INVERNESS MEDICAL INNOVATIONS INC
Form 10-Q/A
August 28, 2002

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q/A
## (Amendment No. 1)

**(Mark One)**

ý **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2002**

**OR**

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

**Commission file number 001-16789**

# INVERNESS MEDICAL INNOVATIONS, INC.

(Exact Name Of Registrant As Specified In Its Charter)

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

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

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

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

Yes ý No o

The number of shares outstanding of the registrant's common stock as of May 8, 2002 was 9,410,960.

**INVERNESS MEDICAL INNOVATIONS, INC.**

**Explanatory Note**

This Amendment No. 1 to Inverness Medical Innovations, Inc.'s Quarterly Report on Form 10-Q for the three months ended March 31, 2002 is being filed in order to restate reported financial results for the three months ended March 31, 2002 to reflect an adjustment to purchase accounting in connection with our acquisition of certain entities and businesses of Unilever plc (the "Unipath businesses"), to reclassify certain sales incentives expenses from sales and marketing expenses to net product sales for all periods presented upon the adoption of Emerging Issues Task Force Issue No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products*, and to make certain additions to Note 5 of the Notes to Consolidated Financial Statements, including Note 5(b).

**FORM 10-Q**

For the Quarterly Period Ended March 31, 2002

*This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as "may", "could", "should", "would", "intend", "will", "expect", "anticipate", "believe", "estimate", "continue" or similar words. There are a number of important factors that could cause actual results of Inverness Medical Innovations, Inc. and its subsidiaries to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to, challenges in operating as a stand-alone company as a result of our split-off from Inverness Medical Technology, Inc., our former parent company, which was merged with a subsidiary of Johnson & Johnson on November 21, 2001, difficulties in integrating acquired businesses and operating them profitably, difficulties in obtaining financing on satisfactory terms, manufacturing and shipping problems or delays, the risks of product defects and failure to meet strict regulatory requirements both in the United States and abroad, intense competition and economic trends which could reduce our market share, limit our ability to increase market share or decrease our operating margins as a result of competitive pricing pressures, as well as other risk factors detailed in this quarterly report on Form 10-Q and other risk factors identified from time to time in our periodic filings with the Securities and Exchange Commission. Readers should carefully review the factors discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations Certain Factors Affecting Future Results" and "Special Statement Regarding Forward-Looking Statements" beginning on pages 30 and 46, respectively, in this quarterly report on Form 10-Q and should not place undue reliance on our forward-looking statements. These forward-looking statements were based on information, plans and estimates at the date of this report. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.*

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



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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### INVERNESS MEDICAL INNOVATIONS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS

### (UNAUDITED)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2002** | **2001** |
| Net product sales | $ 36,540,687 | $ 11,484,788 |
| License and other revenue | 706,099 | |
| **Net revenue** | 37,246,786 | 11,484,788 |
| Cost of sales | 18,240,283 | 5,980,191 |
| **Gross profit** | 19,006,503 | 5,504,597 |
| Operating expenses: | | |
| Charge related to asset impairment (Note 6) | 12,681,581 | |
| Research and development | 3,366,426 | 298,791 |
| Sales and marketing | 9,614,966 | 1,807,403 |
| General and administrative | 6,889,326 | 1,883,628 |
| Stock-based compensation (Note 7)* | 10,144,937 | |
| Total operating expenses | 42,697,236 | 3,989,822 |
| **Operating (loss) income** | (23,690,733) | 1,514,775 |
| Interest expense, including amortization of original issue discount and beneficial conversion feature | (4,147,960) | (372,524) |
| Other income (expense), net | 530,620 | (78,744) |
| **(Loss) income from continuing operations before income taxes** | (27,308,073) | 1,063,507 |
| Provision for income taxes | 506,392 | 353,769 |
| **(Loss) income from continuing operations** | (27,814,465) | 709,738 |
| Loss from discontinued operations, net of taxes of $226,000 | | (581,203) |
| **(Loss) income before extraordinary item and accounting change** | (27,814,465) | 128,535 |
| Extraordinary gain (Note 8) | 8,505,989 | |
| Cumulative effect of a change in accounting principle (Note 6) | (12,148,205) | |
| **Net (loss) income** | $ (31,456,681) | $ 128,535 |

