

MERIDIAN BIOSCIENCE INC
Form 10-Q
August 09, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended June 30, 2013

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

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31-0888197

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

3471 River Hills Drive

Cincinnati, Ohio 45244

(513) 271-3700

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| Class | Outstanding July 31, 2013 |
|----------------------------|---------------------------|
| Common Stock, no par value | 41,504,982 |

Table of Contents

MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS TO QUARTERLY REPORT ON FORM 10-Q

| | Page(s) |
|---|----------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | |
| <u>Condensed Consolidated Statements of Operations Three and Nine Months Ended June 30, 2013 and 2012</u> | 1 |
| <u>Condensed Consolidated Statements of Comprehensive Income Three and Nine Months Ended June 30, 2013 and 2012</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows Nine Months Ended June 30, 2013 and 2012</u> | 3 |
| <u>Condensed Consolidated Balance Sheets June 30, 2013 and September 30, 2012</u> | 4-5 |
| <u>Condensed Consolidated Statement of Changes in Shareholders' Equity Nine Months Ended June 30, 2013</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 7-12 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 12-19 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 20 |
| <u>Item 4. Controls and Procedures</u> | 20 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1A. Risk Factors</u> | 21 |
| <u>Item 6. Exhibits</u> | 21 |
| <u>Signature</u> | 22 |

Table of Contents

FORWARD-LOOKING STATEMENTS

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. Meridian relies on proprietary, patented and licensed technologies, and the Company's ability to protect its intellectual property rights, as well as the potential for intellectual property litigation, would impact its results. 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, including those 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. The international scope of Meridian's operations, including changes in the relative strength or weakness of the U.S. dollar and general economic conditions in foreign countries, can impact results and make them difficult to predict. One of Meridian's 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 June 30, | | Nine Months Ended June 30, | |
|--|--------------------------------|-----------|-------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| NET SALES | \$ 47,108 | \$ 41,915 | \$ 139,724 | \$ 129,229 |
| COST OF SALES | 16,477 | 14,498 | 49,554 | 47,722 |
| GROSS PROFIT | 30,631 | 27,417 | 90,170 | 81,507 |
| OPERATING EXPENSES | | | | |
| Research and development | 2,711 | 2,660 | 8,039 | 7,441 |
| Selling and marketing | 5,440 | 5,617 | 16,604 | 16,573 |
| General and administrative | 6,781 | 6,162 | 21,484 | 19,236 |
| Plant consolidation costs | | 366 | | 1,013 |
| Total operating expenses | 14,932 | 14,805 | 46,127 | 44,263 |
| OPERATING INCOME | 15,699 | 12,612 | 44,043 | 37,244 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 12 | 14 | 38 | 27 |
| Other, net | (160) | 31 | 225 | 304 |
| Total other income (expense) | (148) | 45 | 263 | 331 |
| EARNINGS BEFORE INCOME TAXES | 15,551 | 12,657 | 44,306 | 37,575 |
| INCOME TAX PROVISION | 5,392 | 4,063 | 15,424 | 12,777 |
| NET EARNINGS | \$ 10,159 | \$ 8,594 | \$ 28,882 | \$ 24,798 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.25 | \$ 0.21 | \$ 0.70 | \$ 0.60 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 0.24 | \$ 0.21 | \$ 0.69 | \$ 0.60 |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC | 41,304 | 41,091 | 41,209 | 41,075 |
| EFFECT OF DILUTIVE STOCK OPTIONS AND RESTRICTED SHARES AND UNITS | 679 | 593 | 654 | 530 |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED | 41,983 | 41,684 | 41,863 | 41,605 |
| ANTI-DILUTIVE SECURITIES: | | | | |
| Common share options and restricted shares and units | 256 | 313 | 295 | 309 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.19 | \$ 0.19 | \$ 0.57 | \$ 0.57 |

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 Comprehensive Income (Unaudited)

(in thousands)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--|-----------------|---------------------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| NET EARNINGS | \$ 10,159 | \$ 8,594 | \$ 28,882 | \$ 24,798 |
| Foreign currency translation adjustment | 154 | (1,028) | (817) | (902) |
| COMPREHENSIVE INCOME | \$ 10,313 | \$ 7,566 | \$ 28,065 | \$ 23,896 |

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)**

(in thousands)

| Nine Months Ended June 30, | 2013 | 2012 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | \$ 28,882 | \$ 24,798 |
| Non-cash items included in net earnings: | | |
| Depreciation of property, plant and equipment | 2,522 | 2,660 |
| Amortization of intangible assets | 1,715 | 1,608 |
| Amortization of deferred illumigene instrument costs | 1,131 | 587 |
| Stock-based compensation | 1,984 | 1,670 |
| Deferred income taxes | (1,356) | (1,491) |
| Loss on disposition and write-down of fixed assets and other assets | 30 | 203 |
| Change in current assets | (2,464) | 386 |
| Change in current liabilities | 951 | 2,474 |
| Other, net | (881) | (1,007) |
| Net cash provided by operating activities | 32,514 | 31,888 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (2,193) | (2,985) |
| Proceeds from sale of assets | | 400 |
| Purchases of intangibles and other assets | (20) | (1,305) |
| Net cash used for investing activities | (2,213) | (3,890) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (23,500) | (23,417) |
| Proceeds and tax benefits from exercises of stock options | 2,094 | 399 |
| Net cash used for financing activities | (21,406) | (23,018) |
| Effect of Exchange Rate Changes on Cash and Equivalents | (125) | (668) |
| Net Increase in Cash and Equivalents | 8,770 | 4,312 |
| Cash and Equivalents at Beginning of Period | 31,593 | 23,626 |
| Cash and Equivalents at End of Period | \$ 40,363 | \$ 27,938 |

