

MERIDIAN BIOSCIENCE INC

Form 10-Q

May 08, 2009

**Table of Contents**

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

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

**For the Quarterly Period Ended March 31, 2009**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-14902**

**MERIDIAN BIOSCIENCE, INC.**

Incorporated under the laws of Ohio

31-0888197

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

3471 River Hills Drive

Cincinnati, Ohio 45244

(513) 271-3700

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

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

Class	Outstanding April 30, 2009
Common Stock, no par value	40,517,084



**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES  
INDEX TO QUARTERLY REPORT ON FORM 10-Q**

	<b>Page(s)</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (Unaudited)	
<u>Consolidated Statements of Operations</u> <u>Three-months Ended March 31, 2009 and 2008</u> <u>Six-months Ended March 31, 2009 and 2008</u>	3
<u>Consolidated Statements of Cash Flows</u> <u>Six-months Ended March 31, 2009 and 2008</u>	4
<u>Consolidated Balance Sheets</u> <u>March 31, 2009 and September 30, 2008</u>	5-6
<u>Consolidated Statement of Changes in Shareholders' Equity</u> <u>Six-months Ended March 31, 2009</u>	7
<u>Notes to Consolidated Financial Statements</u>	8-15
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15-21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1A. Risk Factors</u>	21
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	22
<u>Item 6. Exhibits</u>	22
<u>Signature</u>	23
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	
<i>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</i>	

*similar expressions or the negative versions thereof and which also may be identified by their context. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. The Company assumes no obligation to publicly update or revise any forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized. These statements are subject to various risks, uncertainties and other factors that could cause actual results to differ materially, including, without limitation, the following: Meridian's continued growth depends, in part, on its ability to introduce into the marketplace enhancements of existing products or new products that incorporate technological advances, meet customer requirements and respond to products developed by Meridian's competition. While Meridian has introduced a number of internally developed products, there can be no assurance that it will be successful in the future in introducing such products on a timely basis. Ongoing consolidations of reference laboratories and formation of multi-hospital alliances may cause adverse changes to pricing and distribution. Recessionary pressures on the economy and the markets in which our customers operate can change expected results, as well as adverse trends in buying patterns from customers. Costs and difficulties in complying with laws and regulations administered by the United States Food and Drug Administration can result in unanticipated expenses and delays and interruptions to the sale of new and existing products. Changes in the relative strength or weakness of the U.S. dollar can also change expected results. One of Meridian's main growth strategies is the acquisition of companies and product lines. There can be no assurance that additional acquisitions will be consummated or that, if consummated, will be successful and the acquired businesses successfully integrated into Meridian's operations. In addition to the factors described in this paragraph, Part I, Item 1A Risk Factors of our Form 10-K contains a list and description of uncertainties, risks and other matters that may affect the Company, which are incorporated by reference into this filing.*

**Table of Contents**

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

	<b>Three-months</b>		<b>Six-months</b>	
	<b>Ended March 31,</b>		<b>Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
NET SALES	\$ 33,280	\$ 36,249	\$ 67,573	\$ 70,096
COST OF SALES	12,306	15,134	23,255	27,229
Gross profit	20,974	21,115	44,318	42,867
<b>OPERATING EXPENSES:</b>				
Research and development	2,339	1,514	4,403	3,050
Sales and marketing	3,975	4,548	8,942	9,238
General and administrative	3,655	4,315	7,810	8,648
Total operating expenses	9,969	10,377	21,155	20,936
Operating income	11,005	10,738	23,163	21,931
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	84	396	346	851
Other, net	76	53	(72)	(27)
Total other income (expense)	160	449	274	824
Earnings before income taxes	11,165	11,187	23,437	22,755
INCOME TAX PROVISION	3,914	3,888	8,110	8,000
NET EARNINGS	\$ 7,251	\$ 7,299	\$ 15,327	\$ 14,755
BASIC EARNINGS PER COMMON SHARE	\$ 0.18	\$ 0.18	\$ 0.38	\$ 0.37
DILUTED EARNINGS PER COMMON SHARE	\$ 0.18	\$ 0.18	\$ 0.37	\$ 0.36
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC	40,385	40,070	40,349	39,990
DILUTIVE COMMON STOCK OPTIONS	748	968	779	1,012

AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED	41,133	41,038	41,128	41,002
ANTI-DILUTIVE SECURITIES:				
Common stock options	141	58	125	29
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.17	\$ 0.14	\$ 0.31	\$ 0.25

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

**Table of Contents**

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

<b>Six-months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 15,327	\$ 14,755
Non-cash items:		
Depreciation of property, plant and equipment	1,468	1,418
Amortization of intangible assets	799	865
Stock based compensation	544	734
Deferred income taxes	(579)	1,107
(Gain) Loss on disposition of fixed assets	39	(1)
Unrealized loss on auction-rate securities and rights, net	220	
Change in accounts receivable, inventory, and prepaid expenses	(2,073)	(3,627)
Change in accounts payable, accrued expenses, and income taxes payable	(3,382)	(1,928)
Other	300	(595)
Net cash provided by operating activities	12,663	12,728
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of property, plant and equipment	(1,734)	(1,775)
Proceeds from sales of property, plant and equipment	5	12
Purchase of intangible assets		(231)
Acquisition earnout payments	(7)	(157)
(Purchases) proceeds from sales of investments	425	(7,750)
Net cash used for investing activities	(1,311)	(9,901)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(12,510)	(10,003)
Proceeds and tax benefits from exercises of stock options	516	2,528
S-8 registration statement costs	(7)	
Net cash used for financing activities	(12,001)	(7,475)
Effect of Exchange Rate Changes on Cash and Equivalents	(342)	264
Net Decrease in Cash and Equivalents	(991)	(4,384)
Cash and Equivalents at Beginning of Period	49,297	49,400
Cash and Equivalents at End of Period	\$ 48,306	\$ 45,016



