MERIDIAN BIOSCIENCE INC
Form 10-Q
February 06, 2007

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

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

For the Quarterly Period Ended December 31, 2006

OR

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

For the transition period from to

Commission file number 0-14902
MERIDIAN BIOSCIENCE, INC.
Incorporated under the laws of Ohio
31-0888197
(I.R.S. Employer Identification No.)
3471 River Hills Drive
Cincinnati, Ohio 45244
(513) 271-3700

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

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

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

Class	Outstanding January 31, 2007
Common Stock, no par value	26,287,336

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 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 any forward-looking statements. 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. 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 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. In addition to the factors described in this paragraph, Part I, Item 1A Risk Factors of our Form 10-K contains a list of uncertainties and risks that may affect the financial performance of the Company.

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(in thousands, except per share data)

Three Months Ended December 31	2006	2005
NET SALES	$28,720	$24,908
COST OF SALES	11,123	9,758
Gross Profit	17,597	15,150
OPERATING EXPENSES:		
Research and development	1,315	1,152
Selling and marketing	4,195	4,218
General and administrative	4,044	3,610
Total operating expenses	9,554	8,980
Operating income	8,043	6,170
OTHER INCOME (EXPENSE):		
Interest income	395	249
Interest expense	(30)	(35)
Other, net	64	(92)
Total other income (expense)	429	122
Earnings Before Income Taxes	8,472	6,292
INCOME TAX PROVISION	2,908	2,330
NET EARNINGS	$ 5,564	$ 3,962
BASIC EARNINGS PER COMMON SHARE	$ 0.21	$ 0.15
DILUTED EARNINGS PER COMMON SHARE	$ 0.21	$ 0.15
AVERAGE NUMBER OF BASIC COMMON SHARES OUTSTANDING	26,189	26,019
DILUTIVE COMMON SHARE OPTIONS	638	692
AVERAGE NUMBER OF DILUTED COMMON SHARES OUTSTANDING	26,827	26,711

ANTI-DILUTIVE SECURITIES:		
Common share options	106	104
Convertible debentures	154	192
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.115	$ 0.08

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)

Three Months Ended December 31	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 5,564	$ 3,962
Non-cash items:		
Depreciation of property, plant and equipment	684	674
Amortization of intangible assets and deferred costs	409	436
Stock based compensation	423	130
Deferred income taxes	209	(562)
Loss on disposition of fixed assets	2	42
Change in accounts receivable, inventory, and prepaid expenses	362	91
Change in accounts payable, accrued expenses, and income taxes payable	(2,918)	(1,843)
Other	(132)	212
Net cash provided by operating activities	4,603	3,142
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant and equipment	(364)	(1,056)
Purchase of intangibles	(265)	
Sales of short-term investments	4,000	
Net cash provided by (used in) investing activities	3,371	(1,056)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt obligations		(229)
Dividends paid	(3,015)	(2,092)
Proceeds and tax benefits from exercises of stock options	922	586
Net cash used in financing activities	(2,093)	(1,735)
Effect of Exchange Rate Changes on Cash	35	(92)
Net Increase in Cash and Equivalents	5,916	259
Cash and Equivalents at Beginning of Period	36,348	33,085
Cash and Equivalents at End of Period	$42,264	$33,344

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

	December 31, 2006	September 30, 2006
CURRENT ASSETS:		
Cash and equivalents	$ 42,264	$ 36,348
Short term investments		4,000
Accounts receivable, less allowances of $392 and $408 for doubtful accounts	17,927	19,645
Inventories	19,427	17,680
Prepaid expenses and other current assets	2,120	2,109
Deferred income taxes	1,152	1,387
Total current assets	82,890	81,169
PROPERTY, PLANT AND EQUIPMENT:		
Land	707	701
Buildings and improvements	15,989	15,963
Machinery, equipment and furniture	23,415	22,902
Construction in progress	644	870
Subtotal	40,755	40,436
Less: accumulated depreciation and amortization	23,249	22,629
Net property, plant and equipment	17,506	17,807
OTHER ASSETS:		
Deferred debenture offering costs, net	84	106
Goodwill	9,897	9,864
Other intangible assets, net	10,677	10,816
Restricted cash	1,000	1,000
Other assets	191	193
Total other assets	21,849	21,979
TOTAL ASSETS	$ 122,245	$ 120,955

