MERIDIAN BIOSCIENCE INC
Form 10-Q
May 10, 2011

Table of Contents

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Quarterly Period Ended March 31, 2011**
**OR**

o **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 þ No o

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 þ No o

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 þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
|---|---|---|---|

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

Yes o No þ

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, 2011 |
|---|---|
| Common Stock, no par value | 41,003,719 |

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



*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 operations and may pose potential difficulties in employee retention and there may be additional risks with respect to Meridian s ability to recognize the benefits of acquisitions, including potential synergies and cost savings or the failure of acquisitions to achieve their plans and objectives. The Company cannot predict the possible impact of recently-enacted United States healthcare legislation and any similar initiatives in other countries on its results of operations. In addition to the factors described in this paragraph, Part I, Item 1A Risk Factors of our Form 10-K contains a list and description of uncertainties, risks and other matters that may affect the Company.*

Table of Contents

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| NET SALES | $ 41,059 | $ 31,147 | $ 78,322 | $ 73,604 |
| COST OF SALES | 14,803 | 11,006 | 28,518 | 28,019 |
| GROSS PROFIT | 26,256 | 20,141 | 49,804 | 45,585 |
| OPERATING EXPENSES | | | | |
| Research and development | 2,359 | 2,337 | 4,726 | 4,448 |
| Selling and marketing | 6,060 | 4,356 | 11,862 | 9,298 |
| General and administrative | 5,635 | 4,323 | 11,924 | 8,958 |
| European and global sales & marketing leadership reorganization | 1,240 | | 1,240 | |
| Total operating expenses | 15,294 | 11,016 | 29,752 | 22,704 |
| OPERATING INCOME | 10,962 | 9,125 | 20,052 | 22,881 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 27 | 30 | 44 | 61 |
| Other, net | 118 | 110 | 321 | (8) |
| Total other income (expense) | 145 | 140 | 365 | 53 |
| EARNINGS BEFORE INCOME TAXES | 11,107 | 9,265 | 20,417 | 22,934 |
| INCOME TAX PROVISION | 3,847 | 3,285 | 7,132 | 8,033 |
| NET EARNINGS | $ 7,260 | $ 5,980 | $ 13,285 | $ 14,901 |
| BASIC EARNINGS PER COMMON SHARE | $ 0.18 | $ 0.15 | $ 0.33 | $ 0.37 |
| DILUTED EARNINGS PER COMMON SHARE | $ 0.18 | $ 0.15 | $ 0.32 | $ 0.36 |
| | 40,686 | 40,514 | 40,647 | 40,504 |

| | | | | |
|---|---|---|---|---|
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC | | | | |
| EFFECT OF DILUTIVE STOCK OPTIONS | 662 | 663 | 672 | 674 |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED | 41,348 | 41,177 | 41,319 | 41,178 |
| ANTI-DILUTIVE SECURITIES: | | | | |
| Common share options | 211 | 215 | 176 | 193 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ 0.19 | $ 0.19 | $ 0.38 | $ 0.36 |

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

Table of Contents

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

| **Six Months Ended March 31,** | **2011** | **2010** |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | $ 13,285 | $ 14,901 |
| Non-cash items: | | |
| Depreciation of property, plant and equipment | 1,711 | 1,530 |
| Amortization of intangible assets | 1,226 | 734 |
| Stock-based compensation | 1,324 | 921 |
| Deferred income taxes | (1,320) | (1,135) |
| Loss on disposition of fixed assets | 6 | 13 |
| Unrealized loss on auction-rate securities and rights, net | | 12 |
| Change in current assets | (7,128) | 2,944 |
| Change in current liabilities | 2,309 | (3,853) |
| Other, net | (1,072) | 560 |
| Net cash provided by operating activities | 10,341 | 16,627 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (5,260) | (2,124) |
| Purchases of intangibles and other assets | (12) | |
| Purchases of short-term investments | | (1,000) |
| Net cash used for investing activities | (5,272) | (3,124) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (15,451) | (14,580) |
| Proceeds and tax benefits from exercises of stock options | 829 | 522 |
| Net cash used for financing activities | (14,622) | (14,058) |
| Effect of Exchange Rate Changes on Cash and Equivalents | 53 | (681) |
| Net Decrease in Cash and Equivalents | (9,500) | (1,236) |
| Cash and Equivalents at Beginning of Period | 37,879 | 54,030 |
| Cash and Equivalents at End of Period | $ 28,379 | $ 52,794 |

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

Table of Contents

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

ASSETS

| | March 31, 2011 | September 30, 2010 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and equivalents | $ 28,379 | $ 37,879 |
| Accounts receivable, less allowances of $169 and $241 | 25,398 | 22,064 |
| Inventories | 32,244 | 28,420 |
| Prepaid expenses and other current assets | 5,506 | 5,071 |
| Deferred income taxes | 2,296 | 1,871 |
| Total current assets | 93,823 | 95,305 |
| PROPERTY, PLANT AND EQUIPMENT, at Cost | | |
| Land | 1,190 | 991 |
| Buildings and improvements | 20,924 | 20,670 |
| Machinery, equipment and furniture | 33,124 | 31,945 |
| Construction in progress | 4,644 | 1,320 |
| Subtotal | 59,882 | 54,926 |
| Less: accumulated depreciation and amortization | 35,072 | 33,689 |
| Net property, plant and equipment | 24,810 | 21,237 |
| OTHER ASSETS | | |
| Goodwill | 23,525 | 23,376 |
| Other intangible assets, net | 12,213 | 13,327 |
| Restricted cash | 1,000 | 1,000 |
| Other assets | 1,800 | 470 |
| Total other assets | 38,538 | 38,173 |
| TOTAL ASSETS | $ 157,171 | $ 154,715 |