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****(in thousands)****ASSETS**

| | June 30, 2013 (Unaudited) | September 30, 2012 |
|---|--|-------------------------------|
| CURRENT ASSETS | | |
| Cash and equivalents | \$ 40,363 | \$ 31,593 |
| Accounts receivable, less allowances of \$514 and \$574 | 25,229 | 24,183 |
| Inventories | 34,335 | 31,682 |
| Prepaid expenses and other current assets | 4,788 | 6,203 |
| Deferred income taxes | 3,885 | 2,929 |
| Total current assets | 108,600 | 96,590 |
| PROPERTY, PLANT AND EQUIPMENT, at Cost | | |
| Land | 1,177 | 1,175 |
| Buildings and improvements | 26,216 | 25,983 |
| Machinery, equipment and furniture | 37,036 | 34,917 |
| Construction in progress | 1,369 | 1,149 |
| Subtotal | 65,798 | 63,224 |
| Less: accumulated depreciation and amortization | 40,001 | 37,069 |
| Net property, plant and equipment | 25,797 | 26,155 |
| OTHER ASSETS | | |
| Goodwill | 22,387 | 23,146 |
| Other intangible assets, net | 8,309 | 10,264 |
| Restricted cash | 1,000 | 1,000 |
| Deferred illumigene instrument costs, net | 3,586 | 3,958 |
| Deferred income taxes | 1,022 | |
| Other assets | 290 | 268 |
| Total other assets | 36,594 | 38,636 |
| TOTAL ASSETS | \$ 170,991 | \$ 161,381 |

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****(dollars in thousands)****LIABILITIES AND SHAREHOLDERS' EQUITY**

| | June 30, 2013 (Unaudited) | September 30, 2012 |
|--|--|-------------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 6,174 | \$ 5,794 |
| Accrued employee compensation costs | 6,965 | 5,827 |
| Other accrued expenses | 5,240 | 5,247 |
| Income taxes payable | 1,346 | 1,594 |
| Total current liabilities | 19,725 | 18,462 |
| DEFERRED INCOME TAXES | | 171 |
| 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, 41,467,347 and 41,284,485 shares issued, respectively | | |
| Additional paid-in capital | 106,396 | 102,443 |
| Retained earnings | 45,592 | 40,210 |
| Accumulated other comprehensive income | (722) | 95 |
| Total shareholders' equity | 151,266 | 142,748 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 170,991 | \$ 161,381 |

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) | Total Shareholders' Equity |
|---|----------------------------|----------------------------------|----------------------|---|----------------------------------|
| Balance at September 30, 2012 | 41,284 | \$ 102,443 | \$ 40,210 | \$ 95 | \$ 142,748 |
| Cash dividends paid | | | (23,500) | | (23,500) |
| Exercise of stock options | 182 | 1,969 | | | 1,969 |
| Conversion of restricted stock units | 1 | | | | |
| Stock compensation expense | | 1,984 | | | 1,984 |
| Net earnings | | | 28,882 | | 28,882 |
| Foreign currency translation adjustment | | | | (817) | (817) |
| Balance at June 30, 2013 | 41,467 | \$ 106,396 | \$ 45,592 | \$ (722) | \$ 151,266 |

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 June 30, 2013, the results of its operations for the three and nine month periods ended June 30, 2013 and 2012, and its cash flows for the nine month periods ended June 30, 2013 and 2012. These statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's fiscal 2012 Annual Report on Form 10-K. Financial information as of September 30, 2012 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 customer. Revenue for the U.S. Diagnostics segment is reduced at the date of sale for product price adjustments due certain distributors under local contracts. Management estimates accruals for distributor price adjustments based on local contract terms, sales data provided by distributors, estimates of inventories of our products held by distributors, historical statistics, current trends, and other factors. Changes to the accruals are recorded in the period that they become known. Such accruals were \$4,017 at June 30, 2013 and \$3,877 at September 30, 2012, and have been netted against accounts receivable.

Revenue for our Diagnostics segments includes revenue for our *illumigene*[®] molecular test system. This system includes an instrument, instrument accessories and test kits. In markets where the test system is sold via multiple deliverable arrangements (i.e., the United States, Australia and Italy), the cost of the instrument and instrument accessories are deferred upon placement at a customer and amortized on a straight-line basis into cost of sales over the expected utilization period, generally three years.

We evaluate whether each deliverable in the arrangement is a separate unit of accounting. The significant deliverables are an instrument, instrument accessories (e.g., printer) and test kits. An instrument and instrument accessories are delivered to the customer prior to the start of the customer utilization period, in order to accommodate customer set-up and installation. There is *de minimis* consideration received from the customer at the time of instrument placement. We have determined that the instrument and instrument accessories are not a separate unit of accounting because such equipment can only be used to process and read the results from our *illumigene* diagnostic tests (i.e., our instrument and test kits function together to deliver a diagnostic test result), and therefore the instrument and instrument accessories do not have standalone value to the customer. Consequently, there is no revenue allocated to the placement of the instrument and instrument accessories. Test kits are delivered to the customer over the utilization period of the instrument, which we estimate has a useful life of three years. Our average customer contract period, including estimated renewals, is at least equal to the estimated three-year utilization period. Revenue for the sale of test kits is recognized upon shipment and transfer of title to the customers.

