

MERIDIAN BIOSCIENCE INC
Form 10-Q
May 10, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended March 31, 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 0-14902

MERIDIAN BIOSCIENCE, INC.

Incorporated under the laws of Ohio

Edgar Filing: MERIDIAN BIOSCIENCE INC - Form 10-Q

31-0888197

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

3471 River Hills Drive

Cincinnati, Ohio 45244

(513) 271-3700

Indicate by a 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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding April 30, 2013
Common Stock, no par value	41,467,127

Table of Contents

MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS TO QUARTERLY REPORT ON FORM 10-Q

	Page(s)
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations Three and Six Months Ended March 31, 2013 and 2012</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income Three and Six Months Ended March 31, 2013 and 2012</u>	2
<u>Condensed Consolidated Statements of Cash Flows Six Months Ended March 31, 2013 and 2012</u>	3
<u>Condensed Consolidated Balance Sheets March 31, 2013 and September 30, 2012</u>	4-5
<u>Condensed Consolidated Statement of Changes in Shareholders' Equity Six Months Ended March 31, 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7-12
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12-19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 4. Controls and Procedures</u>	19
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	20
<u>Item 6. Exhibits</u>	20
<u>Signature</u>	21

Table of Contents

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements accompanied by meaningful cautionary statements. Except for historical information, this report 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, which may be identified by words such as estimates , anticipates , projects , plans , seeks , may , will , expects , intends , believes , should and similar expressions or the negative versions thereof and which also may be identified by their context. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. The Company assumes no obligation to publicly update or revise any forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized. These statements are subject to various risks, uncertainties and other factors that could cause actual results to differ materially, including, without limitation, the following: Meridian's continued growth depends, in part, on its ability to introduce into the marketplace enhancements of existing products or new products that incorporate technological advances, meet customer requirements and respond to products developed by Meridian's competition. While Meridian has introduced a number of internally developed products, there can be no assurance that it will be successful in the future in introducing such products on a timely basis. Meridian relies on proprietary, patented and licensed technologies, and the Company's ability to protect its intellectual property rights, as well as the potential for intellectual property litigation, would impact its results. Ongoing consolidations of reference laboratories and formation of multi-hospital alliances may cause adverse changes to pricing and distribution. Recessionary pressures on the economy and the markets in which our customers operate, as well as adverse trends in buying patterns from customers can change expected results. Costs and difficulties in complying with laws and regulations, including those administered by the United States Food and Drug Administration, can result in unanticipated expenses and delays and interruptions to the sale of new and existing products. The international scope of Meridian's operations, including changes in the relative strength or weakness of the U.S. dollar and general economic conditions in foreign countries, can impact results and make them difficult to predict. One of Meridian's growth strategies is the acquisition of companies and product lines. There can be no assurance that additional acquisitions will be consummated or that, if consummated, will be successful and the acquired businesses will be successfully integrated into Meridian's operations. There may be risks that acquisitions may disrupt operations and may pose potential difficulties in employee retention and there may be additional risks with respect to Meridian's ability to recognize the benefits of acquisitions, including potential synergies and cost savings or the failure of acquisitions to achieve their plans and objectives. The Company cannot predict the possible impact of recently-enacted United States healthcare legislation and any similar initiatives in other countries on its results of operations. In addition to the factors described in this paragraph, Part I, Item 1A Risk Factors of our Form 10-K contains a list and description of uncertainties, risks and other matters that may affect the Company.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations (Unaudited)****(in thousands, except per share data)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
NET SALES	\$ 47,265	\$ 47,239	\$ 92,616	\$ 87,314
COST OF SALES	16,522	17,691	33,077	33,224
GROSS PROFIT	30,743	29,548	59,539	54,090
OPERATING EXPENSES				
Research and development	2,811	2,508	5,328	4,781
Selling and marketing	5,471	5,579	11,164	10,956
General and administrative	7,208	6,431	14,703	13,074
Plant consolidation costs		203		647
Total operating expenses	15,490	14,721	31,195	29,458
OPERATING INCOME	15,253	14,827	28,344	24,632
OTHER INCOME (EXPENSE)				
Interest income	19	8	26	13
Other, net	257	(43)	385	273
Total other income (expense)	276	(35)	411	286
EARNINGS BEFORE INCOME TAXES	15,529	14,792	28,755	24,918
INCOME TAX PROVISION	5,280	5,166	10,032	8,714
NET EARNINGS	\$ 10,249	\$ 9,626	\$ 18,723	\$ 16,204
BASIC EARNINGS PER COMMON SHARE	\$ 0.25	\$ 0.23	\$ 0.45	\$ 0.39
DILUTED EARNINGS PER COMMON SHARE	\$ 0.24	\$ 0.23	\$ 0.45	\$ 0.39
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	41,266	41,080	41,188	41,071
EFFECT OF DILUTIVE STOCK OPTIONS AND RESTRICTED SHARES AND UNITS	681	540	642	500
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	41,947	41,620	41,830	41,571
ANTI-DILUTIVE SECURITIES:				
Common share options and restricted shares and units	262	316	295	310
DIVIDENDS DECLARED PER COMMON SHARE	\$	\$ 0.19	\$ 0.38	\$ 0.38