| | Three Months Ended March 31, | |
|---|---|---|
| **(Loss) income per common share basic and diluted (Note 10):** | | |
| (Loss) income from continuing operations | $ (4.14) | $ 0.12 |
| Net (loss) income | $ (4.66) | $ 0.02 |
| Weighted average shares | 7,082,000 | 6,062,000 |

* The charge for stock-based compensation for the three months ended March 31, 2002 was classified as general and administrative expenses.

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

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

**CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED)**

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 22,405,195 | $ 52,023,531 |
| Accounts receivable, net of allowances of $2,686,000 at March 31, 2002 and $2,595,000 at December 31, 2001 | 27,103,906 | 21,576,203 |
| Inventory | 27,279,085 | 14,781,990 |
| Deferred income taxes | 1,466,786 | 1,466,786 |
| Prepaid expenses and other current assets | 5,089,477 | 4,973,659 |
| **Total current assets** | 83,344,449 | 94,822,169 |
| Property, plant and equipment, net | 42,575,533 | 20,526,228 |
| Goodwill, net | 72,372,621 | 85,375,217 |
| Trademarks and other intangible assets, net | 61,899,007 | 75,390,396 |
| Deferred financing costs and other assets, net | 3,325,568 | 2,407,134 |
| **Total assets** | $ 263,517,178 | $ 278,521,144 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Current portion of long-term debt | $ 6,887,247 | $ 20,819,383 |
| Accounts payable | 21,876,383 | 10,264,023 |
| Accrued expenses and other current liabilities | 38,188,820 | 42,716,768 |

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| **Total current liabilities** | 66,952,450 | 73,800,174 |
| **Long-term liabilities:** | | |
| Long-term debt | 58,796,813 | 57,304,834 |
| Deferred income taxes | 2,005,309 | 2,044,019 |
| Other liabilities | 3,799,850 | 3,863,550 |
| **Total long-term liabilities** | 64,601,972 | 63,212,403 |
| **Commitments and contingencies** | | |
| **Series A redeemable convertible preferred stock, $0.001 par value:** | | |
| Authorized 2,666,667 shares | | |
| Issued 2,526,913 shares at March 31, 2002 and 1,995,000 shares at December 31, 2001 | | |
| Outstanding 2,360,246 shares at March 31, 2002 and 1,995,000 shares at December 31, 2001 | 61,514,135 | 51,894,435 |
| **Stockholders' equity:** | | |
| Preferred stock, $0.001 par value: | | |
| Authorized 2,333,333 shares, none issued | | |
| Common stock, $0.001 par value: | | |
| Authorized 50,000,000 shares | | |
| Issued and outstanding 9,126,588 at March 31, 2002 and 8,681,744 shares at December 31, 2001 | 9,127 | 8,682 |
| Additional paid-in capital | 151,662,720 | 147,410,812 |
| Notes receivable from stockholders | (14,691,097) | (14,691,097) |
| Deferred compensation | | (10,144,937) |
| Accumulated deficit | (67,622,520) | (34,636,572) |
| Accumulated other comprehensive income | 1,090,391 | 1,667,244 |
| **Total stockholders' equity** | 70,448,621 | 89,614,132 |
| Total liabilities and stockholders' equity | $ 263,517,178 | $ 278,521,144 |

