

MERIDIAN BIOSCIENCE INC

Form 10-Q

May 10, 2010

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2010
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 April 30, 2010 |
|----------------------------|----------------------------|
| Common Stock, no par value | 40,630,495 |

**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
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The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements accompanied by meaningful cautionary statements. Except for historical information, this report contains forward-looking statements 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 successfully integrated into Meridian's operations. The Company cannot predict the possible effects of potential healthcare reform in the United States and 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.

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

| | Three-months Ended | | Six-months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | March 31, | | March 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| NET SALES | \$ 31,147 | \$ 33,280 | \$ 73,604 | \$ 67,573 |
| COST OF SALES | 10,980 | 12,306 | 27,952 | 23,255 |
| GROSS PROFIT | 20,167 | 20,974 | 45,652 | 44,318 |
| OPERATING EXPENSES | | | | |
| Research and development | 2,315 | 2,339 | 4,393 | 4,403 |
| Selling and marketing | 4,321 | 3,975 | 9,208 | 8,942 |
| General and administrative | 4,406 | 3,655 | 9,170 | 7,810 |
| Total operating expenses | 11,042 | 9,969 | 22,771 | 21,155 |
| OPERATING INCOME | 9,125 | 11,005 | 22,881 | 23,163 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 30 | 84 | 61 | 346 |
| Other, net | 110 | 76 | (8) | (72) |
| Total other income (expense) | 140 | 160 | 53 | 274 |
| EARNINGS BEFORE INCOME TAXES | 9,265 | 11,165 | 22,934 | 23,437 |
| INCOME TAX PROVISION | 3,285 | 3,914 | 8,033 | 8,110 |
| NET EARNINGS | \$ 5,980 | \$ 7,251 | \$ 14,901 | \$ 15,327 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.15 | \$ 0.18 | \$ 0.37 | \$ 0.38 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 0.15 | \$ 0.18 | \$ 0.36 | \$ 0.37 |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC | 40,514 | 40,385 | 40,504 | 40,349 |

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| | | | | |
|--|---------|---------|---------|---------|
| EFFECT OF DILUTIVE STOCK OPTIONS | 663 | 748 | 674 | 779 |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED | 41,177 | 41,133 | 41,178 | 41,128 |
| ANTI-DILUTIVE SECURITIES: | | | | |
| Common share options | 215 | 141 | 193 | 125 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.19 | \$ 0.17 | \$ 0.36 | \$ 0.31 |

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

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

| Six Months Ended March 31 | 2010 | 2009 |
|--|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 14,901 | \$ 15,327 |
| Non-cash items: | | |
| Depreciation of property, plant and equipment | 1,530 | 1,468 |
| Amortization of intangible assets | 734 | 799 |
| Stock based compensation | 921 | 544 |
| Deferred income taxes | (1,135) | (579) |
| Loss on disposition of fixed assets | 13 | 39 |
| Unrealized loss on auction-rate securities and rights, net | 12 | 220 |
| Change in accounts receivable, inventory, and prepaid expenses | 2,944 | (2,073) |
| Change in accounts payable, accrued expenses, and income taxes payable | (3,853) | (3,382) |
| Other | 560 | 300 |
| Net cash provided by operating activities | 16,627 | 12,663 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisitions of property, plant and equipment | (2,124) | (1,734) |
| Proceeds from sales of property, plant and equipment | | 5 |
| Acquisition earnout payments | | (7) |
| Purchases of short-term investments | (1,000) | |
| Proceeds from calls of auction-rate securities | | 425 |
| Net cash used for investing activities | (3,124) | (1,311) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (14,580) | (12,510) |
| Proceeds and tax benefits from exercises of stock options | 522 | 516 |
| Other | | (7) |
| Net cash used for financing activities | (14,058) | (12,001) |
| Effect of Exchange Rate Changes on Cash and Equivalents | (681) | (342) |
| Net Decrease in Cash and Equivalents | (1,236) | (991) |
| Cash and Equivalents at Beginning of Period | 54,030 | 49,297 |
| Cash and Equivalents at End of Period | \$ 52,794 | \$ 48,306 |

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

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

ASSETS

| | March 31, 2010 | September 30, 2009 |
|---|---------------------------|-------------------------------|
| CURRENT ASSETS: | | |
| Cash and equivalents | \$ 52,794 | \$ 54,030 |
| Short-term investments | 8,273 | 7,285 |
| Accounts receivable, less allowances of \$289 and \$247 | 17,897 | 26,981 |
| Inventories | 28,488 | 23,284 |
| Prepaid expenses and other current assets | 3,682 | 3,632 |
| Deferred income taxes | 2,208 | 1,935 |
| | | |
| Total current assets | 113,342 | 117,147 |
| | | |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 880 | 894 |
| Buildings and improvements | 19,651 | 19,718 |
| Machinery, equipment and furniture | 30,952 | 30,997 |
| Construction in progress | 2,384 | 1,586 |
| | | |
| Subtotal | 53,867 | 53,195 |
| Less: accumulated depreciation and amortization | 32,851 | 32,721 |
| | | |
| Net property, plant and equipment | 21,016 | 20,474 |
| | | |
| OTHER ASSETS: | | |
| Goodwill | 9,866 | 9,866 |
| Other intangible assets, net | 6,611 | 7,317 |
| Restricted cash | 1,000 | 1,000 |
| Other assets | 206 | 193 |
| | | |
| Total other assets | 17,683 | 18,376 |
| | | |
| TOTAL ASSETS | \$ 152,041 | \$ 155,997 |

