

MERIDIAN BIOSCIENCE INC

Form 10-Q

August 09, 2010

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**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, 2010**  
**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 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 July 30, 2010 |
|----------------------------|---------------------------|
| Common Stock, no par value | 40,635,789                |

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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, as well as adverse trends in buying patterns from customers can change expected results. 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 will be successfully integrated into Meridian's operations. There may be risks that acquisitions may disrupt current operations and may pose difficulties in employee relations and there may be additional risks with respect to our ability to recognize benefits of acquisitions, including cost savings or the failure of the acquisition to achieve its plans and objectives generally. The Company cannot predict the possible effects of potential healthcare reform in the United States and 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.*

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**Item 1. Financial Statements**  
**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations (Unaudited)**  
**(in thousands, except per share data)**

|  | Three-months Ended |           | Nine-months Ended |            |
|--|--------------------|-----------|-------------------|------------|
|  | June 30,           |           | June 30,          |            |
|  | 2010               | 2009      | 2010              | 2009       |
| NET SALES  | \$ 33,857          | \$ 38,240 | \$ 107,461        | \$ 105,813 |
| COST OF SALES  | 12,121             | 14,917    | 40,073            | 38,172     |
| GROSS PROFIT   | 21,736             | 23,323    | 67,388            | 67,641     |
| OPERATING EXPENSES                                   |                    |           |                   |            |
| Research and development                             | 2,128              | 1,958     | 6,521             | 6,361      |
| Selling and marketing                                | 4,287              | 4,509     | 13,495            | 13,451     |
| General and administrative                           | 4,872              | 4,325     | 14,042            | 12,135     |
| Acquisition costs                                    | 673                |           | 673               |            |
| Total operating expenses                             | 11,960             | 10,792    | 34,731            | 31,947     |
| OPERATING INCOME                                     | 9,776              | 12,531    | 32,657            | 35,694     |
| OTHER INCOME (EXPENSE)                               |                    |           |                   |            |
| Interest income                                      | 29                 | 54        | 90                | 400        |
| Other, net   | (9)                | 129       | (17)              | 57         |
| Total other income (expense)                         | 20                 | 183       | 73                | 457        |
| EARNINGS BEFORE INCOME TAXES                         | 9,796              | 12,714    | 32,730            | 36,151     |
| INCOME TAX PROVISION                                 | 3,372              | 4,212     | 11,405            | 12,322     |
| NET EARNINGS   | \$ 6,424           | \$ 8,502  | \$ 21,325         | \$ 23,829  |
| BASIC EARNINGS PER COMMON SHARE                      | \$ 0.16            | \$ 0.21   | \$ 0.53           | \$ 0.59    |
| DILUTED EARNINGS PER COMMON SHARE                    | \$ 0.16            | \$ 0.21   | \$ 0.52           | \$ 0.58    |
| AVERAGE NUMBER OF COMMON SHARES<br>OUTSTANDING BASIC | 40,535             | 40,500    | 40,510            | 40,372     |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| EFFECT OF DILUTIVE STOCK OPTIONS                       | 616     | 691     | 656     | 749     |
| AVERAGE NUMBER OF COMMON SHARES<br>OUTSTANDING DILUTED | 41,151  | 41,191  | 41,166  | 41,121  |
| ANTI-DILUTIVE SECURITIES:                              |         |         |         |         |
| Common share options                                   | 234     | 150     | 207     | 132     |
| DIVIDENDS DECLARED PER COMMON<br>SHARE                 | \$ 0.19 | \$ 0.17 | \$ 0.55 | \$ 0.48 |

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)

| <b>Nine Months Ended June 30</b>  | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                            |             |             |
| Net earnings  | \$ 21,325   | \$ 23,829   |
| Non-cash items:   |             |             |
| Depreciation of property, plant and equipment                           | 2,307       | 2,179       |
| Amortization of intangible assets                                       | 1,079       | 1,186       |
| Stock based compensation  | 1,255       | 828         |
| Deferred income taxes   | (108)       | (536)       |
| Loss on disposition of fixed assets                                     | 15          | 39          |
| Realized and unrealized loss on auction-rate securities and rights, net | 10          | 44          |
| Change in accounts receivable, inventory, and prepaid expenses          | 2,151       | 767         |
| Change in accounts payable, accrued expenses, and income taxes payable  | (4,327)     | (3,902)     |
| Other   | (6)         | 25          |
| Net cash provided by operating activities                               | 23,701      | 24,459      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                            |             |             |
| Acquisitions of property, plant and equipment                           | (3,681)     | (2,324)     |
| Proceeds from sales of property, plant and equipment                    |             | 5           |
| Purchases of intangibles and other assets                               |             | (109)       |
| Acquisition earnout payments  |             | (7)         |
| Purchases of short-term investments                                     | (1,000)     |             |
| Proceeds from sales and calls of short-term investments                 | 8,275       | 425         |
| Net cash provided by (used for) investing activities                    | 3,594       | (2,010)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                            |             |             |
| Dividends paid  | (22,282)    | (19,383)    |
| Proceeds and tax benefits from exercises of stock options               | 559         | 1,080       |
| Net cash used for financing activities                                  | (21,723)    | (18,303)    |
| Effect of Exchange Rate Changes on Cash and Equivalents                 | (1,383)     | (17)        |
| Net Increase in Cash and Equivalents                                    | 4,189       | 4,129       |
| Cash and Equivalents at Beginning of Period                             | 54,030      | 49,297      |
| Cash and Equivalents at End of Period                                   | \$ 58,219   | \$ 53,426   |

