

MERIDIAN BIOSCIENCE INC
Form 10-Q
February 09, 2015
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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 December 31, 2014

OR

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

For the transition period from _____ to _____

Commission file number 0-14902

MERIDIAN BIOSCIENCE, INC.

Incorporated under the laws of Ohio

31-0888197

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

3471 River Hills Drive

Cincinnati, Ohio 45244

(513) 271-3700

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

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

Class	Outstanding January 31, 2015
Common Stock, no par value	41,705,940

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This Quarterly Report on Form 10-Q contains 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. All statements that address operating performance or events or developments that Meridian expects or anticipates will occur in the future, including, but not limited to, statements relating to per share diluted earnings and revenue, are forward-looking statements. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. Specifically, Meridian's forward-looking statements are, and will be, based on management's then-current views and assumptions regarding future events and operating performance. Meridian 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, and its ability to effectively sell such products. 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

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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. Meridian cannot predict the possible impact of U.S. health care legislation enacted in 2010 – the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act – and any modification or repeal of any of the provisions thereof, and any similar initiatives in other countries on its results of operations. Efforts to reduce the U.S. federal deficit, breaches of Meridian's information technology systems and natural disasters and other events could have a materially adverse effect on Meridian's results of operations and revenues. 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 December 31,	
	2014	2013
NET REVENUES	\$ 48,013	\$ 44,794
COST OF SALES	18,776	16,787
GROSS PROFIT	29,237	28,007
OPERATING EXPENSES		
Research and development	3,103	2,853
Selling and marketing	6,080	5,978
General and administrative	7,385	7,550
Total operating expenses	16,568	16,381
OPERATING INCOME	12,669	11,626
OTHER INCOME (EXPENSE)		
Interest income	6	4
Other, net	(582)	(220)
Total other income (expense)	(576)	(216)
EARNINGS BEFORE INCOME TAXES	12,093	11,410
INCOME TAX PROVISION	4,192	3,984
NET EARNINGS	\$ 7,901	\$ 7,426
BASIC EARNINGS PER COMMON SHARE	\$ 0.19	\$ 0.18
DILUTED EARNINGS PER COMMON SHARE	\$ 0.19	\$ 0.18
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC	41,607	41,408
EFFECT OF DILUTIVE STOCK OPTIONS AND RESTRICTED SHARES AND UNITS	334	691
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED	41,941	42,099

ANTI-DILUTIVE SECURITIES:

Common share options and restricted shares and units	566	110
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.20	\$ 0.19

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 December 31,	
	2014	2013
NET EARNINGS	\$ 7,901	\$ 7,426
Foreign currency translation adjustment	(1,365)	723
COMPREHENSIVE INCOME	\$ 6,536	\$ 8,149

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)**

Three Months Ended December 31,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 7,901	\$ 7,426
Non-cash items included in net earnings:		
Depreciation of property, plant and equipment	927	888
Amortization of intangible assets	469	526
Amortization of deferred <i>illumigene</i> instrument costs	395	438
Stock-based compensation	1,428	1,651
Deferred income taxes	100	293
Change in current assets	4,878	1,600
Change in current liabilities	246	(3,434)
Other, net	(259)	(43)
Net cash provided by operating activities	16,085	9,345
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,331)	(899)
Purchases of intangible assets		(1,638)
Net cash used for investing activities	(1,331)	(2,537)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(8,330)	(7,875)
Proceeds and tax benefits from exercises of stock options	499	407
Net cash used for financing activities	(7,831)	(7,468)
Effect of Exchange Rate Changes on Cash and Equivalents	(454)	107
Net Increase (Decrease) in Cash and Equivalents	6,469	(553)
Cash and Equivalents at Beginning of Period	43,047	44,282
Cash and Equivalents at End of Period	\$ 49,516	\$ 43,729

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands)

ASSETS

	December 31, 2014 (Unaudited)	September 30, 2014
CURRENT ASSETS		
Cash and equivalents	\$ 49,516	\$ 43,047
Accounts receivable, less allowances of \$247 and \$272	23,613	23,232
Inventories	34,428	35,495
Prepaid expenses and other current assets	3,212	7,058
Deferred income taxes	3,890	3,916
Total current assets	114,659	112,748
PROPERTY, PLANT AND EQUIPMENT, at Cost		
Land	1,167	1,173
Buildings and improvements	29,251	29,146
Machinery, equipment and furniture	40,454	40,192
Construction in progress	1,185	652
Subtotal	72,057	71,163
Less: accumulated depreciation and amortization	44,137	43,553
Net property, plant and equipment	27,920	27,610
OTHER ASSETS		
Goodwill	22,638	23,193
Other intangible assets, net	7,159	7,813
Restricted cash	1,000	1,000
Deferred <i>illumigene</i> instrument costs, net	2,477	2,740
Deferred income taxes	1,185	1,483
Other assets	400	342
Total other assets	34,859	36,571
TOTAL ASSETS	\$ 177,438	\$ 176,929

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

	December 31, 2014 (Unaudited)	September 30, 2014
CURRENT LIABILITIES		
Accounts payable	\$ 5,941	\$ 4,966
Accrued employee compensation costs	4,517	4,761
Other accrued expenses	3,018	3,149
Income taxes payable	1,073	859
Total current liabilities	14,549	13,735
NON-CURRENT LIABILITIES	2,043	2,165
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, 41,700,686 and 41,622,216 shares issued, respectively		
Additional paid-in capital	113,462	111,851
Retained earnings	48,440	48,869
Accumulated other comprehensive income (loss)	(1,056)	309
Total shareholders' equity	160,846	161,029
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 177,438	\$ 176,929

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, 2014	41,622	\$ 111,851	\$ 48,869	\$ 309	\$ 161,029
Cash dividends paid			(8,330)		(8,330)
Exercise of stock options	53	183			183
Conversion of restricted stock units	26				
Stock compensation expense		1,428			1,428
Net earnings			7,901		7,901
Foreign currency translation adjustment				(1,365)	(1,365)
Balance at December 31, 2014	41,701	\$ 113,462	\$ 48,440	\$ (1,056)	\$ 160,846

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

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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 December 31, 2014, the results of its operations for the three month periods ended December 31, 2014 and 2013, and its cash flows for the three month periods ended December 31, 2014 and 2013. These statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's fiscal 2014 Annual Report on Form 10-K. Financial information as of September 30, 2014 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 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 certain 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 \$4,950 at December 31, 2014 and \$4,220 at September 30, 2014, and have been netted against accounts receivable.

Revenue for our Diagnostics segment 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, the cost of the instrument and instrument accessories is 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.

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In markets where the test system is not sold via multiple deliverable arrangements, 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.

Trade accounts receivable are recorded in the accompanying Condensed Consolidated Balance Sheets at invoiced amounts less provisio