NEOGEN CORP
Form 10-K
July 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended May 31, 2016

¨ **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 0-17988

NEOGEN CORPORATION

(Exact name of registrant as specified in its charter)

MICHIGAN	**38-2367843**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***

620 Lesher Place

Lansing, Michigan 48912

(Address of principal executive offices, including zip code)

517-372-9200

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, $0.16 par value per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

(Check one):

Large accelerated filer x 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 Act). Yes ¨ No x

Based on the closing sale price on November 30, 2015 the aggregate market value of the voting stock held by non-affiliates of the registrant was $2,211,000,000. For these purposes, the registrant considers its Directors and executive officers to be its only affiliates.

The number of outstanding shares of the registrant s Common Stock was 37,574,890 on June 30, 2016.

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DOCUMENTS INCORPORATED BY REFERENCE

The Registrant s definitive proxy statement to be prepared pursuant to Regulation 14a and filed in connection with solicitation of proxies for its October 6, 2016 annual meeting of shareholders is incorporated by reference into part III of this Form 10-K.

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Subsidiaries	
Consent of independent registered public accounting firm	BDO USA, LLP
Section 302 Certification of Chief Executive Officer	
Section 302 Certification of Chief Financial Officer	
Section 1350 Certification pursuant to Section 906	

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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, as amended, are made throughout this Annual Report on Form 10-K, including statements relating to management s expectations regarding new product introductions; the adequacy of the Company s sources for certain components, raw materials and finished products; and the Company s ability to utilize certain inventory. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, seeks, estimates, and similar expressions are intended to identify forward-looking statements. There a number of important factors that could cause Neogen Corporation s results to differ materially from those indicated by such forward-looking statements, including those detailed in ITEM 1A. RISK FACTORS and under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates, and Future Operating Results.

In addition, any forward-looking statements represent management s views only as of the day this Annual Report on Form 10-K was first filed with the Securities and Exchange Commission and should not be relied upon as representing management s views as of any subsequent date. While management may elect to update forward-looking statements at some point in the future, it specifically disclaims any obligation to do so, even if its views change.

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PART I.

ITEM 1. BUSINESS

Neogen Corporation and subsidiaries (Neogen or the Company) develop, manufacture and market a diverse line of products dedicated to food and animal safety. The Company s Food Safety segment consists primarily of diagnostic test kits and complementary products (e.g., dehydrated culture media) sold to food producers and processors to detect dangerous and/or unintended substances in human food and animal feed, such as foodborne pathogens, spoilage organisms, natural toxins, food allergens, genetic modifications, ruminant by-products, meat speciation, drug residues, pesticide residues and general sanitation concerns. The diagnostic test kits are generally less expensive, easier to use and provide greater accuracy and speed than conventional diagnostic methods. The majority of the tests are disposable, single-use, immunoassay and DNA detection products that rely on the Company s proprietary antibodies and RNA and DNA testing methodologies to produce rapid and accurate test results. The Company s expanding line of food safety products also includes bioluminescence-based diagnostic technology.

Neogen s Animal Safety segment is engaged in the development, manufacture, marketing and distribution of pharmaceuticals, rodenticides, disinfectants, vaccines, veterinary instruments, topicals, diagnostic products for the worldwide animal safety market, and genomic testing services. The majority of these consumable products are marketed through a network of national and international distributors, as well as a number of large farm supply retail chains in the United States and Canada. The Company s USDA-licensed facility in Lansing, Michigan, produces immunostimulant products for horses and dogs, and a unique equine botulism vaccine. The Company s line of drug detection products is sold worldwide for the detection of abused and therapeutic drugs in animals and animal products.

Neogen s products are marketed by Company sales personnel in North America, the United Kingdom and other parts of Europe, Mexico, Brazil, China and India and by distributors throughout the rest of the world.

Neogen s mission is to be the leading company in the development and marketing of solutions for food and animal safety. To meet this vision, a growth strategy consisting of the following elements has been developed: (i) increasing sales of existing products; (ii) introducing new products and product lines; (iii) expanding international sales; and (iv) acquiring businesses and forming strategic alliances. The Company has been historically successful at increasing product sales organically and maintains an active acquisition program to identify and capitalize on opportunities to acquire new products and/or businesses.

