

MERIDIAN BIOSCIENCE INC
Form 10-Q
February 09, 2017
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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 December 31, 2016

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 January 31, 2017 |
|----------------------------|-------------------------------------|
| Common Stock, no par value | 42,202,397 |

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This Quarterly Report on Form 10-Q contains forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements accompanied by meaningful cautionary statements. Except for historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, which may be identified by words such as estimates, anticipates, projects, plans, seeks, may, will, expects, intends, believes, should and similar expressions or the negative versions thereof and which also may be identified by their context. All statements that address operating performance or events or developments that Meridian expects or anticipates will occur in the future, including, but not limited to, statements relating to per share diluted earnings and revenue, are forward-looking statements. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. Specifically, Meridian's forward-looking statements are, and will be, based on management's then-current views and assumptions regarding future events and operating performance. Meridian assumes no obligation to publicly

update or revise any forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized. These statements are subject to various risks, uncertainties and other factors that could cause actual results to differ materially, including, without limitation, the following: Meridian's continued growth depends, in part, on its ability to introduce into the marketplace enhancements of existing products or new products that incorporate technological advances, meet customer requirements and respond to products developed by Meridian's competition, and its ability to effectively sell such products. While Meridian has introduced a number of internally developed products, there can be no assurance that it will be successful in the future in introducing such products on a timely basis or in protecting its intellectual property. Meridian relies on proprietary, patented and licensed technologies. As such, 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, as well as the uncertainty of regulatory approvals and the regulatory process. The international scope of Meridian's operations, including changes in the relative strength or weakness of the U.S. dollar and general economic conditions in foreign countries, can impact results and make them difficult to predict. One of Meridian's growth strategies is the acquisition of companies and product lines. There can be no assurance that additional acquisitions will be consummated or that, if consummated, will be successful and the acquired businesses will be successfully integrated into Meridian's operations. There may be risks that acquisitions may disrupt operations and may pose potential difficulties in employee retention, and there may be additional risks with respect to Meridian's ability to recognize the benefits of acquisitions, including potential synergies and cost savings or the failure of acquisitions to achieve their plans and objectives. Meridian cannot predict the possible impact of U.S. health care legislation enacted in 2010 the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act and any modification or repeal of any of the provisions thereof, and any similar initiatives in other countries on its results of operations. Efforts to reduce the U.S. federal deficit, breaches of Meridian's information technology systems and natural disasters and other events could have a materially adverse effect on Meridian's results of operations and revenues. In addition to the factors described in this paragraph, Part I, Item 1A Risk Factors of our Annual Report on Form 10-K contains a list and description of uncertainties, risks and other matters that may affect the Company. Readers should carefully review these forward-looking statements and risk factors and not place undue reliance on our forward-looking statements.

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

| | Three Months Ended December 31, | |
|---|--|-------------|
| | 2016 | 2015 |
| NET REVENUES | \$ 46,809 | \$ 47,160 |
| COST OF SALES | 17,359 | 15,577 |
| GROSS PROFIT | 29,450 | 31,583 |
| OPERATING EXPENSES | | |
| Research and development | 3,405 | 3,381 |
| Selling and marketing | 7,514 | 6,443 |
| General and administrative | 8,446 | 8,173 |
| Total operating expenses | 19,365 | 17,997 |
| OPERATING INCOME | 10,085 | 13,586 |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 22 | 17 |
| Interest expense | (423) | |
| Other, net | (25) | 96 |
| Total other income (expense) | (426) | 113 |
| EARNINGS BEFORE INCOME TAXES | 9,659 | 13,699 |
| INCOME TAX PROVISION | 3,380 | 4,806 |
| NET EARNINGS | \$ 6,279 | \$ 8,893 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.15 | \$ 0.21 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 0.15 | \$ 0.21 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC | 42,159 | 41,947 |
| EFFECT OF DILUTIVE STOCK OPTIONS AND RESTRICTED SHARE UNITS | 376 | 380 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED | 42,535 | 42,327 |

ANTI-DILUTIVE SECURITIES:

| | | |
|---|-----|-----|
| Common share options and restricted share units | 715 | 450 |
|---|-----|-----|

| | | |
|--|----------------|----------------|
| DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.20 | \$ 0.20 |
|--|----------------|----------------|

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income (Unaudited)****(in thousands)**

| | Three Months Ended December 31, | |
|---|--|-------------|
| | 2016 | 2015 |
| NET EARNINGS | \$ 6,279 | \$ 8,893 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment | (1,423) | (787) |
| Unrealized gain on cash flow hedge | 1,560 | |
| Income taxes related to items of other comprehensive income | (589) | |
| Other comprehensive income (loss), net of tax | (452) | (787) |
| COMPREHENSIVE INCOME | \$ 5,827 | \$ 8,106 |

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Unaudited)****(in thousands)**

| Three Months Ended December 31, | 2016 | 2015 |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | \$ 6,279 | \$ 8,893 |
| Non-cash items included in net earnings: | | |
| Depreciation of property, plant and equipment | 1,078 | 896 |
| Amortization of intangible assets | 968 | 388 |
| Amortization of deferred instrument costs | 257 | 281 |
| Stock-based compensation | 1,884 | 1,611 |
| Deferred income taxes | 2,091 | 433 |
| Change in current assets | 1,616 | (1,186) |
| Change in current liabilities | (869) | 834 |
| Other, net | (311) | (58) |
| Net cash provided by operating activities | 12,993 | 12,092 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (1,392) | (776) |
| Purchase of equity method investment | | (600) |
| Purchase of intangibles and other assets | | (16) |
| Net cash used for investing activities | (1,392) | (1,392) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (8,440) | (8,407) |
| Payment on term loan | (750) | |
| Proceeds and tax benefits from exercises of stock options | 301 | 1,470 |
| Net cash used for financing activities | (8,889) | (6,937) |
| Effect of Exchange Rate Changes on Cash and Equivalents | (662) | (314) |
| Net Increase in Cash and Equivalents | 2,050 | 3,449 |
| Cash and Equivalents at Beginning of Period | 47,226 | 49,973 |
| Cash and Equivalents at End of Period | \$ 49,276 | \$ 53,422 |