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

**Table of Contents**

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

**ASSETS**

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 48,306	\$ 49,297
Accounts receivable, less allowances of \$237 and \$230	22,410	25,098
Inventories	23,531	19,945
Prepaid expenses and other current assets	3,625	3,382
Deferred income taxes	1,775	1,736
Total current assets	99,647	99,458
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	877	892
Buildings and improvements	18,334	16,977
Machinery, equipment and furniture	27,034	26,458
Construction in progress	1,984	3,391
Subtotal	48,229	47,718
Less: accumulated depreciation and amortization	28,331	28,043
Net property, plant and equipment	19,898	19,675
<b>OTHER ASSETS:</b>		
Goodwill	9,866	9,861
Other intangible assets, net	7,984	8,786
Restricted cash	1,000	1,000
Investments in auction rate securities and rights	7,105	7,480
Other long-term assets	128	171
Total other assets	26,083	27,298
<b>TOTAL ASSETS</b>	<b>\$ 145,628</b>	<b>\$ 146,431</b>

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

**Table of Contents**

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

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,374	\$ 4,777
Accrued employee compensation costs	3,478	6,777
Other accrued expenses	3,571	3,616
Income taxes payable	1,004	891
Total current liabilities	12,427	16,061
DEFERRED INCOME TAXES	1,258	1,881
<b>COMMITMENTS AND CONTINGENCIES</b>		
<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, 40,487,834 and 40,313,656 shares issued, respectively		
Additional paid-in capital	90,206	89,107
Retained earnings	41,833	39,016
Accumulated other comprehensive income (loss)	(96)	366
Total shareholders' equity	131,943	128,489
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 145,628</b>	<b>\$ 146,431</b>

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

Table of Contents

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

	Common	Additional	Accumulated Other		Total
	Shares	Paid-in	Retained	Comprehensive	Comprehensive
	Issued	Capital	Earnings	Income (Loss)	Income (Loss)
					Total Shareholders Equity
<b>Balance at September 30, 2008</b>	40,314	\$ 89,107	\$ 39,016	\$ 366	\$ 128,489
Cash dividends paid			(12,510)		(12,510)
Exercise of stock options	96	562			562
Issuance of restricted shares	78				
Stock based compensation		544			544
Cost of S-8 registration statement		(7)			(7)
Comprehensive income:					
Net earnings			15,327		\$ 15,327
Hedging activity				(3)	(3)
Transfer of AFS securities to trading classification				270	270
Other comprehensive income taxes				249	249
Foreign currency translation adjustment				(978)	(978)
Comprehensive income					\$ 14,865
 <b>Balance at March 31, 2009</b>	 40,488	 \$ 90,206	 \$ 41,833	 \$ (96)	 \$ 131,943

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

**Table of Contents**

**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. Meridian believes that the disclosures included in these financial statements are adequate to make the information not misleading.

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

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

**2. Significant Accounting Policies:**

**(a) *Revenue Recognition***

Revenue is generally recognized from sales when product is shipped and title has passed to the buyer. Revenue for the US Diagnostics operating segment is reduced at the date of sale for estimated rebates that will be claimed by customers. Management estimates accruals for rebate agreements based on historical statistics, current trends, and other factors. Changes to the accruals are recorded in the period that they become known. Our rebate accruals were \$3,655 at March 31, 2009 and \$3,259 at September 30, 2008.

Life Science revenue for contract services may come from standalone arrangements for process development and/or optimization work (contract research and development services) or custom manufacturing, or multiple-deliverable arrangements that include process development work followed by larger-scale manufacturing (both contract research and development services and contract manufacturing services). Revenue is recognized based on the nature of the arrangements, using the principles in EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. The framework in EITF 00-21 is based on each of the multiple deliverables in a given arrangement having distinct and separate fair values. Fair values are determined via consistent pricing between standalone arrangements and multiple deliverable arrangements, as well as a competitive bidding process. Contract research and development services may be performed on a time and materials basis or fixed fee basis. For time and materials arrangements, revenue is recognized as services are performed and billed. For fixed fee arrangements, revenue is recognized upon completion and acceptance by the customer. For contract manufacturing services, revenue is generally recognized upon delivery of product and acceptance by the customer. In some cases, customers may request that we store on their behalf, clinical grade biologicals that we produce under contract manufacturing agreements. These cases arise when customers do not have clinical grade storage facilities or do not want to risk contamination during transport. For such cases, revenue may be recognized on a bill-and-hold basis pursuant to the satisfaction of criteria in SEC Staff Accounting Bulletins Nos. 101 and 104 related to bill-and-hold revenue recognition.