Neogen Corporation was formed as a Michigan corporation in June 1981 and actual operations began in 1982. The Company s principal executive offices are located at 620 Lesher Place, Lansing, Michigan 48912-1595 and its telephone number is (517) 372-9200.

Neogen s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports are available free of charge via our Internet website (www.neogen.com) as soon as reasonably practicable after such information is filed with, or furnished to, the United States Securities and Exchange Commission.

PRODUCTS

Product trademarks and registered trademarks owned by Neogen include: **CORPORATE:** Neogen®, Neogen flask logo®; **FOOD SAFETY:** AccuClean®, AccuPoint®, AccuScan®, Acumedia®, Agri-Screen®, Alert®, ANSR®, BetaStar®, BioLumix®, Centrus®, F.A.S.T.®, GeneQuence®, GENE-TRAK®, Harlequin , ISO-GRID®, Lab M®,

NeoCare , NeoColumn , NeoFilm®, NeoSeek , NEO-GRID®, Nutritone®, Penzyme®, Pinnacle®, Reveal®, Revive®, Soleris®, µPREP , Veratox®, Simple. Accurate. Supported. Food Safety Solutions℠; **LIFE SCIENCES:** Alert®, K-Blue®, K-Blue Substrate®, K-Gold®, NeoSal®, **ANIMAL SAFETY**: Acid-A-Foam , Aero-ssault , Ag-Tek®, AluShield , AquaPrime®, Assault®, Barnstorm , BioCres , BioPhene , BioQuat , Bot Bar®, BreederSleeve®, Bromethalin One Meal Is All It Takes (design)®, Calf Eze , Chem-Tech, Ltd. , Chem-Tech s CT logo (with circle) , Chlor-A-Foam , Companion , Cowboy Syringe®, CT-511®, Cykill , D3 , DC&R®, DeciMax®, Di-Kill®, Dr. Frank s®, Dy-Fly®, Dyne-O-Might , Earth City Resources (design)®, ElectroJac®, ELISA Technologies (design)®, EqStim®, EquiSleeve®, E-Z Bond , E-Z Catch®, Farmphene , Final-Fly-T®, Fly-Die Defense , Fura-Zone®, GenQuat , Gold Nugget®, Horse Sense®, Ideal®, ImmunoRegulin®, Insectrin®, Insight , Iodis , Jo-Ad®, LD-44®, LD-44T , Maxi Sleeve®, MaxKlor , MegaShot , MycAseptic , NeedleGard , NFZ , Nu-Dyne , One Bac Pac®, PCA®, PanaKare , Pantek , ParlorMint , Parvo-Place® Pack®, PolyPetite , PolyShield , Poly-Sleeve®, Poridon®, Preserve , Prima®, Prima BMV®, Prima Marc , Prima Tech®, Prima Tech logo®, Pro-Fix®, Pro-Flex®, Pro-Shot , PRO-TECT 6 MIL®, PRO-TECT 6 MIL logo®, Prozap®, Prozap (stylized mark w/fancy Z) , PY-75 , Ram-Lik®, Rat & Mouse-A-Rest II®, RenaKare , Rodent Elimination Station , Rodex , Rot-Not , Safe-T-Flex , Siloxycide , Spectrasol , Spec-Tuss , Spurricide®, Stress-Dex®, SureBond®, SureKill®, Synergize , SyrVet®, SyrVet logo®, Tetrabase , Tetracid , Tetradyne , ThyroKare , TopHoof , Tri-Heal®, Tri-Heal Seal , Tryad®, Turbocide®, Turbocide Gold®, Udder Shield®, Uniprim®, UriKare , VAP-5 , VAP-20 , Vet-Tie , Vita-15 , War-Paint®, We keep em movin®, X-185 , Zipcide®, **AGRIGENOMICS:** Deoxi , GeneSeek®, Genomic Profiler , Genomic Solutions for Food Security®, Igenity®, SeekGain , SeekSire , SeekTrace , Tru-Point®, and **LOGOTYPES:** BioSentry barn logo®, BioSentry chicken logo®, BioSentry pig logo®, TurboCide® (stylized).