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

(in thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
NET EARNINGS	\$ 10,249	\$ 9,626	\$ 18,723	\$ 16,204
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,873)	1,241	(1,534)	197
Income taxes related to items of other comprehensive income	656	(434)	563	(71)
Other comprehensive income (loss), net of tax	(1,217)	807	(971)	126
COMPREHENSIVE INCOME	\$ 9,032	\$ 10,433	\$ 17,752	\$ 16,330

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(in thousands)

Six Months Ended March 31,	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 18,723	\$ 16,204
Non-cash items included in net earnings:		
Depreciation of property, plant and equipment	1,666	1,760
Amortization of intangible assets	1,165	1,063
Amortization of deferred illumigene instrument costs	746	347
Stock-based compensation	1,573	1,321
Deferred income taxes	(278)	(846)
(Gain) loss on disposition and write-down of fixed assets and other assets	10	(9)
Change in current assets	477	(1,109)
Change in current liabilities	(1,116)	1,029
Other, net	(586)	(895)
Net cash provided by operating activities	22,380	18,865
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,408)	(1,847)
Proceeds from sale of assets		400
Purchases of intangibles and other assets	(20)	(1,305)
Net cash used for investing activities	(1,428)	(2,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(15,652)	(15,609)
Proceeds and tax benefits from exercises of stock options	2,055	256
Net cash used for financing activities	(13,597)	(15,353)
Effect of Exchange Rate Changes on Cash and Equivalents	(354)	(49)
Net Increase in Cash and Equivalents	7,001	711
Cash and Equivalents at Beginning of Period	31,593	23,626
Cash and Equivalents at End of Period	\$ 38,594	\$ 24,337

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands)****ASSETS**

	March 31, 2013 (Unaudited)	September 30, 2012
CURRENT ASSETS		
Cash and equivalents	\$ 38,594	\$ 31,593
Accounts receivable, less allowances of \$529 and \$574	23,659	24,183
Inventories	32,362	31,682
Prepaid expenses and other current assets	5,375	6,203
Deferred income taxes	3,120	2,929
Total current assets	103,110	96,590
PROPERTY, PLANT AND EQUIPMENT, at Cost		
Land	1,175	1,175
Buildings and improvements	26,149	25,983
Machinery, equipment and furniture	36,580	34,917
Construction in progress	1,069	1,149
Subtotal	64,973	63,224
Less: accumulated depreciation and amortization	39,069	37,069
Net property, plant and equipment	25,904	26,155
OTHER ASSETS		
Goodwill	22,382	23,146
Other intangible assets, net	8,845	10,264
Restricted cash	1,000	1,000
Deferred illumigene instrument costs, net	3,704	3,958
Deferred income taxes	757	
Other assets	285	268
Total other assets	36,973	38,636
TOTAL ASSETS	\$ 165,987	\$ 161,381

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(dollars in thousands)****LIABILITIES AND SHAREHOLDERS' EQUITY**

	March 31, 2013 (Unaudited)	September 30, 2012
CURRENT LIABILITIES		
Accounts payable	\$ 5,785	\$ 5,794
Accrued employee compensation costs	5,506	5,827
Other accrued expenses	5,229	5,247
Income taxes payable	1,113	1,594
Total current liabilities	17,633	18,462
DEFERRED INCOME TAXES		171
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 1,000,000 shares authorized, none issued		
Common shares, no par value, 71,000,000 shares authorized, 41,464,857 and 41,284,485 shares issued, respectively		
Additional paid-in capital	105,949	102,443
Retained earnings	43,281	40,210
Accumulated other comprehensive income	(876)	95
Total shareholders' equity	148,354	142,748
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 165,987	\$ 161,381

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)**

(dollars and shares in thousands)

	Common Shares Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at September 30, 2012	41,284	\$ 102,443	\$ 40,210	\$ 95	\$ 142,748
Cash dividends paid			(15,652)		(15,652)
Exercise of stock options	180	1,933			1,933
Conversion of restricted stock units	1				
Stock compensation expense		1,573			1,573
Net earnings			18,723		18,723
Foreign currency translation adjustment, net of tax				(971)	(971)
Balance at March 31, 2013	41,465	\$ 105,949	\$ 43,281	\$ (876)	\$ 148,354

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

Table of Contents

MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Dollars in Thousands, Except Per Share Amounts

(Unaudited)

1. Basis of Presentation

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of Management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of March 31, 2013, the results of its operations for the three and six month periods ended March 31, 2013 and 2012, and its cash flows for the six month periods ended March 31, 2013 and 2012. These statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's fiscal 2012 Annual Report on Form 10-K. Financial information as of September 30, 2012 has been derived from the Company's audited consolidated financial statements.

The results of operations for interim periods are not necessarily indicative of the results to be expected for the year. As a result of accelerating the declaration and payment of the quarterly cash dividend historically declared and paid during the second quarter of the fiscal year, two quarterly cash dividends were declared and paid during the three months ended December 31, 2012, with none occurring during the three months ended March 31, 2013.