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands)**ASSETS

| | December 31, 2016 (Unaudited) | September 30, 2016 |
|---|--|-------------------------------|
| CURRENT ASSETS | | |
| Cash and equivalents | \$ 49,276 | \$ 47,226 |
| Accounts receivable, less allowances of \$346 and \$334 | 24,278 | 27,102 |
| Inventories | 44,709 | 45,057 |
| Prepaid expenses and other current assets | 7,785 | 7,406 |
| Total current assets | 126,048 | 126,791 |
| PROPERTY, PLANT AND EQUIPMENT, at Cost | | |
| Land | 1,147 | 1,155 |
| Buildings and improvements | 31,595 | 31,487 |
| Machinery, equipment and furniture | 45,712 | 45,085 |
| Construction in progress | 1,953 | 1,947 |
| Subtotal | 80,407 | 79,674 |
| Less: accumulated depreciation and amortization | 49,975 | 49,224 |
| Net property, plant and equipment | 30,432 | 30,450 |
| OTHER ASSETS | | |
| Goodwill | 60,705 | 61,982 |
| Other intangible assets, net | 29,348 | 29,855 |
| Restricted cash | 1,000 | 1,000 |
| Deferred instrument costs, net | 1,339 | 1,392 |
| Fair value of interest rate swap | 831 | |
| Other assets | 352 | 353 |
| Total other assets | 93,575 | 94,582 |
| TOTAL ASSETS | \$ 250,055 | \$ 251,823 |

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

Table of Contents**MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(dollars in thousands)**LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, 2016 (Unaudited) | September 30, 2016 |
|--|--|-------------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 7,511 | \$ 7,627 |
| Accrued employee compensation costs | 5,064 | 7,106 |
| Other accrued expenses | 2,833 | 2,606 |
| Current portion of long-term debt | 4,125 | 3,750 |
| Income taxes payable | 1,511 | 1,482 |
| Total current liabilities | 21,044 | 22,571 |
| NON-CURRENT LIABILITIES | | |
| Acquisition consideration | 2,383 | 2,383 |
| Non-current compensation liabilities | 2,458 | 2,305 |
| Fair value of interest rate swap | | 729 |
| Long-term debt | 53,495 | 54,610 |
| Deferred income taxes | 4,943 | 2,753 |
| Total non-current liabilities | 63,279 | 62,780 |
| 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, 42,202,067 and 42,106,587 shares issued, respectively | | |
| Additional paid-in capital | 124,229 | 122,356 |
| Retained earnings | 47,471 | 49,632 |
| Accumulated other comprehensive loss | (5,968) | (5,516) |
| Total shareholders' equity | 165,732 | 166,472 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 250,055 | \$ 251,823 |

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 (Loss) | Total Shareholders Equity |
|---|----------------------------|----------------------------------|----------------------|---|---------------------------------|
| Balance at September 30, 2016 | 42,107 | \$ 122,356 | \$ 49,632 | \$ (5,516) | \$ 166,472 |
| Cash dividends paid | | | (8,440) | | (8,440) |
| Exercise of stock options | 18 | (11) | | | (11) |
| Conversion of restricted share units | 77 | | | | |
| Stock compensation expense | | 1,884 | | | 1,884 |
| Net earnings | | | 6,279 | | 6,279 |
| Foreign currency translation adjustment | | | | (1,423) | (1,423) |
| Hedging activity, net of tax | | | | 971 | 971 |
| Balance at December 31, 2016 | 42,202 | \$ 124,229 | \$ 47,471 | \$ (5,968) | \$ 165,732 |

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

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MERIDIAN BIOSCIENCE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Dollars in Thousands, Except Per Share Amounts

(Unaudited)

1. Basis of Presentation

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of Management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of December 31, 2016, the results of its operations for the three month periods ended December 31, 2016 and 2015, and its cash flows for the three month periods ended December 31, 2016 and 2015. These statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's fiscal 2016 Annual Report on Form 10-K. Financial information as of September 30, 2016 has been derived from the Company's audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the year.

2. Significant Accounting Policies

A summary of the Company's significant accounting policies is included in Note 1 to the audited consolidated financial statements of the Company's fiscal 2016 Annual Report on Form 10-K.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes and replaces nearly all currently-existing U.S. GAAP revenue recognition guidance including related disclosure requirements. This guidance, including any clarification guidance thereon, will be effective for the Company beginning October 1, 2018 (fiscal 2019). While the Company has begun the process of identifying, categorizing and analyzing its various revenue streams, the Company has not yet completed its assessment of the impact that adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the accounting guidance related to leases. These changes, which are designed to increase transparency and comparability among organizations for both lessees and lessors, include, among other things, requiring recognition of lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Adoption and implementation of the guidance is not required by the Company until the beginning of fiscal 2020, although early adoption is permitted. The Company has not yet completed its assessment of the impact that adoption of this guidance will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends the accounting for share-based payment transactions. These changes, which are designed for simplification,

involve several aspects of the accounting for share-based transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Adoption and implementation of the guidance is not required by the Company until the beginning of fiscal 2018, although early adoption is permitted. The Company has not yet completed its assessment of the impact that adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The update addresses certain specific cash flows and their treatment, with the objective being to reduce the existing diversity in how the items are presented and classified within the statement of cash flows. Adoption and implementation of the guidance is not required by the Company until the beginning of fiscal 2019, although early adoption is permitted. Adoption of this guidance is not expected to have a significant impact on the Company's statement of cash flows.