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



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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2002** | **2001** |
| **Cash Flows from Operating Activities:** | | |

| | Three Months Ended March 31, | |
|---|---|---|
| Net (loss) income | $ (31,456,681) | $ 128,535 |
| Loss from discontinued operations | | 581,203 |
| Net (loss) income, excluding discontinued operations | (31,456,681) | 709,738 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Noncash interest expense related to amortization of original issue discount and beneficial conversion feature | 2,722,604 | |
| Capitalized interest expense | 108,940 | |
| Noncash stock-based compensation expense | 10,144,937 | |
| Noncash extraordinary item | (8,750,663) | |
| Noncash charge related to asset impairment and cumulative effect of a change in accounting principle | 24,829,786 | |
| Depreciation and amortization | 1,940,089 | 798,177 |
| Capital contribution from Inverness Medical Technology, Inc. related to income taxes for Inverness Medical, Inc. | | 75,000 |
| Changes in assets and liabilities, net of acquisition: | | |
| Accounts receivable, net | 46,618 | 186,780 |
| Inventory | (1,440,473) | (457,518) |
| Prepaid expenses and other current assets | 818,631 | (289,193) |
| Accounts payable | 4,335,531 | (912,732) |
| Accrued expenses and other current liabilities | (7,989,101) | (30,056) |
| Due to Inverness Medical Technology, Inc. and affiliates | | 680,705 |
| **Net cash (used in) provided by continuing operations** | (4,689,782) | 760,901 |
| **Net cash provided by discontinued operations** | | 639,683 |
| **Cash Flows from Investing Activities:** | | |
| Purchases of property, plant and equipment | (384,222) | (300,128) |
| Cash paid for purchase of IVC Industries, Inc., net of cash acquired | (8,120,306) | |
| Cash paid for purchase of Unipath businesses | (3,354,551) | |
| Decrease in other assets | 131,126 | |
| **Net cash used in investing activities** | (11,727,953) | (300,128) |
| **Cash Flows from Financing Activities:** | | |
| Cash paid for deferred financing costs | (498,271) | (47,524) |
| Proceeds from issuance of common and preferred stock | 20,863,068 | |
| Repayments of notes payable | (33,347,372) | (1,760,416) |
| Contribution from Inverness Medical Technology, Inc. | | 500,045 |
| **Net cash used in financing activities** | (12,982,575) | (1,307,895) |
| Foreign exchange effect on cash and cash equivalents | (218,026) | 550,312 |
| **Net (decrease) increase in cash and cash equivalents** | (29,618,336) | 342,873 |
| **Cash and cash equivalents, beginning of period** | 52,023,531 | 3,071,477 |
| **Cash and cash equivalents, end of period** | $ 22,405,195 | $ 3,414,350 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | $ 1,023,515 | $ 232,399 |

| | Three Months Ended March 31, | |
|---|---|---|
| Taxes paid | $ 346,010 | $ 5,000 |
| **Supplemental Disclosure of Noncash Activities:** | | |
| On March 19, 2002, the Company acquired IVC Industries, Inc. (Note 5) - Accounts receivable | $ 5,205,319 | $ |
| Inventory | 9,831,608 | |
| Property, plant and equipment | 23,016,267 | |
| Other assets | 1,754,639 | |
| Accounts payable and accrued expenses | (13,029,818) | |
| Cash paid for purchase of IVC Industries, Inc., net of cash acquired | (8,120,306) | |
| | 18,657,709 | |
| Fair value of assumed and issued fully-vested stock options | (1,298,674) | |
| Assumed liabilities | $ 17,359,035 | $ |

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

The accompanying consolidated financial statements of Inverness Medical Innovations, Inc. and its subsidiaries (the "Company" or "Innovations") are unaudited. In the opinion of management, the unaudited consolidated financial statements contain all adjustments considered normal and recurring and necessary for their fair presentation. Interim results are not necessarily indicative of results to be expected for the year. These interim financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information and footnotes necessary for a complete presentation of operations, financial position, and cash flows of the Company in conformity with accounting principles generally accepted in the United States. The Company filed audited consolidated financial statements for the year ended December 31, 2001, which included information and footnotes necessary for such presentation and were included in its Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission on April 2, 2002. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2001.