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



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

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

Assets and liabilities of foreign operations are translated using period-end exchange rates with gains or losses resulting from translation included in a separate component of accumulated other comprehensive income or loss. Revenues and expenses are translated using exchange rates prevailing during the period. We also recognize foreign currency transaction gains and losses on certain assets and liabilities that are denominated in the Euro currency. These gains and losses are included in other income and expense in the accompanying consolidated statements of operations. Comprehensive income for the interim periods was as follows:

	<b>Three-months</b>		<b>Six-months</b>	
	<b>Ended March 31,</b>		<b>Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net earnings	\$ 7,251	\$ 7,299	\$ 15,327	\$ 14,755
Hedging activity	19	(299)	(3)	(374)
Transfer of AFS securities to trading classification			270	
Unrealized loss on investments		(233)		(233)
Income taxes	254	(77)	249	(151)
Foreign currency translation adjustment	(744)	753	(978)	1,034
Comprehensive income	\$ 6,780	\$ 7,443	\$ 14,865	\$ 15,031

***(c) Income Taxes***

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

Our provision for income taxes also includes a component for uncertain tax positions in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires the use of a benefit recognition model with a two-step approach: (i) a more-likely-than-not recognition criterion and (ii) a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit is recorded. We recognize accrued interest and penalties related to unrecognized tax benefits as a portion of our income tax provision in the consolidated statements of operations.

***(d) Stock-based Compensation***

We account for stock-based compensation pursuant to SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R requires recognition of compensation expense for all share-based awards made to employees, outside directors and consultants, based upon the fair value of the share-based award on the date of the grant.

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

Our investment portfolio includes the following components:

	March 31, 2009		September 30, 2008	
	Cash and Equivalents	Other Assets	Cash and Equivalents	Other Assets
Taxable investments				
Repurchase agreements	\$	\$	\$ 6,711	\$
Money market funds	24,024			
UBS Auction Rate Security Rights		510		
Tax-exempt investments				
Money market funds	10,221		12,848	
Variable rate demand notes			23,948	
Student loan auction-rate securities		6,595		7,480
Cash on hand				
Non-interest bearing				
Unrestricted	8,883			
Restricted		1,000		1,000
Interest bearing unrestricted	5,178		5,790	
Total	\$ 48,306	\$ 8,105	\$ 49,297	\$ 8,480

As a result of conditions in the financial markets, during October 2008, we moved all of our investments in municipal variable rate demand notes to institutional money market mutual funds invested in either US Treasuries or repurchase agreements collateralized by US Treasuries. We also moved investments in a bank overnight repurchase agreement account to a non-interest bearing deposit account to take advantage of a FDIC insurance program. Existing investments in institutional tax-exempt money market mutual funds are covered under the US Treasury's Temporary Guarantee Program for Money Market Funds. This program provides a guarantee to money market mutual fund shareholders of \$1 per share net asset value for funds invested as of September 19, 2008, if the fund were to liquidate its assets as a result of its net asset value falling below \$0.995.

The primary objectives of our investment activities are to preserve capital and provide sufficient liquidity to meet operating requirements and fund strategic initiatives such as acquisitions. We maintain a written investment policy that governs the management of our investments in fixed income securities. This policy, among other things, provides that we may purchase only high credit-quality securities, that have short-term ratings of at least A-1 and P-1 or better, and long-term ratings of at least A-2 and A or better, by Moody's and Standard & Poor's, respectively, at the time of purchase.

We consider short-term investments with original maturities of 90 days or less to be cash equivalents, including overnight repurchase agreements, investments in municipal variable rate demand notes that have a seven-day put feature and institutional money market funds. Our investments in repurchase agreements at September 30, 2008 were with a commercial bank pursuant to an overnight sweep/liquidity arrangement with our operating cash accounts. Our investments in variable rate demand notes at September 30, 2008 contained a seven-day put feature.

Our investments in tax-exempt variable rate demand notes, prior to their complete liquidation in October 2008, and student loan auction-rate securities, prior to the settlement agreement with UBS discussed below, were accounted for as available-for-sale under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. As such, unrealized holding gains and losses were reported as a component of other comprehensive income or loss within shareholders' equity until realized, except where losses were considered to be other-than-temporary, in which case they would have been recorded to other income and expense, net. As of September 30, 2008, we did not have any losses



that were considered other-than-temporary under SFAS No. 115, and accumulated other comprehensive income included \$270 of unrealized holding losses related to student loan auction-rate securities.

**Table of Contents**

Our investment portfolio includes student loan auction-rate securities, which are long-term student loan revenue bonds whose interest rates are reset every 35 days via a Dutch auction process. All of our auction-rate securities are backed by pools of student loans originated under the Federal Family Education Loan Program (FFELP). FFELP student loans are guaranteed by State guarantors who have reinsurance agreements with the US Department of Education. All of our student loan auction-rate securities were rated Aaa and AAA by Moody's and Standard & Poor's, respectively, at the time of purchase, and have continued to maintain these credit ratings through the present time.

The Dutch auction process historically provided the necessary liquidity mechanism to either purchase or sell these securities. Beginning in mid-February 2008, liquidity issues in the US credit markets resulted in the failure of auctions across a broad spectrum of tax-exempt securities, including student loan revenue bonds. Auctions for the student loan revenue bonds that we hold have continued to fail through the present time. The consequence of a failed auction is that we do not have access to the principal amount of our investments. Issuers are still required to make interest payments when due in the event of failed auctions. We have not experienced any missed interest payments to date.