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In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, which intends to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Adoption and implementation of the guidance is not required by the Company until the beginning of fiscal 2019, although early adoption is permitted. While the Company has not yet completed its assessment of the impact that adoption of this guidance will have on its financial statements, in light of the levels of such transfer activity within the Company, adoption of this guidance is not expected to have a significant impact on the Company's consolidated results of operations, cash flows or financial position.

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

3. Acquisition of Magellan

On March 24, 2016, we acquired all of the outstanding common stock of Magellan Biosciences, Inc., and its wholly-owned subsidiary Magellan Diagnostics, Inc. (collectively, Magellan), for \$67,874, utilizing the proceeds from a \$60,000 five-year term loan and cash and equivalents on hand. An amount of the acquisition consideration totaling \$2,383 remains payable to the sellers, pending the realization of tax benefits for certain net operating loss carryforwards in future tax returns, which is included within non-current liabilities on our Condensed Consolidated Balance Sheet. Headquartered near Boston, Massachusetts, Magellan is a leading manufacturer of FDA-cleared products for the testing of blood to diagnose lead poisoning in children and adults. Magellan is the leading provider of point-of-care lead testing systems in the U.S.

Since the consideration paid exceeds the preliminary fair value of the net assets acquired, goodwill in the amount of \$40,572 was recorded in connection with this acquisition, none of which will be deductible for tax purposes. This goodwill results largely from the addition of Magellan's complementary customer base and distribution channels, industry reputation in the U.S. as a leader in lead testing, and management talent and workforce.

The Magellan results of operations, which are included in our Condensed Consolidated Statement of Operations for the three months ended December 31, 2016 and reported as part of the Diagnostics operating segment, include \$726 of general and administrative expenses related to the depreciation of the fair value adjustment to acquired property, plant and equipment, and the amortization of specific identifiable intangible assets recorded on the opening balance sheet, including customer relationships, technology, non-compete agreements, and trade names.

The Company's consolidated results for the three months ended December 31, 2016 include net revenues and net earnings from Magellan totaling \$5,199 and \$468, respectively, and reflect the items noted above and exclude interest expense on the debt secured by Meridian in connection with the transaction.

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The recognized preliminary amounts of identifiable assets acquired and liabilities assumed in the acquisition of Magellan are as follows:

| | March 24, 2016 (as initially reported) | PRELIMINARY Measurement Period Adjustments | March 24, 2016 (as adjusted) |
|---|---|---|---|
| Fair value of assets acquired - | | | |
| Cash and equivalents | \$ 3,400 | \$ | \$ 3,400 |
| Accounts receivable | 1,700 | | 1,700 |
| Inventories | 1,400 | | 1,400 |
| Other current assets | 300 | | 300 |
| Property, plant and equipment | 2,800 | (200) | 2,600 |
| Goodwill | 42,800 | (2,200) | 40,600 |
| Other intangible assets (estimated useful life): | | | |
| Customer relationships (15 years) | 12,600 | 300 | 12,900 |
| Technology (10 years) | 10,600 | 300 | 10,900 |
| Non-compete agreements (2 years) | 700 | | 700 |
| Trade names (approximate 9 year weighted average) | 3,700 | (700) | 3,000 |
| | 80,000 | (2,500) | 77,500 |
| Fair value of liabilities assumed - | | | |
| Accounts payable and accrued expenses | 1,600 | 100 | 1,700 |
| Deferred income tax liabilities | 10,600 | (2,700) | 7,900 |
| Total consideration (including \$2,400 accrued to be paid; see discussion above) | \$ 67,800 | \$ 100 | \$ 67,900 |

As indicated, the allocation of the purchase price and estimated useful lives of property, plant and equipment, and intangible assets shown remain preliminary, pending final completion of valuations.

The consolidated pro forma results of the combined entities of Meridian and Magellan, had the acquisition date been October 1, 2015, are as follows for the periods indicated:

| | Three Months Ended December 31, | |
|--------------|--|-------------|
| | 2016 | 2015 |
| Net Revenues | \$ 46,809 | \$ 51,095 |
| Net Earnings | \$ 6,279 | \$ 8,517 |

These pro forma amounts have been calculated by including the results of Magellan, and adjusting the combined results to give effect to the following, as if the acquisition had been consummated on October 1, 2015, together with

the consequential tax effects thereon:

- (i) reflect the additional depreciation and amortization that would have been charged in connection with the preliminary fair value adjustments to inventory, property, plant and equipment, and identifiable intangible assets (\$869 in the quarter ended December 31, 2015);
- (ii) reflect equity-based awards granted under the Company's 2012 Stock Incentive Plan to certain Magellan employees in accordance with executed employment agreements, and to certain Meridian employees to reward them for their efforts in connection with the transaction (\$110 in the quarter ended December 31, 2015); and
- (iii) reflect the interest expense that would have been incurred on the Company's \$60,000 term note (\$429 in the quarter ended December 31, 2015).