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**

|   | <b>June 30,<br/>2010</b> | <b>September 30,<br/>2009</b> |
|---|--------------------------|-------------------------------|
| <b>CURRENT ASSETS:</b>                                  |                          |                               |
| Cash and equivalents                                    | \$ 58,219                | \$ 54,030                     |
| Short-term investments                                  |                          | 7,285                         |
| Accounts receivable, less allowances of \$355 and \$247 | 18,451                   | 26,981                        |
| Inventories   | 26,844                   | 23,284                        |
| Prepaid expenses and other current assets               | 4,563                    | 3,632                         |
| Deferred income taxes                                   | 2,066                    | 1,935                         |
| <br>  |                          |                               |
| Total current assets                                    | 110,143                  | 117,147                       |
| <br>  |                          |                               |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                   |                          |                               |
| Land  | 966                      | 894                           |
| Buildings and improvements                              | 20,521                   | 19,718                        |
| Machinery, equipment and furniture                      | 30,772                   | 30,997                        |
| Construction in progress                                | 2,277                    | 1,586                         |
| <br>  |                          |                               |
| Subtotal  | 54,536                   | 53,195                        |
| Less: accumulated depreciation and amortization         | 32,807                   | 32,721                        |
| <br>  |                          |                               |
| Net property, plant and equipment                       | 21,729                   | 20,474                        |
| <br>  |                          |                               |
| <b>OTHER ASSETS:</b>                                    |                          |                               |
| Goodwill  | 9,866                    | 9,866                         |
| Other intangible assets, net                            | 6,265                    | 7,317                         |
| Restricted cash   | 1,000                    | 1,000                         |
| Deferred income taxes                                   | 98                       |                               |
| Other assets  | 197                      | 193                           |
| <br>  |                          |                               |
| Total other assets                                      | 17,426                   | 18,376                        |
| <br>  |                          |                               |
| <b>TOTAL ASSETS</b>                                     | <b>\$ 149,298</b>        | <b>\$ 155,997</b>             |

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**

|  | <b>June 30,<br/>2010</b> | <b>September 30,<br/>2009</b> |
|--|--------------------------|-------------------------------|
| <b>CURRENT LIABILITIES:</b>  |                          |                               |
| Accounts payable   | \$ 3,304                 | \$ 6,901                      |
| Accrued employee compensation costs  | 3,295                    | 5,338                         |
| Other accrued expenses   | 4,223                    | 3,803                         |
| Income taxes payable   | 1,082                    | 710                           |
| <br>   |                          |                               |
| Total current liabilities  | 11,904                   | 16,752                        |
| <br>   |                          |                               |
| DEFERRED INCOME TAXES  |                          | 1,340                         |
| <br>   |                          |                               |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                          |                               |
| <br>   |                          |                               |
| <b>SHAREHOLDERS' EQUITY:</b>   |                          |                               |
| Preferred stock, no par value, 1,000,000 shares authorized, none issued  |                          |                               |
| Common shares, no par value, 71,000,000 shares authorized, 40,632,727 and 40,493,313 shares issued, respectively |                          |                               |
| Additional paid-in capital   | 93,693                   | 91,668                        |
| Retained earnings  | 44,558                   | 45,515                        |
| Accumulated other comprehensive income (loss)  | (857)                    | 722                           |
| <br>   |                          |                               |
| Total shareholders' equity   | 137,394                  | 137,905                       |
| <br>   |                          |                               |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>\$ 149,298</b>        | <b>\$ 155,997</b>             |

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)**

For the nine months ended June 30, 2010

|   | Common<br>Shares<br><br>Issued | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | <i>Comprehensive<br/>Income<br/>(Loss)</i> | Total<br>Shareholders'<br>Equity |
|---|--------------------------------|----------------------------------|----------------------|---|--|----------------------------------|
| <b>Balance at September 30, 2009</b>    | 40,493                         | \$ 91,668                        | \$ 45,515            | \$ 722  |  | \$ 137,905                       |
| Cash dividends paid                     |                                |                                  | (22,282)             |   |  | (22,282)                         |
| Exercise of stock options               | 45                             | 770                              |                      |   |  | 770                              |
| Issuance of restricted shares           | 95                             |                                  |                      |   |  |                                  |
| Stock based compensation                |                                | 1,255                            |                      |   |  | 1,255                            |
| Comprehensive income:                   |                                |                                  |                      |   |  |                                  |
| Net earnings                            |                                |                                  | 21,325               |   | \$ 21,325                                  | 21,325                           |
| Other comprehensive income taxes        |                                |                                  |                      | 850   | 850  | 850                              |
| Foreign currency translation adjustment |                                |                                  |                      | (2,429)   | (2,429)                                    | (2,429)                          |
| Comprehensive income                    |                                |                                  |                      |   | \$ 19,746                                  |                                  |
| <b>Balance at June 30, 2010</b>         | 40,633                         | \$ 93,693                        | \$ 44,558            | \$ (857)  |  | \$ 137,394                       |

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. We believe 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, 2009.

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

**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 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 \$5,352 at June 30, 2010 and \$4,750 at September 30, 2009.

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.

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 that the invoices will not be paid.

**Table of Contents****(b) Comprehensive Income (Loss)**

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 (fiscal 2009 only), and changes in the fair value of available-for-sale (AFS) fixed income securities (fiscal 2009 only).