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Neogen operates in two primary business areas: the Food Safety segment, which develops and markets products for the detection of pathogens, natural toxins, allergens and other unwanted substances in food and feed products; and the Animal Safety segment, which develops and markets products and services dedicated to animal health. See Notes to Consolidated Financial Statements elsewhere in this Form 10-K for financial information about the Company s business segments and international operations.

FOOD SAFETY SEGMENT

Neogen s Food Safety segment is primarily engaged in the production and marketing of diagnostic test kits and complementary products marketed to food and feed producers and processors to detect dangerous and/or unintended substances in food and animal feed, such as foodborne pathogens, spoilage organisms, natural toxins, food allergens, genetic modifications, meat speciation, drug residues, pesticide residues and general sanitation concerns.

Neogen s test kits are used to detect potential hazards in food and animal feed by testers ranging from small local grain elevators to the largest, best-known food and feed processors in the world, and numerous regulatory agencies. Neogen s products include tests for:

Mycotoxins. Grain producers and processors of all types and sizes use the Company s Veratox, Agri-Screen, Reveal, Reveal Q+ and Reveal Q+ MAX tests for mycotoxins, including aflatoxin, deoxynivalenol, fumonisin, ochratoxin, zearalenone and T-2/HT-2 toxin, to help ensure product safety and quality.

Food allergens. The world s largest producers of cookies, crackers, candy, ice cream and many other foods, use the Company s Veratox, Alert, Reveal, Reveal 3-D and BioKits testing products for food allergens to help protect their food-allergic customers from the inadvertent contamination of products with food allergens, such as peanut, milk, egg, almond, gliadin (gluten), soy and hazelnut residues.

Dairy antibiotics. Dairies are the primary users of Neogen s BetaStar, BetaStar Combo, BetaStar 4D and Penzyme diagnostic tests to detect the presence of beta-lactam and tetracycline antibiotics in milk. The presence of these drugs in milk is a public health hazard and an economic risk to processors as it limits the milk s further processing.

Foodborne pathogens. Meat and poultry processors, seafood processors, fruit and vegetable producers and many other market segments are the primary users of Neogen s ANSR and Reveal tests for foodborne bacteria, including *E. coli* O157:H7, *Salmonella*, *Listeria* and *Campylobacter*. Neogen s ANSR pathogen detection system is an isothermal amplification reaction test method which exponentially amplifies the DNA of any bacteria present in food and environmental samples to detectable levels in 10 minutes. Combined with ANSR s single enrichment step, Neogen s pathogen detection method provides DNA-definitive results in a fraction of the time of other molecular detection methods. Reveal s lateral flow device combines an immunoassay with chromatography for a rapid and accurate one-step result.

Spoilage microorganisms. Neogen s Soleris and BioLumix products are used by food processors to identify the presence of spoilage organisms (e.g., yeast and mold) and other microbiological contamination. The systems measure microbial growth by monitoring biochemical reactions that generate a color change in the media as microorganisms grow. The sensitivity of the system allows detection in a fraction of the time needed for traditional methods, with less labor and handling time.

Sanitation monitoring. Neogen manufactures and markets its AccuPoint Advanced rapid sanitation test for adenosine triphosphate (ATP), a chemical found in all living cells. This easy-to-use and inexpensive test uses bioluminescence to quickly determine if a food contact surface has been completely sanitized. When ATP comes into contact with the

reagents contained in the test device, a reaction takes place that produces light. More light is indicative of higher levels of ATP and a need for more thorough sanitation. The Company s worldwide customer base for its ATP sanitation testing products includes food and beverage processors, the food service and healthcare industries, as well as many other users.

Dehydrated culture media. Neogen s Acumedia and Lab M subsidiaries offer dehydrated culture media for varied purposes, including traditional bacterial testing, and growing beneficial bacteria, such as cultures for sausages and beer. The Company s customers for dehydrated culture media also include commercial and research laboratories and producers of pharmaceuticals, cosmetics and veterinary vaccines.

