

MERIDIAN BIOSCIENCE INC

Form 10-Q

May 10, 2006

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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 March 31, 2006

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding April 30, 2006
Common Stock, no par value	26,095,554

**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 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, which also may be identified by their context. Such statements are based upon current expectations of the Company and speak only as of the date made. The Company assumes no obligation to publicly update any forward-looking statements. These statements are subject to various risks, uncertainties and other factors that could cause actual results to differ, 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. 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 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.

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

	Three Months		Six Months	
	Ended March 31,		Ended March 31,	
	2006	2005	2006	2005
NET SALES	\$28,272	\$23,686	\$53,180	\$42,528
COST OF SALES	11,692	10,109	21,450	17,938
Gross profit	16,580	13,577	31,730	24,590
OPERATING EXPENSES:				
Research and development	1,203	861	2,355	1,694
Sales and marketing	4,053	4,056	8,271	7,372
General and administrative	4,347	3,462	7,957	6,859
Total operating expenses	9,603	8,379	18,583	15,925
Operating income	6,977	5,198	13,147	8,665
OTHER INCOME (EXPENSE):				
Interest income	238	8	487	14
Interest expense	(32)	(225)	(67)	(515)
Other, net	63	125	(29)	149
Total other income (expense)	269	(92)	391	(352)
Earnings before income taxes	7,246	5,106	13,538	8,313
INCOME TAX PROVISION	2,523	1,910	4,853	3,007
NET EARNINGS	\$ 4,723	\$ 3,196	\$ 8,685	\$ 5,306
BASIC EARNINGS PER COMMON SHARE	\$ 0.18	\$ 0.14	\$ 0.33	\$ 0.23
DILUTED EARNINGS PER COMMON SHARE	\$ 0.18	\$ 0.13	\$ 0.32	\$ 0.22
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC	26,142	23,469	26,050	23,019
DILUTIVE COMMON STOCK OPTIONS	694	693	696	723

AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED	26,836	24,162	26,746	23,742
ANTI-DILUTIVE SECURITIES:				
Common stock options	11	2	6	110
Shares from convertible debentures	190	819	190	819
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.115	\$ 0.08	\$ 0.195	\$ 0.15

All historical share and per share data has been adjusted for the September 2, 2005 three-for-two stock split.
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)

Six Months Ended March 31,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 8,685	\$ 5,306
Non-cash items:		
Depreciation of property, plant and equipment	1,344	1,289
Amortization of intangible assets and deferred costs	913	742
Stock based compensation	319	63
Deferred income taxes	314	4
Loss on disposition of fixed assets	44	
Change in current assets, excluding cash and deferred taxes and net of effects of acquisition	(1,323)	(684)
Change in current liabilities, excluding debt obligations and net of effects of acquisition	(3,882)	(372)
Other	66	216
Net cash provided by operating activities	6,480	6,564
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant and equipment	(2,054)	(1,484)
Proceeds from sales of property, plant and equipment	34	
Viral Antigens earnout payments	(1,313)	(678)
Acquisition of OEM Concepts, Inc.	(181)	(6,226)
Net cash used for investing activities	(3,514)	(8,388)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net activity on revolving credit facility		5,397
Repayment of debt obligations	(469)	(1,141)
Dividends paid	(5,089)	(3,386)
Proceeds from exercise of stock options	825	2,476
Other	(3)	(11)
Net cash provided by (used for) financing activities	(4,736)	3,335
Effect of Exchange Rate Changes on Cash	8	105
Net Increase (Decrease) in Cash	(1,762)	1,616
Cash at Beginning of Period	33,085	1,983

Cash at End of Period	\$31,323	\$ 3,599
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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

	March 31, 2006	September 30, 2005
CURRENT ASSETS:		
Cash and equivalents	\$ 31,323	\$ 33,085
Accounts receivable, less allowances of \$422 and \$360 for doubtful accounts	17,699	17,366
Inventories	18,046	16,785
Prepaid expenses and other current assets	1,396	1,666
Deferred income taxes	804	1,258
Total current assets	69,268	70,160
PROPERTY, PLANT AND EQUIPMENT:		
Land	693	693
Buildings and improvements	15,525	15,510
Machinery, equipment and furniture	21,514	21,053
Construction in progress	1,586	433
Subtotal	39,318	37,689
Less-accumulated depreciation and amortization	21,226	20,229
Net property, plant and equipment	18,092	17,460
OTHER ASSETS:		
Goodwill	8,960	8,779
Other intangible assets, net	12,385	13,249
Other assets	860	921
Total other assets	22,205	22,949
TOTAL ASSETS	\$ 109,565	\$ 110,569

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

	March 31, 2006	September 30, 2005
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 308	\$ 556
Accounts payable	3,664	2,949
Accrued payroll costs	4,663	7,707
Purchase business combination liabilities		1,313
Other accrued expenses	3,747	3,993
Income taxes payable	1,961	3,273
Total current liabilities	14,343	19,791
LONG-TERM DEBT:		
Bank debt		233
Convertible subordinated debentures	1,833	2,451
DEFERRED INCOME TAXES	4,186	4,326
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 1,500,000 shares authorized, none issued		
Common shares, no par value, 50,000,000 shares authorized, 26,077,713 and 25,940,080 shares issued, respectively		
Treasury stock, at cost, 0 and 12,450 shares, respectively		(32)
Additional paid-in capital	73,262	71,568
Retained earnings	16,283	12,687
Accumulated other comprehensive loss	(342)	(455)
Total shareholders' equity	89,203	83,768
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 109,565	\$ 110,569