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

	December 31, 2006	September 30, 2006
CURRENT LIABILITIES:		
Accounts payable	$ 3,224	$ 3,671
Accrued payroll costs	4,106	7,896
Purchase business combination liabilities	969	937
Other accrued expenses	4,452	3,955
Income taxes payable	5,871	4,158
Total current liabilities	18,622	20,617
CONVERTIBLE SUBORDINATED DEBENTURES	1,486	1,803
DEFERRED INCOME TAXES	3,723	3,758
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Preferred stock, no par value, 1,500,000 shares authorized, none issued		
Common shares, no par value, 50,000,000 shares authorized, 26,226,648 and 26,157,185 shares issued, respectively		
Additional paid-in capital	75,886	74,950
Retained earnings	22,466	19,917
Accumulated other comprehensive income (loss)	62	(90)
Total shareholders equity	98,414	94,777
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 122,245	$ 120,955

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, 2006	26,157	$ 74,950	$ 19,917	$ (90)	$	$ 94,777
Dividends paid			(3,015)			(3,015)
Exercise of stock options, net of tax	37	211				211
Stock based compensation		423				423
Bond conversion	33	302				302
Comprehensive income:						
Net earnings			5,564		5,564	5,564
Hedging activity				(39)	(39)	(39)
Other comprehensive income taxes				(84)	(84)	(84)
Foreign currency translation adjustment				275	275	275
Comprehensive income					$ 5,716	
Balance at December 31, 2006	26,227	$ 75,886	$ 22,466	$ 62		$ 98,414

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
(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, although Meridian believes 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, 2006.

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

2. Significant Accounting Policies:

(a) Revenue Recognition

Meridian s revenues are derived primarily from product sales. Revenue is generally recognized 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. Rebate agreements are in place with certain independent national distributors and are designed to reimburse such distributors for their cost in handling Meridian s products. Management estimates rebate accruals based on historical statistics, current trends, and other factors. Changes to these rebate accruals are recorded in the period that they become known.

Life Science operating segment revenue for contract services may come from standalone arrangements for process development and/or optimization work (contract research and development services) or multiple-deliverable arrangements that include process development work followed by larger-scale manufacturing (contract manufacturing services). Revenue is recognized based on the nature of the arrangements, using the principles in EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. 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

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upon completion and acceptance by the customer. For contract manufacturing services, revenue is recognized upon delivery of product and acceptance by the customer.

(b) Comprehensive Income

Comprehensive income represents the net change in shareholders equity during a period from sources other than transactions with shareholders. Meridian s comprehensive income is comprised of net earnings, foreign currency translation, and changes in the fair value of forward exchange contracts accounted for as cash flow hedges.

(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. Meridian prepares 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 Meridian s tax returns, which typically occurs in the third and fourth quarters of the current fiscal year for the preceding fiscal year s estimates.

From time to time, Meridian s tax returns in Federal, state, and foreign jurisdictions are examined by the applicable tax authorities. Meridian s tax provisions take into consideration the judgmental nature of certain tax positions through the establishment of reserves for differences between the probable tax determinations and the as filed tax positions of certain assets and liabilities. To the extent that tax benefits result from the completion of these examinations or the passing of statutes of limitation, they will affect tax liabilities in the period known. Meridian believes that the results of any tax authority examinations would not have a significant adverse impact on financial condition or results of operation.

(d) Stock-based Compensation

Meridian accounts for stock-based compensation pursuant to SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R requires recognition of compensation expense for all share-based awards made to employees and outside directors, based upon the fair value of the share-based award on the date of the grant.

(e) Cash equivalents

Meridian considers most short-term investments with original maturities of 90 days or less to be cash equivalents. Auction-rate securities are separately classified as short-term investments in the consolidated financial statements.

