

MERIDIAN BIOSCIENCE INC
Form 10-Q
August 11, 2014
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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 June 30, 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

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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, 2014
Common Stock, no par value	41,567,521

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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. 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, 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 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 U.S. healthcare legislation enacted in 2010 the Patient Protection and Affordable Care Act, as amended by the Healthcare 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. 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,	
	2014	2013	2014	2013
NET REVENUES	\$ 47,212	\$ 47,108	\$ 142,140	\$ 139,724
COST OF SALES	17,970	16,477	53,298	49,554
GROSS PROFIT	29,242	30,631	88,842	90,170
OPERATING EXPENSES				
Research and development	3,146	2,711	9,185	8,039
Selling and marketing	6,249	5,440	18,787	16,604
General and administrative	6,715	6,781	20,446	21,484
Total operating expenses	16,110	14,932	48,418	46,127
OPERATING INCOME	13,132	15,699	40,424	44,043
OTHER INCOME (EXPENSE)				
Interest income	5	12	15	38
Other, net	(257)	(160)	(505)	225
Total other income (expense)	(252)	(148)	(490)	263
EARNINGS BEFORE INCOME TAXES	12,880	15,551	39,934	44,306
INCOME TAX PROVISION	4,045	5,392	13,373	15,424
NET EARNINGS	\$ 8,835	\$ 10,159	\$ 26,561	\$ 28,882
BASIC EARNINGS PER COMMON SHARE	\$ 0.21	\$ 0.25	\$ 0.64	\$ 0.70
DILUTED EARNINGS PER COMMON SHARE	\$ 0.21	\$ 0.24	\$ 0.63	\$ 0.69
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	41,478	41,304	41,445	41,209
EFFECT OF DILUTIVE STOCK OPTIONS AND RESTRICTED SHARES AND UNITS	618	679	669	654
	42,096	41,983	42,114	41,863

**WEIGHTED AVERAGE NUMBER OF COMMON SHARES
OUTSTANDING - DILUTED**

ANTI-DILUTIVE SECURITIES:

Common share options and restricted shares and units	337	256	161	295
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DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.20	\$ 0.19	\$ 0.59	\$ 0.57
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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,	
	2014	2013	2014	2013
NET EARNINGS	\$ 8,835	\$ 10,159	\$ 26,561	\$ 28,882
Foreign currency translation adjustment	361	154	1,421	(817)
COMPREHENSIVE INCOME	\$ 9,196	\$ 10,313	\$ 27,982	\$ 28,065

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,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 26,561	\$ 28,882
Non-cash items included in net earnings:		
Depreciation of property, plant and equipment	2,634	2,522
Amortization of intangible assets	1,549	1,715
Amortization of deferred <i>illumigene</i> instrument costs	1,281	1,131
Stock-based compensation	2,662	1,984
Deferred income taxes	(438)	(1,356)
Loss on disposition and write-down of fixed assets and other assets	22	30
Change in current assets	(6,804)	(3,125)
Change in current liabilities	(4,055)	951
Other, net	199	(220)
Net cash provided by operating activities	23,611	32,514
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,968)	(2,193)
Purchases of intangible assets	(1,687)	(20)
Net cash used for investing activities	(5,655)	(2,213)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(24,464)	(23,500)
Proceeds and tax benefits from exercises of stock options	629	2,094
Net cash used for financing activities	(23,835)	(21,406)
Effect of Exchange Rate Changes on Cash and Equivalents	882	(125)
Net (Decrease) Increase in Cash and Equivalents	(4,997)	8,770
Cash and Equivalents at Beginning of Period	44,282	31,593
Cash and Equivalents at End of Period	\$ 39,285	\$ 40,363

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

	June 30, 2014 (Unaudited)	September 30, 2013
CURRENT ASSETS		
Cash and equivalents	\$ 39,285	\$ 44,282
Accounts receivable, less allowances of \$214 and \$233	25,806	26,183
Inventories	37,605	34,835
Prepaid expenses and other current assets	6,423	4,643
Deferred income taxes	4,331	4,145
Total current assets	113,450	114,088
PROPERTY, PLANT AND EQUIPMENT, at Cost		
Land	1,184	1,183
Buildings and improvements	26,930	26,848
Machinery, equipment and furniture	39,225	38,502
Construction in progress	2,982	554
Subtotal	70,321	67,087
Less: accumulated depreciation and amortization	43,014	40,996
Net property, plant and equipment	27,307	26,091
OTHER ASSETS		
Goodwill	23,826	23,115
Other intangible assets, net	8,472	8,057
Restricted cash	1,000	1,000
Deferred <i>illumigene</i> instrument costs, net	2,982	3,270
Deferred income taxes	1,380	823
Other assets	346	304
Total other assets	38,006	36,569
TOTAL ASSETS	\$ 178,763	\$ 176,748

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, 2014 (Unaudited)	September 30, 2013
CURRENT LIABILITIES		
Accounts payable	\$ 6,416	\$ 5,592
Accrued employee compensation costs	3,914	9,670
Other accrued expenses	5,738	5,462
Income taxes payable	875	979
Total current liabilities	16,943	21,703
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, 41,564,271 and 41,517,839 shares issued, respectively		
Additional paid-in capital	110,669	107,412
Retained earnings	48,985	46,888
Accumulated other comprehensive income	2,166	745
Total shareholders' equity	161,820	155,045
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 178,763	\$ 176,748

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

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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	Total Shareholders' Equity
Balance at September 30, 2013	41,518	\$ 107,412	\$ 46,888	\$ 745	\$ 155,045
Cash dividends paid			(24,464)		(24,464)
Exercise of stock options	44	595			595
Conversion of restricted stock units	3				
Cancellation of restricted shares	(1)				
Stock compensation expense		2,662			2,662
Net earnings			26,561		26,561
Foreign currency translation adjustment					