2. Significant Accounting Policies

(a) *Revenue Recognition and Accounts Receivable*

Revenue is generally recognized from sales when product is shipped and title has passed to the customer. Revenue for the U.S. Diagnostics segment is reduced at the date of sale for product price adjustments due certain distributors under local contracts. Management estimates accruals for distributor price adjustments based on local contract terms, sales data provided by distributors, estimates of inventories of our products held by distributors, historical statistics, current trends, and other factors. Changes to the accruals are recorded in the period that they become known. Such accruals were \$4,487 at March 31, 2013 and \$3,877 at September 30, 2012, and have been netted against accounts receivable.

Revenue for our Diagnostics segments includes revenue for our *illumigene*[®] molecular test system. This system includes an instrument, instrument accessories and test kits. In markets where the test system is sold via multiple deliverable arrangements (i.e., the United States, Australia and Italy), the cost of the instrument and instrument accessories are deferred upon placement at a customer and amortized on a straight-line basis into cost of sales over the expected utilization period, generally three years. In markets where the test system is not sold via multiple deliverable arrangements (i.e., countries other than the United States, Australia and Italy), the cost of the instrument and instrument accessories is charged to cost of sales at the time of shipment and transfer of title to the customer.

In markets where our *illumigene* molecular test system is sold via multiple deliverable arrangements, we evaluate whether each deliverable in the arrangement is a separate unit of accounting. The primary deliverables are an instrument, instrument accessories (i.e., key board, printer) and test kits. An instrument and instrument accessories are delivered to the customer prior to the start of the customer utilization period, in order to accommodate customer set-up and installation. There is *de minimis* consideration received from the customer at the time of instrument placement. We have determined that the instrument and accessories are not a separate unit of accounting because such equipment can only be used to process and read the results from our *illumigene* diagnostic tests (i.e., our instrument and test kits function together to deliver a diagnostic test result), and therefore the instrument and accessories do not have standalone value to the customer. Consequently, there is no revenue allocated to the placement of the instrument and instrument accessories. Test kits are delivered to the customer over the utilization period of the instrument, which we estimate has a useful life of three years. In all markets, revenue for the sale of test kits is recognized upon shipment and transfer of title to the customers.

Table of Contents

Our products are generally not subject to a customer right of return except for product recall events under the rules and regulations of the Food and Drug Administration or equivalent agencies outside the United States. In this circumstance, the costs to replace affected products would be accrued at the time a loss was probable and estimable.

Life Science revenue for contract services may come from research and development services or manufacturing services, including process development work, or a combination of both. Revenue is recognized based on each of the deliverables in a given arrangement having distinct and separate customer pricing. Depending on the nature of the arrangement, revenue is recognized as services are performed and billed, upon completion and acceptance by the customer, or upon delivery of product and acceptance by the customer. In some cases, customers may request that we store on their behalf, clinical grade biologicals that we produce under contract manufacturing agreements. These cases arise when customers do not have clinical grade storage facilities or do not want to risk contamination during transport. For such cases, revenue may be recognized on a bill-and-hold basis. No such bill-and-hold arrangements existed at March 31, 2013 or September 30, 2012.

Trade accounts receivable are recorded in the accompanying Condensed Consolidated Balance Sheets at invoiced amounts less provisions for distributor price adjustments under local contracts and doubtful accounts. The allowance for doubtful accounts represents our estimate of probable credit losses and is based on historical write-off experience. The allowance for doubtful accounts and related metrics, such as days sales outstanding, are reviewed monthly. Accounts with past due balances over 90 days are reviewed individually for collectibility. Customer invoices are charged off against the allowance when we believe it is probable that the invoices will not be paid.

(b) *Comprehensive Income (Loss)*

As reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income, our comprehensive income or loss is comprised of net earnings, foreign currency translation and the related income tax effects.

Assets and liabilities of foreign operations are translated using period-end exchange rates with gains or losses resulting from translation included as a separate component of comprehensive income or loss. Revenues and expenses are translated using exchange rates prevailing during the period. We also recognize foreign currency transaction gains and losses on certain assets and liabilities that are denominated in the Australian dollar, British pound and Euro currencies. These gains and losses are included in other income and expense in the accompanying Condensed Consolidated Statements of Operations.

(c) *Income Taxes*

The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of temporary differences between income for financial reporting and income for tax purposes. We prepare estimates of permanent and temporary differences between income for financial reporting purposes and income for tax purposes. These differences are adjusted to actual upon filing of our tax returns, typically occurring in the third and fourth quarters of the current fiscal year for the preceding fiscal year's estimates.

We account for uncertain tax positions using a benefit recognition model with a two-step approach: (i) a more-likely-than-not recognition criterion; and (ii) a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit is recorded. We recognize accrued interest and penalties related to unrecognized tax benefits as a portion of our income tax provision in the Condensed Consolidated Statements of Operations.

Table of Contents**(d) Stock-based Compensation**

We recognize compensation expense for all share-based awards made to employees, based upon the fair value of the share-based award on the date of the grant. Awards are expensed over their requisite service period.

