

MERIDIAN BIOSCIENCE INC

Form 10-Q

August 07, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2009
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

31-0888197

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

3471 River Hills Drive

Cincinnati, Ohio 45244

(513) 271-3700

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 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 July 31, 2009
Common Stock, no par value	40,521,003

**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
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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. 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 can change expected results, as well as adverse trends in buying patterns from customers. Costs and difficulties in complying with laws and regulations 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. Changes in the relative strength or weakness of the U.S. dollar can also change expected results. One of Meridian's main 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 successfully integrated into Meridian's 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 which are incorporated by reference into this filing.

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
NET SALES	\$ 38,240	\$ 33,068	\$ 105,813	\$ 103,164
COST OF SALES	14,917	11,781	38,172	39,010
Gross profit	23,323	21,287	67,641	64,154
OPERATING EXPENSES:				
Research and development	1,958	1,322	6,361	4,372
Sales and marketing	4,509	4,459	13,451	13,697
General and administrative	4,325	4,507	12,135	13,155
Total operating expenses	10,792	10,288	31,947	31,224
Operating income	12,531	10,999	35,694	32,930
OTHER INCOME:				
Interest income	54	297	400	1,148
Other, net	129	183	57	156
Total other income	183	480	457	1,304
Earnings before income taxes	12,714	11,479	36,151	34,234
INCOME TAX PROVISION	4,212	3,716	12,322	11,716
NET EARNINGS	\$ 8,502	\$ 7,763	\$ 23,829	\$ 22,518
BASIC EARNINGS PER COMMON SHARE	\$ 0.21	\$ 0.19	\$ 0.59	\$ 0.56
DILUTED EARNINGS PER COMMON SHARE	\$ 0.21	\$ 0.19	\$ 0.58	\$ 0.55
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC	40,500	40,150	40,372	40,043
DILUTIVE COMMON STOCK OPTIONS	691	900	749	975

AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED	41,191	41,050	41,121	41,018
ANTI-DILUTIVE SECURITIES:				
Common stock options	150	100	132	52
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.17	\$ 0.14	\$ 0.48	\$ 0.39

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

Nine Months Ended June 30,	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 23,829	\$ 22,518
Non-cash items:		
Depreciation of property, plant and equipment	2,179	2,142
Amortization of intangible assets	1,186	1,206
Stock based compensation	828	1,190
Deferred income taxes	(536)	649
Loss on disposition of fixed assets	39	52
Unrealized loss on auction-rate securities and rights, net	44	
Change in accounts receivable, inventory, and prepaid expenses	767	(1,073)
Change in accounts payable, accrued expenses, and income taxes payable	(3,902)	(4,274)
Other	25	(276)
Net cash provided by operating activities	24,459	22,134
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant and equipment	(2,324)	(2,905)
Proceeds from sales of property, plant and equipment	5	12
Purchases of intangibles and other assets	(109)	(1,108)
Acquisition earnout payments	(7)	(157)
Auction-rate security (purchases) redemption calls	425	(7,750)
Net cash used for investing activities	(2,010)	(11,908)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(19,383)	(15,624)
Proceeds and tax benefits from exercises of stock options	1,080	2,780
Net cash used for financing activities	(18,303)	(12,844)
Effect of Exchange Rate Changes on Cash and Equivalents	(17)	268
Net Increase (Decrease) in Cash and Equivalents	4,129	(2,350)
Cash and Equivalents at Beginning of Period	49,297	49,400
Cash and Equivalents at End of Period	\$ 53,426	\$ 47,050

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
(dollars in thousands)

ASSETS

	June 30, 2009	September 30, 2008
CURRENT ASSETS:		
Cash and equivalents	\$ 53,426	\$ 49,297
Accounts receivable, less allowances of \$250 and \$230	22,329	25,098
Inventories	21,756	19,945
Prepaid expenses and other current assets	3,291	3,382
Deferred income taxes	1,756	1,736
Total current assets	102,558	99,458
PROPERTY, PLANT AND EQUIPMENT:		
Land	887	892
Buildings and improvements	18,882	16,977
Machinery, equipment and furniture	27,475	26,458
Construction in progress	1,732	3,391
Subtotal	48,976	47,718
Less: accumulated depreciation and amortization	29,166	28,043
Net property, plant and equipment	19,810	19,675
OTHER ASSETS:		
Goodwill	9,866	9,861
Other intangible assets, net	7,707	8,786
Restricted cash	1,000	1,000
Investments in auction rate securities and rights	7,281	7,480
Other long-term assets	148	171
Total other assets	26,002	27,298
TOTAL ASSETS	\$ 148,370	\$ 146,431

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
(dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2009	September 30, 2008
CURRENT LIABILITIES:		
Accounts payable	\$ 3,852	\$ 4,777
Accrued employee compensation costs	3,472	6,777
Other accrued expenses	3,675	3,616
Income taxes payable	1,205	891
Total current liabilities	12,204	16,061
DEFERRED INCOME TAXES	1,158	1,881
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, 40,520,891 and 40,313,656 shares issued, respectively		
Additional paid-in capital	91,098	89,107
Retained earnings	43,462	39,016
Accumulated other comprehensive income	448	366
Total shareholders' equity	135,008	128,489
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 148,370	\$ 146,431

