loss), before tax	(34,329)	(37,066)	(109,068)	287
Income tax provision (benefit) related to items of other comprehensive income				
Other comprehensive income (loss), net of tax	(34,329)	(37,066)	(109,068)	287
Comprehensive loss	(94,631)	(49,945)	(156,945)	(11,563)
Less: Comprehensive income (loss) attributable to non-controlling interests	267	36	242	(149)
Comprehensive loss attributable to Alere Inc. and Subsidiaries	\$ (94,898)	\$ (49,981)	\$ (157,187)	\$ (11,414)

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

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

(unaudited)

(in thousands, except par value)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 320,547	\$ 328,346
Restricted cash	9,919	3,076
Marketable securities	889	904
Accounts receivable, net of allowances of \$57,939 and \$36,395 at June 30, 2013 and December 31, 2012, respectively	553,760	524,332
Inventories, net	356,753	337,121
Deferred tax assets	60,849	67,722
Prepaid expenses and other current assets	106,360	145,236
Total current assets	1,409,077	1,406,737
Property, plant and equipment, net	530,467	534,469
Goodwill	3,095,798	3,048,405
Other intangible assets with indefinite lives	57,346	36,451
Finite-lived intangible assets, net	1,811,951	1,834,225
Deferred financing costs, net, and other non-current assets	89,383	108,857
Investments in unconsolidated entities	96,197	90,491
Deferred tax assets	9,786	8,293
Total assets	\$ 7,100,005	\$ 7,067,928
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 50,539	\$ 60,232
Current portion of capital lease obligations	5,958	6,684
Accounts payable	178,552	169,974
Accrued expenses and other current liabilities	425,379	411,919
Total current liabilities	660,428	648,809
Long-term liabilities:		
Long-term debt, net of current portion	3,808,302	3,628,675
Capital lease obligations, net of current portion	11,685	12,917
Deferred tax liabilities	390,012	428,188
Other long-term liabilities	197,781	166,635
Total long-term liabilities	4,407,780	4,236,415
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Series B preferred stock, \$0.001 par value (liquidation preference: \$709,763 at June 30, 2013 and December 31, 2012); Authorized: 2,300 shares; Issued: 2,065 shares at June 30, 2013 and December 31, 2012; Outstanding: 1,774 shares at June 30, 2013 and December 31, 2012	606,468	606,468

Edgar Filing: ALERE INC. - Form 10-Q

Common stock, \$0.001 par value; Authorized: 200,000 shares; Issued: 89,036 shares at June 30, 2013 and 88,576 shares at December 31, 2012; Outstanding: 81,357 shares at June 30, 2013 and 80,897 shares at December 31, 2012	89	89
Additional paid-in capital	3,304,273	3,299,935
Accumulated deficit	(1,613,092)	(1,564,973)
Treasury stock, at cost, 7,679 shares at June 30, 2013 and December 31, 2012	(184,971)	(184,971)
Accumulated other comprehensive income (loss)	(85,195)	23,874
Total stockholders equity	2,027,572	2,180,422
Non-controlling interests	4,225	2,282
Total equity	2,031,797	2,182,704
Total liabilities and equity	\$ 7,100,005	\$ 7,067,928