Table of Contents

In markets where the test system is not sold via multiple deliverable arrangements (i.e., countries other than the United States, Australia and Italy), the cost of the instrument and instrument accessories is charged to cost of sales at the time of shipment and transfer of title to the customer. Revenue for the sales of instruments and instrument accessories and test kits is recognized upon shipment and transfer of title to the customers. In these markets, our *illumigene* molecular test system is sold to independent distributors who inventory the instruments, instrument accessories and test kits for resale to end-users.

Our products are generally not subject to a customer right of return except for product recall events under the rules and regulations of the Food and Drug Administration or equivalent agencies outside the United States. In this circumstance, the costs to replace affected products would be accrued at the time a loss was probable and estimable.

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. Depending on the nature of the arrangement, revenue is recognized as services are performed and billed, upon completion and acceptance by the customer, or 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. No such bill-and-hold arrangements existed at June 30, 2013 or September 30, 2012.

Trade accounts receivable are recorded in the accompanying Condensed Consolidated Balance Sheets at invoiced amounts less provisions for distributor price adjustments under local contracts 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.

(b) *Comprehensive Income (Loss)*

As reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income, our comprehensive income or loss is comprised of net earnings and foreign currency translation.

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, Euro and Singapore dollar currencies. These gains and losses are included in other income and expense in the accompanying Condensed Consolidated Statements of Operations.

(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 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 Condensed Consolidated Statements of Operations.

Table of Contents**(d) Stock-based Compensation**

We recognize compensation expense for all share-based awards made to employees, based upon the fair value of the share-based award on the date of the grant. Awards are expensed over their requisite service period.

(e) Cash and Cash Equivalents

Cash and cash equivalents include the following components:

| | June 30, 2013 | | September 30, 2012 | |
|---------------------------------|----------------------------|-----------------|----------------------------|-----------------|
| | Cash and Equivalents | Other | Cash and Equivalents | Other |
| Overnight repurchase agreements | \$ 30,439 | \$ | \$ 13,492 | \$ |
| Cash on hand - | | | | |
| Restricted | | 1,000 | | 1,000 |
| Unrestricted | 9,924 | | 18,101 | |
| Total | \$ 40,363 | \$ 1,000 | \$ 31,593 | \$ 1,000 |

(f) Recent Accounting Pronouncements

In June 2011, FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amended the disclosure and presentation requirements of Comprehensive Income. Specifically, FASB ASU No. 2011-05 required that all nonowner changes in shareholders' equity be presented either in 1) a single continuous statement of comprehensive income or 2) two separate but consecutive statements, in which the first statement presents total net income and its components, and the second statement presents total other comprehensive income and its components. The Company adopted these new presentation requirements effective October 1, 2012 and has presented herein Condensed Consolidated Statements of Comprehensive Income for the interim periods ended June 30, 2013 and 2012 that are compliant with the requirements. Adoption of these requirements had no impact on the Company's consolidated results of operations, cash flows or financial position.

In September 2011, FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*, which amended goodwill impairment guidance to provide an option for entities to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events and circumstances, if an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performance of the two-step impairment test is no longer required. The Company's adoption of this guidance effective October 1, 2012 had no impact on the Company's consolidated results of operations, cash flow or financial position.

Issued but not yet effective accounting pronouncements are not expected to have a material impact on the Condensed Consolidated Financial Statements.

(g) 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.

Table of Contents**3. Inventories**

Inventories are comprised of the following:

| | June 30, 2013 | September 30, 2012 |
|---|------------------|-----------------------|
| Raw materials | \$ 7,514 | \$ 6,916 |
| Work-in-process | 8,625 | 9,540 |
| Finished goods - illumigene instruments | 1,356 | 2,326 |
| Finished goods - kits and reagents | 16,840 | 12,900 |
| Total | \$ 34,335 | \$ 31,682 |

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 fields of in vitro diagnostics and 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 segments are U.S. Diagnostics, European Diagnostics and Life Science. Initial segmentation between Diagnostics and Life Science has been determined based upon products and customers, with further segmentation of Diagnostics between U.S. and European being based upon geographic regions served and management responsibility. The U.S. Diagnostics 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 Australia, Europe, Africa and the Middle East. The European Diagnostics segment consists of the sale and distribution of diagnostic test kits in Australia, Europe, Africa and the Middle East. The Life Science segment consists of manufacturing operations in Memphis, Tennessee; 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 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.

Amounts due from two U.S. Diagnostics distributor customers accounted for 12% and 14% of consolidated accounts receivable at June 30, 2013 and September 30, 2012, respectively. Sales to these two distributor customers accounted for 48% and 49% of the U.S. Diagnostics segment third-party sales during the three months ended June 30, 2013 and 2012, respectively, and 51% and 49% during the nine months ended June 30, 2013 and 2012, respectively.

In addition, approximately \$4,600 of our accounts receivable at both June 30, 2013 and September 30, 2012 is due from Italian hospital customers whose funding ultimately comes from the Italian government, representing 18% and 19% of consolidated accounts receivable in each of the respective periods. Sales to Italian hospital customers accounted for 33% and 31% of the European Diagnostics segment third-party sales during the three months ended June 30, 2013 and 2012, respectively, and 33% and 29% during the nine months ended June 30, 2013 and 2012, respectively.