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders Equity (Unaudited)
(dollars and shares in thousands)

	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Shareholders Equity
Balance at September 30, 2008	40,314	\$ 89,107	\$ 39,016	\$ 366		\$ 128,489
Cash dividends paid			(19,383)			(19,383)
Exercise of stock options	131	1,170				1,170
Issuance of restricted shares	76					
Stock based compensation		828				828
Cost of S-8 registration statement		(7)				(7)
Comprehensive income:						
Net earnings			23,829		\$ 23,829	23,829
Hedging activity				(3)	(3)	(3)
Transfer of AFS securities to trading classification				270	270	270
Other comprehensive income taxes				35	35	35
Foreign currency translation adjustment				(220)	(220)	(220)
Comprehensive income					\$ 23,911	
Balance at June 30, 2009	40,521	\$ 91,098	\$ 43,462	\$ 448		\$ 135,008

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Dollars in Thousands, Except Per Share Amounts
(Unaudited)

1. Basis of Presentation:

The consolidated financial statements included herein have not been audited by an independent registered public accounting firm, but include all adjustments (consisting of normal recurring entries), which are, in the opinion of management, necessary for a fair presentation of the results for such periods.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the requirements of the Securities and Exchange Commission (SEC). Meridian believes that the disclosures included in these financial statements are adequate to make the information not misleading.

It is suggested that these consolidated interim financial statements be read in conjunction with the consolidated annual financial statements and notes thereto, included in Meridian's Annual Report on Form 10-K for the Year Ended September 30, 2008.

The results of operations for the interim periods are not necessarily indicative of the results to be expected for the year.

Further, in connection with preparation of the condensed consolidated financial statements, we evaluated subsequent events after the balance sheet date of June 30, 2009 through July 31, 2009.

2. Significant Accounting Policies:

(a) Revenue Recognition -

Revenue is generally recognized from sales when product is shipped and title has passed to the buyer. Revenue for the US Diagnostics operating segment is reduced at the date of sale for estimated rebates that will be claimed by customers. Management estimates accruals for rebate agreements based on historical statistics, current trends, and other factors. Changes to the accruals are recorded in the period that they become known. Our rebate accruals were \$3,871 at June 30, 2009 and \$3,259 at September 30, 2008.

Life Science revenue for contract services may come from standalone arrangements for process development and/or optimization work (contract research and development services) or custom manufacturing, or multiple-deliverable arrangements that include process development work followed by larger-scale manufacturing (both contract research and development services and contract manufacturing services). Revenue is recognized based on each of the multiple deliverables in a given arrangement having distinct and separate fair values. Fair values are determined via consistent pricing between standalone arrangements and multiple deliverable arrangements, as well as a competitive bidding process. Contract research and development services may be performed on a time and materials basis or fixed fee basis. For time and materials arrangements, revenue is recognized as services are performed and billed. For fixed fee arrangements, revenue is recognized upon completion and acceptance by the customer. For contract manufacturing services, revenue is generally recognized 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 pursuant to the satisfaction of criteria in SEC Staff Accounting Bulletins Nos. 101 and 104 related to bill-and-hold revenue recognition.

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Trade accounts receivable are recorded in the accompanying consolidated balance sheet at invoiced amounts less provisions for rebates 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 the invoices will not be paid.

(b) Comprehensive Income -

Comprehensive income represents the net change in shareholders' equity during a period from sources other than transactions with shareholders. Our comprehensive income or loss is comprised of net earnings, foreign currency translation, changes in the fair value of forward exchange contracts accounted for as cash flow hedges, changes in income taxes, and changes in the fair value of available-for-sale (AFS) debt securities.

Assets and liabilities of foreign operations are translated using period-end exchange rates with gains or losses resulting from translation included in a separate component of accumulated other 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 Euro currency. These gains and losses are included in other income and expense in the accompanying consolidated statements of operations. Comprehensive income for the interim periods was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Net earnings	\$ 8,502	\$ 7,763	\$ 23,829	\$ 22,518
Hedging activity		230	(3)	(144)
Transfer of AFS securities to trading classification			270	
Unrealized loss on investments				(233)
Income taxes	(214)	(84)	35	(235)
Foreign currency translation adjustment	758	10	(220)	1,044
Comprehensive income	\$ 9,046	\$ 7,919	\$ 23,911	\$ 22,950

(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.

Our provision for income taxes also includes a component 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 consolidated statements of operations.

(d) Share-based Compensation -

We recognize compensation expense for all share-based awards made to employees, outside directors and consultants, based upon the fair value of the share-based award on the date of the grant.

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Our investment portfolio includes the following components:

	June 30, 2009		September 30, 2008	
	Cash and Equivalents	Other Assets	Cash and Equivalents	Other Assets
Taxable investments				
Repurchase agreements	\$	\$	\$ 6,711	\$
Money market funds	24,026			
UBS Auction Rate Security Rights		528		