Our auction-rate securities were purchased through UBS Financial Services, Inc. During November 2008, we accepted an offer from UBS, AG (UBS) of Auction Rate Security Rights. These rights permit us to require UBS between June 30, 2010 and July 2, 2012 (the exercise period) to purchase our auction-rate securities at par value. In exchange, UBS is granted the right, at their sole discretion, to sell or otherwise dispose of our auction-rate security investments until July 2, 2012 as long as we receive a payment of par value upon the sale or disposition. In addition, the rights permit us to establish a demand revolving credit line in an amount equal to the par value of the securities at a net zero cost. We are still able to sell the auction-rate securities on our own, but in such a circumstance, we would lose the par value support from UBS.

Upon executing the settlement agreement with UBS, we recognized the Auction Rate Security Rights as a stand-alone financial instrument and elected the fair value option under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. We also transferred the student loan auction-rate securities from the available-for-sale classification, to the trading classification under SFAS No. 115. Upon transfer to the trading classification, \$270 in unrealized losses as of September 30, 2008, were transferred from accumulated other comprehensive income to other income and expense. Adjustments to the fair value of student loan auction-rate securities and Auction Rate Security Rights are recorded to other income and expense in each accounting period. As of March 31, 2009, the fair value of the student-loan auction rate securities was \$6,595 compared to a par value of \$7,325. As of March 31, 2009, the fair value of the Auction Rate Security Rights was \$510. The student loan auction-rate securities are included in other long-term assets in the accompanying consolidated balance sheet based on the maturities of the student loan revenue bonds (2029 to 2037). The Auction Rate Security Rights are included in other long-term assets in the accompanying consolidated balance sheet based on the earliest exercise date of June 30, 2010.

***(f) New Accounting Pronouncements***

Effective October 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value and provides a framework for measuring fair value, including a hierarchy that prioritizes the inputs to valuation techniques into three broad levels. This fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. See Note 7.

In October 2008, the FASB issued Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FSP clarifies application of SFAS No. 157 to financial assets when the market is inactive, such as the case with debt securities that were issued via the auction-rate markets. This FSP was effective upon issuance and was taken into consideration in the valuation of our investments in student loan auction-rate securities and the UBS Auction Rate Security Rights.

**Table of Contents**

In connection with the UBS settlement discussed in Note 2(e), we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits an entity to choose to measure certain financial instruments and other items at fair value where such financial instruments and other items are not currently required to be measured at fair value. For financial instruments and other items where the fair value option is elected, unrealized gains and losses are reported in earnings at each subsequent reporting date.

In April 2009, the FASB issued Staff Position No. 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance in US GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. As discussed above, we have elected the fair value option for our auction-rate securities under SFAS No. 159. Thus, this FSP will have no effect on our statements of operations or financial position. This statement is effective for interim reporting periods ending after June 15, 2009, which will be our third fiscal quarter.

Also, in April 2009, the FASB issued Staff Position No. 107-1 and APB 28, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This statement is effective for interim reporting periods ending after June 15, 2009, which will be our third fiscal quarter.

**(g) 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:

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Raw materials	\$ 5,630	\$ 5,238
Work-in-process	4,833	4,867
Finished goods	13,068	9,840
	<b>\$ 23,531</b>	<b>\$ 19,945</b>

**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.

**Table of Contents**

Two customers accounted for 50% and 51% of the US Diagnostics operating segment third-party sales during the three-months ended March 31, 2009 and 2008, respectively and 56% and 55% during the six-months ended March 31, 2009 and 2008, respectively. Two customers accounted for 19% and 36% of the Life Science operating segment third-party sales during the three-months ended March 31, 2009 and 2008, respectively, and 24% and 36% during the six-months ended March 31, 2009 and 2008, respectively.

Segment information for the interim periods is as follows (in thousands):

	US Diagnostics	European Diagnostics	Life Science	Eliminations <sup>(1)</sup>	Total
<b>Three-months March 31, 2009</b>					
Net sales					
Third-party	\$ 21,461	\$ 6,599	\$ 5,220	\$	\$ 33,280
Inter-segment	2,488	6	92	(2,586)	
Operating income	8,288	1,255	1,375	87	11,005
Total assets (March 31, 2009)	124,146	15,525	52,101	(46,144)	145,628
<b>Three-months March 31, 2008</b>					
Net sales					
Third-party	\$ 23,253	\$ 7,594	\$ 5,402	\$	\$ 36,249
Inter-segment	3,271	2	136	(3,409)	
Operating income	8,747	1,592	352	47	10,738
Total assets (September 30, 2008)	126,808	15,955	49,619	(45,951)	146,431
<b>Six-months March 31, 2009</b>					
Net sales					
Third-party	\$ 44,946	\$ 12,270	\$ 10,357	\$	\$ 67,573
Inter-segment	4,976	6	280	(5,262)	
Operating income	18,675	2,105	2,222	161	23,163
<b>Six-months March 31, 2008</b>					
Net sales					
Third-party	\$ 45,472	\$ 13,693	\$ 10,931	\$	\$ 70,096
Inter-segment	5,571	2	278	(5,851)	
Operating income	17,778	2,751	1,343	59	21,931

(1) Eliminations consist of intersegment transactions.

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 March 31, 2009, and \$1,382 and \$8,479, respectively, at September 30, 2008.