Within our Life Science segment, two diagnostic manufacturing customers accounted for 18% and 11% of the segment's third-party sales during the three months ended June 30, 2013 and 2012, respectively, and 18% and 20% during the nine months ended June 30, 2013 and 2012, 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 June 30, 2013 | | | | | |
| Net sales - | | | | | |
| Third-party | \$ 29,535 | \$ 5,770 | \$ 11,803 | \$ | \$ 47,108 |
| Inter-segment | 2,771 | 3 | 356 | (3,130) | |
| Operating income | 11,876 | 439 | 3,543 | (159) | 15,699 |
| Goodwill (June 30, 2013) | 1,250 | | 21,137 | | 22,387 |
| Other intangible assets, net (June 30, 2013) | 1,716 | | 6,593 | | 8,309 |
| Total assets (June 30, 2013) | 94,566 | 12,869 | 105,942 | (42,386) | 170,991 |
| Three Months Ended June 30, 2012 | | | | | |
| Net sales - | | | | | |
| Third-party | \$ 26,008 | \$ 5,897 | \$ 10,010 | \$ | \$ 41,915 |
| Inter-segment | 2,464 | 5 | 133 | (2,602) | |
| Operating income (2) | 9,442 | 998 | 2,118 | 54 | 12,612 |
| Goodwill (September 30, 2012) | 1,250 | | 21,896 | | 23,146 |
| Other intangible assets, net (September 30, 2012) | 2,239 | | 8,025 | | 10,264 |
| Total assets (September 30, 2012) | 82,654 | 15,443 | 101,706 | (38,422) | 161,381 |
| Nine Months Ended June 30, 2013 | | | | | |
| Net sales - | | | | | |
| Third-party | \$ 90,211 | \$ 17,166 | \$ 32,347 | \$ | \$ 139,724 |
| Inter-segment | 7,353 | 9 | 864 | (8,226) | |
| Operating income | 34,731 | 1,169 | 8,223 | (80) | 44,043 |
| Nine Months Ended June 30, 2012 | | | | | |
| Net sales - | | | | | |
| Third-party | \$ 79,472 | \$ 18,326 | \$ 31,431 | \$ | \$ 129,229 |
| Inter-segment | 7,428 | 9 | 793 | (8,230) | |
| Operating income (2) | 29,377 | 2,398 | 5,526 | (57) | 37,244 |

(1) Eliminations consist of inter-segment transactions.

(2) Life Science includes \$366 and \$1,013 of costs related to consolidation of the Maine operations into the Tennessee facility during the three and nine months ended June 30, 2012, respectively.

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

Table of Contents**5. Intangible Assets**

A summary of our acquired intangible assets subject to amortization, as of June 30, 2013 and September 30, 2012 is as follows:

| | June 30, 2013 | | September 30, 2012 | |
|--|----------------------|--------------------------|----------------------|--------------------------|
| | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Manufacturing technologies, core products and cell lines | \$ 11,587 | \$ 9,860 | \$ 11,678 | \$ 9,327 |
| Trademarks, licenses and patents | 4,618 | 1,969 | 4,704 | 1,616 |
| Customer lists and supply agreements | 12,117 | 8,184 | 12,360 | 7,535 |
| | \$ 28,322 | \$ 20,013 | \$ 28,742 | \$ 18,478 |

The actual aggregate amortization expense for these intangible assets was \$550 and \$545 for the three months ended June 30, 2013 and 2012, respectively, and \$1,715 and \$1,608 for the nine months ended June 30, 2013 and 2012, respectively. The estimated aggregate amortization expense for these intangible assets for each of the fiscal years through fiscal 2018 is as follows: remainder of fiscal 2013 \$485, fiscal 2014 \$1,751, fiscal 2015 \$1,506, fiscal 2016 \$1,165, fiscal 2017 \$915 and fiscal 2018 \$892.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Refer to Forward Looking Statements following the Table of Contents in front of this Form 10-Q. In the discussion that follows, all dollar amounts are in thousands (both tables and text), except per share data.

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, changes in 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 June 30, 2013**

Net earnings for the third quarter of fiscal 2013 increased 18% to \$10,159, or \$0.24 per diluted share, from net earnings for the third quarter of fiscal 2012 of \$8,594, or \$0.21 per diluted share. This increase reflects the combined effects of increased sales, consistent gross profit margins and slightly increased operating expenses, along with the negative effect of \$438 (pre-tax) of Medical Device Tax that did not exist during fiscal 2012 (see discussion in Medical Device Tax below). Additionally, the fiscal 2012 third quarter included \$366 of costs associated with the consolidation of the Saco, Maine operations into the Memphis, Tennessee facility (impact on earnings of \$238, or less than \$0.01 per diluted share). Consolidated sales increased 12% to \$47,108 for the third quarter of fiscal 2013 compared to the same period of the prior year. Increased sales across all of our diagnostic focus product families (*C. difficile*, foodborne and *H. pylori*) as well as in our Life Science segment, contributed to this increase. Included within the third quarter 2013 results were sales of our *illumigene*[®] molecular platform of products totaling \$8,800, representing a 36% increase over the fiscal 2012 third quarter.