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 Issued	Shares Held in Treasury	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at September 30, 2005	25,940	(12)	\$ (32)	\$ 71,568	\$ 12,687 (5,089)	\$ (455)	\$	\$ 83,768 (5,089)
Dividends paid								
Exercise of stock options, net of tax	87			825				825
Stock based compensation				319				319
Bond conversion	63			582				582
Treasury shares retired	(12)	12	32	(32)				
Comprehensive income:								
Net income					8,685		8,685	8,685
Foreign currency translation adjustment						113	113	113
Comprehensive income							\$ 8,798	
Balance at March 31, 2006	26,078		\$	\$ 73,262	\$ 16,283	\$ (342)		\$ 89,203

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
(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, although 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, 2005.

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

2. Significant Accounting Policies:

(a) *Revenue Recognition*

Meridian's revenues are derived primarily from product sales. Revenue is generally recognized 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. Rebate agreements are in place with certain independent national distributors and are designed to reimburse such distributors for their cost in handling Meridian's products. Management estimates rebate accruals based on historical statistics, current trends, and other factors. Changes to these rebate accruals are recorded in the period that they become known.

Life Science operating segment revenue for contract services may come from standalone arrangements for process development and/or optimization work (contract research and development services), or multiple-deliverable arrangements that include process development work followed by larger-scale manufacturing (contract manufacturing services). Revenue is recognized based on the nature of the arrangements, using the principles in EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. 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. For fixed fee arrangements, revenue is recognized upon completion and

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acceptance by the customer. For contract manufacturing services, revenue is recognized upon delivery of product and acceptance by the customer.

(b) Foreign Currency Translation

Assets and liabilities of foreign operations are translated using period-end exchange rates with gains or losses resulting from translation included in accumulated other comprehensive income (loss). Revenues and expenses are translated using exchange rates prevailing during the period. Meridian also recognizes 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.

Foreign currency translation is the only component of accumulated other comprehensive income (loss).

Comprehensive income for the interim periods ended March 31 was as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
Net income	\$4,723	\$3,196	\$8,685	\$5,306
Foreign currency translation	(13)	(326)	113	247
Comprehensive income	\$4,710	\$2,870	\$8,798	\$5,553

(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. Meridian prepares 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 Meridian's tax returns, which typically occurs in the third and fourth quarters of the current fiscal year for the preceding fiscal year's estimates.

(d) Stock-based Compensation

Meridian accounts for stock-based compensation pursuant to SFAS No. 123R, *Share-Based Payment*, which was adopted as of July 1, 2005. SFAS No. 123R requires recognition of 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. Meridian elected to adopt the provisions of SFAS No. 123R, utilizing the modified prospective method, which required compensation expense be measured and recognized based on grant-date fair value for stock option awards granted after July 1, 2005 and portions of stock options awards granted prior to July 1, 2005, but not vested as of July 1, 2005.

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Prior to July 1, 2005, Meridian accounted for its stock based compensation plans pursuant to the intrinsic value method in APB No. 25. Had compensation cost for these plans been determined using the fair value method provided in SFAS No. 123R, Meridian's net earnings for the second quarter of fiscal 2005 and the first six months of fiscal 2005 would have been \$3,102,000 and \$5,157,000, respectively, compared to reported amounts of \$3,196,000 and \$5,306,000, respectively. Basic earnings per share for the second quarter of fiscal 2005 and the first six months of fiscal 2005 would have been \$0.13 and \$0.22, respectively, compared to reported amounts of \$0.14 and \$0.23, respectively. Diluted earnings per share would not have been impacted.

(e) Cash equivalents

Meridian considers short-term investments with original maturities of 90 days or less to be cash equivalents.

(f) Reclassifications

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

3. Inventories:

Inventories are comprised of the following (in thousands):

	March 31, 2006	September 30, 2005
Raw materials	\$ 4,144	\$ 4,059
Work-in-process	6,299	4,888
Finished goods	7,603	7,838
	\$ 18,046	\$ 16,785

4. Segment Information:

Meridian's 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 diagnostics test kits in the US and countries outside of Europe, Africa and the Middle East. The European Diagnostics operating segment consists of the sale and distribution of diagnostics test kits in Europe, 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 consists of the Viral Antigens, BIODESIGN, and OEM Concepts businesses, including the contract manufacture of proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

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Segment information for the interim periods ended March 31, 2006 and 2005 is as follows (in thousands):

	US Diagnostics	European Diagnostics	Life Science	Eliminations ⁽¹⁾	Total
Three Months 2006					
Net sales					
Third-party	\$ 17,012	\$ 5,319	\$ 5,941	\$	\$ 28,272
Inter-segment	1,930		298	(2,228)	
Operating income	4,748	933	1,319	(23)	6,977
Total assets (March 31, 2006)	99,185	12,134	39,296	(41,050)	109,565
Three Months 2005					
Net sales					
Third-party	\$ 14,517	\$ 4,671	\$ 4,498	\$	\$ 23,686
Inter-segment	1,775		183	(1,958)	
Operating income	3,613	821	734	30	5,198
Total assets (September 30, 2005)	99,878	11,552	39,382	(40,243)	110,569
Six Months 2006					