**Table of Contents****5. Intangible Assets:**

A summary of our acquired intangible assets subject to amortization, as of March 31, 2009 and September 30, 2008 is as follows (in thousands):

	Wtd Avg Amort Period (Yrs)	March 31, 2009		September 30, 2008	
		Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Core products and cell lines	15	\$ 4,698	\$ 2,747	\$ 4,698	\$ 2,602
Manufacturing technologies	14	6,057	4,617	6,057	4,440
Trademarks, licenses and patents	7	2,663	1,905	2,663	1,843
Customer lists and supply agreements	13	11,035	7,200	11,039	6,786
		\$ 24,453	\$ 16,469	\$ 24,457	\$ 15,671

The actual aggregate amortization expense for these intangible assets for the three-months ended March 31, 2009 and 2008 was \$394 and \$439, respectively. The actual aggregate amortization expense for these intangible assets for the six-months ended March 31, 2009 and 2008 was \$799 and \$865, 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. In accordance with SFAS No. 133, we 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 earnings in the same period or periods during which the hedged transaction affected earnings. As of March 31, 2009, we had no such contracts outstanding.

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 adopted the fair value measurement as described in SFAS No. 157 on October 1, 2008 to value our financial assets and liabilities. As defined in SFAS No. 157, 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. In order to increase consistency and comparability in fair value measurements and related disclosures, SFAS No. 157 establishes a fair value hierarchy that 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.

**Table of Contents**

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 March 31, 2009 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Student loan auction-rate securities	\$	\$	\$ 6,595	\$ 6,595
UBS Auction Rate Security Rights			510	510
Total	\$	\$	\$ 7,105	\$ 7,105

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 requires the use of a valuation methodology that relies exclusively on Level 3 inputs including market, tax status, credit quality, duration, recent market observations and overall capital market liquidity. The valuation of our student loan auction-rate securities and UBS Auction Rate Security Rights is subject to uncertainties that are difficult to predict. Factors that may impact the valuations include 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 ongoing strength and quality of market credit and liquidity.

## 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 dollars are in thousands (both tables and text), except per share data.*

### **Overview:**

#### *US Diagnostics Operating Segment*

The close of our second fiscal quarter marked the end of a mild respiratory season that resulted in lower unit volume for our influenza and respiratory syncytial virus products for the current interim periods. Our upper respiratory product family sales were down 38% for the current quarter and 37% for the six-month period. In addition to the mild respiratory season, our sales levels for these products were also affected by the timing of an annual promotion offered by a third-party manufacturer of certain products, which are passed along to our customers. The timing of this promotion led to stocking orders by our customers during the fourth quarter of our fiscal 2008. The timing of sales promotions can vary from year to year, and consequently, we measure our relative sales success for our upper respiratory product family during the primary selling season which runs from July through March, taking into consideration the relative strength of the season. For the period from July 1, 2008 through March 31, 2009, our upper respiratory product family sales were approximately \$13,000, down 18% from the same time period through March 31, 2008. On the positive side, the 2008-09 respiratory season was the first full season in which we were selling our internally developed TRU FLU® and TRU RSV® products. Our TRU FLU® and TRU RSV® products represented 18% of our total influenza and respiratory syncytial virus product sales during the six-months ended March 31, 2009. We expect this percentage to continue to increase in the upcoming stocking season, beginning in the fourth quarter of fiscal 2009, yielding continuing improvements in gross profit margins.



**Table of Contents**

During April 2009, the US experienced an outbreak of Swine Flu with 226 confirmed cases according to the CDC as of May 3, 2009. Our sales of influenza products were approximately \$2,400 during April and the first seven days of May. This sales activity has been driven by outbreak preparedness and response plans of our various hospital and laboratory customers.

Sales outside of the upper respiratory product family grew 9% in the three-month period and 12% in the six-month period, compared to the same periods of the prior fiscal year. This growth was led by unit volume growth in our *C. difficile*, *H. pylori*, and foodborne product families. We expect our *C. difficile* and *H. pylori* product families to exhibit 10%+ growth for the full fiscal year. Increases for our foodborne product family primarily relate to volume growth for our ImmunoCard STAT!<sup>®</sup> EHEC product, launched in 2007, and the recent launch of Premier<sup>™</sup> CAMPY. The growth rate for our foodborne products category exceeded 60% for the first six months of fiscal 2009. We expect to follow this with the international launch of a rapid *Campylobacter* test during the third fiscal quarter. We expect that this rapid product will be available in the US during the summer of 2009.

Additionally, we have continued to see a greater level of inventory management from our largest distributor during the second quarter. In order to monitor sales trends for our products that are sold through distributor channels, our two primary distributors provide us with sales data for our products that are sold by them to end-users. Sales to end customers, excluding upper respiratory products, by our two primary distributors grew 24% and 22% during the three and six-month periods ended March 31, 2009, respectively. These growth rates indicate to us that end demand for our products is healthy.

*European Diagnostics Operating Segment*

Organic sales, which exclude the effects of foreign currency, declined 2% for the second quarter, reflecting buying patterns by European distributors as well as price competition for *H. pylori* and *C. difficile* products. The effects of competition in these product families were somewhat offset by sales related to new products launched during fiscal 2008, which included TRU FLU<sup>®</sup>, TRU RSV<sup>®</sup>, TRU EBV-G<sup>®</sup>, and TRU EBV-M<sup>®</sup>. We expect our *illumigene*<sup>™</sup> *C. difficile* product to be launched later this calendar year to address competitive pressures in this product family. While we expect organic sales for the European Diagnostics operating segment to be largely flat for the balance of fiscal 2009, we believe that an increased distributor focus and upcoming product launches will position this segment for growth in fiscal 2010.