On November 21, 2001, pursuant to an Agreement and Plan of Split-Off and Merger dated May 23, 2001 (the "Merger Agreement"), Johnson & Johnson acquired Inverness Medical Technology, Inc. ("IMT") in a merger transaction and, simultaneously, Innovations, then a subsidiary of IMT, was split-off from IMT as a separate publicly traded company. Pursuant to the terms of the Merger Agreement and related agreements, immediately prior to the consummation of the transaction, IMT restructured its operations so that all of IMT's non-diabetes businesses (women's health, nutritional supplements and clinical diagnostics) were held by Innovations and Innovations' subsidiaries. At the closing of the transaction, all of the shares of Innovations common stock held by IMT were split-off from IMT in a pro rata distribution to IMT stockholders and IMT (which then consisted primarily of its diabetes care business) merged with and became a wholly-owned subsidiary of Johnson & Johnson.

Innovations was incorporated on May 11, 2001 for the purpose of receiving IMT's contribution of its women's health, nutritional supplements and clinical diagnostics businesses in connection with the transactions described in the Merger Agreement and related agreements. Innovations' historical consolidated financial statements include IMT subsidiaries and businesses that were contributed to Innovations as if such subsidiaries and businesses were historically organized in a manner consistent with the restructuring set forth in the Merger Agreement and related agreements. The primary subsidiaries and businesses that were contributed to Innovations by IMT are as follows:

Inverness Medical, Inc. ("IMI"), a U.S. corporation, and its wholly-owned subsidiary, Can-Am Care Corporation ("Can-Am"), a U.S. corporation

Cambridge Diagnostics Ireland Ltd. ("CDIL"), an Irish corporation

Orgenics, Ltd. ("Orgenics"), an Israeli corporation

The women's health business of Inverness Medical Europe GmbH ("IME"), a German corporation

Inverness Medical Benelux Bvba ("IMB"), a Belgian corporation

The women's health assets held by IMT, plus allocations to Innovations of IMT common expenditures



Innovations has consolidated the financial statements of the above individual legal entities and the newly acquired entities and businesses, as discussed below, along with the assets, liabilities, revenues and expenses of the businesses. For the period prior to the split-off and merger, the financial statements were combined in a manner consistent with the consolidated financial statements. All material intercompany transactions and balances have been eliminated.

Pursuant to the Merger Agreement and related agreements, on November 21, 2001, immediately prior to the split-off and merger, Innovations transferred to IMT those entities or businesses that conduct business in the diabetes segment, principally the Can-Am subsidiary of IMI and the diabetes businesses of CDIL and IMB. As a result, Innovations has presented the historical diabetes operations of its subsidiaries as discontinued operations in the accompanying consolidated statements of operations and cash flows for the three months ended March 31, 2001 under Accounting Principles Board ("APB") Opinion No. 30, *Reporting the Results of Operations  Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*.

At the closing of the transactions set forth in the Merger Agreement and related agreements, IMT distributed to its stockholders one Innovations share for every five IMT shares held. In order for IMT to do so, Innovations declared a stock split, effected as a dividend. Accordingly, earnings per share information for the three months ended March 31, 2001 represents the actual number of shares of Innovations common stock outstanding as of the date of its incorporation, effected for the fixed exchange ratio set forth in the Merger Agreement and related agreements and the related stock split (Note 10).

Innovations' consolidated statements of operations and cash flows for the three months ended March 31, 2001 also reflect the allocation of IMT's common expenditures. Such allocations have been made in accordance with Staff Accounting Bulletin ("SAB") No. 55, *Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity*.