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

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

LIABILITIES AND SHAREHOLDERS' EQUITY

| | March 31, 2010 | September 30, 2009 |
|--|---------------------------|-------------------------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 4,193 | \$ 6,901 |
| Accrued employee compensation costs | 3,604 | 5,338 |
| Other accrued expenses | 4,077 | 3,803 |
| Income taxes payable | 850 | 710 |
| | | |
| Total current liabilities | 12,724 | 16,752 |
| | | |
| DEFERRED INCOME TAXES | 435 | 1,340 |
| | | |
| 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, 40,630,383 and 40,493,313 shares issued, respectively | | |
| Additional paid-in capital | 93,067 | 91,668 |
| Retained earnings | 45,836 | 45,515 |
| Accumulated other comprehensive income (loss) | (21) | 722 |
| | | |
| Total shareholders' equity | 138,882 | 137,905 |
| | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 152,041 | \$ 155,997 |

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

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

| | Common Shares Issued | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|--------------------------------|----------------------------------|----------------------|---|-----------------------------------|----------------------------------|
| Balance at September 30, 2009 | 40,493 | \$ 91,668 | \$ 45,515 | \$ 722 | | \$ 137,905 |
| Cash dividends paid | | | (14,580) | | | (14,580) |
| Exercise of stock options | 41 | 478 | | | | 478 |
| Issuance of restricted shares | 96 | | | | | |
| Stock based compensation | | 921 | | | | 921 |
| Comprehensive income: | | | | | | |
| Net earnings | | | 14,901 | | \$ 14,901 | 14,901 |
| Other comprehensive income taxes | | | | 399 | 399 | 399 |
| Foreign currency translation adjustment | | | | (1,142) | (1,142) | (1,142) |
| Comprehensive income | | | | | \$ 14,158 | |
| Balance at March 31, 2010 | 40,630 | \$ 93,067 | \$ 45,836 | \$ (21) | | \$ 138,882 |

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

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

1. Basis of Presentation:

The consolidated financial statements included herein have not been audited by an independent registered public accounting firm, but include all adjustments (consisting of normal recurring entries), which are, in the opinion of management, necessary for a fair presentation of the results for such periods.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the requirements of the Securities and Exchange Commission. We believe that the disclosures included in these financial statements are adequate to make the information not misleading.

It is suggested that these consolidated interim financial statements be read in conjunction with the consolidated annual financial statements and notes thereto, included in Meridian's Annual Report on Form 10-K for the Year Ended September 30, 2009.

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 US Diagnostics operating segment is reduced at the date of sale for estimated rebates that will be claimed by customers. Management estimates accruals for rebate agreements based on historical statistics, current trends, and other factors. Changes to the accruals are recorded in the period that they become known. Our rebate accruals were \$5,318 at March 31, 2010 and \$4,750 at September 30, 2009.

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

Trade accounts receivable are recorded in the accompanying consolidated balance sheet at invoiced amounts less provisions for rebates and doubtful accounts. The allowance for doubtful accounts represents our estimate of probable credit losses and is based on historical write-off experience. The allowance for doubtful accounts and related metrics, such as days sales outstanding, are reviewed monthly. Accounts with past due balances over 90 days are reviewed individually for collectibility. Customer invoices are charged off against the allowance when we believe it is probable 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, changes in the fair value of forward exchange contracts accounted for as cash flow hedges (fiscal 2009 only), and changes in the fair value of available-for-sale (AFS) fixed income securities (fiscal 2009 only).

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

Comprehensive income for the interim periods was as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---|-------------|---------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net earnings | \$ 5,980 | \$ 7,251 | \$ 14,901 | \$ 15,327 |
| Hedging activity | | 19 | | (3) |
| Transfer of AFS securities to trading classification | | | | 270 |
| Income taxes | 310 | 254 | 399 | 249 |
| Foreign currency translation adjustment | (885) | (744) | (1,142) | (978) |
| Comprehensive income | \$ 5,405 | \$ 6,780 | \$ 14,158 | \$ 14,865 |

(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 consolidated statements of operations.