(e) Cash and Cash Equivalents

Cash and cash equivalents include the following components:

	March 31, 2013		September 30, 2012	
	Cash and Equivalents	Other	Cash and Equivalents	Other
Overnight repurchase agreements	\$ 24,066	\$	\$ 13,492	\$
Cash on hand -				
Restricted		1,000		1,000
Unrestricted	14,528		18,101	
Total	\$ 38,594	\$ 1,000	\$ 31,593	\$ 1,000

(f) Recent Accounting Pronouncements

In June 2011, FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amended the disclosure and presentation requirements of Comprehensive Income. Specifically, FASB ASU No. 2011-05 required that all nonowner changes in shareholders' equity be presented either in 1) a single continuous statement of comprehensive income or 2) two separate but consecutive statements, in which the first statement presents total net income and its components, and the second statement presents total other comprehensive income and its components. The Company adopted these new presentation requirements effective October 1, 2012 and has presented herein Condensed Consolidated Statements of Comprehensive Income for the interim periods ended March 31, 2013 and 2012 that are compliant with the requirements. Adoption of these requirements had no impact on the Company's consolidated results of operations, cash flows or financial position.

In September 2011, FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*, which amended goodwill impairment guidance to provide an option for entities to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events and circumstances, if an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performance of the two-step impairment test is no longer required. The Company's adoption of this guidance effective October 1, 2012 had no impact on the Company's consolidated results of operations, cash flow or financial position.

(g) Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current fiscal period presentation. Such reclassifications had no impact on net earnings or shareholders' equity.

Table of Contents**3. Inventories**

Inventories are comprised of the following:

	March 31, 2013	September 30, 2012
Raw materials	\$ 6,686	\$ 6,916
Work-in-process	9,217	9,540
Finished goods - illumigene instruments	1,737	2,326
Finished goods - kits and reagents	14,722	12,900
Total	\$ 32,362	\$ 31,682

4. Major Customers and Segment Information

Meridian was formed in 1976 and functions as a fully-integrated research, development, manufacturing, marketing and sales organization with primary emphasis in the fields of in vitro diagnostics and life science. Our principal businesses are (i) the development, manufacture and distribution of diagnostic test kits primarily for gastrointestinal, viral, respiratory and parasitic infectious diseases; (ii) the manufacture and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells and bioresearch reagents used by researchers and other diagnostic manufacturers; and (iii) the contract development and manufacture of proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Our reportable segments are U.S. Diagnostics, European Diagnostics and Life Science. Initial segmentation between Diagnostics and Life Science has been determined based upon products and customers, with further segmentation of Diagnostics between U.S. and European being based upon geographic regions served and management responsibility. The U.S. Diagnostics segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in the U.S. and countries outside of Australia, Europe, Africa and the Middle East. The European Diagnostics segment consists of the sale and distribution of diagnostic test kits in Australia, Europe, Africa and the Middle East. The Life Science segment consists of manufacturing operations in Memphis, Tennessee; Boca Raton, Florida; London, England; Luckenwalde, Germany; and Sydney, Australia, and the sale and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells and bioresearch reagents domestically and abroad. The Life Science segment also includes the contract development and manufacture of cGMP clinical grade proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Amounts due from two U.S. Diagnostics distributor customers accounted for 31% and 29% of consolidated accounts receivable at March 31, 2013 and September 30, 2012, respectively. Sales to these two distributor customers accounted for 50% and 49% of the U.S. Diagnostics segment third-party sales during the three months ended March 31, 2013 and 2012, respectively, and 53% and 50% during the six months ended March 31, 2013 and 2012, respectively.

In addition, approximately \$4,830 and \$4,600 of our accounts receivable at March 31, 2013 and September 30, 2012, respectively, is due from Italian hospital customers whose funding ultimately comes from the Italian government, representing 20% and 19% of consolidated accounts receivable in each of the respective periods. Sales to Italian hospital customers accounted for 34% and 32% of the European Diagnostics segment third-party sales during the three months ended March 31, 2013 and 2012, respectively, and 32% and 22% during the six months ended March 31, 2013 and 2012, respectively.

Two diagnostic manufacturing customers accounted for 18% and 21% of the Life Science segment third-party sales during the three months ended March 31, 2013 and 2012, respectively, and 18% and 24% during the six months ended March 31, 2013 and 2012, respectively.

Table of Contents

Segment information for the interim periods is as follows:

	U.S. Diagnostics	European Diagnostics	Life Science	Eliminations(1)	Total
Three Months Ended March 31, 2013					
Net sales -					
Third-party	\$ 30,310	\$ 6,093	\$ 10,862	\$	\$ 47,265
Inter-segment	2,496	3	350	(2,849)	
Operating income	11,612	597	3,046	(2)	15,253
Goodwill (March 31, 2013)	1,250		21,132		22,382
Other intangible assets, net (March 31, 2013)	1,888		6,957		8,845
Total assets (March 31, 2013)	93,089	13,020	102,329	(42,451)	165,987
Three Months Ended March 31, 2012					
Net sales -					
Third-party	\$ 28,455	\$ 6,924	\$ 11,860	\$	\$ 47,239
Inter-segment	2,736	4	324	(3,064)	
Operating income (2)	11,462	757	2,710	(102)	14,827
Goodwill (September 30, 2012)	1,250		21,896		23,146
Other intangible assets, net (September 30, 2012)	2,239		8,025		10,264
Total assets (September 30, 2012)	82,654	15,443	101,706	(38,422)	161,381
Six Months Ended March 31, 2013					
Net sales -					
Third-party	\$ 60,676	\$ 11,396	\$ 20,544	\$	\$ 92,616
Inter-segment	4,582	6	508	(5,096)	
Operating income	22,855	730	4,680	79	28,344
Six Months Ended March 31, 2012					
Net sales -					
Third-party	\$ 53,464	\$ 12,429	\$ 21,421	\$	\$ 87,314
Inter-segment	4,964	4	660	(5,628)	
Operating income (2)	19,935	1,400	3,408	(111)	24,632

(1) Eliminations consist of inter-segment transactions.