Table of Contents**4. Cash and Equivalents**

Cash and equivalents include the following components:

| | December 31, 2016 | | September 30, 2016 | |
|----------------------------------|----------------------|--------------|----------------------|--------------|
| | Cash and Equivalents | Other Assets | Cash and Equivalents | Other Assets |
| Overnight repurchase agreements | \$ 15,628 | \$ | \$ 9,988 | \$ |
| Institutional money market funds | 10,006 | | 10,020 | |
| Cash on hand - | | | | |
| Restricted | | 1,000 | | 1,000 |
| Unrestricted | 23,642 | | 27,218 | |
| Total | \$ 49,276 | \$ 1,000 | \$ 47,226 | \$ 1,000 |

5. Inventories

Inventories are comprised of the following:

| | December 31, | September 30, |
|------------------------------------|--------------|---------------|
| | 2016 | 2016 |
| Raw materials | \$ 7,642 | \$ 7,639 |
| Work-in-process | 13,535 | 13,146 |
| Finished goods - instruments | 2,113 | 2,378 |
| Finished goods - kits and reagents | 21,419 | 21,894 |
| Total | \$ 44,709 | \$ 45,057 |

6. Intangible Assets

A summary of our acquired intangible assets subject to amortization, as of December 31, 2016 and September 30, 2016, is as follows:

| | December 31, 2016 | | September 30, 2016 | |
|--|----------------------|--------------------------|----------------------|--------------------------|
| | Gross Carrying Value | Accumulated Amortization | Gross Carrying Value | Accumulated Amortization |
| Manufacturing technologies, core products and cell lines | \$ 22,230 | \$ 11,800 | \$ 21,921 | \$ 11,540 |
| Trade names, licenses and patents | 9,035 | 4,124 | 9,037 | 3,947 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Customer lists, customer relationships and supply agreements | 24,285 | 10,728 | 24,385 | 10,511 |
| Non-compete agreements | 720 | 270 | 680 | 170 |
| | \$ 56,270 | \$ 26,922 | \$ 56,023 | \$ 26,168 |

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The actual aggregate amortization expense for these intangible assets was \$968 and \$388 for the three months ended December 31, 2016 and 2015, respectively. The estimated aggregate amortization expense for these intangible assets for each of the fiscal years through fiscal 2022 is as follows: remainder of fiscal 2017 \$2,794, fiscal 2018 \$3,524, fiscal 2019 \$3,303, fiscal 2020 \$3,144, fiscal 2021 \$2,560, and fiscal 2022 \$2,164.

7. Bank Credit Arrangements

In connection with the acquisition of Magellan (see Note 3), on March 22, 2016 the Company entered into a \$60,000 five-year term loan with a commercial bank. The term loan requires quarterly principal and interest payments, with interest at a variable rate tied to LIBOR, and a balloon principal payment due March 31, 2021. The required principal payments on the term loan for each of the five succeeding fiscal years are as follows: remainder of fiscal 2017 \$3,000, fiscal 2018 \$4,500, fiscal 2019 \$5,250, fiscal 2020 \$6,000, and fiscal 2021 \$39,000. In light of the term loan's interest being determined on a variable rate basis, the fair value of the term loan at December 31, 2016 approximates the current carrying value reflected in the accompanying Condensed Consolidated Balance Sheet.

In order to limit exposure to volatility in the LIBOR interest rate, the Company and the commercial bank also entered into an interest rate swap that effectively converts the variable interest rate on the term loan to a fixed rate of 2.76%. With an initial notional balance of \$60,000, the interest rate swap has been established with critical terms identical to those of the term loan, including (i) notional reduction amounts and dates; (ii) LIBOR settlement rates; (iii) rate reset dates; and (iv) term/maturity. Due to this, the interest rate swap has been designated as an effective cash flow hedge, with changes in fair value reflected as a separate component of other comprehensive income in the accompanying Condensed Consolidated Statements of Comprehensive Income. At December 31, 2016, the fair value of the interest rate swap was an asset of \$831, and is reflected as a non-current asset in the accompanying Condensed Consolidated Balance Sheet. This fair value was determined by reference to a third party valuation, and is considered a Level 2 input within the fair value hierarchy of valuation techniques.

In addition, the Company continues to maintain a \$30,000 revolving credit facility with a commercial bank, which expires March 31, 2021. There were no borrowings outstanding on this credit facility at December 31, 2016 or September 30, 2016.

The term loan and the revolving credit facility are collateralized by the business assets of the Company's U.S. subsidiaries and require compliance with financial covenants that limit the amount of debt obligations and require a minimum level of coverage of fixed charges, as defined in the borrowing agreement. As of December 31, 2016, the Company is in compliance with all covenants. The Company is also required to maintain a cash compensating balance with the bank in the amount of \$1,000, and is in compliance with this requirement.

8. Reportable Segment and Major Customers Information

Meridian was formed in 1976 and functions as a fully-integrated research, development, manufacturing, marketing, and sales organization with primary emphasis in the fields of infectious disease (in vitro) and blood lead diagnostics and life science. Our principal businesses are (i) the development, manufacture and distribution of diagnostic test kits primarily for gastrointestinal, viral, respiratory, parasitic infectious diseases, and elevated blood lead levels; and (ii) the manufacture and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells, and bioresearch reagents used by researchers and other diagnostic manufacturers.

Our reportable segments are Diagnostics and Life Science. The Diagnostics segment consists of manufacturing operations for infectious disease products in Cincinnati, Ohio; Magellan's manufacturing operations for products detecting elevated lead levels in blood in Billerica, Massachusetts (near Boston); and the sale and distribution of diagnostics products domestically and abroad. This segment's products are used by hospitals, reference labs and physician offices to detect infectious diseases and elevated lead levels.

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The Life Science segment consists of manufacturing operations in Memphis, Tennessee; Boca Raton, Florida; London, England; Luckenwalde, Germany; and Sydney, Australia, and the sale and distribution of bulk antigens, antibodies, PCR/qPCR reagents, nucleotides, competent cells, and bioresearch reagents domestically and abroad, including sales and business development offices in Singapore and Beijing, China to further pursue growing revenue opportunities in Asia. This segment's products are used by manufacturers and researchers in a variety of applications (e.g., in-vitro medical device manufacturing, microRNA detection, next-gen sequencing, and plant genotyping and mutation detection, among others).