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:

|  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Nine Months<br/>Ended June 30,</b> |             |
|--|--|-------------|---------------------------------------|-------------|
|  | <b>2010</b>                            | <b>2009</b> | <b>2010</b>                           | <b>2009</b> |
| Net earnings   | \$ 6,424                               | \$ 8,502    | \$ 21,325                             | \$ 23,829   |
| Hedging activity                                     |  |             |                                       | (3)         |
| Transfer of AFS securities to trading classification |  |             |                                       | 270         |
| Income taxes   | 451                                    | (214)       | 850                                   | 35          |
| Foreign currency translation adjustment              | (1,287)                                | 758         | (2,429)                               | (220)       |
| Comprehensive income                                 | \$ 5,588                               | \$ 9,046    | \$ 19,746                             | \$ 23,911   |

**(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 realized upon ultimate 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 based upon the fair value of the share-based award on the date of the grant. Shares are expensed over their requisite service period.

**Table of Contents****(e) Cash, Cash Equivalents, and Investments**

Our investment portfolio includes the following components:

|   | June 30, 2010           |          | September 30, 2009      |          |
|---|-------------------------|----------|-------------------------|----------|
|   | Cash and<br>Equivalents | Other    | Cash and<br>Equivalents | Other    |
| Taxable investments                             |                         |          |                         |          |
| Overnight repurchase agreements                 | \$ 13,378               | \$       | \$                      | \$       |
| Money market funds                              | 29,287                  |          | 29,032                  |          |
| Tax-exempt investments                          |                         |          |                         |          |
| Money market funds                              | 7,446                   |          | 10,383                  |          |
| Student loan auction-rate securities and rights |                         |          |                         | 7,285    |
| Cash on hand                                    |                         |          |                         |          |
| Restricted                                      |                         | 1,000    |                         | 1,000    |
| Unrestricted                                    | 8,108                   |          | 14,615                  |          |
| Total   | \$ 58,219               | \$ 1,000 | \$ 54,030               | \$ 8,285 |

Our auction-rate securities held prior to June 30, 2010 were purchased through UBS Financial Services, Inc. During November 2008, we accepted an offer from UBS AG of Auction Rate Security Rights. These rights permitted us to require UBS AG between June 30, 2010 and July 2, 2012 (the exercise period) to purchase our auction-rate securities at par value. In exchange, UBS AG was granted the right, at its sole discretion, to sell or otherwise dispose of our auction-rate security investments until July 2, 2012 as long as we received a payment of par value upon the sale or disposition. During May and June 2010, all of our student loan auction-rate securities outstanding were either purchased by UBS AG, or put back to UBS AG, pursuant to the Auction Rate Security Rights. We received par value plus accrued interest on all of our student loan auction-rate securities.

Upon executing the settlement agreement with UBS AG in November 2008, we recognized the Auction Rate Security Rights as a stand-alone financial instrument and elected the fair value option. We also transferred the student loan auction-rate securities from the available-for-sale classification, to the trading classification. Adjustments to the fair value of student loan auction-rate securities and Auction Rate Security Rights were recorded to other income and expense in each accounting period.

**(f) Reclassifications**

Certain reclassifications have been made to the prior period financial statements to conform to the current fiscal period presentation.

**3. Inventories:**

Inventories are comprised of the following:

|                        | June 30, 2010    | September 30, 2009 |
|------------------------|------------------|--------------------|
| Raw materials          | \$ 6,437         | \$ 6,079           |
| Work-in-process        | 6,516            | 5,916              |
| Finished goods         | 14,707           | 12,314             |
| <b>Gross inventory</b> | <b>27,660</b>    | <b>24,309</b>      |
| Less: Reserves         | (816)            | (1,025)            |
| <b>Net inventory</b>   | <b>\$ 26,844</b> | <b>\$ 23,284</b>   |





**Table of Contents****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 field of life science. Our principal businesses are (i) the development, manufacture and distribution of diagnostic test kits primarily for certain respiratory, gastrointestinal, viral and parasitic infectious diseases, (ii) the manufacture and distribution of bulk antigens, antibodies, and reagents used by researchers and other diagnostic manufacturers and (iii) the contract manufacture of proteins and other biologicals under clinical cGMP conditions for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Our reportable operating segments are US Diagnostics, European Diagnostics, and Life Science. The US Diagnostics operating segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in North America, South America and the Pacific Rim. The European Diagnostics operating segment consists of the sale and distribution of diagnostic test kits in Europe, Scandinavia, Africa, and the Middle East. The Life Science operating segment consists of manufacturing operations in Memphis, Tennessee, Saco, Maine, and Boca Raton, Florida, and the sale and distribution of bulk antigens, antibodies and bioresearch reagents domestically and abroad. The Life Science operating 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.

Two customers accounted for 52% and 55% of the US Diagnostics operating segment third-party sales during the three months ended June 30, 2010 and 2009, respectively, and 58% and 56% during the nine months ended June 30, 2010 and 2009, respectively. Two customers accounted for 25% and 32% of the Life Science operating segment third-party sales during the three months ended June 30, 2010 and 2009, respectively, and 30% during both the nine months ended June 30, 2010 and 2009.