The accompanying consolidated statements of operations and cash flows for the three months ended March 31, 2001 reflect substantially all costs of doing business, including those incurred by IMT on Innovations' behalf. Costs that are clearly identifiable as being applicable to an Innovations subsidiary or business have been allocated to Innovations. The most significant costs included in this category include salary and benefits of certain employees and legal and other professional fees. Costs of centralized departments and corporate operations that serve all operations have been allocated, where such allocations would be material, using relevant allocation measures, such as estimated percentage of time worked for salary and benefits of certain executives and employees and square feet occupied for occupancy costs in shared facilities. Corporate costs that clearly relate to businesses or subsidiaries that were retained by IMT or that do not provide any significant direct or indirect benefit to Innovations have not been allocated to Innovations. For the period prior to the split-off and merger, Innovations accounted for income taxes using the separate return method, pursuant to Statement of Financial Accounting Standard ("SFAS") No. 109, *Accounting for Income Taxes*. IMT has historically charged interest on loans made to its subsidiaries. Accordingly, Innovations' consolidated statement of operations for the three months ended March 31, 2001 reflect interest expense on amounts due to entities not included in Innovations' consolidated financial statements (primarily to IMT). Interest expense for the three months ended March 31, 2001 also reflects amounts recorded on third-party notes payable when such notes relate specifically to Innovations' operations. Interest expense for the three months ended March 31, 2001 does not include amounts recorded on general corporate borrowings of IMT. Innovations believes that the allocation methods described herein are reasonable and fairly reflect its financial position and results of operations for the period prior to the split-off and merger.

Since the split-off and merger, as described above, on December 20, 2001, the Company acquired certain entities and businesses of Unilever Plc (the "Unipath businesses") and on March 19, 2002, the Company acquired IVC Industries, Inc. ("IVC"). The Unipath businesses manufacture and distribute women's health and clinical diagnostics products and IVC manufactures and distributes vitamins and nutritional supplements. The results of the Unipath businesses and IVC are included in the consolidated financial statements of the Company since their respective acquisition dates. The Unipath businesses are comprised of the following entities and businesses:

Unipath Ltd. ("Unipath UK"), a British corporation, and its wholly-owned subsidiary, Unipath Management Ltd. ("UML"), also a British corporation

The women's health business of Unipath conducted in the United States ("Unipath US")

Unipath Diagnostics GmbH ("Unipath Germany"), a German corporation

Unipath Scandinavia AB ("Unipath Scandinavia"), a Swedish corporation

Unipath B.V. ("Unipath Netherlands"), a Dutch corporation

Unipath assets, primarily intellectual property, held by Unilever Plc, along with the related license revenue

**(2) Cash and Cash Equivalents**

The Company considers all highly liquid cash investments with maturities of three months or less at the date of acquisition to be cash equivalents. At March 31, 2002, the Company's 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:

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| Raw materials | $ 11,107,747 | $ 6,895,192 |
| Work-in-process | 5,985,152 | 1,378,503 |
| Finished goods | 10,186,186 | 6,508,295 |
| | $ 27,279,085 | $ 14,781,990 |



**(4) Nonrecurring and Noncash Items**

For the three months ended March 31, 2002, the Company recorded the following nonrecurring or noncash items: (a) noncash interest expense of $2,723,000 representing the amortization of original issue discount and beneficial conversion feature related to the Company's subordinated promissory notes, (b) a total noncash asset impairment charge of $24,830,000, of which $12,148,000 was recorded as a cumulative effect of a change in accounting principle in the accompanying consolidated statements of operations, representing the value of the impaired goodwill and trademarks relating to certain of the Company's existing nutritional supplement business (Note 6), (c) noncash stock-based compensation of $10,145,000 (Note 7), and (d) an extraordinary gain of $8,506,000 related to the early retirement of subordinated promissory notes and the related repurchase of the beneficial conversion feature associated with these subordinated promissory notes (Note 8).

For the three months ended March 31, 2001, the Company recorded a loss from discontinued operations of $581,000 which represented the results of operations of the diabetes related businesses of the entities that were contributed to the Company as part of the split-off from IMT on November 21, 2001. These diabetes related businesses were simultaneously transferred back to IMT on November 21, 2001 (Note 1).