(f) Short-term investments

Auction rate securities are classified as short-term investments in the consolidated financial statements and are accounted for as available-for-sale securities under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. As such, unrealized holding gains and losses are reported as a component of other comprehensive income until

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realized. The carrying value of these securities was equal to their fair value as of September 30, 2006. Meridian did not own any auction rate securities as of December 31, 2006.

(g) Derivative financial instruments

Meridian accounts for its foreign currency forward exchange contracts in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. These instruments are designated as cash flow hedges, and therefore, the effective portion of the net gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For the ineffective portion of the hedge, gains or losses are charged to earnings in the current period. All derivative instruments are recognized as either assets or liabilities at fair value in the consolidated balance sheets. See Note 7.

3. Inventories:

Inventories are comprised of the following (in thousands):

	December 31, 2006	September 30, 2006
Raw materials	$ 4,562	$ 3,973
Work-in-process	5,339	5,139
Finished goods	9,526	8,568
	$ 19,427	$ 17,680

4. Segment Information:

Meridian s 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 diagnostics test kits in the US and countries outside of Europe, Africa and the Middle East. The European Diagnostics operating segment consists of the sale and distribution of diagnostics test kits in Europe, 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 proteins and other biologicals for use by biopharmaceutical and biotechnology companies engaged in research for new drugs and vaccines.

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Segment information for the interim periods ended December 31, 2006 and 2005 is as follows (in thousands):

	US Diagnostics	European Diagnostics	Life Science	Eliminations[1]	Total
2006					
Net sales-					
Third-party	$ 18,954	$ 5,255	$ 4,511	$	$ 28,720
Inter-segment	2,220		269	(2,489)	
Operating income	7,181	886	19	(43)	8,043
Total assets (December 31, 2006)	111,729	12,843	41,981	(44,308)	122,245
2005					
Net sales-					
Third-party	$ 15,994	$ 4,235	$ 4,679	$	$ 24,908
Inter-segment	1,697		124	(1,821)	
Operating income	5,069	606	486	9	6,170
Total assets (September 30, 2006)	109,678	12,716	42,178	(43,617)	120,955

[1] Eliminations consist of intersegment 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 US Diagnostics and Life Science include goodwill of $1,579,000 and $8,318,000, respectively, at December 31, 2006, and $1,579,000 and $8,285,000, respectively, at September 30, 2006.

5. Intangible Assets:

A summary of Meridian s acquired intangible assets subject to amortization, as of December 31, 2006 and September 30, 2006 is as follows (in thousands):

		December 31, 2006		September 30, 2006	
	Wtd Avg Amort Period (Yrs)	**Gross Carrying Value**	**Accumulated Amortization**	**Gross Carrying Value**	**Accumulated Amortization**
Core products and cell lines	15	$ 4,698	$ 2,094	$ 4,698	$ 2,023
Manufacturing technologies	15	5,907	3,821	5,907	3,743
Trademarks, licenses and patents	12	2,270	1,591	2,005	1,545
Customer lists and supply agreements	13	10,636	5,328	10,633	5,116
		$23,511	$ 12,834	$23,243	$ 12,427

The actual aggregate amortization expense for these intangible assets for the three months ended December 31, 2006 and 2005 was $407,000 and $432,000, respectively.

6. Debenture Conversion and Redemption Transactions:

As of September 30, 2006, Meridian had outstanding a total of $1,803,000 principal amount of convertible subordinated debentures due September 1, 2013, bearing interest at 5%. These

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debentures are convertible at the option of the holder into common shares at a price of $9.67. Holders converted $317,000 principal amount of debentures into 32,778 common shares during the first three months of fiscal 2007.

7. Hedging Transactions:

Meridian has historically entered into forward exchange contracts that were not designated as hedging instruments under SFAS No. 133, but rather, were used to offset the earnings impact related to the variability in the US dollar/Euro exchange rate on certain intercompany sales transactions denominated in the Euro currency. Changes in the fair values of these contracts were immediately recognized in earnings to offset the re-measurement of intercompany receivables denominated in the Euro currency.