Table of Contents

Sales for the U.S. Diagnostics segment for the third quarter of fiscal 2013 increased 14% compared to the third quarter of fiscal 2012, reflecting growth across all of our focus product families – 7% growth in our *C. difficile* products, 17% growth in our *H. pylori* products, and 21% growth in our foodborne products. Third quarter fiscal 2013 sales for our European Diagnostics segment decreased 2% compared to the third quarter of fiscal 2012. On an organic basis, which excludes the effects of currency translation, sales of our European Diagnostics segment decreased 4% compared to the 2012 third quarter, reflecting a decline in our *C. difficile* product sales and growth in our *H. pylori* and foodborne product sales. Adverse economic conditions in European markets and competitive *C. difficile* and *H. pylori* markets have continued to affect our sales. With growth in both its molecular reagent and bulk immunoassay reagent businesses, sales of our Life Science segment increased by 18% during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012.

Nine Months Ended June 30, 2013

For the nine month period ended June 30, 2013, net earnings increased 16% to \$28,882, or \$0.69 per diluted share, from net earnings for the comparable fiscal 2012 period of \$24,798, or \$0.60 per diluted share. This increase reflects the combined effects of increased sales, improved gross profit margins and increased operating expenses, along with the negative effect of \$877 (pre-tax) of Medical Device Tax that did not exist during fiscal 2012 (see discussion in Medical Device Tax below). Additionally, the 2012 year-to-date period included \$1,013 of costs associated with the consolidation of the Saco, Maine operations into the Memphis, Tennessee facility (impact on earnings of \$659, or \$0.02 per diluted share). Consolidated sales increased 8% to \$139,724 for the first nine months of fiscal 2013 compared to the same period of the prior fiscal year. Increased sales across all of our diagnostic focus product families (*C. difficile*, foodborne and *H. pylori*) as well as in our Life Science segment, contributed to this increase. In addition, an increase in sales of our respiratory family of products compared to the first nine months of fiscal 2012 contributed to growth. Included within the fiscal 2013 nine month year-to-date results were sales of our *illumigene* molecular platform of products totaling \$24,200, representing a 44% increase over the comparable fiscal 2012 year-to-date period.

During the first nine months of fiscal 2013, sales for the U.S. Diagnostics segment increased 14% from the comparable fiscal 2012 period. This increase reflects growth across all of our focus product families – 10% growth in our *H. pylori* products, 11% growth in our *C. difficile* products and 14% growth in our foodborne products. Sales of our influenza respiratory products increased 102%, or approximately \$1,700. Sales of our European Diagnostics segment for the first nine months of fiscal 2013 decreased 6% compared to the first nine months of fiscal 2012. On an organic basis, which excludes the effects of currency translation, sales of our European Diagnostics segment also decreased 6% during the fiscal 2013 year-to-date period, reflecting declines in our *C. difficile* and *H. pylori* product sales and growth in our foodborne product family. With growth in its molecular reagent business being partially offset by a decline in its bulk immunoassay reagent business, fiscal 2013 nine month year-to-date sales of our Life Science segment increased 3% from the comparable fiscal 2012 period.

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 the consolidation of our Saco, Maine operations into our Memphis, Tennessee facility (fiscal 2012), each of which is a non-GAAP financial measure, 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 consolidating the Maine operations (fiscal 2012); 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.

Table of Contents

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--|--------------------------------|----------|-------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net Earnings - | | | | |
| U.S. GAAP basis | \$ 10,159 | \$ 8,594 | \$ 28,882 | \$ 24,798 |
| Facility consolidation costs (1) | | 238 | | 659 |
| Adjusted earnings | \$ 10,159 | \$ 8,832 | \$ 28,882 | \$ 25,457 |
| Net Earnings per Basic Common Share - | | | | |
| U.S. GAAP basis | \$ 0.25 | \$ 0.21 | \$ 0.70 | \$ 0.60 |
| Facility consolidation costs (1) | | 0.01 | | 0.02 |
| Adjusted Basic EPS (2) | \$ 0.25 | \$ 0.21 | \$ 0.70 | \$ 0.62 |
| Net Earnings per Diluted Common Share - | | | | |
| U.S. GAAP basis | \$ 0.24 | \$ 0.21 | \$ 0.69 | \$ 0.60 |
| Facility consolidation costs (1) | | 0.01 | | 0.02 |
| Adjusted Diluted EPS (3) | \$ 0.24 | \$ 0.21 | \$ 0.69 | \$ 0.61 |

- (1) These facility consolidation costs are net of income tax effects of \$128 and \$354 for the three and nine month periods, respectively, which were calculated using the effective tax rates of the jurisdictions in which the costs were incurred.
- (2) Net Earnings per Basic Common Share for the three months ended June 30, 2012 does not sum to the total due to rounding.
- (3) Net Earnings per Diluted Common Share for each of the three and nine months ended June 30, 2012 does not sum to the total due to rounding.

Revenue Overview

Our Diagnostics segments provided the largest share of our consolidated revenues, 75% and 76% for the third quarters of fiscal 2013 and 2012, respectively, and 77% and 76% for the first nine months of fiscal 2013 and 2012, respectively. Sales from our focus families (*C. difficile*, foodborne and *H. pylori*) comprised 65% and 64% of our Diagnostics segments' revenues during the third quarters of fiscal 2013 and 2012, respectively, and 61% and 62% for the nine month periods ended June 30, 2013 and 2012, respectively.

The global revenue change for our Diagnostics segments during the fiscal 2013 third quarter was an increase of 11%, reflecting growth in our *C. difficile* (5%), *H. pylori* (15%) and foodborne (21%) product families. For the first nine months of fiscal 2013, our Diagnostics segments' global revenue increased 10%, reflecting growth in all of our focus product families' 6% growth in *H. pylori* products, 7% growth in *C. difficile* products, and 14% growth in foodborne products.