Segment information for the interim periods is as follows:

|   | <b>US<br/>Diagnostics</b> | <b>European<br/>Diagnostics</b> | <b>Life<br/>Science</b> | <b>Eliminations(1)</b> | <b>Total</b> |
|---|---------------------------|---------------------------------|-------------------------|------------------------|--------------|
| <b>Three Months Ended<br/>June 30, 2010</b> |                           |                                 |                         |                        |              |
| Net sales                                   |                           |                                 |                         |                        |              |
| Third-party                                 | \$ 21,121                 | \$ 6,218                        | \$ 6,518                | \$                     | \$ 33,857    |
| Inter-segment                               | 2,723                     | 8                               | 177                     | (2,908)                |              |
| Operating income                            | 8,104                     | 726                             | 752                     | 194                    | 9,776        |
| Total assets (June 30, 2010)                | 129,379                   | 17,129                          | 59,200                  | (56,410)               | 149,298      |
| <b>Three Months Ended<br/>June 30, 2009</b> |                           |                                 |                         |                        |              |
| Net sales                                   |                           |                                 |                         |                        |              |
| Third-party                                 | \$ 24,765                 | \$ 7,018                        | \$ 6,457                | \$                     | \$ 38,240    |
| Inter-segment                               | 2,880                     |                                 | 232                     | (3,112)                |              |
| Operating income                            | 10,218                    | 1,390                           | 1,035                   | (112)                  | 12,531       |
| Total assets (September 30, 2009)           | 131,586                   | 18,221                          | 55,592                  | (49,402)               | 155,997      |

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|  | US<br>Diagnostics | European<br>Diagnostics | Life<br>Science | Eliminations(1) | Total      |
|--|-------------------|-------------------------|-----------------|-----------------|------------|
| <b>Nine months ended June 30, 2010</b> |                   |                         |                 |                 |            |
| Net sales                              |                   |                         |                 |                 |            |
| Third-party                            | \$ 70,018         | \$ 19,103               | \$ 18,340       | \$              | \$ 107,461 |
| Inter-segment                          | 8,200             | 12                      | 438             | (8,650)         |            |
| Operating income                       | 26,805            | 2,789                   | 2,976           | 87              | 32,657     |

**Nine months ended June 30, 2009**

|                  |           |           |           |         |            |
|------------------|-----------|-----------|-----------|---------|------------|
| Net sales        |           |           |           |         |            |
| Third-party      | \$ 69,711 | \$ 19,288 | \$ 16,814 | \$      | \$ 105,813 |
| Inter-segment    | 7,856     | 6         | 512       | (8,374) |            |
| Operating income | 28,893    | 3,495     | 3,257     | 49      | 35,694     |

Transactions between operating segments are accounted for at established intercompany prices for internal and management purposes with all intercompany amounts eliminated in consolidation. Total assets for the US Diagnostics and Life Science operating segments include goodwill of \$1,381 and \$8,485, respectively, at June 30, 2010 and September 30, 2009.

**5. Intangible Assets:**

A summary of our acquired intangible assets subject to amortization, as of June 30, 2010 and September 30, 2009 is as follows:

|  | Wtd<br>Avg<br>Amort<br>Period<br>(Yrs) | June 30, 2010              |                             | September 30, 2009         |                             |
|--|--|----------------------------|-----------------------------|----------------------------|-----------------------------|
|  |  | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Gross<br>Carrying<br>Value | Accumulated<br>Amortization |
| Manufacturing technologies, core products and cell lines | 19                                     | \$ 10,124                  | \$ 7,496                    | \$ 10,755                  | \$ 7,672                    |
| Trademarks, licenses and patents                         | 13                                     | 1,658                      | 935                         | 2,772                      | 1,974                       |
| Customer lists and supply agreements                     | 13                                     | 8,499                      | 5,585                       | 11,040                     | 7,604                       |
|  |  | \$ 20,281                  | \$ 14,016                   | \$ 24,567                  | \$ 17,250                   |

The actual aggregate amortization expense for these intangible assets for the three months ended June 30, 2010 and 2009 was \$345 and \$387, respectively. The actual aggregate amortization expense for these intangible assets for the nine months ended June 30, 2010 and 2009 was \$1,079 and \$1,186, respectively.

**6. Hedging Transactions:**

Prior to February 1, 2009, we managed exchange rate risk related to forecasted intercompany sales denominated in the Euro currency through the use of forward exchange contracts and designated such forward contracts as cash flow hedges. As such, the effective portion of the gain or loss on the derivative instrument was reported as a component of other comprehensive income and reclassified into revenues in the Consolidated Statement of Operations in the same period or periods during which the hedged transaction affected earnings. As of June 30, 2010 and September 30, 2009, we had no such contracts outstanding.



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During January 2009, 500 notional amount of these contracts were settled in accordance with their original maturities. The realized gain on these contracts was \$32. Also during January 2009, we accelerated the settlement of the remaining 2,700 notional amount of forward exchange contracts that were originally scheduled to mature between February 27, 2009 and December 31, 2009. These transactions resulted in a gain of approximately \$140 that was recorded in the second quarter of fiscal 2009. We unwound these forward exchange contracts after completing a strategic review of our foreign currency exposures. This strategic review revealed that we have natural currency hedges in place for consolidated gross profit and operating income via certain Meridian-branded diagnostic test kits that we purchase in Euros from suppliers in Spain and Germany.

**7. Fair Value Measurements:**

We value certain financial assets and liabilities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date for assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. These include quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs, developed using the Company's estimates and assumptions, which reflect those that the market participants would use. Such inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Determining where an asset or liability falls within the hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in the assessment of fair value.