(d) Share-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. 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, 2010 | | September 30, 2009 | |
|---|-------------------------|----------|-------------------------|----------|
| | Cash and Equivalents | Other | Cash and Equivalents | Other |
| Taxable investments - | | | | |
| Overnight repurchase agreements | \$ 14,095 | \$ | \$ | \$ |
| Money market funds | 28,275 | | 29,032 | |
| Fixed-rate municipal note | | 1,000 | | |
| Tax-exempt investments - | | | | |
| Money market funds | 143 | | 10,383 | |
| Student loan auction-rate securities and rights | | 7,273 | | 7,285 |
| Cash on hand - | | | | |
| Restricted | | 1,000 | | 1,000 |
| Unrestricted | 10,281 | | 14,615 | |
| Total | \$ 52,794 | \$ 9,273 | \$ 54,030 | \$ 8,285 |

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

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

Our auction-rate securities were purchased through UBS Financial Services, Inc. During November 2008, we accepted an offer from UBS, AG (UBS) of Auction Rate Security Rights. These rights permit us to require UBS between June 30, 2010 and July 2, 2012 (the exercise period) to purchase our auction-rate securities at par value. In exchange, UBS is granted the right, at their sole discretion, to sell or otherwise dispose of our auction-rate security investments until July 2, 2012 as long as we receive a payment of par value upon the sale or disposition. In addition, the rights permit us to establish a demand revolving credit line in an amount equal to the par value of the securities at a net no cost. We are still able to sell the auction-rate securities on our own, but in such a circumstance, we would lose the par value support from UBS. In February 2010, we notified UBS that we would be exercising our Auction Rate Security Rights effective June 30, 2010. Pursuant to the terms of the Auction Rate Security Rights, we expect to receive the par value of our auction-rate securities within one business day of settlement, on or about July 2, 2010. On May 5, 2010, UBS sold \$3,750 of our auction-rate securities at par value. We received the proceeds from this sale on May 6, 2010.

Upon executing the settlement agreement with UBS, we recognized the Auction Rate Security Rights as a stand-alone financial instrument and elected the fair value option. We also transferred the student loan

auction-rate securities from the available-for-sale classification, to the trading classification. Adjustments to the fair value of student loan auction-rate securities and Auction Rate Security Rights are recorded to other income and expense in each accounting period. As of March 31, 2010, the fair value of the student-loan auction rate securities was \$6,711 compared to a par value of \$7,275. As of March 31, 2010, the fair value of the Auction Rate Security Rights was \$562. The student loan auction-rate securities and Auction Rate Security Rights are included in current assets in the accompanying consolidated balance sheet based on the earliest exercise date of June 30, 2010. As of May 6, 2010, the par value of our auction-rate securities was \$3,525, reflecting the sale by UBS discussed above.

Table of Contents**(f) Recent Accounting Pronouncements**

During February 2010, the FASB amended its previously released guidance regarding fair value measurements and disclosures. This amendment requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and description of the reasons for such transfers. The guidance also requires disclosure of activity in Level 3 fair value measurements, including separate presentation of purchases, sales, issuances, and settlements. This amended guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disaggregation requirement for the reconciliation disclosure of Level 3 measurements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. The Company adopted the new guidance during the three months ended March 31, 2010 which did not impact the Company's consolidated results of operations, cash flows or financial position.

(g) Reclassifications

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

3. Inventories:

Inventories are comprised of the following:

| | March 31, 2010 | September 30, 2009 |
|------------------------|---------------------------|-------------------------------|
| Raw materials | \$ 5,920 | \$ 6,079 |
| Work-in-process | 7,458 | 5,916 |
| Finished goods | 16,038 | 12,314 |
| Gross inventory | 29,416 | 24,309 |
| Less: Reserves | (928) | (1,025) |
| Net inventory | \$ 28,488 | \$ 23,284 |

4. Major Customers and Segment Information:

Meridian was formed in 1976 and functions as a fully integrated research, development, manufacturing, marketing and sales organization with primary emphasis in the field of life science. Our principal businesses are (i) the development, manufacture and distribution of diagnostic test kits primarily for certain respiratory, gastrointestinal, viral and parasitic infectious diseases, (ii) the manufacture and distribution of bulk antigens, antibodies, and reagents used by researchers and other diagnostic manufacturers and (iii) the contract manufacture of proteins and other biologicals under clinical cGMP conditions for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Our reportable operating segments are US Diagnostics, European Diagnostics, and Life Science. The US Diagnostics operating segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in North America, South America and the Pacific Rim. The European Diagnostics operating segment consists of the sale and distribution of diagnostic test kits in Europe, Scandinavia, Africa, and the Middle East. The Life Science operating segment consists of manufacturing operations in Memphis, Tennessee, Saco, Maine, and Boca Raton, Florida, and the sale and distribution of bulk antigens, antibodies and bioresearch reagents domestically and abroad. The Life Science operating segment also includes the contract development and manufacture of cGMP clinical grade proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

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Two customers accounted for 48% and 50% of the US Diagnostics operating segment third-party sales during the three months ended March 31, 2010 and 2009, respectively, and 61% and 56% during the six months ended March 31, 2010 and 2009, respectively. Two customers accounted for 31% and 25% of the Life Science operating segment third-party sales during the three months ended March 31, 2010 and 2009, respectively, and 32% and 28% during the six months ended March 31, 2010 and 2009, respectively.