***illumigene* Molecular Platform Products**

Sales from our *illumigene* molecular platform products increased 36% to \$8,800 in the third quarter of fiscal 2013 compared to the third quarter of the prior fiscal year, and increased 44% to \$24,200 on a nine month year-to-date basis. We have approximately 1,100 customer account placements. Of these account placements, approximately 925 accounts have completed evaluations and validations and are regularly purchasing product, with the balance of our account placements being in some stage of product evaluation and/or validation. Of our account placements, we have over 160 accounts that are regularly purchasing, evaluating and/or validating two or more assays. Our *illumigene* molecular *C. difficile* product was cleared by the FDA in July 2010, followed by our *illumigene* GBS (Group B *Streptococcus*), which was cleared by the FDA in December 2011, our *illumigene* Group A Strep (Group A *Streptococcus*; Strep Throat), which was cleared in September 2012, and our most recently FDA-cleared product, *illumigene* Mycoplasma (*M. pneumoniae*; Walking Pneumonia), which was cleared in June 2013.

Table of Contents

Additional *illumigene* molecular products are in development. These include our fifth test, for *Bordetella pertussis* (Whooping Cough), which is expected to be available for sale in the U.S. during the first half of fiscal 2014; and our most recently announced tests, for *Chlamydia trachomatis* and *Neisseria gonorrhoeae*, which are expected to be available for sale during the second half of fiscal 2014.

We believe that the diagnostic testing market is continuing to move away from culture and immunoassay testing to molecular testing for diseases where there is a favorable cost/benefit position for the total cost of healthcare. While this market is competitive, with molecular companies such as Cepheid and Becton Dickinson and new entrants such as Quidel, Great Basin and Quest, we believe we are well positioned to capitalize on the migration to molecular testing. Our simple, easy to use, *illumigene* platform, with its expanding menu, requires no expensive equipment purchase and little to no maintenance cost. These features, along with its small footprint and the performance of the *illumigene* assays, make *illumigene* an attractive molecular platform to any size hospital.

***C. difficile* Products**

Compared to the third quarter of fiscal 2012, during the fiscal 2013 third quarter our *C. difficile* family grew 5% on a global basis increased 7% for our U.S. Diagnostics segment and decreased 5% for our European Diagnostics segment. On a nine month year-to-date basis, the *C. difficile* family grew 7% globally, increasing 11% in our U.S. Diagnostics segment and decreasing 8% in our European Diagnostics segment. This overall product family growth is largely driven by the growth of our *illumigene C. difficile* product, which now represents greater than 70% of total *C. difficile* revenues. While the *C. difficile* market continues to be highly competitive, we are the only company that can offer a full range of high performing, FDA cleared, *C. difficile* testing formats, including toxin, GDH and molecular tests.

***Foodborne* Products**

Although our foodborne products are marketed and sold on a global basis, most of our sales volume is within the U.S. Diagnostics segment. We continue to see demand increases in the United States, as laboratories realize the benefits of increased sensitivity and faster turnaround time with our tests for Enterohemorrhagic *E. coli* (EHEC) and *Campylobacter*, compared to traditional culture methods. Sales increases for these products within the U.S. Diagnostics segment were 21% for the fiscal 2013 third quarter and 14% for the first nine months of fiscal 2013.

While historically the primary competition for our foodborne products has been laboratory culture methods, during 2012 one of our competitors, Alere, cleared through the FDA a shiga toxin test that competes with our EHEC test. We believe that our products have two principal advantages versus culture methods: 1) test accuracy, and 2) improved work flow, resulting in a significantly shortened time to test result (20 minutes vs. 24-48 hours for culture).

***H. pylori* Products**

During the third quarter and first nine months of fiscal 2013, sales of *H. pylori* products grew 17% and 10%, respectively, for our U.S. Diagnostics segment. These increases continue 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. Compared to the fiscal 2012 periods, sales of *H. pylori* products for our European Diagnostics segment on an organic basis increased 9% for the third quarter of fiscal 2013 and decreased 3% on a nine month year-to-date basis. A significant amount of the *H. pylori* product sales in our U.S. Diagnostics segment are to reference labs, whose buying patterns are not consistent period to period.

***Respiratory* Products**

During the third quarter and first nine months of fiscal 2013, total respiratory sales for our Diagnostics segments decreased 3% and increased 16%, respectively, compared to the respective fiscal 2012 periods, with our influenza product contributing quarterly and year-to-date sales of approximately \$100 and \$3,700, respectively. The year-to-date increase reflects the strength of this year's influenza season, compared to last year's. Influenza sales were negligible in Europe during both the fiscal 2013 quarterly and year-to-date periods.

Table of Contents

Life Science Segment

Sales for our Life Science segment increased 18% for the third quarter of fiscal 2013, reflecting increases in both our molecular reagent and our bulk immunoassay reagent businesses of 21% and 16%, respectively. For the first nine months of fiscal 2013, sales of our Life Science segments increased 3%, with sales of our molecular reagent business increasing 11% over the comparable prior year period and sales of our bulk immunoassay reagent business decreasing 2%. Our molecular reagent business, operated through our Bioline Group, continues to benefit from its new product launches and advancements during recent months most notably its SensiFAST and MyTaq PCR components. Our bulk immunoassay reagent business is focusing on improving its operating efficiency and developing revenue opportunities in Asia.