Financial assets and liabilities carried at fair value at June 30, 2010 and September 30, 2009 and are classified in the tables below into one of the three categories described above:

Balances as of June 30, 2010

|                    | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------|----------------|----------------|----------------|--------------|
| Money market funds | \$ 36,733      | \$             | \$             | \$ 36,733    |
| Total              | \$ 36,733      | \$             | \$             | \$ 36,733    |

Balances as of September 30, 2009

|                                      | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------------------------|----------------|----------------|----------------|--------------|
| Money market funds                   | \$ 39,415      | \$             | \$             | \$ 39,415    |
| Student loan auction-rate securities |                |                | 6,708          | 6,708        |
| UBS Auction-Rate Security Rights     |                |                | 577            | 577          |
| Total                                | \$ 39,415      | \$             | \$ 7,285       | \$ 46,700    |



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Prior to their liquidation at par value of \$7,275, plus accrued interest, in May and June 2010, the failed auction status and lack of liquidity for our student loan auction-rate securities and the non-transferability of our UBS Auction Rate Security Rights required the use of a valuation methodology that relied primarily on Level 3 inputs including market, tax status, credit quality, duration, market observations and overall capital market liquidity. Factors that impacted the valuations included changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and the strength and quality of market credit and liquidity. The changes in fair value of our student loan auction-rate securities and UBS Auction Rate Security Rights for the nine-month periods ended June 30, 2010 and 2009 consist of losses of \$10 and \$44, respectively.

**8. Acquisitions:**

During July 2010, we completed the acquisition of all of the outstanding capital stock of the Bioline group of companies for approximately \$23,300 in cash on hand. Certain purchase price and post-closing adjustments may be made. Expenses of \$673 related to this acquisition are reflected in operating expenses during the third quarter of fiscal 2010.

Bioline, headquartered in London, England, is a manufacturer and distributor of molecular biology reagents with operations in Germany, Australia, and the United States. The Bioline management team will remain in place and continue to operate the Bioline group of companies. Bioline manufactures and distributes highly specialized molecular biology reagents for the life science research, biotech, pharmaceutical, and commercial diagnostic markets. The Company is a high-quality, large-volume producer of nucleotides, DNA polymerase enzymes, and other core reagents for molecular biology which are the critical components used in polymerase chain reaction (PCR) testing for DNA, RNA, and other genomic testing. The acquisition is expected to be accretive to our earnings in late fiscal 2011, after pre-acquisition inventory, which will be valued at fair market value, is sold. The Bioline group of companies will become part of our Life Science operating segment.

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

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

**Overview**

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 and results of operations. This discussion should be read in conjunction with the financial statements and notes thereto beginning on page 1.

Our consolidated sales decreased 11% to \$33,857 for the third quarter of fiscal 2010 compared to the same period of the prior year, primarily driven by decreases of 67% and 18%, respectively, in sales of Upper Respiratory and *C. difficile* products for our Diagnostic operating segments. These decreases were partially offset by a 38% increase in sales in Foodborne products and a 6% increase in *H. pylori* products for our Diagnostic operating segments, and a 1% increase in sales for our Life Science operating segment. Foreign currency translation between the Euro and US Dollar negatively impacted sales by approximately \$350, or 1% on a consolidated basis. On a local currency basis, European sales were down 6% for the third quarter of fiscal 2010 compared to the same period of the prior year. Our consolidated operating income and net earnings decreased 22% and 24%, respectively, for the third quarter of fiscal 2010 compared to the same period of the prior year. Our consolidated operating income and net earnings includes \$673 of costs related to the acquisition of the Bioline group of companies discussed below.

Our consolidated sales increased 2% to \$107,461 for the first nine months of fiscal 2010 compared to the same period of the prior year, primarily driven by volume increases in Upper Respiratory products, *H. pylori* products, and Foodborne products. Sales of *C. difficile* products decreased 17%. For the nine-month period, sales for our Life Science operating segment increased 9%. Our consolidated operating income and net earnings decreased 9% and 11%, respectively, for the first nine months of fiscal 2010 compared to the same period of the prior year.



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During July 2010, we completed the acquisition of all of the outstanding capital stock of the Bioline group of companies for approximately \$23,300 in cash on hand. Certain purchase price and post-closing adjustments may be made. Expenses of \$673 related to this acquisition are reflected in operating expenses during the third quarter of fiscal 2010.

Bioline, headquartered in London, England, is a manufacturer and distributor of molecular biology reagents with operations in Germany, Australia, and the United States. The Bioline management team will remain in place and continue to operate the Bioline group of companies. Bioline manufactures and distributes highly specialized molecular biology reagents for the life science research, biotech, pharmaceutical, and commercial diagnostic markets. The Company is a high-quality, large-volume producer of nucleotides, DNA polymerase enzymes, and other core reagents for molecular biology which are the critical components used in polymerase chain reaction (PCR) testing for DNA, RNA, and other genomic testing. The acquisition is expected to be accretive to our earnings in late fiscal 2011, after pre-acquisition inventory, which will be valued at fair market value, is sold.

**Group Purchasing Organizations**

In our US Diagnostics operating segment, consolidation of the US healthcare industry over the last several years has led to the creation of group purchasing organizations (GPOs) that aggregate buying power for hospital groups and put pressure on our selling prices. We have multi-year supply agreements with several GPOs. During the first nine months of fiscal 2010, we have experienced approximately \$2,000 in unfavorable price variance, as a result of these agreements. However, these agreements help secure our products with these customers and have led to new business. While in the near term this has negatively impacted gross profit, further increases in volumes are expected from these contracts.

**C. difficile Products**

During the third quarter of fiscal 2010, we launched our *illumigene*<sup>TM</sup> molecular *C. difficile* product in non-US markets, and have just recently launched in US markets after receiving FDA clearance in mid-July. At the present time, we have approximately 75 customer accounts who are either evaluating our *illumigene*<sup>TM</sup> molecular *C. difficile* product, or have begun purchasing on a regular basis.