(2) Life Science includes \$203 and \$647 of costs related to consolidation of the Maine operations into the Tennessee facility during the three and six months ended March 31, 2012, respectively.

Transactions between segments are accounted for at established intercompany prices for internal and management purposes, with all intercompany amounts eliminated in consolidation.

Table of Contents**5. Intangible Assets**

A summary of our acquired intangible assets subject to amortization, as of March 31, 2013 and September 30, 2012 is as follows:

	March 31, 2013		September 30, 2012	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Manufacturing technologies, core products and cell lines	\$ 11,586	\$ 9,672	\$ 11,678	\$ 9,327
Trademarks, licenses and patents	4,617	1,851	4,704	1,616
Customer lists and supply agreements	12,115	7,950	12,360	7,535
	\$ 28,318	\$ 19,473	\$ 28,742	\$ 18,478

The actual aggregate amortization expense for these intangible assets was \$585 and \$543 for the three months ended March 31, 2013 and 2012, respectively, and \$1,165 and \$1,063 for the six months ended March 31, 2013 and 2012, respectively. The estimated aggregate amortization expense for these intangible assets for each of the fiscal years through fiscal 2018 is as follows: remainder of fiscal 2013 \$1,028, fiscal 2014 \$1,744, fiscal 2015 \$1,499, fiscal 2016 \$1,158, fiscal 2017 \$908 and fiscal 2018 \$885.

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

Refer to Forward Looking Statements following the Table of Contents in front of this Form 10-Q. In the discussion that follows, all dollars are in thousands (both tables and text), except per share data.

Following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of Meridian's financial condition, changes in financial condition and results of operations. This discussion should be read in conjunction with the financial statements and notes thereto beginning on page 1.

Results of Operations**Three Months Ended March 31, 2013**

Net earnings for the second quarter of fiscal 2013 increased 6% to \$10,249, or \$0.24 per diluted share, from net earnings for the second quarter of fiscal 2012 of \$9,626, or \$0.23 per diluted share. This increase reflects the combined effects of consistent sales, improved gross profit margins and increased operating expenses, along with the negative effect of \$439 (pre-tax) of Medical Device Tax that did not exist during fiscal 2012 (see discussion in Medical Device Tax below). Additionally, the fiscal 2012 second quarter included \$203 of costs associated with the consolidation of the Saco, Maine operations into the Memphis, Tennessee facility (impact on earnings of \$132, or less than \$0.01 per diluted share). At \$47,265, fiscal 2013 second quarter consolidated sales remained relatively unchanged from the same period of the prior year. These quarterly sales reflect increases in our *C. difficile* and foodborne diagnostic focus product families, offset by decreases in our *H. pylori* focus product family and Life Science segment compared to the fiscal 2012 second quarter. In addition, a strong influenza season resulted in an increase in sales of our respiratory family of products compared to the fiscal 2012 second quarter.

Table of Contents

Sales for the U.S. Diagnostics segment for the second quarter of fiscal 2013 increased 7% compared to the second quarter of fiscal 2012, reflecting growth across all of our focus product families – 1% growth in our *H. pylori* products, 6% growth in our foodborne products, and 8% growth in our *C. difficile* products. Sales of our influenza respiratory products increased 87%, or approximately \$1,000. Second quarter fiscal 2013 sales for our European Diagnostics segment decreased 12% compared to the second quarter of fiscal 2012. On an organic basis, which excludes the effects of currency translation, sales of our European Diagnostics segment decreased 13% compared to the 2012 second quarter, reflecting declines in our *C. difficile* and *H. pylori* product sales and growth in our foodborne product family. Adverse economic conditions in European markets and competitive *C. difficile* and *H. pylori* markets have affected our sales. With growth in its molecular reagent business being offset by a decline in its bulk immunoassay reagent business, sales of our Life Science segment decreased by 8% during the second quarter of fiscal 2013 compared to the second quarter of fiscal 2012. Our bulk immunoassay reagent business was positively affected during the prior year second quarter by buying patterns from our largest diagnostic manufacturing customer.

Additionally, as a result of accelerating the declaration and payment of the quarterly cash dividend historically declared and paid during the second quarter of the fiscal year, two quarterly cash dividends were declared and paid during the three months ended December 31, 2012, with none occurring during the three months ended March 31, 2013. Quarterly cash dividends are expected to be paid during the remainder of the fiscal year.