*Life Science Operating Segment*

Sales for our Life Science operating segment during the second quarter of fiscal 2009 declined 3%. This negative growth rate reflects buying patterns from our largest diagnostic manufacturing customer, who accounted for 12% of the Life Science Operating segment's sales in the second quarter of fiscal 2009 compared to 23% in the second quarter of fiscal 2008 and 21% for the full year in fiscal 2008. We sell three main products to our largest diagnostic manufacturing customer. During the first quarter of fiscal 2008, this customer reduced its forecasted requirements for two antigen products but had increased purchases for a blocking reagent product that it added to additional assays. This customer's antigen product purchases are expected to stabilize during fiscal 2009, however, its stocking order for a blocking reagent product during the first quarter of fiscal 2008 is not expected to repeat. We expect sales for this operating segment to be largely flat for fiscal 2009. However, due to manufacturing efficiency improvements at our Memphis, Tennessee facility, we expect to see year-over-year improvements in operating income contributions over the balance of the fiscal year.

*All Segments*

Despite the negative effects of customer buying patterns and foreign currency on net sales, we have generated a consolidated gross profit margin of 66% for the first six months of fiscal 2009. This level of gross profit margin reflects favorable sales mix, favorable efficiencies from automation in our US Diagnostics manufacturing plant, and improved operating performance and utilization of our Life Science manufacturing facility in Memphis, Tennessee. Although foreign currency exchange rates had a negative effect on sales of our European Diagnostics operating segment, they had no significant effect on consolidated gross profit or consolidated operating income due to natural hedges. Our US Diagnostics operating segment markets and sells certain Meridian-branded diagnostic test kits that are sourced from European suppliers in Spain and Germany. These kits are purchased in Euros, which provides a natural hedge to gross profit and operating income on a consolidated basis.



**Table of Contents**

Sales growth in our diagnostic businesses will continue to be driven by *C. difficile*, *H. pylori* and foodborne diseases, as well as the introduction of new distributors in certain of our export markets. We recently launched a new foodborne infectious disease test for *Campylobacter* in our Premier platform in US and European markets. During the remainder of calendar 2009, we expect to launch another *Campylobacter* infectious disease test in our ImmunoCard STAT!® platform, and our first molecular *C. difficile* product under the *illumigene*™ brand. We expect our Life Science operating segment to improve its contribution to consolidated operating income and net earnings during the remainder of fiscal 2009 and to return to positive sales growth for fiscal 2010. We expect our Life Science sales growth and operating performance improvement to be driven by new product launches and improved operating performance and utilization in our Memphis, Tennessee facility.

The recessionary state of the economy is affecting not only the US, but also countries around the world. If current economic conditions worsen or remain in the current state for an extended period of time, our sales levels could be adversely affected by customer buying patterns in their efforts to conserve cash and manage inventory levels. On a longer-term basis, in a recessed economic state, our sales levels could be adversely impacted by the number of diagnostic tests performed in the healthcare system, if, for example, there were declines in physician office visits and/or hospital admissions. Our product portfolios, for both diagnostics and life science, deal with acute patient symptoms and infectious diseases. To date, we have not seen any significant reduced end-user demand for our major products, except as related to the previously noted weak upper respiratory season.

Overall stock market valuations have significantly declined in recent months, which may raise questions around the potential impairment of goodwill and other long-lived assets. Our annual goodwill impairment review under SFAS No. 142, *Goodwill and Other Intangible Assets*, takes place as of June 30<sup>th</sup> each year. There have been no impairments from these annual reviews. Despite the overall decline in stock market valuations, as of April 30, 2009, our stock price was \$17.38 per share, compared to our book value per share of \$3.26 as of March 31, 2009. This relationship, stock price trading at 5.3x book value, is an indicator that the decline in overall stock market valuations, and its impact on our stock price, has not been a triggering event for the evaluation of impairment of our goodwill and other long-lived assets.

From a cash flow perspective, we expect cash flows from operations to be sufficient to fund working capital requirements, capital expenditure requirements and dividends over the next 12 months.

**Operating Segments:**

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.

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. We believe that the overall breadth of our product lines serves to reduce the variability in consolidated sales from quarter to quarter.

**Table of Contents****Results of Operations:****Net sales**

	Three-months Ended March 31			Six-months Ended March 31		
	2009	2008	Inc (Dec)	2009	2008	Inc (Dec)
US Diagnostics	\$ 21,461	\$ 23,253	(8)%	\$ 44,946	\$ 45,472	(1)%
European Diagnostics	6,599	7,594	(13)%	12,270	13,693	(10)%
Life Science	5,220	5,402	(3)%	10,357	10,931	(5)%
Consolidated	\$ 33,280	\$ 36,249	(8)%	\$ 67,573	\$ 70,096	(4)%
International						
US Export	\$ 3,716	\$ 3,867	(4)%	\$ 7,183	\$ 7,249	(1)%
European Diagnostics	6,599	7,594	(13)%	12,270	13,693	(10)%
Total	\$ 10,315	\$ 11,461	(10)%	\$ 19,453	\$ 20,942	(7)%
% of total sales	31%	32%		29%	30%	

As more fully discussed above, overall sales for our US Diagnostics operating segment declined for both the three and six month interim periods in fiscal 2009. This decline was primarily attributable to (i) a mild upper respiratory season combined with a shift in timing of an annual promotion offered by one of our suppliers and (ii) buying patterns of our largest national distributor. Declines in upper respiratory product sales were partially offset by volume increases in *C. difficile*, *H. pylori* and foodborne products. Volume increases for foodborne products were driven by sales of ImmunoCard STAT!® EHEC for toxigenic *E. coli*. Two national distributors accounted for 50% and 51% of total sales for the US Diagnostics operating segment for the second quarters of fiscal 2009 and 2008, respectively, and 56% and 55% of total sales for the US Diagnostics operating segment for the first six-months of fiscal 2009 and 2008, respectively.