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

Table of Contents

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

| | March 31, 2011 | September 30, 2010 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 5,676 | $ 4,466 |
| Accrued employee compensation costs | 4,313 | 3,451 |
| Other accrued expenses | 5,726 | 5,521 |
| Income taxes payable | 1,252 | 1,160 |
| Total current liabilities | 16,967 | 14,598 |
| DEFERRED INCOME TAXES | 2,614 | 2,756 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS EQUITY | | |
| Preferred stock, no par value, 1,000,000 shares authorized, none issued | | |
| Common shares, no par value, 71,000,000 shares authorized, 40,953,194 and 40,654,286 shares issued, respectively | | |
| Additional paid-in capital | 96,360 | 94,529 |
| Retained earnings | 40,011 | 42,177 |
| Accumulated other comprehensive income | 1,219 | 655 |
| Total shareholders equity | 137,590 | 137,361 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 157,171 | $ 154,715 |

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

Table of Contents

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

| | Common Shares Issued | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | *Comprehensive Income (Loss)* | Total Shareholders Equity |
|---|---|---|---|---|---|---|
| **Balance at September 30, 2010** | 40,654 | $ 94,529 | $ 42,177 | $ 655 | | $ 137,361 |
| Cash dividends paid | | | (15,451) | | | (15,451) |
| Exercise of stock options | 132 | 616 | | | | 616 |
| Issuance of restricted shares | 167 | | | | | |
| Stock compensation expense | | 1,215 | | | | 1,215 |
| Comprehensive income: | | | | | | |
| Net earnings | | | 13,285 | | $ *13,285* | 13,285 |
| Foreign currency translation adjustment | | | | 868 | *868* | 868 |
| Other comprehensive income taxes | | | | (304) | *(304)* | (304) |
| Comprehensive income | | | | | $ *13,849* | |
| **Balance at March 31, 2011** | 40,953 | $ 96,360 | $ 40,011 | $ 1,219 | | $ 137,590 |

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

Table of Contents

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

## 1. Basis of Presentation

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of Management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company s financial position as of March 31, 2011, the results of its operations for the three and six month periods ended March 31, 2011 and 2010, and its cash flows for the six month periods ended March 31, 2011 and 2010. These statements should be read in conjunction with the financial statements and footnotes thereto included in the Company s fiscal 2010 Annual Report on Form 10-K. Financial information as of September 30, 2010 has been derived from the Company s audited consolidated financial statements.

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

## 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 U.S. 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 $5,001 at March 31, 2011 and $5,273 at September 30, 2010.

Revenue for our Diagnostics operating segments includes bundled product revenue for our ***illumi****gene*® molecular test system. The bundled product includes a reader instrument, instrument accessories, and test kits. In many instances, amounts invoiced for the ***illumi****gene*® test kits cover the reader instrument, accessories, and test kits. Revenue is recognized upon shipment of the individual components of the bundled product in accordance with pricing agreements. Costs for the reader are recognized in earnings over the period that we have a pricing agreement in effect with the customer, generally three years.

Life Science revenue for contract services may come from research and development services or manufacturing services, including process development work, or a combination of both. Revenue is recognized based on each of the deliverables in a given arrangement having distinct and separate customer pricing. Pricing is often subject to 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 Condensed Consolidated Balance Sheets 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 and the related income tax effects.

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

Comprehensive income for the interim periods was as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Net earnings | $ 7,260 | $ 5,980 | $ 13,285 | $ 14,901 |
| Foreign currency translation adjustment | 1,804 | (885) | 868 | (1,142) |
| Income taxes | (629) | 310 | (304) | 399 |
| Comprehensive income | $ 8,435 | $ 5,405 | $ 13,849 | $ 14,158 |

**(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 Condensed Consolidated Statements of Operations.

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

We recognize compensation expense for all stock-based awards made to employees, based upon the fair value of the stock-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:

| | March 31, 2011 | | September 30, 2010 | |
|---|---|---|---|---|
| | Cash and Equivalents | Other | Cash and Equivalents | Other |
| Taxable investments - | | | | |
| Overnight repurchase agreements | $ 2,949 | $ | $ 14,862 | $ |
| Money market funds | 10,258 | | 10,249 | |
| Cash on hand - | | | | |
| Restricted | | 1,000 | | 1,000 |
| Unrestricted | 15,172 | | 12,768 | |
| Total | $ 28,379 | $ 1,000 | $ 37,879 | $ 1,000 |

**(f)** ***Reclassifications***

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

**3. Acquisition of Bioline Group**

On July 20, 2010, we acquired all of the outstanding common stock of the Bioline group of companies (collectively the Bioline Group ). We paid $23,849 from cash and equivalents on hand to acquire the Bioline Group. Headquartered in London, England, the Bioline Group is a leading manufacturer and distributor of molecular biology reagents with additional operations in Germany, Australia and the United States. The highly specialized molecular biology reagents it supplies to the life science research, biotech, pharmaceutical and commercial diagnostics markets are the critical components used in PCR testing for DNA, RNA and other genomic testing.