Six Months Ended March 31, 2013

For the six month period ended March 31, 2013, net earnings increased 16% to \$18,723, or \$0.45 per diluted share, from net earnings for the comparable fiscal 2012 period of \$16,204, or \$0.39 per diluted share. This increase reflects the combined effects of increased sales, improved gross profit margins and increased operating expenses, along with the negative effect of \$439 (pre-tax) of Medical Device Tax that did not exist during fiscal 2012 (see discussion in Medical Device Tax below). Additionally, the 2012 year-to-date period included \$647 of costs associated with the consolidation of the Saco, Maine operations into the Memphis, Tennessee facility (impact on earnings of \$421, or \$0.01 per diluted share). Consolidated sales increased 6% to \$92,616 for the first six months of fiscal 2013 compared to the same period of the prior fiscal year. Increased sales across all of our diagnostic focus product families (*C. difficile*, foodborne and *H. pylori*) contributed to this increase, while a decrease was experienced in our Life Science segment. In addition, a strong influenza season resulted in an increase in sales of our respiratory family of products compared to the first six months of fiscal 2012.

During the first six months of fiscal 2013, sales for the U.S. Diagnostics segment increased 13% from the comparable fiscal 2012 period. This increase reflects growth across all of our focus product families – 7% growth in our *H. pylori* products, 11% growth in our foodborne products and 12% growth in our *C. difficile* products. Sales of our influenza respiratory products increased 135%, or approximately \$2,000. Sales of our European Diagnostics segment for the first six months of fiscal 2012 decreased 8% compared to the first six months of fiscal 2012. On an organic basis, which excludes the effects of currency translation, sales of our European Diagnostics segment decreased 7% during the fiscal 2013 year-to-date period, reflecting declines in our *C. difficile* and *H. pylori* product sales and growth in our foodborne product family. With growth in its molecular reagent business being offset by a decline in its bulk immunoassay reagent business, fiscal 2013 six month year-to-date sales of our Life Science segment decreased 4% from the comparable fiscal 2012 period.

Non-GAAP Information

The tables below provide information on net earnings, basic earnings per share and diluted earnings per share, excluding the effect of costs associated with the consolidation of our Saco, Maine operations into our Memphis, Tennessee facility (fiscal 2012), each of which is a non-GAAP financial measure, as well as reconciliations to amounts reported under U.S. Generally Accepted Accounting Principles. We believe that this information is useful to those who read our financial statements and evaluate our operating results because:

1. These measures help to appropriately evaluate and compare the results of operations from period to period by removing the impact of non-routine costs related to consolidating the Maine operations (fiscal 2012); and
2. These measures are used by our management for various purposes, including evaluating performance against incentive bonus achievement targets, comparing performance from period to period in presentations to our Board of Directors, and as a basis for strategic planning and forecasting.

Table of Contents

	Three Months		Six Months	
	Ended March 31, 2013	2012	Ended March 31, 2013	2012
Net Earnings -				
U.S. GAAP basis	\$ 10,249	\$ 9,626	\$ 18,723	\$ 16,204
Facility consolidation costs (1)		132		421
Adjusted earnings	\$ 10,249	\$ 9,758	\$ 18,723	\$ 16,625
Net Earnings per Basic Common Share -				
U.S. GAAP basis	\$ 0.25	\$ 0.23	\$ 0.45	\$ 0.39
Facility consolidation costs (1)				0.01
Adjusted Basic EPS (2)	\$ 0.25	\$ 0.24	\$ 0.45	\$ 0.40
Net Earnings per Diluted Common Share -				
U.S. GAAP basis	\$ 0.24	\$ 0.23	\$ 0.45	\$ 0.39
Facility consolidation costs (1)				0.01
Adjusted Diluted EPS	\$ 0.24	\$ 0.23	\$ 0.45	\$ 0.40

- (1) These facility consolidation costs are net of income tax effects of \$71 and \$226 for the three and six month periods, respectively, which were calculated using the effective tax rates of the jurisdictions in which the costs were incurred.
- (2) Net Earnings per Basic Common Share for the three months ended March 31, 2012 does not sum to the total due to rounding.

Revenue Overview

Our Diagnostics segments provided the largest share of our consolidated revenues, 77% and 75% for the second quarters of fiscal 2013 and 2012, respectively, and 78% and 76% for the first six months of fiscal 2013 and 2012, respectively. Sales from our focus families (*C. difficile*, foodborne and *H. pylori*) comprised 60% and 61% of our Diagnostics segments' revenues for each of the interim periods in fiscal 2013 and 2012, respectively.

The global revenue change for our Diagnostics segments during the fiscal 2013 second quarter was an increase of 3%, reflecting growth in our *C. difficile* (3%) and foodborne (6%) product families, partially offset by a 5% decrease in sales of our *H. pylori* products. For the first six months of fiscal 2013, our Diagnostics segments' global revenue increased 9%, reflecting growth in all of our focus product families' 2% growth in *H. pylori* products, 8% growth in *C. difficile* products, and 10% growth in foodborne products.

***illumigene* Molecular Platform Products**

Sales from our *illumigene* molecular platform products increased 35% to \$8,000 in the second quarter of fiscal 2013 compared to the second quarter of the prior fiscal year, and increased 48% to \$15,400 on a six month year-to-date basis. We have approximately 1,025 customer account placements. Of these account placements, approximately 875 accounts have completed evaluations and validations, and are regularly purchasing product, with the balance of our account placements being in some stage of product evaluation and/or validation. Of our account placements, we have approximately 140 accounts that are regularly purchasing, evaluating and/or validating two or more assays. Our *illumigene* molecular *C. difficile* product was cleared by the FDA in July 2010, followed by our *illumigene* GBS (Group B *Streptococcus*), which was cleared by the FDA in December 2011, and our *illumigene* Group A Strep (Group A *Streptococcus*; Strep Throat), which was cleared in September 2012.