Segment information for the interim periods is as follows:

| | US | European | | | |
|-----------------------------------|--------------------|--------------------|-------------|------------------------|--------------|
| | Diagnostics | Diagnostics | Life | Eliminations(1) | Total |
| 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 |
| Total assets (March 31, 2010) | 128,579 | 17,564 | 58,530 | (52,632) | 152,041 |
| | | | | | |
| Three Months Ended | | | | | |
| March 31, 2009 | | | | | |
| Net sales - | | | | | |
| Third-party | \$ 21,461 | \$ 6,599 | \$ 5,220 | \$ | \$ 33,280 |
| Inter-segment | 2,488 | 6 | 92 | (2,586) | |
| Operating income | 8,288 | 1,255 | 1,375 | 87 | 11,005 |
| Total assets (September 30, 2009) | 131,586 | 18,221 | 55,592 | (49,402) | 155,997 |
| | | | | | |
| 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 |
| | | | | | |
| Six months ended March 31, | | | | | |
| 2009 | | | | | |
| Net sales - | | | | | |
| Third-party | \$ 44,946 | \$ 12,270 | \$ 10,357 | \$ | \$ 67,573 |
| Inter-segment | 4,976 | 6 | 280 | (5,262) | |
| Operating income | 18,675 | 2,105 | 2,222 | 161 | 23,163 |

(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. Total assets for the US Diagnostics and Life Science operating segments include goodwill of \$1,381 and \$8,485, respectively, at March 31, 2010 and September 30, 2009.

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

A summary of our acquired intangible assets subject to amortization, as of March 31, 2010 and September 30, 2009 is as follows:

| | Wtd Avg Amort Period (Yrs) | March 31, 2010 | | September 30, 2009 | |
|--|--|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Manufacturing technologies, core products and cell lines | 19 | \$ 10,124 | \$ 7,342 | \$ 10,755 | \$ 7,672 |
| Trademarks, licenses and patents | 13 | 1,658 | 903 | 2,772 | 1,974 |
| Customer lists and supply agreements | 14 | 8,505 | 5,431 | 11,040 | 7,604 |
| | | \$ 20,287 | \$ 13,676 | \$ 24,567 | \$ 17,250 |

The actual aggregate amortization expense for these intangible assets for the three months ended March 31, 2010 and 2009 was \$339 and \$394, respectively. The actual aggregate amortization expense for these intangible assets for the six months ended March 31, 2010 and 2009 was \$734 and \$799, respectively.

6. Hedging Transactions:

Prior to February 1, 2009, we managed exchange rate risk related to forecasted intercompany sales denominated in the Euro currency through the use of forward exchange contracts and designated such forward contracts as cash flow hedges. As such, the effective portion of the gain or loss on the derivative instrument was reported as a component of other comprehensive income and reclassified into revenues in the Consolidated Statement of Operations in the same period or periods during which the hedged transaction affected earnings. As of March 31, 2010 and September 30, 2009, we had no such contracts outstanding.

During January 2009, 500 notional amount of these contracts were settled in accordance with their original maturities. The realized gain on these contracts was \$32. Also during January 2009, we accelerated the settlement of the remaining 2,700 notional amount of forward exchange contracts that were originally scheduled to mature between February 27, 2009 and December 31, 2009. These transactions resulted in a gain of approximately \$140 that was recorded in the second quarter of fiscal 2009. We unwound these forward exchange contracts after completing a strategic review of our foreign currency exposures. This strategic review revealed that we have natural currency hedges in place for consolidated gross profit and operating income via certain Meridian-branded diagnostic test kits that we purchase in Euros from suppliers in Spain and Germany.

7. Fair Value Measurements:

We value certain financial assets and liabilities at fair value. 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.

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Level 3: Unobservable inputs, developed using the Company's estimates and assumptions, which reflect those that the market participants would use. Such inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Determining where an asset or liability falls within the hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in the assessment of fair value.