As a result of the consideration paid exceeding the fair value of the net assets being acquired, goodwill in the amount of $13,064 was recorded in connection with this acquisition, none of which will be deductible for tax purposes. This goodwill results largely from the addition of key global operations and direct sales capabilities, management talent and a research-oriented customer base, to complement our existing Life Science operations. In addition to the Bioline Group s results of operations, which are included in our Condensed Consolidated Statement of Operations for the three and six months ended March 31, 2011 and reported as part of the Life Science operating segment, the consolidated results for the three and six months ended March 31, 2011 also include:

i) $237 and $587 of Cost of Sales for the three and six months, respectively, related to the roll-out of fair value inventory adjustments for sales of products that were in the Bioline Group s inventory on the date of acquisition and, therefore, were valued at fair value, rather than manufactured cost, in the opening balance sheet; and

ii) $255 and $507 of General and Administrative Expenses for the three and six months, respectively, related to the amortization of specific identifiable intangible assets recorded on the opening balance sheet, including customer relationships, license agreements, non-compete agreements, manufacturing processes and trade names.

Table of Contents

The results of the Bioline Group included in the consolidated results of the Company for the three and six months ended March 31, 2011 are as follows, reflecting the items noted above:

| | Three Months Ended March 31, 2011 | Six Months Ended March 31, 2011 |
|---|---|---|
| Net Sales | $ 3,683 | $ 7,061 |
| Net Earnings | $ 177 | $ 59 |

The recognized amounts of identifiable assets acquired and liabilities assumed in the acquisition of the Bioline Group are as follows:

| | July 20, 2010 (as initially reported) | Measurement Period Adjustments | July 20, 2010 (as adjusted) |
|---|---|---|---|
| Fair value of assets acquired - | | | |
| Cash and equivalents | $ 3,445 | | $ 3,445 |
| Accounts receivable | 1,897 | | 1,897 |
| Inventories | 2,807 | | 2,807 |
| Other current assets | 371 | $ (21) | 350 |
| Property, plant and equipment, net | 816 | | 816 |
| Goodwill | 13,166 | (102) | 13,064 |
| Other intangible assets (estimated useful life): | | | |
| Customer relationships (10 years) | 3,898 | | 3,898 |
| Manufacturing processes (6 years) | 1,467 | | 1,467 |
| License agreements (approx. 8 year wtd. avg.) | 718 | | 718 |
| Non-compete agreements (1 year) | 122 | | 122 |
| Trade names (10 years) | 995 | | 995 |
| | 29,702 | (123) | 29,579 |
| Fair value of liabilities assumed - | | | |
| Accounts payable and accrued expenses | 2,817 | 436 | 3,253 |
| Deferred income tax liabilities | 3,036 | (559) | 2,477 |
| Total consideration paid | $ 23,849 | $ | $ 23,849 |

The above estimated fair values of the assets acquired and liabilities assumed continue to be preliminary and are based on the information that was available as of the acquisition date and the subsequent filing of this Form 10-Q and are reflected in the accompanying Condensed Consolidated Balance Sheets, including retrospective adjustment of the September 30, 2010 Condensed Consolidated Balance Sheet. We believe that the information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, however the preliminary measurements of fair value set forth above are subject to change. We expect to complete the purchase price allocation as soon as practicable, but no later than one year from the date of acquisition.

Table of Contents

The consolidated pro forma results of the combined entities of Meridian and the Bioline Group, had the acquisition date been October 1, 2009, are as follows for the periods indicated:

| | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2010 |
|---|---|---|
| Net Sales | $ 34,436 | $ 79,847 |
| Net Earnings | $ 6,343 | $ 15,578 |
| Diluted Earnings Per Common Share | $ 0.15 | $ 0.38 |

**4. Inventories**

Inventories are comprised of the following:

| | March 31, 2011 | September 30, 2010 |
|---|---|---|
| Raw materials | $ 6,982 | $ 6,221 |
| Work-in-process | 7,270 | 6,784 |
| Finished goods | 19,317 | 16,545 |
| Gross inventory | 33,569 | 29,550 |
| Less: Reserves | (1,325) | (1,130) |
| Net inventory | $ 32,244 | $ 28,420 |

**5. 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 gastrointestinal, viral, respiratory and parasitic infectious diseases; (ii) the manufacture and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells and bioresearch reagents used by researchers and other diagnostic manufacturers; and (iii) the contract development and manufacture of proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Our reportable operating segments are U.S. Diagnostics, European Diagnostics and Life Science. The U.S. Diagnostics operating segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in the U.S. and countries outside of Europe, Africa and the Middle East. The European Diagnostics operating segment consists of the sale and distribution of diagnostic test kits in Europe, Africa and the Middle East. The Life Science operating segment consists of manufacturing operations in Memphis, Tennessee; Saco, Maine; Boca Raton, Florida; London, England; Luckenwalde, Germany; and Sydney, Australia, and the sale and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells and bioresearch reagents domestically and abroad. The Life Science 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 50% and 48% of the U.S. Diagnostics operating segment third-party sales during the three months ended March 31, 2011 and 2010, respectively, and 51% and 61% during the six months ended March 31, 2011 and 2010, respectively. Four customers accounted for 18% and 39% of the Life Science operating segment third-party sales during the three months ended March 31, 2011 and 2010, respectively, and 21% and 38% during the six months ended March 31, 2011 and 2010, respectively.