Additional *illumigene* molecular products are in development. These include a test for *Mycoplasma pneumoniae* (Walking Pneumonia), which is currently with the FDA pending marketing clearance and is expected to be available for sale in the U.S. during the third quarter of fiscal 2013. Our fifth test, for *Bordetella pertussis* (Whooping Cough), is expected to be available for sale in the U.S. in late 2013 or early 2014. Our most recently announced tests, for *Chlamydia trachomatis* and *Neisseria gonorrhoeae*, are expected to be available for sale during the first half of 2014.

Table of Contents

We believe that the diagnostic testing market is moving away from culture and immunoassay testing to molecular testing for diseases where there is a favorable cost/benefit position for the total cost of healthcare. While this market is competitive, with molecular companies such as Cepheid and Becton Dickinson and new entrants such as Quidel, Great Basin and Quest, we believe we are well positioned to capitalize on the migration to molecular testing. Our simple, easy to use, *illumigene* platform, with its expanding menu, requires no expensive equipment purchase and little to no maintenance cost. These features, along with its small footprint and the performance of the *illumigene* assays, make *illumigene* an attractive molecular platform to any size hospital.

***C. difficile* Products**

Compared to the second quarter of fiscal 2012, during the fiscal 2013 second quarter our *C. difficile* family grew 3% on a global basis – increased 8% for our U.S. Diagnostics segment and decreased 16% for our European Diagnostics segment. On a six month year-to-date basis, the *C. difficile* family grew 8% globally, increasing 12% in our U.S. Diagnostics segment and decreasing 9% in our European Diagnostics segment. This overall product family growth is largely driven by the growth of our *illumigene C. difficile* product, which now represents 70% of total *C. difficile* revenues. While the *C. difficile* market continues to be highly competitive, we are the only company that can offer a full range of high performing, FDA cleared, *C. difficile* testing formats, including toxin, GDH and molecular tests.

***Foodborne* Products**

Although our foodborne products are marketed and sold on a global basis, most of our sales volume is within the U.S. Diagnostics segment. We continue to see demand increases in the United States, as laboratories realize the benefits of increased sensitivity and faster turnaround time with our tests for Enterohemorrhagic *E. coli* (EHEC) and *Campylobacter*, compared to traditional culture methods. Sales increases for these products within the U.S. Diagnostics segment were 6% for the fiscal 2013 second quarter and 11% for the first six months of fiscal 2013.

The primary competition for our foodborne products is laboratory culture methods. We believe that our products have two principal advantages versus culture methods: 1) test accuracy, and 2) improved work flow, resulting in a significantly shortened time to test result (20 minutes vs. 24-48 hours for culture).

***H. pylori* Products**

During the second quarter and first six months of fiscal 2013, sales of *H. pylori* products grew 1% and 7%, respectively, for our U.S. Diagnostics segment. These increases continue to reflect the benefits of our partnerships with managed care companies in promoting the health and economic benefits of a test and treat strategy, and the ongoing effects of such strategy moving physician behavior away from serology-based testing toward direct antigen testing. A significant amount of the *H. pylori* product sales are to U.S. reference labs, whose buying patterns are not consistent period to period. Compared to the fiscal 2012 periods, sales of *H. pylori* products for our European Diagnostics segment decreased 18% and 9% on an organic basis for the second quarter and first six months of fiscal 2013, respectively.

***Respiratory* Products**

During the second quarter and first six months of fiscal 2013, total respiratory sales for our Diagnostics segments increased 6% and 22%, respectively, over the comparable fiscal 2012 periods, with our influenza product contributing quarterly and year-to-date sales of approximately \$1,800 and \$3,600, respectively. These increases reflect the impact of this year's strong influenza season, compared to a relatively mild season in fiscal 2012. Influenza sales were negligible in Europe during both the fiscal 2013 quarterly and year-to-date periods.

***Life Science* Segment**

Sales for our Life Science segment decreased 8% for the second quarter of fiscal 2013 and 4% for the six month fiscal year-to-date period, reflecting increases in our molecular reagent business (2% quarterly and 5% year-to-date) and decreases in our bulk immunoassay reagent business (14% quarterly and 10% year-to-date). Our molecular reagent business, operated through our Bioline Group, continues to benefit from its new product launches and advancements during recent months – most notably its SensiFAST and MyTaq PCR components. The single-digit growth rates for our Bioline Group during the fiscal 2013 interim periods reflect softness in European markets. The decrease in our bulk immunoassay reagent business, on the other hand, largely results from the timing and size of certain large customers' orders, along with the timing of contract manufacturing work.

Table of Contents

Foreign Currency

During the second quarter of fiscal 2013, currency exchange rates had a negligible impact on revenue; \$50 favorable within the European Diagnostics segment and \$50 unfavorable in the Life Science segment. This compares to currency exchange having an approximate \$325 unfavorable impact on revenue in the second quarter of fiscal 2012. On a six month year-to-date basis, currency exchange rates had an approximate \$150 unfavorable impact on revenue, all within the European Diagnostics segment. This compares to currency exchange having an approximate \$350 unfavorable impact on revenue in the first six months of fiscal 2012.