Seafood contaminants. Neogen s specialty products for the seafood market include tests for histamine, a highly allergenic substance that occurs when certain species of fish begin to decay; chloramphenicol, a banned antibiotic in most of the world, but still used by some shrimp farmers to improve the yield of their products; sulfite, an effective but potentially allergenic shrimp preservative; and shellfish toxins.

The majority of Neogen s food safety test kits use immunoassay technology to rapidly detect target substances. The Company s ability to produce high quality antibodies sets its products apart from immunoassay test kits produced and sold by other companies. The Company s kits are available in microwell formats, which allow for automated and rapid processing of a large number of samples, and lateral flow and other similar devices that provide distinct visual results. Typically, test kits use antibody-coated test devices and chemical reagents to indicate a positive or negative result for the presence of a target substance in a test sample; the simplicity of the tests makes them accessible to all levels of food producers, processors and handlers. Neogen also offers other test methods and products to complement its immunoassay tests.

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The Company s kits are generally based on internally developed technology, licensed technology, or technology that is acquired in connection with acquisitions. In fiscal 2016, the Food Safety segment incurred royalty expense totaling $1,329,000 for licenses and royalties for technology used in the Company s products, including expense of $737,000 for allergen products, $134,000 for the pathogen product line and $122,000 for licenses related to the dairy antibiotics product line. Generally, the Company s royalty rates are in the range of 2% to 10% of revenues on products containing the licensed technology. Some licenses involve technology that is exclusive to Neogen s use while others are nonexclusive and involve technology licensed to multiple licensees.

Revenues from Neogen s Food Safety segment accounted for 45.4%, 46.5% and 47.0% of the Company s total revenues for fiscal years ended May 31, 2016, 2015 and 2014, respectively.

ANIMAL SAFETY SEGMENT

Neogen s Animal Safety segment is primarily engaged in the development, manufacture and marketing of veterinary instruments, pharmaceuticals, vaccines, topicals, a full suite of agricultural biosecurity products, such as rodenticides, insecticides, cleaners and disinfectants, genomic services and diagnostic products.

Veterinary instruments. Neogen markets a broad line of veterinary instruments and animal health delivery systems under the Ideal brand name. Approximately 250 different products are offered, many of which are used to deliver animal health products, such as antibiotics and vaccines. Ideal s D3 Needles are stronger than conventional veterinary needles and are uniquely detectable by common meat processing facility metal detectors a big market advantage in the safety-conscious beef and swine industries. Neogen s Prima Tech product line is designed around highly accurate devices used by farmers, ranchers, and veterinarians to inject animals, provide topical applications and to use for oral administration. Prima Tech is also a supplier of products used in artificial insemination in the swine industry. Other products include animal identification and handling equipment.

Veterinary pharmaceuticals. Animal Safety s NeogenVet product line provides innovative, value-added, high quality products to the veterinary market. Top NeogenVet products include PanaKare, a digestive aid that serves as a replacement therapy where digestion of protein, carbohydrate and fat is inadequate due to exocrine pancreatic insufficiency; Natural Vitamin E-AD, which aids in the prevention and treatment of vitamin deficiencies in swine, cattle and sheep; and RenaKare, a supplement for potassium deficiency in cats and dogs. Other products sold under the NeogenVet brand include Vita-15 and Liver 7, which are used in the treatment and prevention of nutritional deficiencies. The Company also manufactures Uniprim, a leading veterinary antibiotic.

Veterinary biologics. Neogen s BotVax B vaccine has successfully protected thousands of high-value horses and foals against Type B botulism, commonly known as Shaker Foal Syndrome. The Company s product is the only USDA-approved vaccine for the prevention of Type B botulism in horses. Years of research and many thousands of doses have proven Neogen s EqStim immunostimulant to be safe and effective as a veterinarian-administered adjunct to conventional treatment of equine bacterial and viral respiratory infections. The Company s ImmunoRegulin product uses similar immunostimulant technology to aid in the treatment of pyoderma (a bacterial skin inflammation) in dogs.