During the third quarter of fiscal 2006, Meridian began designating newly executed forward exchange contracts as cash flow hedges under SFAS No. 133. The purpose of these contracts is to hedge cash flows related to forecasted intercompany sales denominated in the Euro currency. The following table presents Meridian s hedging portfolio as of December 31, 2006 (amounts in thousands).

Notional Amount	Contract Value	Estimated Fair Value	Average Exchange Rate	Maturity
2,450	$3,204	$ 3,252	1.3286	FY 2007

At December 31, 2006, $26,000 of unrealized losses were included in accumulated other comprehensive income in the consolidated balance sheet, compared to unrealized gains of $13,000 at September 30, 2006. This amount is expected to be reclassified into net earnings within the next twelve months. The estimated fair value of forward contracts outstanding at December 31, 2006 and September 30, 2006 is based on quoted amounts provided by the counterparties to these contracts.

8. Subsequent Events

On January 30, 2007, Meridian called for conversion $1,486,000 principal of outstanding 5% convertible debentures to be completed on March 1, 2007. The debentures will be redeemed at a 1% premium, as per the terms of the debentures. Meridian expects the cash cost of this redemption to be $1,501,000, if none of the debentures are converted to common stock prior to March 1, 2007. Related deferred debenture costs will be expensed in the second quarter of fiscal 2007 in the amount of $84,000. This redemption is expected to reduce annual interest expense by $74,000.

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.

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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.

Operating Segments:

Meridian s 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 diagnostics test kits in the US and countries outside of Europe, Africa and the Middle East. The European Diagnostics operating segment consists of the sale and distribution of diagnostics test kits in Europe, Africa and the Middle East. The Life Science operating segment consists of manufacturing operations in Memphis, Tennessee, Saco, Maine, and Boca Raton, Florida; the sale and distribution of bulk antigens, antibodies, and bioresearch reagents domestically and abroad; and contract research and development and manufacturing services.

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. Meridian believes that the overall breadth of its product lines serves to reduce the variability in consolidated sales from quarter to quarter. Meridian has implemented hedging strategies that are intended to reduce the effects of foreign currency translation on sales of the European Diagnostics operating segment.

Results of Operations:

Three Months Ended December 31, 2006 Compared to Three Months Ended December 31, 2005

Net sales

Overall, net sales increased 15% to $28,720,000 for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006. Net sales for the US Diagnostics operating segment increased $2,960,000, or 19%, for the European Diagnostics operating segment increased $1,020,000, or 24%, and for the Life Science operating segment decreased $168,000, or 4%.

For the US Diagnostics operating segment, the sales increase was primarily related to C. *difficile* products (increased $1,351,000), respiratory products (increased $919,000), H. *pylori* products (increased $390,000), and parasitology products (increased $354,000). The increase in sales of C. *difficile* products related primarily to volume increases for Immuno*Card*© Toxins A & B. The increase in sales of respiratory products was driven by increased market share and increased purchases by one national distributor. Two national distributors accounted for 59% and 51% of total sales for the US Diagnostics operating segment for the first quarters of 2007 and 2006, respectively.

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For the European Diagnostics operating segment, the sales increase includes currency translation gains in the amount of $406,000. Sales in local currency increased 15% for both the first quarter of fiscal 2007 and full-year fiscal 2006. The increase in local currency was primarily driven by sales of C. *difficile* products (increased $417,000) and H. *pylori* products (increased $235,000).

For the Life Science operating segment, sales declined 4% for the quarter due to customer delays in shipments of bulk viral proteins to one customer and timing of contract services work following completion of projects during fiscal 2006. Sales to one customer accounted for 17% and 22% of total sales for this operating segment for the first quarters of fiscal 2007 and 2006, respectively. In response to this negative sales growth, the Life Science operating segment has consolidated three formerly distinct sales and marketing teams and continues to work with major customers to smooth demand requirements. These efforts are expected to yield a return to growth from this operating segment during the second half of fiscal 2007.