Amounts due from two Diagnostics distributor customers accounted for 12% and 16% of consolidated accounts receivable at December 31, 2016 and September 30, 2016, respectively. Revenues from these two distributor customers accounted for 23% and 39% of the Diagnostics segment third-party revenues during the three months ended December 31, 2016 and 2015, respectively, and represented 17% and 29% of consolidated revenues for the fiscal 2017 and 2016 first quarters, respectively.

Within our Life Science segment, two diagnostic manufacturing customers accounted for 19% and 18% of the segment's third-party revenues during the three months ended December 31, 2016 and 2015, respectively.

Segment information for the interim periods is as follows:

| | Diagnostics | Life Science | Eliminations (1) | Total |
|---|-------------|--------------|------------------|-----------|
| Three Months Ended December 31, 2016 | | | | |
| Net revenues - | | | | |
| Third-party | \$ 33,808 | \$ 13,001 | \$ | \$ 46,809 |
| Inter-segment | 79 | 125 | (204) | |
| Operating income | 6,643 | 3,267 | 175 | 10,085 |
| Goodwill (December 31, 2016) | 41,823 | 18,882 | | 60,705 |
| Other intangible assets, net (December 31, 2016) | 27,292 | 2,056 | | 29,348 |
| Total assets (December 31, 2016) | 184,592 | 65,525 | (62) | 250,055 |
| Three Months Ended December 31, 2015 | | | | |
| Net revenues - | | | | |
| Third-party | \$ 35,301 | \$ 11,859 | \$ | \$ 47,160 |
| Inter-segment | 71 | 367 | (438) | |
| Operating income | 10,330 | 3,236 | 20 | 13,586 |
| Goodwill (September 30, 2016) | 42,608 | 19,374 | | 61,982 |
| Other intangible assets, net (September 30, 2016) | 27,534 | 2,321 | | 29,855 |
| Total assets (September 30, 2016) | 185,241 | 66,624 | (42) | 251,823 |

(1) Eliminations consist of inter-segment transactions.

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

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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 Table of Contents in front of this Form 10-Q. In the discussion that follows, all dollar amounts are in thousands (both tables and text), except per share data.

Following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of Meridian's financial condition, changes in financial condition and results of operations. This discussion should be read in conjunction with the financial statements and notes thereto beginning on page 1.

RESULTS OF OPERATIONS

Quarterly Overview

The first quarter of fiscal 2017 was characterized by strong performance from our Life Science and Magellan business units, with significant weakness in our core diagnostics business in the U.S. (part of our Americas region). Our core diagnostics business in the EMEA region (as defined within the Reportable Segment section below) grew by 5% over the first quarter of fiscal 2016 on a constant-currency basis. While we have implemented measures to stabilize our Americas core diagnostics business, including making changes to our senior management team and strengthening our relationships with key distribution partners, the recovery in our core diagnostics unit is proceeding more slowly than planned. As a result, first quarter earnings were depressed, as the core diagnostics unit generates the largest contribution to our profits.

In addition to implementing the measures noted above, we are in the process of taking further action to align resources, reduce expenses and optimize investments in product development. The results of the first fiscal quarter have led to the downward revision to our fiscal 2017 revenue and earnings guidance, and the annual indicated dividend rate has been reduced (as more fully discussed in the Liquidity and Capital Resources section below), better aligning with our stated dividend payout range and enabling the Company to fund global expansion and new product development.

Three Months Ended December 31, 2016

Net earnings for the first quarter of fiscal 2017 decreased 29% to \$6,279, or \$0.15 per diluted share, from net earnings for the first quarter of fiscal 2016 of \$8,893, or \$0.21 per diluted share. Consolidated revenues decreased 1% to \$46,809 for the first quarter of fiscal 2017 compared to the same period of the prior year (flat on a constant-currency basis).

Revenues for the Diagnostics segment for the first quarter of fiscal 2017 decreased 4% compared to the first quarter of fiscal 2016 (also down 4% on a constant-currency basis), comprised of a 22% decrease in molecular products and a 2% increase in non-molecular products, including \$5,199 of Magellan revenues. With an 11% increase in its immunoassay components business and an 8% increase in its molecular components business, revenues of our Life Science segment increased by 10% during the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016, increasing 12% on a constant-currency basis.

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Below are analyses of the Company's revenue, provided for each of the following:

By Reportable Segment & Geographic Region

By Product Platform/Type

Revenue Overview By Reportable Segment & Geographic Region

Our reportable segments are Diagnostics and Life Science, with products sold and distributed in the countries comprising North and Latin America (the Americas); Europe, Middle East and Africa (EMEA); and other countries outside of the Americas and EMEA (rest of the world, or ROW). A full description of our segments is set forth in Note 8 of the accompanying Condensed Consolidated Financial Statements.