Table of Contents

Segment information for the interim periods is as follows:

| | U.S. Diagnostics | European Diagnostics | Life Science | Eliminations(1) | Total |
|---|---|---|---|---|---|
| **Three Months Ended March 31, 2011** | | | | | |
| Net sales - | | | | | |
| Third-party | $ 25,528 | $ 6,385 | $ 9,146 | $ | $ 41,059 |
| Inter-segment | 2,455 | 3 | 105 | (2,563) | |
| Operating income | 9,807 | 50 | 923 | 182 | 10,962 |
| Goodwill (March 31, 2011) | 1,381 | | 22,144 | | 23,525 |
| Other intangible assets, net (March 31, 2011) | 1,923 | 2 | 10,288 | | 12,213 |
| Total assets (March 31, 2011) | 71,090 | 20,423 | 92,642 | (26,984) | 157,171 |
| **Three Months Ended March 31, 2010** | | | | | |
| Net sales - | | | | | |
| Third-party | $ 18,193 | $ 6,591 | $ 6,363 | $ | $ 31,147 |
| Inter-segment | 2,550 | 3 | 169 | (2,722) | |
| Operating income | 6,571 | 1,093 | 1,320 | 141 | 9,125 |
| Goodwill (September 30, 2010) | 1,381 | | 21,995 | | 23,376 |
| Other intangible assets, net (September 30, 2010) | 2,283 | 9 | 11,035 | | 13,327 |
| Total assets (September 30, 2010) | 72,030 | 18,044 | 90,462 | (25,821) | 154,715 |
| **Six Months Ended March 31, 2011** | | | | | |
| Net sales - | | | | | |
| Third-party | $ 48,178 | $ 12,314 | $ 17,830 | $ | $ 78,322 |
| Inter-segment | 5,063 | 7 | 318 | (5,388) | |
| Operating income | 18,381 | 803 | 702 | 166 | 20,052 |
| **Six Months Ended March 31, 2010** | | | | | |
| Net sales - | | | | | |
| Third-party | $ 48,897 | $ 12,885 | $ 11,822 | $ | $ 73,604 |
| Inter-segment | 5,477 | 4 | 261 | (5,742) | |
| Operating income | 18,701 | 2,063 | 2,224 | (107) | 22,881 |

(1) Eliminations consist of inter-segment transactions.

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

Table of Contents

**6. Intangible Assets**

A summary of our acquired intangible assets subject to amortization, as of March 31, 2011 and September 30, 2010 is as follows:

| | March 31, 2011 | | September 30, 2010 | |
|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Manufacturing technologies, core products and cell lines | $ 11,665 | $ 8,141 | $ 11,644 | $ 7,693 |
| Trademarks, licenses and patents | 3,633 | 1,239 | 3,547 | 997 |
| Customer lists and supply agreements | 12,326 | 6,073 | 12,537 | 5,816 |
| Non-compete agreements | 128 | 86 | 126 | 21 |
| | $ 27,752 | $ 15,539 | $ 27,854 | $ 14,527 |

The actual aggregate amortization expense for these intangible assets was $631 and $339 for the three months ended March 31, 2011 and 2010, respectively, and $1,226 and $734 for the six months ended March 31, 2011 and 2010, respectively. The estimated aggregate amortization expense for these intangible assets for each of the fiscal years through fiscal 2015 is as follows: fiscal 2011 $2,321, fiscal 2012 $2,072, fiscal 2013 $2,071, fiscal 2014 $1,635 and fiscal 2015 $1,386.

**7. Fair Value Measurements**

We use fair value measurements to value our financial assets and liabilities. 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 our 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, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and we consider counterparty credit risk in the assessment of fair value.

Table of Contents

Financial assets and liabilities carried at fair value at March 31, 2011 and September 30, 2010 and are classified in the tables below into one of the three categories described above:

**Balances as of March 31, 2011**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 10,258 | $ | $ | $ 10,258 |
| Total | $ 10,258 | $ | $ | $ 10,258 |

**Balances as of September 30, 2010**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 10,249 | $ | $ | $ 10,249 |
| Total | $ 10,249 | $ | $ | $ 10,249 |

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.*

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.

**Results of Operations**

Three Months Ended March 31, 2011

Net earnings for the second quarter of fiscal 2011 increased 21% to $7,260, or $0.18 per diluted share, from net earnings for the second quarter of fiscal 2010 of $5,980, or $0.15 per diluted share. This increase reflects the combined effects of both increased sales and increased operating expenses, resulting primarily from inclusion of the Bioline Group, which was acquired in July 2010, as well as costs related to the reorganization of our European and global sales and marketing leadership. Consolidated sales increased 32% to $41,059 for the second quarter of fiscal 2011 compared to the same period of the prior year, reflecting increases in sales across all four of our diagnostic focus product families: *C. difficile*, Foodborne, *H. pylori* and Upper Respiratory.