We have faced competitive pressures in this disease family over the last several months from new competitive products, including molecular assays, which have led to the declines in sales of our *C. difficile* products during the current fiscal year. Sales of *C. difficile* products decreased 18% for all of our Diagnostics operating segments during the third quarter of fiscal 2010, compared to a decrease of 17% for all of fiscal 2010 to date.

The *C. difficile* market continues to experience considerable confusion around the relative benefits of the various test methods available (toxin testing, antigen testing and molecular testing). With the launch of our molecular product, we believe we are in a unique position to offer a full line of testing solutions to our clinical laboratory customers around the world.

**Upper Respiratory Products**

The novel A (H1N1) influenza outbreak in the Northern hemisphere created an early start to the 2009-2010 influenza season. We began experiencing heavier than normal sales volumes of influenza products in May 2009. The outbreak continued into the first quarter of fiscal 2010, and came to an abrupt end in December 2009. Sales of Upper Respiratory products during the third quarter of fiscal 2010 decreased 71% for our US Diagnostics operating segment compared to the third quarter of fiscal 2009, based in large part on the timing of the novel A (H1N1) outbreak. For our US Diagnostics operating segment, sales of influenza products comprised 11% and 10% of total US Diagnostics sales for the nine-month periods ended June 30, 2010 and 2009, respectively.

The novel A (H1N1) influenza pandemic also created an increased interest in influenza testing in European markets where rapid testing has not been traditionally performed, resulting in sales growth of approximately 7% in this operating segment on an organic basis (excluding currency) for the first nine months of fiscal 2010 for this product family. Similar to US markets, sales of influenza products in European markets have declined since the first quarter of fiscal 2010.

We expect minimal influenza product sales during the remainder of our fiscal year, in light of both the end of the outbreak and current inventory levels at one of our US distributors.





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**Foodborne Products**

During the first nine months of fiscal 2010, sales of our Foodborne products grew approximately 26% for our US Diagnostics operating segment and 42% for our European Diagnostics operating segment on an organic basis with growth rates accelerating in the third quarter. We continue to see volume growth coming from new products launched over the last few fiscal years (ImmunoCard STAT!<sup>®</sup> EHEC launched in fiscal 2007, and Premier<sup>™</sup> CAMPY and ImmunoCard STAT!<sup>®</sup> CAMPY launched in fiscal 2009).

**H. pylori Products**

During each of the first three quarters of fiscal 2010, sales of our *H. pylori* products grew more than 10% for our US Diagnostics operating segment. This reflects the benefits of our partnerships with managed care companies in promoting the health and economic benefits of a test and treat strategy in beginning to move physician behavior away from serology-based testing toward direct antigen testing. Sales of *H. pylori* products for our European Diagnostics operating segment grew 3% on an organic basis for the first nine months of fiscal 2010.

**Life Science**

Sales for our Life Science operating segment increased 1% for the third quarter of fiscal 2010 and 9% for the first nine months of fiscal 2010. These increases reflect growth from our largest diagnostic manufacturing customer. We continue to expect high single-digit growth for this operating segment during the remainder of fiscal 2010.

**Significant Customers**

Two national distributors in our US Diagnostics operating segment accounted for 52% and 55% of total sales for this operating segment for the third quarters of fiscal 2010 and 2009, respectively, and 58% and 56% of total sales for this operating segment for the first nine months of fiscal 2010 and 2009, respectively.

Two diagnostic manufacturing customers in our Life Science operating segment accounted for 25% and 32% of total sales for this operating segment for the third quarters of fiscal 2010 and 2009, respectively, and 30% of total sales for this operating segment for the first nine months of fiscal 2010 and 2009.

**Foreign Currency**

Sales for our European Diagnostics operating segment included the effect of less favorable currency rates in the amount of approximately \$350 for the third quarter of fiscal 2010. However, on a nine-month basis, more favorable currency rates have contributed a benefit to sales of approximately \$550. Sales for this operating segment decreased 4% on an organic basis for the first nine months of fiscal 2010.

**Operating Segment Revenues**

Our reportable operating segments are US Diagnostics, European Diagnostics, and Life Science. The US Diagnostics operating segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in North America, South America and the Pacific Rim. The European Diagnostics operating segment consists of the sale and distribution of diagnostic test kits in Europe, Scandinavia, Africa, and the Middle East. The Life Science operating segment consists of manufacturing operations in Memphis, Tennessee, Saco, Maine, and Boca Raton, Florida, and the sale and distribution of bulk antigens, antibodies and bioresearch reagents domestically and abroad. The Life Science operating 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. The Bioline group of companies will become part of our Life Science operating segment. Revenues for the Diagnostics operating 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 operating 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.

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Revenues for each of our operating segments are shown below.

|                      | Three Months Ended June 30 |           |        | Nine Months Ended June 30 |            |        |
|----------------------|----------------------------|-----------|--------|---------------------------|------------|--------|
|                      | 2010                       | 2009      | Change | 2010                      | 2009       | Change |
| US Diagnostics       | \$ 21,121                  | \$ 24,765 | -15%   | \$ 70,018                 | \$ 69,711  | Flat   |
| European Diagnostics | 6,218                      | 7,018     | -11%   | 19,103                    | 19,288     | Flat   |
| Life Science         | 6,518                      | 6,457     | Flat   | 18,340                    | 16,814     | +9%    |
| Consolidated         | \$ 33,857                  | \$ 38,240 | -11%   | \$ 107,461                | \$ 105,813 | +2%    |
| International        |                            |           |        |                           |            |        |
| US Export            | \$ 1,401                   | \$ 1,524  | -8%    | \$ 4,378                  | \$ 4,220   | +4%    |
| Life Science Export  | 3,085                      | 2,635     | +17%   | 8,337                     | 7,122      | +17%   |
| European Diagnostics | 6,218                      | 7,018     | -11%   | 19,103                    | 19,288     | Flat   |
| Total                | \$ 10,704                  | \$ 11,177 | -4%    | \$ 31,818                 | \$ 30,630  | +4%    |
| % of total sales     | 32%                        | 29%       |        | 30%                       | 29%        |        |