Financial assets and liabilities carried at fair value at March 31, 2010 and September 30, 2009 and are classified in the tables below into one of the three categories described above:

Balances as of March 31, 2010

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|------------------|----------------|-----------------|------------------|
| Money market funds | \$ 28,418 | \$ | \$ | \$ 28,418 |
| Student loan auction-rate securities | | | 6,711 | 6,711 |
| UBS Auction-Rate Security Rights | | | 562 | 562 |
| Total | \$ 28,418 | \$ | \$ 7,273 | \$ 35,691 |

Balances as of September 30, 2009

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|------------------|----------------|-----------------|------------------|
| Money market funds | \$ 39,415 | \$ | \$ | \$ 39,415 |
| Student loan auction-rate securities | | | 6,708 | 6,708 |
| UBS Auction-Rate Security Rights | | | 577 | 577 |
| Total | \$ 39,415 | \$ | \$ 7,285 | \$ 46,700 |

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The failed auction status and lack of liquidity for our student loan auction-rate securities and the non-transferability of our UBS Auction Rate Security Rights requires the use of a valuation methodology that relies primarily on Level 3 inputs including market, tax status, credit quality, duration, recent market observations and overall capital market liquidity. The valuation of our student loan auction-rate securities and UBS Auction Rate Security Rights is subject to factors that are difficult to predict. Factors that may impact the valuations include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity. The following table provides a summary of changes in fair value of Level 3 assets, which include auction-rate securities and UBS Auction Rate Security Rights for the three and six months ended March 31, 2010 and March 31, 2009.

| | Student loan auction-rate securities | UBS Auction Rate Security Rights | Total Level 3 |
|---|---|---|--------------------------|
| Balance at September 30, 2009 | \$ 6,708 | \$ 577 | \$ 7,285 |
| Unrealized gains (losses) included in current period earnings | (26) | 11 | (15) |
| Balance at December 31, 2009 | \$ 6,682 | \$ 588 | \$ 7,270 |
| Unrealized gains (losses) included in current period earnings | 29 | (26) | 3 |
| Total at March 31, 2010 | \$ 6,711 | \$ 562 | \$ 7,273 |

| | Student loan auction-rate securities | UBS Auction Rate Security Rights | Total Level 3 |
|---|---|---|--------------------------|
| Balance at September 30, 2008 | \$ 7,480 | \$ | \$ 7,480 |
| Acquire UBS Auction Rate Security Rights | | 660 | 660 |
| Proceeds from redemptions of auction-rate securities | (425) | | (425) |
| Unrealized gains (losses) included in current period earnings | (494) | | (494) |
| Balance at December 31, 2008 | \$ 6,561 | \$ 660 | \$ 7,221 |
| Unrealized gains (losses) included in current period earnings | 34 | (150) | (116) |
| Total at March 31, 2009 | \$ 6,595 | \$ 510 | \$ 7,105 |

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.

Overview

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.

Our consolidated sales decreased 6% to \$31,147 for the second quarter of fiscal 2010 compared to the same period of the prior year, primarily driven by a 51% decrease in sales in Upper Respiratory products for our Diagnostic operating segments. This decrease was partially offset by a 22% increase in sales for our Life Science operating segment, driven by an approximately 50% increase in sales to our two largest customers for this operating segment. Our consolidated operating income and net earnings decreased 17% and 18%, respectively, for the second quarter of fiscal 2010 compared to the same period of the prior year.

Our consolidated sales increased 9% to \$73,604 for the first six months of fiscal 2010 compared to the same period of the prior year, primarily driven by volume increases in Upper Respiratory products, *H. pylori* products, and foodborne products. Sales of *C. difficile* products decreased 17%. For the six-month period, sales for our Life Science operating segment increased 14%. Our consolidated operating income and net earnings decreased 1% and 3%, respectively, for the first six months of fiscal 2010 compared to the same period of the prior year.

Group Purchasing Organizations

In our US Diagnostics operating segment, consolidation of the US 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 six months of fiscal 2010, we have experienced approximately \$1,200 in unfavorable price variance as a result of these agreements. However, these agreements help secure our products with these customers and have led to approximately \$1,100 in favorable volume variance. While in the near term this has negatively impacted gross profit, further increases in volumes are expected from these contracts.

Table of Contents**Upper Respiratory Products**

The novel A (H1N1) influenza outbreak in the Northern hemisphere created an early start to the 2009-2010 influenza season. This outbreak continued into the first quarter of our fiscal 2010 and came to an abrupt end in December 2009. For our US Diagnostics operating segment, sales of influenza products comprised 24% and 2% of total US Diagnostics sales for the first and second quarters of fiscal 2010, respectively. The level of inventories at our US distributors, combined with a mild influenza season, resulted in very weak sales of influenza products during the second quarter of fiscal 2010.

The novel A (H1N1) influenza pandemic also created an increased interest in influenza testing in European markets where rapid testing has not been traditionally performed, resulting in sales growth of approximately 23% in this operating segment on an organic basis (excluding currency) for the first six months of fiscal 2010 for this product family. Similar to US markets, sales of influenza products declined during the second quarter of fiscal 2010.

We expect minimal influenza product sales during the remainder of our fiscal year, in light of both the end of the outbreak and current inventory levels at our US distributors.