Significant Customers

Two national distributors in our U.S. Diagnostics segment accounted for 50% and 49% of total sales for this segment for the second quarters of fiscal 2013 and 2012, respectively, and 53% and 50% during the six months ended March 31, 2013 and 2012, respectively.

Sales to Italian hospital customers accounted for 34% and 32% of the European Diagnostics segment third-party sales during the three months ended March 31, 2013 and 2012, respectively, and 32% and 22% during the six months ended March 31, 2013 and 2012, respectively.

Two diagnostic manufacturing customers in our Life Science segment accounted for 18% and 21% of total sales for this segment for the second quarters of fiscal 2013 and 2012, respectively, and 18% and 24% during the six months ended March 31, 2013 and 2012, respectively. The fluctuation in the percentage of sales in both periods reflects the buying patterns of these customers.

Medical Device Tax

On January 1, 2013, the medical device tax established as part of the U.S. healthcare reform legislation became effective and as a result, the Company made its first required tax deposit near the end of January. As previously disclosed, we anticipate that this legislation will result in an excise tax for the Company of up to approximately \$2,000 in fiscal 2013, of which little, if any, can be passed on to the customer. The second quarter expense of \$439 is reflected as a component of cost of sales in the accompanying Condensed Consolidated Statements of Operations.

Segment Revenues

Our reportable segments are U.S. Diagnostics, European Diagnostics and Life Science. The U.S. Diagnostics segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in the U.S. and countries outside of Australia, Europe, Africa and the Middle East. The European Diagnostics segment consists of the sale and distribution of diagnostic test kits in Australia, Europe, Africa and the Middle East. The Life Science segment consists of manufacturing operations in Memphis, Tennessee; Boca Raton, Florida; London, England; Luckenwalde, Germany; and Sydney, Australia, and the sale and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells and bioresearch reagents domestically and abroad. The Life Science segment also includes the contract development and manufacture of cGMP clinical grade proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Revenues for the Diagnostics segments, in the normal course of business, may be affected from quarter to quarter by buying patterns of major distributors, seasonality and strength of certain diseases, and foreign currency exchange rates. Revenues for the Life Science segment, in the normal course of business, may be affected from quarter to quarter by the timing and nature of arrangements for contract services work, which may have longer production cycles than bioresearch reagents and bulk antigens and antibodies, as well as buying patterns of major customers, and foreign currency exchange rates. We believe that the overall breadth of our product lines serves to reduce the variability in consolidated revenues.

Table of Contents

Revenues for each of our segments are shown below.

	Three Months Ended March 31,			Six Months Ended March 31,		
	2013	2012	Inc (Dec)	2013	2012	Inc (Dec)
U.S. Diagnostics	\$ 30,310	\$ 28,455	7%	\$ 60,676	\$ 53,464	13%
European Diagnostics	6,093	6,924	(12)%	11,396	12,429	(8)%
Life Science	10,862	11,860	(8)%	20,544	21,421	(4)%
Consolidated	\$ 47,265	\$ 47,239	%	\$ 92,616	\$ 87,314	6%
International -						
U.S. Diagnostics	\$ 1,662	\$ 1,732	(4)%	\$ 3,435	\$ 3,217	7%
European Diagnostics	6,093	6,924	(12)%	11,396	12,429	(8)%
Life Science	6,668	7,078	(6)%	12,022	12,798	(6)%
Total	\$ 14,423	\$ 15,734	(8)%	\$ 26,853	\$ 28,444	(6)%
% of total sales	31%	33%		29%	33%	

Gross Profit

	Three Months Ended March 31,			Six Months Ended March 31,		
	2013	2012	Change	2013	2012	Change
Gross Profit	\$ 30,743	\$ 29,548	4%	\$ 59,539	\$ 54,090	10%
Gross Profit Margin	65%	63%	+2 points	64%	62%	+2 points

The overall gross profit margin increases for the three and six months ended March 31, 2013 primarily result from the combined effects of 1) mix of sales from the Company's segments; 2) the lower overall cost structure from the consolidation of our U.S. Life Science manufacturing facilities; 3) improved margins at our Bioline Group; and 4) mix of products sold.

Our overall operations consist of the sale of diagnostic test kits for various disease states and in alternative test formats, as well as bioresearch reagents, bulk antigens and antibodies, proficiency panels, and contract research and development and contract manufacturing services. Product sales mix shifts, in the normal course of business, can cause the consolidated gross profit margin to fluctuate by several points.

Operating Expenses

	Three Months Ended March 31, 2013				
	Research & Development	Selling & Marketing	General & Administrative	Plant Consolidation	Total Operating Expenses
2012 Expenses	\$ 2,508	\$ 5,579	\$ 6,431	\$ 203	\$ 14,721
% of Sales	5%	12%	14%	%	31%
Fiscal 2013 Increases (Decreases):					
U.S. Diagnostics	162	(68)	337		431
European Diagnostics		(123)	317		194
Life Science	141	83	123	(203)	144
2013 Expenses	\$ 2,811	\$ 5,471	\$ 7,208	\$	\$ 15,490

% of Sales

6%