**(5) Business Combinations**

*(a) Acquisition of IVC Industries, Inc.*

On March 19, 2002, the Company acquired IVC, a manufacturer and distributor of vitamins and other nutritional supplements. The Company intends to consolidate its vitamin and nutritional supplement manufacturing at IVC and discontinue most of its outsourced manufacturing arrangements. The aggregate purchase price of IVC was approximately $27,254,000, which consisted of $5,619,000 in cash representing $2.50 for each outstanding share of IVC's common stock, fully-vested stock options to purchase an aggregate of 115,744 shares of the Company's common stock with an aggregate fair value of $1,299,000, approximately $1,613,000 in estimated costs to exit certain activities of IVC, primarily severance costs of involuntarily terminated employees in accordance with Emerging Issues Task Force ("EITF") Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, $17,359,000 in assumed debt and approximately $1,364,000 in estimated direct acquisition costs. Of the $1,613,000 estimated severance costs, none has been paid as of March 31, 2002. The acquisition was funded by the Company's existing cash. The aggregate purchase price for IVC was allocated to the acquired assets and assumed liabilities as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 476,000 |
| Accounts receivable | | 5,205,000 |
| Inventory | | 9,832,000 |
| Property, plant and equipment | | 23,016,000 |
| Other assets | | 1,755,000 |
| Accounts payable and accrued expenses | | (13,030,000) |
| | $ | 27,254,000 |

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The above allocation of the aggregate purchase price for IVC is preliminary. Factors that could impact the aggregate purchase price and its related allocation include changes in estimated costs associated with exit plans and estimated direct acquisition costs.

The acquisition of IVC was accounted for as a purchase under SFAS No. 141, *Business Combinations*. Accordingly, the results of IVC have been included in the accompanying consolidated statements of operations since the date of acquisition. The acquired assets and assumed liabilities of IVC were assigned to the Company's nutritional supplements business reporting unit which is included in its consumer diagnostic products business segment.

The following table presents selected unaudited interim financial information of the Company, including IVC and the Unipath businesses, the latter of which the Company acquired on December 20, 2001, as if the acquisitions had occurred on January 1, 2001. These unaudited pro forma results exclude a charge of $6,980,000 to operations representing the portion of the purchase price allocated to the fair value of certain in-process research and development projects related to the Unipath acquisition. The

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unaudited pro forma interim results are not necessarily indicative of the results that would have occurred had the acquisitions been consummated on January 1, 2001 or future results.

| | Three Months Ended March 31, 2002 | 2001 |
|---|---|---|
| | (unaudited pro forma) | |
| Net revenue | $ 47,693,000 | $ 51,614,000 |
| Cost of sales | 26,812,000 | 26,314,000 |
| **Gross profit** | 20,881,000 | 25,300,000 |
| Operating expenses: | | |
| Charge related to asset impairment | 12,682,000 | |
| Research and development | 3,366,000 | 2,732,000 |
| Sales and marketing | 11,170,000 | 12,260,000 |
| General and administrative | 8,472,000 | 7,668,000 |
| Stock-based compensation | 10,145,000 | |
| Total operating expenses | 45,835,000 | 22,660,000 |
| **Operating (loss) income** | (24,954,000) | 2,640,000 |
| Interest and other expenses, net | (3,963,000) | (2,845,000) |
| **Loss from continuing operations before income taxes** | (28,917,000) | (205,000) |
| Provision for income taxes | 437,000 | 139,000 |
| **Loss from continuing operations** | (29,354,000) | (344,000) |
| Loss from discontinued operations | | (581,000) |
| **Loss before extraordinary item and accounting change** | (29,354,000) | (925,000) |
| Extraordinary gain | 8,506,000 | |
| Cumulative effect of a change in accounting principle | (12,148,000) | |
| **Net loss** | $ (32,996,000) | $ (925,000) |
| **Loss per common share basic and diluted:** | | |
| Loss from continuing operations | $ (4.36) | $ (0.06) |