Foodborne Products

During the first six months of fiscal 2010, sales of our Foodborne products grew approximately 20% for our US Diagnostics operating segment and 30%+ for our European Diagnostics operating segment on an organic basis. We continue to see volume growth coming from new products launched over the last few fiscal years (ImmunoCard STAT![®] EHEC launched in fiscal 2007, and Premier[™] CAMPY and ImmunoCard STAT![®] CAMPY launched in fiscal 2009).

C. difficile Products

Sales of *C. difficile* products decreased 29% for all of our Diagnostics operating segments during the first quarter of fiscal 2010 and were flat during the second quarter of fiscal 2010 compared to the same periods of the prior year.

Sales of *C. difficile* products for our US Diagnostics operating segment were impacted by distributor buying patterns during the first two quarters of fiscal 2009, when one of our distributors stocked higher than normal inventory levels in advance of our January 1st price increase and decreased purchases during the second quarter. This distributor stocked normal inventory levels for our *C. difficile* products during fiscal 2010.

The *C. difficile* market also continues to experience considerable confusion around the relative benefits of the various test methods available (toxin testing, antigen testing and molecular testing). Several new competitive products, including molecular assays, have been introduced into this market, causing competitive pressures for our products. These competitive factors resulted in significant sales declines in both of our diagnostic operating segments.

We expect to combat the competitive pressures in this disease family with our strong position in toxin testing and the launch of our *illumigene*[™] molecular *C. difficile* product. Our new molecular test for *C. difficile* on our *illumigene*[™] platform has been submitted to the FDA for marketing clearance. Revenue contributions from the launch of this technology began during April 2010 in markets outside the US.

H. pylori Products

During each of the first two quarters of fiscal 2010, sales of our *H. pylori* products grew 10%+ for our US Diagnostics operating segment and 3% for our European Diagnostics operating segment on an organic basis. Although the sales growth rate for our US Diagnostics operating segment reflects a level of buying pattern difference in our national reference lab customer base, our partnerships with managed care companies in promoting the health and economic benefits of a test and treat strategy is beginning to move physician behavior away from serology-based testing to direct antigen testing.

Life Science

Sales for our Life Science operating segment increased 6% for the first quarter of fiscal 2010 and 22% for the second quarter of fiscal 2010, with an increase for the first six months of fiscal 2010 of 14%. This increase reflects growth from our two largest diagnostic manufacturing customers. We continue to expect high single-digit growth for this operating segment during the remainder of fiscal 2010.

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Significant Customers

Two national distributors in our US Diagnostics operating segment accounted for 48% and 50% of total sales for this operating segment for the second quarters of fiscal 2010 and 2009, respectively, and 61% and 56% of total sales for this operating segment for the first six months of fiscal 2010 and 2009, respectively. The fluctuations in percentage of sales during the second quarter and six month periods of fiscal 2010 reflect inventory stocking of influenza and other products during the first quarter and other products for these national distributors.

Two diagnostic manufacturing customers in our Life Science operating segment accounted for 31% and 25% of total sales for this operating segment for the second quarters of fiscal 2010 and 2009, respectively, and 32% and 28% of total sales for this operating segment for the first six months of fiscal 2010 and 2009, respectively.

Foreign Currency

Sales growth for our European Diagnostics operating segment included the effect of more favorable currency rates in the amount of approximately \$900 for the first six months of fiscal 2010. Sales for this operating segment decreased 2% on an organic basis for the first six months of fiscal 2010.

Operating Segment Revenues

Our reportable operating segments are US Diagnostics, European Diagnostics, and Life Science. The US Diagnostics operating segment consists of manufacturing operations in Cincinnati, Ohio, and the sale and distribution of diagnostic test kits in North America, South America and the Pacific Rim. The European Diagnostics operating segment consists of the sale and distribution of diagnostic test kits in Europe, Scandinavia, Africa, and the Middle East. The Life Science operating segment consists of manufacturing operations in Memphis, Tennessee, Saco, Maine, and Boca Raton, Florida, and the sale and distribution of bulk antigens, antibodies and bioresearch reagents domestically and abroad. The Life Science operating segment also includes the contract development and manufacture of cGMP clinical grade proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

Revenues for the Diagnostics operating segments, in the normal course of business, may be affected from quarter to quarter by buying patterns of major distributors, seasonality and strength of certain diseases and foreign currency exchange rates. Revenues for the Life Science operating segment, in the normal course of business, may be affected from quarter to quarter by the timing and nature of arrangements for contract services work, which may have longer production cycles than bioresearch reagents and bulk antigens and antibodies, as well as buying patterns of major customers.