For all operating segments combined, international sales were $8,533,000, or 30% of total sales, for the first quarter of fiscal 2007, compared to $7,274,000, or 29% of total sales, for the first quarter of fiscal 2006. Combined domestic exports for the US Diagnostics and Life Science operating segments were $3,278,000 for the first quarter of fiscal 2007, compared to $3,039,000 for the first quarter of fiscal 2006. The remaining international sales were generated by the European Diagnostics operating segment.

Gross Profit

Gross profit increased 16% to $17,597,000 for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006. Gross profit margins improved 0.5% for the first quarter of fiscal 2007 but rounded to 61% for both the first quarters of fiscal 2007 and fiscal 2006.

Meridian s 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, and contract research and development and contract manufacturing services. Product sales mix shifts, in the normal course of business, can cause the consolidated gross profit margin to fluctuate by several points.

Operating Expenses

Operating expenses increased 6% to $9,554,000, for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006. The overall increase in operating expenses for the first quarter of fiscal 2007 is discussed below.

Research and development expenses increased 14% to $1,315,000 for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006, and as a percentage of sales, were 5% for the first quarters of fiscal 2007 and fiscal 2006. Of this increase, $123,000 related to the US Diagnostics operating segment and $40,000 related to the Life Science operating segment. The increase for the US Diagnostics operating segment was primarily related to additional headcount for new product development.

Selling and marketing expenses decreased 1% to $4,195,000 for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006, and as a percentage of sales, decreased from 17% for

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the first quarter of fiscal 2006 to 15% for the first quarter of fiscal 2007. Of this decrease, $315,000 related to the US Diagnostics operating segment, offset by increases of $264,000 related to the European Diagnostics operating segment and $28,000 related to the Life Science operating segment. The decrease for the US Diagnostics operating segment was primarily attributable to sales promotions in the first quarter of fiscal 2006, decreased advertising costs and decreased distributor incentives. The increase for the European Diagnostics operating segment was primarily attributable to the sales bonus expense related to higher sales levels in certain regions.

General and administrative expenses increased 12% to $4,044,000 for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006, and as a percentage of sales, were 14% for the first quarters of fiscal 2007 and fiscal 2006. Of this increase, $474,000 related to the US Diagnostics operating segment, offset by decreases of $11,000 and $29,000 related to the European Diagnostics and Life Science operating segments, respectively. The increase for the US Diagnostics operating segment was primarily attributable to higher costs for stock-based compensation, increased bonus accruals for the Company s Corporate Incentive Bonus plan and increased salaries and benefits costs.

Operating Income

Operating income increased 30% to $8,043,000 for the first quarter of fiscal 2007, as a result of the factors discussed above.

Other Income and Expense

Interest income increased 59% to $395,000 for the first quarter of fiscal 2007, compared to $249,000 for the first quarter of fiscal 2006. This increase was caused by investment of operating cash generated during fiscal 2006 in tax-exempt cash equivalent instruments and higher yields.

Income Taxes

The effective rate for income taxes was 34% for the first quarter of fiscal 2007 compared to 37% for the first quarter of fiscal 2006. The decrease in the effective tax rate was primarily attributable to the favorable effects of tax-exempt interest and the federal research and development tax credit that was renewed and extended by Congress and the President in December 2006. For the fiscal year ending September 30, 2007, Meridian expects the effective tax rate to approximate 35%.

From time to time, Meridian s tax returns in Federal, state, and foreign jurisdictions are examined by the applicable tax authorities. Meridian s tax provisions take into consideration the judgmental nature of certain tax positions through the establishment of reserves for differences between the probable tax determinations and the as filed tax positions of certain assets and liabilities. To the extent that tax benefits result from the completion of these examinations or the passing of statutes of limitation, they will affect tax liabilities in the period known. Meridian believes that the results of any tax authority examinations would not have a significant adverse impact on financial condition or results of operation.

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Liquidity and Capital Resources:

Comparative Cash Flow Analysis

Meridian s operating cash flow and financing requirements are determined by analyses of operating and capital spending budgets and consideration of acquisition plans. Meridian has historically maintained line of credit availability to respond quickly to acquisition opportunities. This line of credit has been supplemented by the proceeds from the September 2005 common share offering, which are invested in tax-exempt cash-equivalent securities.