Revenues for the Diagnostics segment, in the normal course of business, may be affected from quarter to quarter by buying patterns of major distributors, seasonality and strength of certain diseases, and foreign currency exchange rates. Revenues for the Life Science segment, in the normal course of business, may be affected from quarter to quarter by buying patterns of major customers, and foreign currency exchange rates. We believe that the overall breadth of our product lines serves to reduce the variability in consolidated revenues due to these factors.

| | Three Months Ended December 31, | | |
|------------------------------|--|------------------|------------------|
| | 2016 | 2015 | Inc (Dec) |
| Diagnostics - | | | |
| Americas | \$ 27,569 | \$ 30,115 | (8)% |
| EMEA | 5,662 | 4,649 | 22% |
| ROW | 577 | 537 | 7% |
| Total Diagnostics | 33,808 | 35,301 | (4)% |
| Life Science - | | | |
| Americas | 5,399 | 5,103 | 6% |
| EMEA | 4,898 | 4,536 | 8% |
| ROW | 2,704 | 2,220 | 22% |
| Total Life Science | 13,001 | 11,859 | 10% |
| Consolidated | \$ 46,809 | \$ 47,160 | (1)% |
| % of total revenues - | | | |
| Diagnostics | 72% | 75% | |
| Life Science | 28% | 25% | |
| Total | 100% | 100% | |

Ex-Americas

30%

25%

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Table of Contents**Revenue Overview By Product Platform/Type**

The revenues generated by each of our reportable segments result primarily from the sale of the following segment-specific categories of products:

Diagnostics

- 1) Molecular tests that operate on our *illumigene* platform
- 2) Non-molecular tests on multiple technology platforms (including our Magellan diagnostics blood lead test)

Life Science

- 1) Molecular components
- 2) Immunoassay components

Revenues for each product platform/type, as well as its relative percentage of segment revenues, are shown below.

| | Three Months Ended December 31, | | |
|-------------------------------------|--|------------------|------------------|
| | 2016 | 2015 | Inc (Dec) |
| Diagnostics - | | | |
| Molecular | \$ 7,711 | \$ 9,836 | (22)% |
| Non-molecular | 26,097 | 25,465 | 2% |
| Total Diagnostics | \$ 33,808 | \$ 35,301 | (4)% |
| Life Science - | | | |
| Molecular components | \$ 5,116 | \$ 4,749 | 8% |
| Immunoassay components | 7,885 | 7,110 | 11% |
| Total Life Science | \$ 13,001 | \$ 11,859 | 10% |
| % of Diagnostics revenues - | | | |
| Molecular | 23% | 28% | |
| Non-molecular | 77% | 72% | |
| Total Diagnostics | 100% | 100% | |
| % of Life Science revenues - | | | |
| Molecular components | 39% | 40% | |

| | | |
|------------------------|------|------|
| Immunoassay components | 61% | 60% |
| Total Life Science | 100% | 100% |

Following is a discussion of the revenues generated by each of these product platforms/types:

Diagnostics Products

Molecular Products

Revenues for our *illumigene* molecular platform of products decreased 22% to \$7,711 for the first quarter of fiscal 2017 (also 22% on a constant-currency basis). This decrease reflects the ongoing increased competition within the molecular-based testing market, most notably within the market for *C. difficile* testing.

We have over 1,500 customer account placements. Of these account placements, approximately 1,300 accounts have completed evaluations and validations and are regularly purchasing product, with the balance of our account placements being in some stage of product evaluation and/or validation. Of our account placements, we have over 450 accounts that are regularly purchasing, evaluating and/or validating two or more assays. Increasing the number of customers utilizing two or more assays is a focus, as this makes it more difficult for competitors to attack our customers.

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We continue to invest in new product development for our molecular testing platform, and this platform now has the following commercialized tests:

1. ***illumigene C. difficile*** commercialized in August 2010
2. ***illumigene* Group B *Streptococcus* (Group B Strep or GBS)** commercialized in December 2011
3. ***illumigene* Group A *Streptococcus* (Group A Strep)** commercialized in September 2012
4. ***illumigene* Mycoplasma (*M. pneumoniae*; walking pneumonia)** commercialized in June 2013
5. ***illumigene Bordetella pertussis* (whooping cough)** commercialized in March 2014
6. ***illumigene Chlamydia trachomatis*** commercialized outside of U.S. in February 2015
7. ***illumigene Neisseria gonorrhoea*** commercialized outside of U.S. in February 2015
8. ***illumigene* HSV 1&2 (Herpes Simplex Virus Type 1 & Type 2)** commercialized in July 2015
9. ***illumigene* Malaria** commercialized outside of U.S. in February 2016

10. ***illumigene* Mycoplasma Direct (*M. pneumoniae*; walking pneumonia)** commercialized in June 2016

We believe that the diagnostic testing market is continuing to selectively move away from culture and immunoassay testing to molecular testing for diseases where there is a favorable cost/benefit position for the total cost of health care, and during the first quarter of fiscal 2017 we experienced 6% growth in all testing categories, other than the hyper-competitive *C. difficile* arena. While this market is competitive, with molecular companies such as Cepheid and Becton Dickinson, and others such as Quidel, Great Basin, Nanosphere, and Alere, we believe we are well-positioned to capitalize on the migration to molecular testing. Our simple, easy-to-use, ***illumigene*** platform, with its expanding menu, requires no expensive equipment purchase and little to no maintenance cost. We believe these features, along with its small footprint and the performance of the ***illumigene*** assays, make ***illumigene*** an attractive molecular platform for any size hospital or physician office laboratory that runs moderately-complex tests. We continue to invest in the development of additional assays for this platform.

Non-molecular Products

Revenues from our Diagnostics segment's non-molecular products increased 2% in the first quarter of fiscal 2017. These results reflect the addition of Magellan's revenue, largely offset by decreased revenues in our *H. pylori* and other

immunoassay product lines.

During the first quarter of fiscal 2017, revenues from Magellan's sales of products to test for elevated levels of lead in blood totaled \$5,199. This level of revenues reflects a 32% increase over the three-month period ended December 31, 2015, which was prior to Meridian's ownership of Magellan.