Foreign Currency

During the third quarter of fiscal 2013, currency exchange rates had a negligible impact on revenue; \$50 favorable within the European Diagnostics segment and \$50 unfavorable in the Life Science segment. On a nine month year-to-date basis, currency exchange rates had an approximate \$150 unfavorable impact on revenue; \$100 unfavorable within the European Diagnostics segment and \$50 unfavorable in the Life Science segment.

Significant Customers

Two national distributors in our U.S. Diagnostics segment accounted for 48% and 49% of total sales for this segment for the third quarters of fiscal 2013 and 2012, respectively, and 51% and 49% during the nine months ended June 30, 2013 and 2012, respectively.

Within our Life Science segment, two diagnostic manufacturing customers accounted for 18% and 11% of the segment's total sales for the third quarters of fiscal 2013 and 2012, respectively, and 18% and 20% during the nine months ended June 30, 2013 and 2012, respectively. The fluctuation in the percentage of sales in both periods reflects the buying patterns of these customers.

Medical Device Tax

On January 1, 2013, the medical device tax established as part of the U.S. healthcare reform legislation became effective and as a result, the Company made its first required tax deposit near the end of January. We currently anticipate that this legislation will result in an excise tax for the Company of up to approximately \$1,500 in fiscal 2013, of which little, if any, can be passed on to the customer. The third quarter and year-to-date expense of \$438 and \$877, respectively, is reflected as a component of cost of sales in the accompanying Condensed Consolidated Statements of Operations.

Segment Revenues

Our reportable segments are U.S. Diagnostics, European Diagnostics and Life Science. The U.S. Diagnostics 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 Australia, Europe, Africa and the Middle East. The European Diagnostics segment consists of the sale and distribution of diagnostic test kits in Australia, Europe, Africa and the Middle East. The Life Science segment consists of manufacturing operations in Memphis, Tennessee; 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 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 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 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, and foreign currency exchange rates. We believe that the overall breadth of our product lines serves to reduce the variability in consolidated revenues.

Table of Contents

Revenues for each of our segments are shown below.

| | Three Months Ended June 30, | | | Nine Months Ended June 30, | | |
|----------------------|-----------------------------|-----------|-----------|----------------------------|------------|-----------|
| | 2013 | 2012 | Inc (Dec) | 2013 | 2012 | Inc (Dec) |
| U.S. Diagnostics | \$ 29,535 | \$ 26,008 | 14% | \$ 90,211 | \$ 79,472 | 14% |
| European Diagnostics | 5,770 | 5,897 | (2)% | 17,166 | 18,326 | (6)% |
| Life Science | 11,803 | 10,010 | 18% | 32,347 | 31,431 | 3% |
| Consolidated | \$ 47,108 | \$ 41,915 | 12% | \$ 139,724 | \$ 129,229 | 8% |
| International - | | | | | | |
| U.S. Diagnostics | \$ 1,563 | \$ 1,420 | 10% | \$ 4,998 | \$ 4,637 | 8% |
| European Diagnostics | 5,770 | 5,897 | (2)% | 17,166 | 18,326 | (6)% |
| Life Science | 7,146 | 5,737 | 25% | 19,168 | 18,535 | 3% |
| Total | \$ 14,479 | \$ 13,054 | 11% | \$ 41,332 | \$ 41,498 | % |
| % of total sales | 31% | 31% | | 30% | 32% | |

Gross Profit

| | Three Months Ended June 30, | | | Nine Months Ended June 30, | | |
|---------------------|-----------------------------|-----------|--------|----------------------------|-----------|-----------|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Gross Profit | \$ 30,631 | \$ 27,417 | 12 % | \$ 90,170 | \$ 81,507 | 11 % |
| Gross Profit Margin | 65% | 65% | None | 65% | 63% | +2 points |

The overall gross profit margin increase for the nine months ended June 30, 2013 primarily results from the combined effects of 1) mix of sales from the Company's segments; 2) the lower overall cost structure from the consolidation of our U.S. Life Science manufacturing facilities; and 3) mix of products sold.

Our overall operations consist of the sale of diagnostic test kits for various disease states and in alternative test formats, as well as bio research reagents, bulk antigens and antibodies, proficiency panels, and contract research and development and contract manufacturing services. Product sales mix shifts, in the normal course of business, can cause the consolidated gross profit margin to fluctuate by several points.

Table of Contents**Operating Expenses**

| | Three Months Ended June 30, 2013 | | | | |
|------------------------------------|----------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Research & Development | Selling & Marketing | General & Administrative | Plant Consolidation | Total Operating Expenses |
| 2012 Expenses | \$ 2,660 | \$ 5,617 | \$ 6,162 | \$ 366 | \$ 14,805 |
| % of Sales | 6% | 13% | 15% | 1% | 35% |
| Fiscal 2013 Increases (Decreases): | | | | | |
| U.S. Diagnostics | 18 | (165) | 671 | | 524 |
| European Diagnostics | | 82 | (13) | | 69 |
| Life Science | 33 | (94) | (39) | (366) | (466) |
| 2013 Expenses | \$ 2,711 | \$ 5,440 | \$ 6,781 | \$ | \$ 14,932 |
| % of Sales | 6% | 12% | 14% | % | 32% |
| % Increase (Decrease) | 2% | (3)% | 10% | (100)% | 1% |

| | Nine Months Ended June 30, 2013 | | | | |
|------------------------------------|---------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Research & Development | Selling & Marketing | General & Administrative | Plant Consolidation | Total Operating Expenses |
| 2012 Expenses | \$ 7,441 | \$ 16,573 | \$ 19,236 | \$ 1,013 | \$ 44,263 |
| % of Sales | 6% | 13% | 15% | 1% | 34% |
| Fiscal 2013 Increases (Decreases): | | | | | |
| U.S. Diagnostics | 388 | (209) | 1,548 | | 1,727 |
| European Diagnostics | | 253 | 18 | | 271 |
| Life Science | 210 | (13) | 682 | (1,013) | (134) |
| 2013 Expenses | \$ 8,039 | \$ 16,604 | \$ 21,484 | \$ | \$ 46,127 |
| % of Sales | 6% | 12% | 15% | % | 33% |
| % Increase (Decrease) | 8% | % | 12% | (100)% | 4% |