Veterinary OTC products. Animal Safety products offered by Neogen to the retail over-the-counter (OTC) market include Ideal brand veterinary instruments packaged for the retail market. OTC products also include Stress-Dex, an oral electrolyte replacer for performance horses, and Fura-Zone, for the prevention and treatment of surface bacterial infections in wounds, burns and cutaneous ulcers. Ag-Tek and other hoof care, disposables and artificial insemination supplies are marketed to the dairy and veterinary industries.

Rodenticides. Neogen s comprehensive line of proven rodenticides, sold under brand names such as Ramik and Havoc, effectively address rodent problems of any size and serve as a critical component of an overall biosecurity plan for major agricultural operations. Neogen offers several rodenticide active ingredients including diphacinone, bromethalin, brodifacoum, and zinc phosphide formulated with food grade ingredients to generate the highest acceptance and most palatable bait possible.

Cleaners and disinfectants. Used in animal and food production facilities, Neogen s cleaners and disinfectants, including DC&R, 904 Disinfectant, Acid-A-Foam, Preserve, Tetradyne and FarmFluid S, can stop a disease outbreak before it starts. The products also are used in the veterinary clinic market to maintain sanitary conditions and limit the potential hazards of bacteria, fungi and viruses.

Insecticides. Neogen s highly effective Chem-Tech insecticides utilize environmentally friendly technical formulas, and several are approved for use in food establishments. The company s Prozap insecticide brand is well known in the large animal production industry, particularly with dairy and equine producers.

Animal genomics services. Neogen s animal genomics businesses, GeneSeek and Igenity, provide value-added services to leading agricultural genetics providers, large national cattle associations, companion animal breed registries, university researchers, and numerous commercial cattle producers. With both state-of-the-art genetics laboratories and the comprehensive bioinformatics to interpret genetic test results, Neogen offers identity and trait determination and analysis. GeneSeek s technology employs high-resolution DNA genotyping for identity and trait analysis in a variety of important animal and agricultural plant species. Igenity s extensive bioinformatics system identifies and predicts an animal s positive or negative traits based on DNA test results. This information has helped livestock producers make significant improvements in genetics and improve overall quality of their animals.

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Life sciences. Neogen s line of approximately 100 drug detection immunoassay test kits is sold worldwide for the detection of approximately 300 abused and therapeutic drugs in farm animals and racing animals, and for detection of drug residues in meat and meat products. The test kits are also used for human forensic toxicology drug screening applications. This line includes tests for narcotics, analgesics, stimulants, depressants, tranquilizers, anesthetics, steroids and diuretics. Neogen also has several products used by researchers for the detection of biologically active substances.

Many of the products and services in the Animal Safety segment use licensed technology. Animal Safety incurred royalty expense totaling $640,000 for licenses and royalties in fiscal 2016 for technology used in the segment s products and services, including expense of $304,000 for licenses related to the genomics services line.

Revenues from Neogen s Animal Safety segment accounted for 54.6%, 53.5% and 53.0% of the Company s total revenues for fiscal years ended May 31, 2016, 2015 and 2014, respectively.

GENERAL SALES AND MARKETING

Neogen is organized under two segments Food Safety and Animal Safety. Within these segments, the Company s sales efforts are generally organized by specific markets, rather than by products or geography. During the fiscal year that ended May 31, 2016, the Company had approximately 22,000 customers for its products. Since many customers for animal safety products are distributors, and certain animal safety products are offered to the general retail market, the total number of end users of the Company s products is considerably greater than 22,000. As of May 31, 2016, a total of 348 employees were assigned to sales and marketing functions within the Company, compared to 305 at the end of May 2015. During the years ended May 31, 2016, 2015 and 2014, no single customer or distributor accounted for 10% or more of the Company s revenues.

DOMESTIC SALES AND MARKETING

FOOD SAFETY

To reach each customer and prospect with expertise and experience, Neogen has a staff of specialized food safety sales and technical service representatives assigned to specific markets. This staff sells Company products directly to end users, and also handles technical support issues that arise with customers in the United States and Canada.