**Gross Profit**

|                     | Three Months Ended June 30, |           |           | Nine Months Ended June 30, |           |          |
|---------------------|-----------------------------|-----------|-----------|----------------------------|-----------|----------|
|                     | 2010                        | 2009      | Change    | 2010                       | 2009      | Change   |
| Gross Profit        | \$ 21,736                   | \$ 23,323 | -7%       | \$ 67,388                  | \$ 67,641 | Flat     |
| Gross Profit Margin | 64%                         | 61%       | +3 points | 63%                        | 64%       | -1 point |

Gross profit margins for the third quarter and first nine months of fiscal 2010 reflect the mix of Upper Respiratory sales from the H1N1 influenza pandemic. Our Upper Respiratory product family generally has a lower gross profit margin than our other focus product families (*C. difficile*, *H. pylori*, and Foodborne). Sales of influenza products during the third quarter of fiscal 2009 were 11% of our consolidated sales, compared to less than 1% of our consolidated sales during the third quarter of fiscal 2010. For the nine-month periods, sales of influenza products were 8% and 7% of our consolidated sales for fiscal 2010 and fiscal 2009, respectively. As we move forward, we expect that our internally developed and manufactured TRU FLU<sup>®</sup> and TRU RSV<sup>®</sup> products will improve overall gross profit margins for the Upper Respiratory product family, as these products represent approximately 50% of total influenza and respiratory syncytial virus product sales on a consolidated basis for the nine months ended June 30, 2010.

GPO contracts have also impacted our gross profit margins during fiscal 2010. These contracts provide customers with favorable pricing based on purchase volume commitments of Meridian products. During the first nine months of fiscal 2010, we have experienced approximately \$2,000 in unfavorable price variance, as a result of these agreements. However, these agreements help secure our products with these customers and have led to new business. While in the near term this has negatively impacted gross profit, further increases in volumes are expected from these contracts.

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, 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.



**Table of Contents****Operating Expenses**

|                                       | Three months ended June 30   |                      |   |                                | Nine months ended June 30    |                      |   |                                |
|---------------------------------------|------------------------------|----------------------|---|--------------------------------|------------------------------|----------------------|---|--------------------------------|
|                                       | Research<br>&<br>Development | Sales &<br>Marketing | General<br>&<br>Administrative<br>and<br>Acquisition<br>Costs | Total<br>Operating<br>Expenses | Research<br>&<br>Development | Sales &<br>Marketing | General<br>&<br>Administrative<br>and<br>Acquisition<br>Costs | Total<br>Operating<br>Expenses |
| 2009 Expenses                         | \$ 1,958                     | \$ 4,509             | \$ 4,325  | \$ 10,792                      | \$ 6,361                     | \$ 13,451            | \$ 12,135   | \$ 31,947                      |
| % of Sales                            | 5%                           | 12%                  | 11%   | 28%                            | 6%                           | 13%                  | 11%   | 30%                            |
| Fiscal 2010 Increases<br>(Decreases): |                              |                      |   |                                |                              |                      |   |                                |
| US Diagnostics                        | (27)                         | (187)                | 464   | 250                            | (353)                        | 54                   | 1,553   | 1,254                          |
| European Diagnostics                  |                              | 7                    | 87  | 94                             |                              | (9)                  | 243   | 234                            |
| Life Science                          | 197                          | (42)                 | 669   | 824                            | 513                          | (1)                  | 784   | 1,296                          |
| 2010 Expenses                         | \$ 2,128                     | \$ 4,287             | \$ 5,545  | \$ 11,960                      | \$ 6,521                     | \$ 13,495            | \$ 14,715   | \$ 34,731                      |
| % of Sales                            | 6%                           | 13%                  | 16%   | 35%                            | 6%                           | 13%                  | 14%   | 32%                            |
| % Increase<br>(Decrease)              | 9%                           | -5%                  | 28%   | 11%                            | 3%                           | 0%                   | 21%   | 9%                             |

We continue to closely control spending for each of our operating segments.

Research and development expenses for our US Diagnostics operating segment decreased for the third quarter and the nine-month period primarily due to the completion of the development of our molecular *illumigene*<sup>TM</sup> *C. difficile* product, which was launched in non-US markets during the third quarter of fiscal 2010, and received FDA marketing clearance in July 2010. Our US Diagnostics operating segment also had higher levels of spending in fiscal 2009 related to clinical trial costs for certain immunoassay products, which contributed to the decreases in fiscal 2010. These decreases were, to some extent, offset by increased salaries and benefits for headcount additions.

Research and development expenses for our Life Science operating segment increased for the third quarter and nine-month period primarily due to increased salaries and benefits related to filling of open positions and decreased research and development resource allocations from new product development (R&D) and contract research and development performed for customers under contracts (cost of sales).

Selling and marketing expenses for our US Diagnostics operating segment for the third quarter and the nine-month period reflect lower bonus and commissions costs for our sales organization due to sales levels of *C. difficile* and Upper Respiratory products. These decreases were somewhat offset by marketing costs related to the launch of our new molecular *illumigene*<sup>TM</sup> *C. difficile* product.