During the first quarter of fiscal 2017, revenues from our *H. pylori* products decreased 18% (also 18% on a constant-currency basis) to \$7,156. In fiscal 2016, we employed bulk-buy sales promotions (also referred to as stock-and-block programs) intended to increase major customer inventory levels as a defense against potential competitors upon the expiration of our patent, as further described below. Although certain participating customers are continuing to consume the inventory purchased as part of this program, we expect our *H. pylori* revenue to return to low single-digit growth for fiscal year 2017. This growth expectation reflects customers working through this inventory and replenishing product, and our realizing volume growth from the ongoing conversion of serology testing to our antigen tests. We continue to believe there are ongoing benefits to be realized from our partnerships with managed care companies in promoting (i) the health and economic benefits of a test and treat strategy; (ii) changes in policies that discourage the use of traditional serology methods and promote the utilization of active infection testing methods; and (iii) physician behavior of movement away from serology-based testing and toward direct antigen testing. A significant amount of the *H. pylori* product revenues are sales to reference labs, whose buying patterns may not be consistent from period to period. We recently introduced capabilities to identify resistance to Clarithromycin, the antibiotic commonly used to treat *H. pylori*. We believe that partnering the ability to diagnose *H. pylori* and identify resistance is a strong competitive advantage.

The patents for our *H. pylori* products are owned by us and expired in May 2016 in the U.S., and will expire in fiscal 2017 in countries outside the U.S. We expect competition with respect to our *H. pylori* products to increase in fiscal 2017 as we currently market the only FDA-cleared tests to detect *H. pylori* antigen in stool samples. Such competition may have an adverse impact on our selling prices for these products, or our ability to retain business at prices acceptable to us, and consequently, adversely affect our future results of operations and liquidity, including revenues and gross profit. In order to mitigate competition, our product development pipeline includes multiple new product initiatives for the detection of *H. pylori*. We are unable to provide assurances that we will be successful with any mitigation strategy or that any mitigation strategy will prevent an adverse effect on our future results of operations and liquidity, including revenues and gross profit.

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During the first quarter of fiscal 2017, revenues from our other immunoassay products (including *C. difficile*, foodborne and respiratory) decreased 18% (also 18% on a constant-currency basis) to \$13,615. This decrease results primarily from the effects of continued increased competition, distributor order patterns and the timing of our promotional stock-and-block programs in previous periods.

Life Science Products

During the first quarter of fiscal 2017, revenues from our Life Science segment increased 10%, with revenues from molecular component sales increasing 8% from the comparable fiscal 2016 quarter and revenues from immunoassay component sales increasing 11%. Our molecular component business growth was negatively impacted by the movement in currency exchange rates since the first quarter of fiscal 2016, with revenues increasing 15% on a constant-currency basis over the first quarter of fiscal 2016. Our Life Science segment continued to benefit from increased sales into China, with such sales totaling approximately \$700 during the first quarter of fiscal 2017 (approximately \$200 in the molecular components business and \$500 in the immunoassay components business). New products also contributed to growth, including EPIK miRNA Select, JetSeq, SensiFast Lyo-Ready and MIC Personal qPCR Cycler and accessories.

Significant Customers

Revenue concentrations related to certain customers within our Diagnostics and Life Science segments are set forth in Note 8 of the accompanying Condensed Consolidated Financial Statements.

Medical Device Tax

During the first three months of fiscal 2016, the Company recorded approximately \$500 of medical device tax expense, which is reflected as a component of cost of sales in the accompanying Condensed Consolidated Statements of Operations. During December 2015, the Consolidations Appropriations Act of 2016 imposed a two-year moratorium on this excise tax effective January 1, 2016. We are unable to predict any future legislative changes or developments related to this moratorium or excise tax.

Gross Profit

| | Three Months Ended December 31, | | |
|---------------------|--|-------------|---------------|
| | 2016 | 2015 | Change |
| Gross Profit | \$ 29,450 | \$ 31,583 | (7)% |
| Gross Profit Margin | 63% | 67% | -4 points |

The gross profit decreases experienced in fiscal 2017 primarily result from the combined effects of (i) mix of products sold, particularly decreased contribution from our higher margin *H. pylori* products; (ii) customer mix; and (iii) decreased production levels in certain of our production facilities.

Table of Contents**Operating Expenses**

| | Three Months Ended December 31, 2016 | | | |
|---|---|------------------------------------|---|-------------------------------------|
| | Research & Development | Selling & Marketing | General & Administrative | Total Operating Expenses |
| 2016 Expenses | \$ 3,381 | \$ 6,443 | \$ 8,173 | \$ 17,997 |
| % of Revenues | 7% | 14% | 17% | 38% |
| Fiscal 2017 Increases (Decreases): | | | | |
| Diagnostics | 60 | 942 | 506 | 1,508 |
| Life Science | (36) | 129 | (233) | (140) |
| 2017 Expenses | \$ 3,405 | \$ 7,514 | \$ 8,446 | \$ 19,365 |
| % of Revenues | 7% | 16% | 18% | 41% |
| % Increase | 1% | 17% | 3% | 8% |

Total operating expenses increased during the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. This level of operating expenses results primarily from the combined effects of (i) the addition of Magellan's operating expenses totaling \$2,800; and (ii) decreased operating expenses in our core diagnostics business, including the effect of revising vacation accrual policies.

Operating Income

Operating income decreased 26% to \$10,085 for the first quarter of fiscal 2017, as a result of the factors discussed above.

Income Taxes

The effective rate for income taxes was 35% for both the first quarter of fiscal 2017 and 2016. For the fiscal year ending September 30, 2017, we expect the effective tax rate to approximate 35%-36%.

Liquidity and Capital Resources***Comparative Cash Flow Analysis***

Our cash flow and financing requirements are determined by analyses of operating and capital spending budgets, debt service, 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.