Sales for the U.S. Diagnostics operating segment for the second quarter of fiscal 2011 increased 40% compared to the second quarter of fiscal 2010, reflecting significant growth across all four of our focus product families ranging from low double digit growth in our *C. difficile* products to greater than 100% growth in our foodborne products. Second quarter 2011 sales for our European Diagnostics operating segment decreased 3% compared to the second quarter of fiscal 2010 due in large part to a negative currency effect and decreased *C. difficile* and *H. pylori* product sales, while, as a result of the Bioline Group acquisition, our Life Science segment experienced a 44% increase in sales during this period. Excluding the effect of the Bioline Group, sales of our core Life Science operating segment decreased by 14% during the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010, as this business continues to experience elements of pricing pressure and reduced order volumes in several key product lines.

Six Months Ended March 31, 2011

For the six month period ended March 31, 2011, net earnings decreased 11% to $13,285, or $0.32 per diluted share, from net earnings for the comparable fiscal 2010 period of $14,901, or $0.36 per diluted share. This decrease reflects the impact of a modest increase in total sales being more than offset by the increase in operating expenses that resulted from inclusion of the Bioline Group, which was acquired in July 2010, as well as costs related to the reorganization of our European and global sales and marketing leadership. Consolidated sales increased 6% to $78,322 for the first six months of fiscal 2011 compared to the same period of the prior fiscal year. This increase primarily results from strong growth in foodborne and *H. pylori* product sales being partially offset by a 39% decrease in respiratory product sales.

Table of Contents

During the first six months of fiscal 2011, sales for the U.S. Diagnostics operating segment decreased 1% from the comparable fiscal 2010 period. This slight decrease reflects sales growth in our *C. difficile,* foodborne and *H. pylori* product families being more than offset by the significant decrease in respiratory product sales, which resulted from the dramatic impact on the fiscal 2010 first quarter of the novel A (H1N1) influenza outbreak and the abrupt halt of the outbreak in December 2009. Sales of our European Diagnostics operating segment for the first six months of fiscal 2011 decreased 4% compared to the first six months of fiscal 2010 largely due to negative currency effect, while, as a result of the Bioline Group acquisition, our Life Science segment experienced a 51% increase in sales during this period. Excluding the effect of the Bioline Group, sales of our core Life Science operating segment decreased by 9% during the first half of fiscal 2011 compared to the first half of fiscal 2010, as this business continues to experience elements of pricing pressure and reduced order volumes in several key product lines.

**Non-GAAP Information**

The tables below provide information on net earnings, basic earnings per share and diluted earnings per share, excluding the effect of costs associated with reorganizing our European and Global Sales and Marketing Leadership, as well as reconciliations to amounts reported under U.S. Generally Accepted Accounting Principles. We believe that this information is useful to those who read our financial statements and evaluate our operating results because:

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Net Earnings - U.S. GAAP basis | $ 7,260 | $ 5,980 | $ 13,285 | $ 14,901 |
| European and Global Sales & Marketing Leadership Reorganization costs, inclusive of the income tax effect (1) | 872 | | 872 | |
| Excluding Leadership Reorganization costs | $ 8,132 | $ 5,980 | $ 14,157 | $ 14,901 |
| Net Earnings per Basic Common Share - U.S. GAAP basis | $ 0.18 | $ 0.15 | $ 0.33 | $ 0.37 |
| European and Global Sales & Marketing Leadership Reorganization costs, inclusive of the income tax effect (1) | 0.02 | | 0.02 | |
| Excluding Leadership Reorganization costs | $ 0.20 | $ 0.15 | $ 0.35 | $ 0.37 |
| Net Earnings per Diluted Common Share - U.S. GAAP basis | $ 0.18 | $ 0.15 | $ 0.32 | $ 0.36 |
| European and Global Sales & Marketing Leadership Reorganization costs, inclusive of the income tax effect (1) | 0.02 | | 0.02 | |

| | | | | |
|---|---|---|---|---|
| Excluding Leadership Reorganization costs | $ 0.20 | $ 0.15 | $ 0.34 | $ 0.36 |

(1) The income tax effects of the Leadership Reorganization costs totaled $368 and were calculated using the effective tax rates of the jurisdictions in which the costs were incurred.

Table of Contents

**Revenue Overview**

Our Diagnostics operating segments provide the largest share of our consolidated revenues, 78% and 80% for the second quarters of fiscal 2011 and 2010, respectively, and 77% and 84% for the first six months of fiscal 2011 and 2010, respectively. The percentage declines in both the quarterly and fiscal year-to-date periods result primarily from the addition of the Bioline Group to our Life Science operating segment and, in the case of year-to-date comparisons, the impact of the novel A (H1N1) influenza outbreak in 2010. Sales from our four focus families (*C. difficile*, Foodborne, *H. pylori* and Upper Respiratory) comprised 73% and 72% of our Diagnostics operating segments revenues during the second quarters of fiscal 2011 and 2010, respectively, and 72% and 74% for the six month periods ended March 31, 2011 and 2010, respectively.