General and administrative expenses for our US Diagnostics operating segment for the third quarter of fiscal 2010 and the nine-month period reflects increases in compensation costs, including stock based compensation costs related to a time-vested restricted stock grant in November 2009.

General and administrative expenses for our Life Science operating segment for the third quarter of fiscal 2010 reflect \$673 of acquisition costs related to the Bioline group of companies.

**Operating Income**

Operating income decreased 22% to \$9,776 for the third quarter of fiscal 2010 and decreased 9% to \$32,657 for the first nine months of fiscal 2010, as a result of the factors discussed above.

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**Other Income and Expense**

Interest income decreased 46% for the third quarter of fiscal 2010 and 78% for the first nine months of fiscal 2010 compared to the same periods of the prior fiscal year. This decrease was driven by lower interest yields due to a higher concentration of investments in money market funds in fiscal 2010 and lower interest rates in the current interest rate environment.

**Income Taxes**

The effective rate for income taxes was 34% for the third quarter and 35% for the first nine months of fiscal 2010. These rates are one point higher than the same periods of the prior fiscal year. Our effective tax rates in fiscal 2009 benefited from the Federal research and experimentation credit that expired December 31, 2009. For the fiscal year ending September 30, 2010, Meridian expects the effective tax rate to be approximately 35%.

**Liquidity and Capital Resources**

***Comparative Cash Flow Analysis***

Our cash flow and financing requirements are determined by analyses of operating and capital spending budgets, consideration of acquisition plans, and consideration of common share dividends. We have historically maintained a credit facility to augment working capital requirements and to respond quickly to acquisition opportunities. Our investment portfolio presently contains overnight repurchase agreements and institutional money-market mutual funds. We used \$23,300 from our investment portfolio during July to complete the acquisition of the Bioline group of companies.

We have an investment policy that guides the holdings of our investment portfolio. Our objectives in managing the investment portfolio are to (i) preserve capital, (ii) provide sufficient liquidity to meet working capital requirements and fund strategic objectives such as acquisitions, and (iii) capture a market rate of return commensurate with market conditions and our policy's investment eligibility criteria. As a result of conditions in the financial markets, we have chosen to keep the maturity of our investment portfolio very short. As we look forward, we will continue to manage the holdings of our investment portfolio with preservation of capital being the primary objective.

During the third quarter of fiscal 2010, we sold all of our investments in student loan auction-rate securities to UBS AG via our Auction Rate Security Rights, and received par value of \$7,275, plus accrued interest.

Except as otherwise described herein, we do not expect current conditions in the financial markets, or overall economic conditions to have a significant impact on our liquidity needs, financial condition, or results of operations. We intend to continue to fund our working capital requirements and dividends from current cash flows from operating activities. We also have additional sources of liquidity through our investment portfolio and a \$30,000 bank credit facility, if needed. To date, we have not experienced any significant deterioration in the aging of our customer accounts receivable nor in our vendors' ability to supply raw materials and services and extend normal credit terms. Our liquidity needs may change if overall economic conditions worsen and/or liquidity and credit within the financial markets remains tight for an extended period of time, and such conditions impact the collectability of our customer accounts receivable, or impact credit terms with our vendors, or disrupt the supply of raw materials and services.

Net cash provided by operating activities decreased 3% for the first nine months of fiscal 2010 to \$23,701, despite an 11% decrease in net earnings. This decrease was primarily attributable to net working capital changes related to fluctuations in sales levels. Net cash flows from operating activities are anticipated to be adequate to fund working capital requirements, capital expenditures and dividends during the next 12 months.

***Capital Resources***

We have a \$30,000 credit facility with a commercial bank which expires on September 15, 2012. As of July 30, 2010, there were no borrowings outstanding on this facility and we had 100% borrowing capacity available to us. We have had no borrowings outstanding under this facility during the first nine months of fiscal 2010, or during the full year of fiscal 2009.

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Our capital expenditures are estimated to be approximately \$5,000 for fiscal 2010 and may be funded with operating cash flows, availability under the \$30,000 credit facility, or cash and investments on-hand. Capital expenditures relate to manufacturing and other equipment of a normal and recurring nature, the build out of the recently purchased property in the Village of Newtown, Ohio, an expansion of our Memphis, Tennessee manufacturing facility, and the purchase of *illumiPro* readers for our *illumigene*<sup>TM</sup> *C. difficile* product.

We do not utilize any special-purpose financing vehicles or have any undisclosed off balance sheet arrangements.

**Other**

***Healthcare Legislation***

In March 2010, the Patient Protection and Affordable Health Care Act of 2009 was signed into law by the president and the Health Care and Education Affordability Reconciliation Act of 2010 was passed by the House of Representatives. This legislation establishes a 2.3% excise tax on the sales of medical devices that retail for more than one hundred dollars beginning in 2013. At existing sales levels in our US markets, this would result in an annual excise tax in excess of \$2,000 for our company. It is unknown at the present time whether this cost can be passed on to customers.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in the Company's exposure to market risk since September 30, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

As of June 30, 2010, an evaluation was completed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2010. There have been no changes in our internal control over financial reporting identified in connection with the evaluation of internal control that occurred during the first fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, or in other factors that could materially affect internal control subsequent to June 30, 2010.

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

There have been no material changes from risk factors as previously disclosed in the Registrant's Form 10-K in response to Item 1A to Part I of Form 10-K.



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ITEM 6. EXHIBITS

- 31.1 Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MERIDIAN BIOSCIENCE, INC.**

Date: August 9, 2010

/s/ Melissa Lueke  
Melissa Lueke  
Executive Vice President and Chief  
Financial Officer

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