Net cash provided by operating activities increased 46% to $4,603,000 for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006. This increase was driven by increases in net income levels.

Net cash provided by investing activities was $3,371,000 for the first quarter of fiscal 2007 compared to net cash used in investing activities of $1,056,000 for the first quarter of fiscal 2006. This increase related to the sale of auction-rate securities during the first quarter of fiscal 2007 and decreased capital expenditures.

Net cash used for financing activities was $2,093,000 for the first quarter of fiscal 2007 compared to $1,735,000 for the first quarter of fiscal 2006. The increase primarily related to increased dividend levels and common shares outstanding.

Net cash flows from operating activities are anticipated to fund working capital requirements, debt service, and dividends during fiscal 2007.

Capital Resources

Meridian has a $25,000,000 credit facility with a commercial bank. This facility includes $2,500,000 of term debt and capital lease capacity and a $22,500,000 revolving line of credit that expires in September 2007. As of January 31, 2007, there were no borrowings outstanding on the line of credit portion of this facility. Meridian expects to renew this facility during the second or third quarter of fiscal 2007.

As of September 30, 2006, Meridian had outstanding a total of $1,803,000 principal amount of convertible subordinated debentures due September 1, 2013, bearing interest at 5%. These debentures are convertible at the option of the holder into common shares at a price of $9.67. Holders converted $317,000 principal amount of debentures into 32,778 common shares during the first quarter of fiscal 2007. These conversion transactions are expected to reduce annual interest expense by $16,000.

On January 30, 2007, Meridian called for conversion $1,486,000 principal of outstanding 5% convertible debentures to be completed on March 1, 2007. The debentures will be redeemed at a 1% premium, as per the terms of the debentures. Meridian expects the cash cost of this redemption to be $1,501,000, if none of the debentures are converted to common stock prior to March 1, 2007. Related deferred debenture costs will be expensed in the second quarter of fiscal 2007 in the amount of $84,000. This redemption is expected to reduce annual interest expense by $74,000.

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The Viral Antigens acquisition, completed in fiscal 2000, provided for additional purchase consideration, contingent upon Viral Antigens future earnings through September 30, 2006. Earnout consideration was payable each year, following the period earned. Earnout consideration in the amount of $853,000 is included in the accompanying consolidated balance sheet in purchase business combination liabilities. This final earnout amount was paid from operating cash flows in January 2007.

The OEM Concepts acquisition, completed in fiscal 2005, provides for additional purchase consideration up to a maximum remaining amount of $1,973,000, contingent upon future calendar-year sales and gross profit of OEM Concepts products through December 31, 2008. Earnout consideration is payable each year, following the period earned. Earnout consideration in the amount of $116,000 related to calendar 2006 is included in the accompanying consolidated balance sheet in purchase business combination liabilities. Such earnout consideration is expected to be paid from operating cash flows during the second quarter of fiscal 2007.

Meridian s capital expenditures are estimated to be $5,000,000 for fiscal 2007 and may be funded with operating cash flows, availability under the $25,000,000 credit facility, or cash equivalent investments. Capital expenditures relate to manufacturing and other equipment of a normal and recurring nature.

We do not utilize any special-purpose financing vehicles or have any undisclosed off balance sheet arrangements. Similarly, the Company holds no fair-value contracts for which a lack of marketplace quotations would necessitate the use of fair value techniques.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Meridian has market risk exposure related to foreign currency transactions.

Meridian is exposed to foreign currency risk related to its European distribution operations, including foreign currency denominated intercompany receivables. See Note 7.

ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2006, an evaluation was completed under the supervision and with the participation of Meridian s management, including Meridian s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Meridian s 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, Meridian s management, including the CEO and CFO, concluded that Meridian s disclosure controls and procedures were effective as of December 31, 2006. There have been no changes in Meridian s 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, Meridian s internal control over financial reporting, or in other factors that could materially affect internal control subsequent to December 31, 2006.

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PART II. OTHER INFORMATION

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: February 6, 2007

/s/ Melissa Lueke

Melissa Lueke
Vice President and Chief Financial Officer