Overall revenue change for the fiscal 2011 second quarter for our Diagnostics operating segments was an increase of 29%, reflecting growth across all four of our focus product families. The levels of growth in the focus products ranged from mid-single digit growth in our *C. difficile* products, to greater than 100% growth in our foodborne products. On an organic basis, which excludes the effects of currency translation, sales for our European Diagnostics operating segment decreased by 2% during the second quarter, reflecting the combined effects of decreases in our *C. difficile* and *H. pylori* product families, partially offset by growth in our upper respiratory and foodborne product sales.

For the first six months of fiscal 2011, revenue for our Diagnostics operating segments decreased 2% from the comparable fiscal 2010 period, primarily due to a relatively mild worldwide flu season in the first quarter of fiscal 2011 compared to the fiscal 2010 first quarter, including the effects on the prior year of the world-wide outbreak of novel A (H1N1) influenza. The dramatic impact of this decrease in flu-related product sales was largely offset by double digit sales increases in our *H. pylori* and foodborne product families. Excluding the effects of currency translation, our European Diagnostics operating segment s sales during the six months ended March 31, 2011 were flat relative to the comparable fiscal 2010 period.

***C. difficile Products***

During the third quarter of fiscal 2010, we launched our ***illumi****gene*® molecular *C. difficile* product in non-U.S. markets, with launch of the product into U.S. markets following in the fourth quarter of fiscal 2010, upon receiving FDA clearance. As a result, we currently have in excess of 300 customer accounts and others that are evaluating our ***illumi****gene*® molecular *C. difficile* product. We expect sales of the product, which totaled approximately $1,985 and $2,760 in the three and six months ended March 31, 2011, respectively, to continue to grow significantly throughout fiscal 2011.

As a result of competitive pressures in this disease family over the last several years from new competitive products, including molecular assays, we have experienced only single digit growth in the sales of our *C. difficile* products; growth of 6% for all of our Diagnostics operating segments during the second quarter of fiscal 2011 and 1% for the first six months of fiscal 2011. However, this rate of growth is a marked improvement over the declines experienced in recent periods and results from the growing market acceptance of our ***illumi****gene*® molecular *C. difficile* product and the fact that sales of our molecular product outpaced the decline in sales of our traditional immunoassay *C. difficile* products.

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 to counter the competitive pressures surrounding this market, as substantiated by our receiving clearance from the FDA during the second quarter to market our ***illumi****gene*® molecular *C. difficile* test for use with pediatric patients under the age of two years. Over the next 12 months, we expect three additional tests for our ***illumi****gene*® molecular platform to clear formal clinical trial and be submitted to the FDA for marketing clearance tests for Group B *Streptococcus*, Group A *Streptococcus* and *Mycoplasma pneumoniae*.

***Upper Respiratory Products***

During the three and six month periods ended March 31, 2011, upper respiratory product sales for our Diagnostics operating segments increased 58% and decreased 39%, respectively, relative to the comparable fiscal 2010 periods. The dramatic quarter-over-quarter sales increase for this family of products was driven by increased demand for rapid tests other than those for influenza. The sales decrease in the comparable year-to-date periods, on the other hand, was a direct result of influenza test kit sales; in particular the abrupt halt, in December 2009, of the outbreak of the novel A

(H1N1) influenza virus that began to spread across the countries in the northern hemisphere during the second half of fiscal 2009. The outbreak also created an increased interest in influenza testing in European markets where rapid testing has not been traditionally performed and resulted in significant sales activity for these products during the fiscal 2010 first quarter. However, similar to U.S. markets, these sales levels were not repeated in fiscal 2011, as evidenced by the approximate 14% decline in this operating segment s upper respiratory product sales on an organic basis (excluding effects of currency translation) compared to the first six months of fiscal 2010.

Table of Contents

***Foodborne Products***

Increased demand for our foodborne illness testing products throughout the first half of fiscal 2011 resulted in our U.S. Diagnostics operating segment experiencing sales increases for these products totaling 122% and 49% for the three and six month periods ended March 31, 2011, respectively. During these same periods, our European Diagnostics operating segment experienced sales increases of approximately 19% and 29%, respectively, on an organic basis.

***H. pylori Products***

During the second quarter of fiscal 2011, sales of our *H. pylori* products grew 20% for our U.S. Diagnostics operating segment; 18% during the six month fiscal year-to-date period. This increase continues to reflect the benefits of our partnerships with managed care companies in promoting the health and economic benefits of a test and treat strategy, and the ongoing effects of such strategy moving physician behavior away from serology-based testing toward direct antigen testing. Due to significant competitive pressures related to these products on the international front, sales of *H. pylori* products for our European Diagnostics operating segment declined 8% on an organic basis for the fiscal 2011 second quarter, compared to the second quarter of fiscal 2010, and declined 3% during the year-over-year six month periods ended March 31.

***Group Purchasing Organizations***

In our U.S. Diagnostics operating segment, consolidation of the U.S. 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 three and six months of fiscal 2011, we have experienced approximately $245 and $796, respectively, 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.