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Revenues for our each of our operating segments are shown below.

| | Three Months Ended March 31 | | | Six Months Ended March 31 | | |
|----------------------|-----------------------------|-----------|--------------|---------------------------|-----------|--------------|
| | 2010 | 2009 | Inc (Dec) | 2010 | 2009 | Inc (Dec) |
| US Diagnostics | \$ 18,193 | \$ 21,461 | -15% | \$ 48,897 | \$ 44,946 | +9% |
| European Diagnostics | 6,591 | 6,599 | % | 12,885 | 12,270 | +5% |
| Life Science | 6,363 | 5,220 | +22% | 11,822 | 10,357 | +14% |
| Consolidated | \$ 31,147 | \$ 33,280 | -6% | \$ 73,604 | \$ 67,573 | +9% |
| International - | | | | | | |
| US Export | \$ 1,248 | \$ 1,599 | -22% | \$ 2,977 | \$ 2,696 | +10% |
| Life Science Export | 2,792 | 2,117 | +32% | 5,252 | 4,487 | +17% |
| European Diagnostics | 6,591 | 6,599 | % | 12,885 | 12,270 | +5% |
| Total | \$ 10,631 | \$ 10,315 | +3% | \$ 21,114 | \$ 19,453 | +9% |
| % of total sales | 34% | 31% | | 29% | 29% | |

Gross Profit

| | Three Months Ended March 31, | | | Six Months Ended March 31, | | |
|---------------------|------------------------------|-----------|---------------|----------------------------|-----------|--------------|
| | 2010 | 2009 | Inc (Dec) | 2010 | 2009 | Inc (Dec) |
| Gross Profit | \$ 20,167 | \$ 20,974 | -4% | \$ 45,652 | \$ 44,318 | +3% |
| Gross Profit Margin | 65% | 63% | +2 points% | 62% | 66% | -4 points% |

Gross profit margin for the first six months of fiscal 2010 was negatively impacted by the strong mix of Upper Respiratory sales during the first quarter of fiscal 2010. With the end of the H1N1 influenza pandemic in December 2009, sales mix shifted in favor of our other product families in the second quarter, showing an increase of 5 points in gross profit margin from 60% in the first quarter to 65% in the second quarter.

As we move forward, we expect that our internally developed and manufactured TRU FLU® and TRU RSV® products will improve overall gross profit margins for the Upper Respiratory product family, as these products now represent in excess of 40% of total influenza and respiratory syncytial virus product sales for our US Diagnostics operating segment.

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

Table of Contents**Operating Expenses**

| | Three months ended March 31 | | | | Six months ended March 31 | | | |
|--|------------------------------|----------------------|--------------------------------|--------------------------------|------------------------------|----------------------|--------------------------------|--------------------------------|
| | Research & Development | Sales & Marketing | General & Administrative | Total Operating Expenses | Research & Development | Sales & Marketing | General & Administrative | Total Operating Expenses |
| 2009 Expenses | \$ 2,339 | \$ 3,975 | \$ 3,655 | \$ 9,969 | \$ 4,403 | \$ 8,942 | \$ 7,810 | \$ 21,155 |
| % of Sales | 7% | 12% | 11% | 30% | 7% | 13% | 12% | 31% |
| Fiscal 2010 Increases (Decreases): | | | | | | | | |
| US Diagnostics | (221) | 247 | 476 | 502 | (326) | 241 | 1,089 | 1,004 |
| European Diagnostics | | 16 | 119 | 135 | | (16) | 156 | 140 |
| Life Science | 197 | 83 | 156 | 436 | 316 | 41 | 115 | 472 |
| 2010 Expenses | \$ 2,315 | \$ 4,321 | \$ 4,406 | \$ 11,042 | \$ 4,393 | \$ 9,208 | \$ 9,170 | \$ 22,771 |
| % of Sales | 7% | 14% | 14% | 35% | 6% | 13% | 12% | 31% |
| % Increase (Decrease) | -1% | +9% | +21% | +11% | \$ % | +3% | +17% | +8% |

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

Research and development expenses for the US Diagnostics operating segment decreased for the second quarter and the six-month period primarily due to development costs for our molecular *illumigene*TM *C. difficile* product in fiscal 2009. This product has been submitted to the FDA for marketing clearance. Expenses related to clinical trials in fiscal 2009 for immunoassay products also contributed to these decreases, which were to some extent offset by increased salaries and benefits for planned headcount additions. Research and development expenses for the Life Science operating segment increased for the second quarter and six-month period primarily due to increased salaries and benefits related to filling of open positions and decreased research and development resource allocations between new product development and contract research and development performed for customers under contracts.

Selling and marketing expenses for the US Diagnostics operating segment increased for the second quarter and the six-month period primarily due to costs related to the launch of our new molecular *illumigene*TM *C. difficile* product in fiscal 2010 and outside marketing, partially offset by decreased sales bonus expense in fiscal 2010.

The increase in general and administrative expenses for our US Diagnostics operating segment relates primarily to increased compensation costs and includes stock based compensation costs related to a time-vested restricted stock grant in November 2009. During the second quarter of 2009, accruals for corporate incentive bonus related to the first quarter of 2009 were reversed, causing bonus expense to be negative for the quarter. During the second quarter of 2010, no corporate incentive bonus was accrued. Accordingly, bonus expense was higher for the 2010 period.