For the European Diagnostics operating segment, the sales decrease includes currency translation losses in the amount of \$820 and \$1,272 for the three and six-month periods ending March 31, 2009, respectively. Organic sales, which exclude the effects of currency translation, declined 2% for the second quarter and 1% for the six-month period ended March 31, 2009. Sales for fiscal 2009 were adversely affected by competition in *H. pylori* and *C. difficile* products. These decreases were partially offset by increased revenues for new products released during fiscal 2008.

For the Life Science operating segment, the fluctuations in sales for both the quarter and the six-month period reflect buying patterns and inventory destocking of certain of our major diagnostic manufacturing customers. Sales to our largest diagnostic manufacturing customer accounted for 12% and 23% of total sales for the Life Science operating segment for the second quarters of fiscal 2009 and 2008, respectively, and 14% and 26% of total sales for the Life Science operating segment for the first six-months of fiscal 2009 and fiscal 2008, respectively. We believe that this inventory management may continue, but to a lesser degree, throughout the balance of fiscal 2009.

**Gross Profit**

	Three-months Ended March 31			Six-months Ended March 31		
	2009	2008	Inc (Dec)	2009	2008	Inc (Dec)
Gross Profit	\$ 20,974	\$ 21,115	(1)%	\$ 44,318	\$ 42,867	3%
Gross Profit Margin	63%	58%	+5 points	66%	61%	+5 points

Gross profit margins for the second quarter of fiscal 2009, as well as the six-month period, include the effects of continued operating efficiencies, automation, and changing product mix in favor of higher margin manufactured

products over lower margin third party influenza and RSV products within the upper respiratory product family.

**Table of Contents**

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.

**Operating Expenses**

	Three-months Ended March 31				Six-months Ended March 31			
	Research & Development	Sales & Marketing	General & Administrative	Total Operating Expenses	Research & Development	Sales & Marketing	General & Administrative	Total Operating Expenses
<b>2008 Expenses</b>	<b>\$ 1,514</b>	<b>\$ 4,548</b>	<b>\$ 4,315</b>	<b>\$ 10,377</b>	<b>\$ 3,050</b>	<b>\$ 9,238</b>	<b>\$ 8,648</b>	<b>\$ 20,936</b>
% of Sales	4%	13%	12%	29%	4%	13%	12%	30%
Fiscal 2009								
Increases								
(Decreases):								
US Diagnostics	1,002	(215)	(630)	157	1,539	12	(760)	791
European Diagnostics		(157)	(19)	(176)		(131)	(16)	(147)
Life Science	(177)	(201)	(11)	(389)	(186)	(177)	(62)	(425)
<b>2009 Expenses</b>	<b>\$ 2,339</b>	<b>\$ 3,975</b>	<b>\$ 3,655</b>	<b>\$ 9,969</b>	<b>\$ 4,403</b>	<b>\$ 8,942</b>	<b>\$ 7,810</b>	<b>\$ 21,155</b>
% of Sales	7%	12%	11%	30%	7%	13%	12%	31%
% Increase								
(Decrease)	54%	(13)%	(15)%	(4)%	44%	(3)%	(10)%	1%

Total operating expenses decreased 4% to \$9,969 for the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 and increased 1% to \$21,155 for the first six-months of fiscal 2009 compared to the first six-months of fiscal 2008. The overall increase in operating expenses is discussed below.

Research and development expenses for the US Diagnostics operating segment increased for the second quarter and the six-month period primarily due to development costs for our molecular *C. difficile* product and expenses related to clinical trials. Research and development expenses for the Life Science operating segment decreased for the second quarter and the six-month period primarily due to increased research and development resource allocations between new product development and contract research and development performed for customers under contracts.

Sales and marketing expenses for the US Diagnostics operating segment decreased primarily due to reduced sales bonus expense and corporate incentive bonus expense related to sales and earnings levels and reduced samples expense related to new product introductions in the prior year. These decreases were partially offset by increased salaries and benefits related to planned headcount additions. Among other personnel, we have added a new product manager responsible for molecular products as we prepare for new product launch activities around our molecular *C. difficile* product and the *illumigene*<sup>TM</sup> brand. Sales and marketing expenses for the European Diagnostics operating segment decreased primarily due to favorable currency fluctuations for both the quarter and the six-month period. Sales and marketing expenses for the Life Science operating segment decreased related to reduced employee-related expenses.

General and administrative expenses for all operating segments for the second quarter and six-month period have decreased due to no corporate incentive bonus accruals for fiscal 2009. Stock-based compensation expense has also decreased due to not achieving performance targets for certain stock options issued during the first quarter of fiscal

2008.

***Operating Income***

Operating income increased 2% to \$11,005 for the second quarter of fiscal 2009 and 6% to \$23,163 for the first six-months of fiscal 2009, as a result of the factors discussed above.