***Foreign Currency***

Sales for our European Diagnostics operating segment included the effect of less favorable currency rates, which led to currency translation losses in the amount of approximately $75 for the second quarter of fiscal 2011, compared to $315 of currency translation gains in the fiscal 2010 second quarter. During the first six months of fiscal 2011, translation losses of approximately $515 were experienced, compared to $900 of currency translation gains during the comparable prior year period.

***Life Science Operating Segment***

Sales for our Life Science operating segment increased 44% for the second quarter of fiscal 2011 and 51% for the six month fiscal year-to-date period, due primarily to the revenue contribution of the Bioline Group acquired in July 2010. Excluding the impact of the Bioline Group, sales for the operating segment declined 14% and 9% during the three and six month periods, respectively, as this business continues to experience elements of pricing pressure and reduced order volumes in several key product lines. Including the effect of the addition of the Bioline Group, we expect approximately 50% revenue growth for this operating segment in fiscal 2011, compared to fiscal 2010, and an approximate 3% decrease in sales excluding the effects of the Bioline Group.

***Significant Customers***

Two national distributors in our U.S. Diagnostics operating segment accounted for 50% and 48% of total sales for this operating segment for the second quarters of fiscal 2011 and 2010, respectively, and 51% and 61% during the six months ended March 31, 2011 and 2010, respectively. The lower percentage of sales during the first six months of fiscal 2011 reflects the comparative decline in the distributors inventory stocking of influenza and other products.

Table of Contents

Four diagnostic manufacturing customers in our Life Science operating segment accounted for 18% and 39% of total sales for this operating segment for the second quarters of fiscal 2011 and 2010, respectively, and 21% and 38% during the six months ended March 31, 2011 and 2010, respectively. The lower percentage of sales during both periods results primarily from the addition of the Bioline Group.

**Operating Segment Revenues**

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

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 revenues.

The Company has experienced no material negative impact on revenue as a result of the recent disaster in Japan, nor is any material negative impact anticipated at this time, although no assurances can be given with regard to material negative impacts that may arise in the future despite being unanticipated as of the date of this report. In addition, the Company s supply of product and product components has not been and is not expected to be adversely impacted by the disaster.

Revenues for each of our operating segments are shown below.

| | Three Months Ended March 31, | | | Six Months Ended March 31, | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | Inc (Dec) | 2011 | 2010 | Inc (Dec) |
| U.S. Diagnostics | $ 25,528 | $ 18,193 | 40% | $ 48,178 | $ 48,897 | (1)% |
| European Diagnostics | 6,385 | 6,591 | (3)% | 12,314 | 12,885 | (4)% |
| Life Science | 9,146 | 6,363 | 44% | 17,830 | 11,822 | 51% |
| Consolidated | $ 41,059 | $ 31,147 | 32% | $ 78,322 | $ 73,604 | 6% |
| International - | | | | | | |
| U.S. Diagnostics | $ 1,617 | $ 1,248 | 30% | $ 3,213 | $ 2,977 | 8% |
| European Diagnostics | 6,385 | 6,591 | (3)% | 12,314 | 12,885 | (4)% |
| Life Science | 5,284 | 2,792 | 89% | 9,873 | 5,252 | 88% |
| Total | $ 13,286 | $ 10,631 | 25% | $ 25,400 | $ 21,114 | 20% |
| % of total sales | 32% | 34% | | 32% | 29% | |

Table of Contents

**Gross Profit**

| | Three Months Ended March 31, | | | Six Months Ended March 31, | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Gross Profit | $ 26,256 | $ 20,141 | 30% | $ 49,804 | $ 45,585 | 9% |
| Gross Profit Margin | 64% | 65% | -1 point | 64% | 62% | +2 points |

Gross profit margin improvement for the first six months of fiscal 2011 results primarily from the combined effects of continued operating efficiencies in our Cincinnati, Ohio diagnostic test manufacturing facility and the year-over-year decline in upper respiratory product sales. 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 upper respiratory products during the first six months of fiscal 2011 were approximately 13% of our consolidated sales, compared to 22% of consolidated sales for the comparable fiscal 2010 period. Specifically, sales of the Company s influenza products represented approximately 2% of consolidated sales during the six months ended March 31, 2011, compared to approximately 11% in the first six months of fiscal 2010.

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, antibodies, PCR/qPCR reagents, nucleotides, competent cells, 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, 2011 | | | | |
|---|---|---|---|---|---|
| | Research & Development | Selling & Marketing | General & Administrative | European and Global Sales & Marketing Leadership Reorganization | Total Operating Expenses |
| **2010 Expenses** | $ 2,337 | $ 4,356 | $ 4,323 | $ | $ 11,016 |
| % of Sales | 8% | 14% | 14% | % | 35% |
| Fiscal 2011 Increases (Decreases): | | | | | |
| U.S. Diagnostics | (140) | 826 | (14) | 365 | 1,037 |
| European Diagnostics | | 14 | (52) | 875 | 837 |
| Life Science | | | | | |
| - Bioline Group | 144 | 857 | 1,390 | | 2,391 |
| - Other | 18 | 7 | (12) | | 13 |
| **2011 Expenses** | $ 2,359 | $ 6,060 | $ 5,635 | $ 1,240 | $ 15,294 |
| % of Sales | 6% | 15% | 14% | 3% | 37% |
| % Increase | 1% | 39% | 30% | % | 39% |