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

Table of Contents**ALERE INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(in thousands)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net loss	\$ (47,877)	\$ (11,850)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Non-cash interest expense, including amortization of original issue discounts and write-off of deferred financing costs	10,176	10,731
Depreciation and amortization	213,904	211,622
Non-cash charges for sale of inventories revalued at the date of acquisition	1,172	4,681
Non-cash stock-based compensation expense	8,800	8,242
Impairment of inventory	26	5
Impairment of long-lived assets	2,815	219
(Gain) loss on sale of fixed assets	1,301	(5,872)
Equity earnings of unconsolidated entities, net of tax	(7,485)	(7,410)
Deferred income taxes	(44,052)	(27,400)
Loss on extinguishment of debt	35,603	
Other non-cash items	(727)	(883)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(38,326)	(5,431)
Inventories, net	(52,104)	(4,412)
Prepaid expenses and other current assets	(3,319)	16,866
Accounts payable	11,850	(14,247)
Accrued expenses and other current liabilities	24,846	(366)
Other non-current liabilities	(17,844)	(8,265)
Net cash provided by operating activities	98,759	166,230
Cash Flows from Investing Activities:		
(Increase) decrease in restricted cash	(6,843)	5,888
Purchases of property, plant and equipment	(64,617)	(69,461)
Proceeds from sale of property, plant and equipment	4,640	21,677
Cash paid for acquisitions, net of cash acquired	(165,963)	(310,240)
Cash received from equity method investments	10,574	6,556
Cash paid for marketable securities		226
(Increase) decrease in other assets	17,013	(7,714)
Net cash used in investing activities	(205,196)	(353,068)
Cash Flows from Financing Activities:		
Cash paid for financing costs	(9,018)	(2,013)
Cash paid for contingent purchase price consideration	(26,638)	(6,500)
Proceeds from issuance of common stock, net of issuance costs	7,772	8,697
Proceeds from issuance of long-term debt	435,467	199,234
Payments on long-term debt	(437,816)	(29,884)
Net proceeds under revolving credit facilities	166,540	42,487
Payments on short-term debt		(6,240)

Edgar Filing: ALERE INC. - Form 10-Q

Cash paid for dividends	(10,646)	(10,646)
Excess tax benefits on exercised stock options	166	210
Principal payments on capital lease obligations	(3,488)	(3,319)
Other	(18,953)	(2,577)
Net cash provided by financing activities	103,386	189,449
Foreign exchange effect on cash and cash equivalents	(4,748)	1,955
Net increase (decrease) in cash and cash equivalents	(7,799)	4,566
Cash and cash equivalents, beginning of period	328,346	299,173
Cash and cash equivalents, end of period	\$ 320,547	\$ 303,739

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

Table of Contents**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, 2012 included information and footnotes necessary for such presentation and were included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission, or SEC, on March 1, 2013. 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, 2012.

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

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

(2) Cash and Cash Equivalents

We consider all highly-liquid cash investments with original maturities of three months or less at the date of acquisition to be cash equivalents. At June 30, 2013, our cash equivalents consisted of money market funds.

(3) Inventories

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

	June 30, 2013	December 31, 2012
Raw materials	\$ 108,032	\$ 99,498
Work-in-process	83,427	89,895
Finished goods	165,294	147,728
	\$ 356,753	\$ 337,121

(4) Stock-based Compensation

We recorded stock-based compensation expense in our consolidated statements of operations for the three and six months ended June 30, 2013 and 2012, respectively, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of net revenue	\$ 278	\$ 263	\$ 510	\$ 532
Research and development	783	856	1,530	1,627
Sales and marketing	906	913	1,622	1,830

Edgar Filing: ALERE INC. - Form 10-Q

General and administrative	2,710	2,336	5,138	4,253
	4,677	4,368	8,800	8,242
Benefit for income taxes	(496)	(874)	(1,358)	(1,415)
	\$ 4,181	\$ 3,494	\$ 7,442	\$ 6,827

Table of Contents**(5) Net Loss per Common Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net loss	\$ (60,302)	\$ (12,879)	\$ (47,877)	\$ (11,850)
Preferred stock dividends	(5,309)	(5,279)	(10,559)	(10,588)
Less: Net income (loss) attributable to non-controlling interest	267	36	242	(149)
Net loss available to common stockholders	\$ (65,878)	\$ (18,194)	\$ (58,678)	\$ (22,289)
Denominator:				
Weighted-average common shares outstanding basic and diluted	81,311	80,375	81,255	80,307
Basic and diluted net loss per common share attributable to Alere Inc. and Subsidiaries	\$ (0.81)	\$ (0.23)	\$ (0.72)	\$ (0.28)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Denominator:				
Options to purchase shares of common stock	9,798	9,022	9,798	9,022
Warrants	4	110	4	110
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		