Overall, total operating expense increased during both the third quarter and first nine months of fiscal 2013 relative to the comparable prior fiscal year periods, but decreased as a percentage of consolidated sales on both a quarterly and year-to-date basis. These increases result in large part from the combined effects of our (i) ongoing efforts to control spending in each of our segments while investing the necessary resources in our strategic areas of growth, including increased investment in Research & Development for our molecular platform products; (ii) increased sales personnel costs in Europe in connection with filling open positions and upgrading talent; (iii) increased incentive compensation expense compared to the prior year periods based upon improved year-to-date operating results; and (iv) costs incurred in connection with the consolidation of our Saco, Maine operations into our Memphis, Tennessee location during the three and nine months ended June 30, 2012 of approximately \$366 and \$1,013, respectively. We expect to have higher levels of Research & Development spending in the fourth quarter of fiscal 2013 and during fiscal 2014 related to clinical trials for our *illumigene Chlamydia trachomatis* and *Neisseria gonorrhoeae* products.

Operating Income

Operating income increased 24% to \$15,699 for the third quarter of fiscal 2013, and increased 18% to \$44,043 for the first nine months of fiscal 2013, as a result of the factors discussed above.

Table of Contents

Income Taxes

The effective rate for income taxes was 35% and 32% for the third quarter of fiscal 2013 and 2012, respectively, and 35% and 34% for each of the nine month year-to-date periods ended June 30, 2013 and 2012. The lower prior year rates reflected a larger effect of adjusting, upon filing of the federal tax return, the previously estimated permanent differences between income for financial reporting purposes and for tax purposes. For the fiscal year ending September 30, 2013, we expect the effective tax rate to approximate 34%-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 consists of overnight repurchase agreements.

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 expect to continue to manage the holdings of our investment portfolio with preservation of capital being the primary objective.

While 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, no assurances can be made in this regard. We intend to continue to fund our working capital requirements and dividends from current cash flows from operating activities and cash on hand. If needed, we also have an additional source of liquidity through our \$30,000 bank credit facility. Our liquidity needs may change if overall economic conditions deteriorate and/or liquidity and credit within the financial markets tighten for an extended period of time, and such conditions impact the collectability of our customer accounts receivable or credit terms with our vendors, or disrupt the supply of raw materials and services.

Net cash provided by operating activities increased 2% for the first nine months of fiscal 2013 to \$32,514, reflecting the 16% increase in net earnings, along with the effects of the timing of federal income tax payments, and the timing of payments from and to customers and suppliers, respectively. Net cash flows from operating activities and cash on hand are anticipated to be adequate to fund working capital requirements, capital expenditures and dividends during the next 12 months.

Capital Resources

We have a \$30,000 credit facility with a commercial bank that expires on September 15, 2015. As of July 31, 2013, there were no borrowings outstanding on this facility and we had 100% borrowing capacity available to us. We have had no borrowings outstanding under this facility during the first nine months of fiscal 2013 or during the full year of fiscal 2012.

Our capital expenditures are estimated to range between approximately \$3,000 to \$4,000 for fiscal 2013, with the actual amount depending upon actual operating results and the phasing of certain projects. Such expenditures may be funded with cash and equivalents on hand, operating cash flows, and/or availability under the \$30,000 credit facility discussed above.

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

Recent Accounting Pronouncements

In February 2013, FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. Specifically, the new amendments to FASB ASU No. 2013-02 will require, depending upon the items being reclassified, the 1) presentation (either on the face of the statement where net income is presented or in the notes) of the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income; and/or 2) the cross-reference to other disclosures currently required under U.S. GAAP that provide additional detail about such items. These requirements will be effective prospectively for the Company beginning October 1, 2013, and we do not expect their adoption to have a significant impact on the Company's consolidated results of operations, cash flows or financial position.

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, 2012.

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2013, an evaluation was completed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2013. 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 third fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, or in other factors that could materially affect internal control subsequent to June 30, 2013.

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

The following exhibits are being filed or furnished as a part of this Quarterly Report on Form 10-Q.

- 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
- 101 The following financial information from Meridian Bioscience Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed with the SEC on August 9, 2013, formatted in XBRL includes: (i) Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2013 and 2012, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and 2012, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012, (iv) Condensed Consolidated Balance Sheets as of June 30, 2013 and September 30, 2012, (v) Condensed Consolidated Statement of Shareholders' Equity for the nine months ended June 30, 2013, and (vi) the Notes to Condensed Consolidated Financial Statements

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: August 9, 2013

By: /s/ Melissa A. Lueke
Melissa A. Lueke
Executive Vice President and

Chief Financial Officer

(Principal Financial and Accounting Officer)

Page 22