Table of Contents

**Operating Expenses**

| | Six Months Ended March 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Research & Development | Selling & Marketing | General & Administrative | European and Global Sales & Marketing Leadership Reorganization | Total Operating Expenses |
| **2010 Expenses** | $ 4,448 | $ 9,298 | $ 8,958 | $ | $ 22,704 |
| % of Sales | 6% | 13% | 12% | % | 31% |
| Fiscal 2011 Increases (Decreases): | | | | | |
| U.S. Diagnostics | (180) | 926 | 244 | 365 | 1,355 |
| European Diagnostics | | (67) | (88) | 875 | 720 |
| Life Science | | | | | |
| - Bioline Group | 354 | 1,735 | 2,667 | | 4,756 |
| - Other | 104 | (30) | 143 | | 217 |
| **2011 Expenses** | $ 4,726 | $ 11,862 | $ 11,924 | $ 1,240 | $ 29,752 |
| % of Sales | 6% | 15% | 15% | 2% | 38% |
| % Increase | 6% | 28% | 33% | % | 31% |

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

The quarterly and year-to-date increases in all three ongoing operating expense categories (i.e., Research & Development, Selling & Marketing, and General & Administrative) of $3,038 and $5,808, respectively, result in large part from the addition of the Bioline Group s operating expenses. Additionally, the six month year-to-date Selling & Marketing and General & Administrative expenses for the U.S. Diagnostics operating segment reflect the following:

Selling & Marketing

1) Increased sales bonus expense of approximately $425 and $310 for the quarterly and six month year-to-date periods, respectively, due to increased sales performance;

2) Increased samples and promotional expense of approximately $200 and $290 for the quarterly and six month year-to-date periods, respectively, resulting in large part from an effort to move flu inventory manufactured by third parties prior to its expiration; and

3) Increased travel expenses related to ***illumi****gene*® product placement costs for the quarterly and six month year-to-date periods of approximately $190 and $260, respectively.

General & Administrative

An approximate $400 increase in stock-based compensation expense for restricted stock grants during the fiscal 2011 first quarter.

During the second quarter of fiscal 2011, the Company incurred approximately $1,240 of costs in connection with the reorganization of our European and Global Sales and Marketing Leadership. Approximately 75% of these costs

related to severance benefits for the former President and Managing Director of our European diagnostics business, with no further such costs anticipated at this time.

**Operating Income**

Operating income increased 20% to $10,962 for the second quarter of fiscal 2011, and decreased 12% to $20,052 for the first six months of fiscal 2011, as a result of the factors discussed above.

Table of Contents

**Other Income and Expense**

The increase in other income, net, during the six month year-to-date period can primarily be attributed to the addition of the Bioline Group, as it contributed to an improvement in net currency exchange gains/losses of approximately $90 and grant income from a foreign governmental agency of approximately $170.

**Income Taxes**

The effective rate for income taxes was 35% for the second quarter and first six months of both fiscal 2011 and 2010. For the fiscal year ending September 30, 2011, we expect the effective tax rate to remain at 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 $23,849 from our investment portfolio to complete the acquisition of the Bioline Group during July 2010.

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 we look forward, we will continue to manage the holdings of our investment portfolio with preservation of capital being the primary objective.

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 and cash on hand. We also have additional sources of liquidity through our investment portfolio and a $30,000 bank credit facility, if needed.

Net cash provided by operating activities decreased 38% for the first six months of fiscal 2011 to $10,341, reflecting the 11% decrease in net earnings and the effects of net working capital changes related to our investments in ***illumi****gene*® inventory, including readers, fluctuations in sales levels, and the timing of payments with suppliers. Net cash flows from operating activities and cash on hand are anticipated to be adequate to fund working capital requirements and dividends during the next 12 months. During the last five fiscal quarters, the per share amount of our cash dividend has exceeded the per share amount of our diluted earnings. As we enter fiscal 2012, management expects that the per share amount of our cash dividend will be at or near our policy of a 75% to 85% payout ratio, although no assurances can be made in this regard.

***Capital Resources***

We have a $30,000 credit facility with a commercial bank which expires on September 15, 2012. As of April 30, 2011, 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 2011, or during the full year of fiscal 2010.

Our capital expenditures for the second half of fiscal 2011 are estimated to be approximately $3,200. Such expenditures may be funded with cash and cash equivalents on hand, operating cash flows, and/or availability under the $30,000 credit facility discussed above. Capital expenditures relate to manufacturing and other equipment of a normal and recurring nature, as well as costs associated with production line automation in Cincinnati, facilities expansions in Cincinnati and Memphis, and computer system and software purchases for the Bioline Group. We also expect to have approximately $3,100 in expenditures for readers to support the ongoing ***illumi****gene*® product launch.

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

Table of Contents

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, 2010.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2011, 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, 2011. 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 second 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 March 31, 2011.

Table of Contents

**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.

ITEM 6. EXHIBITS

| | |
|---|---|
| 10.22 | Antonio Interno Retirement-Related Agreements (Filed herewith) |
| 31.1 | Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a) (Filed herewith) |
| 31.2 | Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a) (Filed herewith) |
| 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 (Filed herewith) |

Table of Contents

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: May 10, 2011

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