**Table of Contents**

***Other Income and Expense***

Other income and expense primarily consists of interest income on our investment portfolio and fair value adjustments on our auction-rate securities and related Auction Rate Security Rights. Interest income decreased 79% for the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 and 59% for the first six-months of fiscal 2009 compared to the first six-months of fiscal 2008, primarily due to lower interest yields in the current interest rate environment. We expect interest yields to remain low for the foreseeable future for institutional money market funds, which comprise a majority of our investment portfolio. See Note 2(e) to the consolidated financial statements herein for discussion of our investment portfolio, including fair value adjustments on our auction-rate securities and Auction Rate Security Rights.

***Income Taxes***

The effective rate for income taxes was 35% all interim periods in fiscal 2009 and 2008 to date. For the fiscal year ending September 30, 2009, Meridian expects the effective tax rate to be in the range of 34% to 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 support working capital requirements and to respond quickly to acquisition opportunities. This credit facility has been supplemented by the proceeds from a September 2005 common share offering, which during the first two quarters of fiscal 2009, were invested in a non-interest bearing bank deposit account, institutional money-market mutual funds, and tax-exempt auction-rate securities.

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 during October 2008, we moved substantially all of our investments in municipal variable rate demand notes to institutional money market mutual funds invested in either US Treasuries or repurchase agreements collateralized by US Treasuries. We also moved investments in a bank overnight repurchase agreement account to a non-interest bearing deposit account to take advantage of a FDIC insurance program. Existing investments in institutional tax-exempt money market mutual funds are covered under the US Treasury's Temporary Guarantee Program for Money Market Funds. This program provides a guarantee to money market mutual fund shareholders of \$1 per share net asset value for funds invested as of September 19, 2008, if the fund were to liquidate its assets as a result of its net asset value falling below \$0.995. As we look forward, we will continue to manage the holdings of our investment portfolio with preservation of capital being the primary objective.

See Note 2(e) to the consolidated financial statements included herein for discussion of our investments in tax-exempt auction-rate securities.

We do not expect current conditions in the financial markets or overall economic conditions to have a significant impact on our liquidity needs or financial condition. For fiscal 2009, we expect our consolidated sales to be in the range of \$140,000 to \$144,000, and our diluted earnings per share to be in the range of \$0.77 to \$0.81. We intend to continue to fund our working capital requirements, capital expenditure requirements and dividends from current cash flows from operating activities. We also have additional sources of liquidity through our investment portfolio and \$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, impact credit terms with our vendors or disrupt the supply of raw materials and services.

Net cash provided by operating activities was essentially flat for the first six-months of fiscal 2009 compared to the first six-months of fiscal 2008.





**Table of Contents**

Net cash used for investing activities decreased 87% for the first six-months of fiscal 2009 compared to the first six-months of fiscal 2008. This decrease primarily relates to changes in our investment portfolio during the prior year, including purchases of auction-rate securities. See Note 2(e).

Net cash used for financing activities increased 61% for the first six-months of fiscal 2009 compared to the first six-months of fiscal 2008, primarily due to increased dividends paid per share. Our dividend rate for fiscal 2009 increased 21% over the fiscal 2008 rate. This increase was partially offset by reduced share issuances related to stock option exercises in response to general market conditions during fiscal 2009.

Net cash flows from operating activities are anticipated to be adequate to fund working capital requirements, capital expenditures and dividends during fiscal 2009.

***Capital Resources***

We have a \$30,000 credit facility with a commercial bank which expires on September 15, 2012. As of April 30, 2009, 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 six months of fiscal 2009, or during the full year of fiscal 2008.

Our capital expenditures are estimated to be approximately \$4,000 for fiscal 2009 and may be funded with operating cash flows, availability under the \$30,000 credit facility, or cash equivalents and short-term investments on-hand. Capital expenditures relate to manufacturing and other equipment of a normal and recurring nature, as well as completion of our facility expansion in Saco, Maine.

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

**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, 2008.

**ITEM 4. CONTROLS AND PROCEDURES**

As of March 31, 2009, 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 March 31, 2009. There have been no changes in our internal controls over financial reporting identified in connection with the evaluation of internal controls that occurred during the second fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting, or in other factors that could materially affect internal controls subsequent to March 31, 2009.

**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 of Part I of Form 10-K.

**Table of Contents**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Meridian's Annual Meeting of Shareholders was held on January 22, 2009. Each of the following matters was voted upon and approved by Meridian's shareholders as indicated below:

(1) Election of the following six directors:

James A. Buzard, 36,839,162 votes for, 1,434,343 votes withheld.  
John A. Kraeutler, 27,494,648 votes for, 10,778,857 votes withheld.  
Gary P. Kreider, 19,198,991 votes for, 19,074,514 votes withheld.  
William J. Motto, 26,774,209 votes for, 11,499,296 votes withheld.  
David C. Phillips, 37,355,807 votes for, 917,697 votes withheld.  
Robert J. Ready, 33,080,038 votes for, 5,193,466 votes withheld.

(2) Ratification of the appointment of Grant Thornton LLP as Meridian's independent registered public accounting firm for fiscal 2009: 38,199,335 votes for, 33,541 votes against, and 41,957 abstentions.

**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

**Table of Contents**

**SIGNATURES:**

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.

Date: May 8, 2009

MERIDIAN BIOSCIENCE, INC.

/s/ Melissa Lueke

Melissa Lueke

Vice President and Chief Financial Officer

Page 23 of 23

---

**Table of Contents**

EXHIBIT INDEX

Exhibit No.	Description
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