Upon considering fiscal 2017 first quarter results and business trends, the Board of Directors has taken steps to bring the annual dividend rate more in line with our long-standing policy of establishing a cash dividend payout ratio of between 75% and 85% of diluted earnings per share. On January 25, 2017 it was announced that the fiscal 2017 indicated cash dividend rate had been reduced to \$0.50 per share (down from \$0.80 per share, and representing approximately 75% of the revised fiscal 2017 earnings per diluted share guidance), and a first quarter cash dividend of \$0.125 per share was declared (down from \$0.20 per share, and representing 83% of first quarter earnings per diluted

share). This reduction in the annual indicated dividend rate is intended to enable the Company to fund its ongoing global expansion and new product development efforts.

We have an investment policy that guides the holdings of our investment portfolio, which presently consists of overnight repurchase agreements, bank savings accounts and institutional money market mutual funds. Our objectives in managing the investment portfolio are to (i) preserve capital; (ii) provide sufficient liquidity to meet working capital requirements and fund strategic objectives such as acquisitions; and (iii) capture a market rate of return commensurate with market conditions and our policy's investment eligibility criteria. As we look forward, we will continue to manage the holdings of our investment portfolio with preservation of capital being the primary objective.

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On June 23, 2016, the United Kingdom voted to leave the European Union (commonly referred to as Brexit) and while the impact of Brexit remains uncertain, the resulting immediate changes in foreign currency exchange rates have had a limited overall impact due to natural hedging. However, any predicted deterioration in the United Kingdom and European economic outlook may have an adverse effect on revenue growth, but the extent of such effect cannot yet be quantified. In the longer term, it is possible that we will be directly impacted in a number of key areas including the hiring and retention of qualified staff, regulatory affairs, manufacturing and logistics. We are closely monitoring the Brexit developments in order to determine, quantify and proactively address changes as they become clear. Despite the Brexit developments, we do not expect macroeconomic conditions to have a significant impact on our liquidity needs, financial condition or results of operations, although no assurances can be made in this regard. We intend to continue to fund our working capital requirements and dividends from current cash flows from operating activities and cash on hand. If needed, we also have an additional source of liquidity through our \$30,000 bank revolving credit facility. Our liquidity needs may change if overall economic conditions worsen and/or liquidity and credit within the financial markets tightens for an extended period of time, and such conditions impact the collectibility 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 totaled \$12,993 for the first three months of fiscal 2017, a 7% increase from the \$12,092 provided during the first three months of fiscal 2016. While reflecting the timing of payments from customers and to suppliers and taxing authorities, this increase also results in large part from the net effects of (i) decreased inventory levels during the first quarter of fiscal 2017, compared to increased levels during the fiscal 2016 first quarter; and (ii) decreased accrued employee compensation costs during the first quarter of fiscal 2017, reflecting the payment of discretionary bonuses and the timing of regularly scheduled payroll payments. Net cash flows from operating activities and cash on hand are anticipated to be adequate to fund working capital requirements, capital expenditures and dividends at the previously-noted reduced rate during the next 12 months.

As described in Notes 3 and 7 of the accompanying Condensed Consolidated Financial Statements, on March 24, 2016, the Company acquired all of the outstanding common stock of Magellan for \$67,874, utilizing the proceeds from a \$60,000 five-year term loan and cash and equivalents on hand. An amount of the acquisition consideration totaling \$2,383 remains payable to the sellers, pending the realization of tax benefits for certain net operating loss carryforwards in future tax returns.

Capital Resources

As described in Notes 3 and 7 of the accompanying Condensed Consolidated Financial Statements, in connection with the acquisition of Magellan, the Company entered into a \$60,000 five-year term loan with a commercial bank. The term loan requires quarterly principal and interest payments, with interest at a variable rate tied to LIBOR, and a balloon principal payment due March 31, 2021. In addition, we have a \$30,000 revolving credit facility with a commercial bank that expires March 31, 2021. As of January 31, 2017, 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 revolving credit facility during the first three months of fiscal 2017 or during the full year of fiscal 2016.

Our capital expenditures are estimated to range between approximately \$3,000 to \$5,000 for fiscal 2017, with the actual amount dependent upon actual operating results and the phasing of certain projects. Such expenditures may be funded with cash and equivalents on hand, operating cash flows, and/or availability under the \$30,000 revolving credit facility discussed above.

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

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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, 2016.

ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2016, 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 December 31, 2016. 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 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, or in other factors that could materially affect internal control subsequent to December 31, 2016. We routinely refine our internal controls over financial reporting in the normal course of business as new business activities arise or risks change. These refinements are made under a program of continuous improvement. The Company's assessment of and conclusion on the effectiveness of its internal control over financial reporting did not, and is not required to include the internal controls of Magellan Biosciences, Inc., which was acquired during fiscal 2016 and the results of which have been included in the Company's consolidated financial statements since the date of acquisition.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from risk factors as previously disclosed in the Registrant's Form 10-K in response to Item 1A to Part I of Form 10-K.

ITEM 6. EXHIBITS

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

- 31.1 Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following financial information from Meridian Bioscience Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017, formatted in XBRL includes: (i) Condensed Consolidated Statements of Operations for the three months ended December 31, 2016 and 2015; (ii) Condensed Consolidated Statements of Comprehensive Income for the three months ended December 31, 2016 and 2015; (iii) Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2016 and 2015; (iv) Condensed Consolidated Balance Sheets as of December 31, 2016 and September 30, 2016; (v) Condensed Consolidated Statement of Shareholders' Equity for the three months ended December 31, 2016; and (vi) the Notes to Condensed Consolidated Financial Statements

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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 9, 2017

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

(Principal Financial and Accounting Officer)

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