Operating Income

Operating income decreased 17% to \$9,125 for the second quarter of fiscal 2010 and decreased 1% to \$22,881 for the first six months of fiscal 2010, as a result of the factors discussed above.

Other Income and Expense

Interest income decreased 64% for the second quarter of fiscal 2010 and 82% for the first six months of fiscal 2010 compared to the same periods of the prior fiscal year. This decrease was driven by lower interest yields due to a higher

concentration of investments in money market funds in fiscal 2010 and lower interest rates in the current interest rate environment.

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Income Taxes

The effective rate for income taxes was 35% for the second quarters and the first six months of both fiscal 2010 and 2009. For the fiscal year ending September 30, 2010, Meridian expects the effective tax rate to be 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 contains overnight repurchase agreements, institutional money-market mutual funds, municipal debt obligations and tax-exempt auction-rate securities.

We have an investment policy that guides the holdings of our investment portfolio. Our objectives in managing the investment portfolio are to (i) preserve capital, (ii) provide sufficient liquidity to meet working capital requirements and fund strategic objectives such as acquisitions, and (iii) capture a market rate of return commensurate with market conditions and our policy's investment eligibility criteria. As a result of conditions in the financial markets, we have chosen to keep the maturity of our investment portfolio very short. 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. We also have additional sources of liquidity through our investment portfolio and a \$30,000 bank credit facility, if needed. To date, we have not experienced any significant deterioration in the aging of our customer accounts receivable nor in our vendors' ability to supply raw materials and services and extend normal credit terms. Our liquidity needs may change if overall economic conditions worsen and/or liquidity and credit within the financial markets remains tight for an extended period of time, and such conditions impact the collectability of our customer accounts receivable, or impact credit terms with our vendors, or disrupt the supply of raw materials and services.

Net cash provided by operating activities increased 31% for the first six months of fiscal 2010 to \$16,629, despite decreases in net earnings. This increase was primarily attributable to net working capital changes related to fluctuations in sales levels. Net cash flows from operating activities 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 which expires on September 15, 2012. As of April 30, 2010, 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 2010, or during the full year of fiscal 2009.

Our capital expenditures are estimated to be approximately \$5,000 for fiscal 2010 and may be funded with operating cash flows, availability under the \$30,000 credit facility, or cash and investments on-hand. Capital expenditures relate to manufacturing and other equipment of a normal and recurring nature, the build out of the recently purchased property in the Village of Newtown, Ohio, and an expansion of our Memphis, Tennessee manufacturing facility.

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

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Other

Healthcare Legislation

In March 2010, the Patient Protection and Affordable Health Care Act of 2009 was signed into law by the president and the Health Care and Education Affordability Reconciliation Act of 2010 was passed by the House of Representatives. This legislation establishes a 2.3% excise tax on the sales of medical devices that retail for more than one hundred dollars beginning in 2013. At existing sales levels in our US markets, this would result in an annual excise tax in excess of \$2,000 for our company. It is unknown at the present time whether this cost can be passed on to customers.

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, 2009.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2010, 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, 2010. 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 first 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, 2010.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Meridian's Annual Meeting of Shareholders was held on January 21, 2010. Each of the following matters was voted upon and approved by Meridian's shareholders as indicated below:

(1) Election of the following six directors:

James M. Anderson, 30,043,397 votes for, 292,999 votes withheld, 22,525 abstentions, and 6,077,337 broker non-votes.

James A. Buzard, 26,387,455 votes for, 3,946,375 votes withheld, 25,090 abstentions, and 6,077,338 broker non-votes.

John A. Kraeutler, 29,171,499 votes for, 1,168,909 votes withheld, 18,513 abstentions, and 6,077,337 broker non-votes.

Gary P. Kreider, 25,417,792 votes for, 4,925,285 votes withheld, 15,843 abstentions, and 6,077,338 broker non-votes.

William J. Motto, 28,771,305 votes for, 1,570,600 votes withheld, 17,015 abstentions and 6,077,338 broker non-votes.

David C. Phillips, 29,542,886 votes for, 800,410 votes withheld, 15,624 abstentions and 6,077,338 broker non-votes.

Robert J. Ready, 28,961,810 votes for, 1,381,935 votes withheld, 15,174 abstentions, and 6,077,339 broker non-votes.

(2) Ratification of the appointment of Grant Thornton LLP as Meridian's independent registered public accounting firm for fiscal 2010: 36,291,603 votes for, 53,113 votes against, and 91,542 abstentions.

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ITEM 6. EXHIBITS

- 31.1 Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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 7, 2010

/s/ Melissa Lueke

Melissa Lueke
Executive Vice President and
Chief Financial Officer

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