Neogen s food safety markets are primarily comprised of: milling and grain, including grain elevators, feed mills, pet food manufacturers, and grain inspection companies; meat and poultry, including meat and poultry processors, producers of ready-to-eat meat and poultry products; and the USDA s Food Safety Inspection Service (FSIS); grocery products, including flour millers, malters, bakeries, candy and confection manufacturers, manufacturers of prepared meals, nuts, spices, cookies, crackers and other snack foods; fruits and vegetables, including growers and processors of juice and packaged fresh cut grocery items; seafood, including harvesters and processors of a wide variety of seafood products; dairy and beverage, including milk processors and soft drink bottlers; healthcare, including hospitals and distributors to the healthcare industry; traditional culture media markets, including commercial and research laboratories and producers of pharmaceuticals, cosmetics and veterinary vaccines; food service and retail, including fast food service establishments and retail grocery market chains, and nutraceuticals, including producers and marketers of a wide variety of nutritional and holistic consumer products.

ANIMAL SAFETY

Neogen markets a broad range of pharmaceuticals, vitamin injectables, wound care products, topicals, instruments, genomics services and biologicals to the veterinary market. The product range is focused on the food (e.g., cattle, swine and poultry) and companion (e.g., horses, dogs and cats) animal markets. Neogen s sales group works directly with veterinarians, clinics and universities and markets through established ethical distributors by supporting the efforts of over 1,000 domestic distributor sales representatives calling on 35,000 plus veterinarians. Neogen further supports its veterinary distribution channel through product training, field support, promotions and technical service.

The Company believes the OTC animal health market offers growth opportunities for Neogen and its products. Neogen offers a broad range of products including well-recognized brands of rodenticides, disinfectants, insecticides, instruments and horse care products. To reach the OTC market, Neogen s sales team works with a large network of animal health distributors including marketing groups, traditional two-step distributors, catalogers and large retail chains. Support includes product training, field support, planogram solutions, promotions and advertising.

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As a commercial laboratory, GeneSeek provides services direct to large-herd beef and dairy cattle, swine, poultry and sheep producers, universities and other research organizations, and various livestock and canine breed associations.

INTERNATIONAL SALES AND MARKETING

Neogen maintains eight Company-owned locations outside of the United States to provide a direct presence in regions of particular importance to the Company, and maintains an extensive network of distributors to reach countries where the Company does not have a direct presence.

Neogen Europe. Neogen Europe, Ltd., located in Ayr, Scotland, provides the Company access to the European Union (E.U.), and sells products and services to its network of customers and distributors throughout the E.U. Customers in the United Kingdom, France, Germany and the Netherlands are served by Company employees. In other European regions, customers are generally serviced by distributors managed by Neogen Europe personnel. Neogen Europe s research and development team continues to be a strong asset in the development of products tailored to meet the unique requirements of the European market.

Lab M Holdings. In August 2015, Neogen acquired the stock of Lab M Holdings (Lab M), a developer, manufacturer and supplier of microbiological culture media and diagnostic systems located in Heywood, England. Lab M s extensive range of microbiological culture media, supplements, immunomagnetic separation techniques and proficiency testing systems are used in laboratories around the world.

Neogen Latinoamérica. The Company s subsidiary in Mexico, Neogen Latinoamérica, is headquartered in Mexico City and distributes Neogen s products throughout Mexico and Central America. Neogen Latinoamérica manages the Company s business activities throughout the region to animal and crop producers, and food processors.

Neogen do Brasil and Deoxi. Neogen do Brasil (translated as Neogen of Brazil), headquartered near São Paulo, distributes Neogen s products throughout Brazil. Brazil is one of the world leaders in the export of numerous food commodities, including beef, poultry, soybeans, coffee, sugar and orange juice, and this operation gives the Company direct sales representation to these important markets. Neogen also owns Deoxi Biotecnologia Ltda, a genomics testing laboratory located in Aracatuba, Brazil, which it purchased in April 2016.

Neogen China. Noegen s Chinese subsidiary, with locations in Shanghai and Beijing, employs sales representatives who sell directly to Chinese customers. China s burgeoning middle class, with its rapidly growing demand for higher quality meat and dairy products, makes the country a substantial growth opportunity for Neogen products both for animal production on the country s farms, and in processing plants throughout China s food processing and distribution industry.

Neogen India. In June 2015, Neogen acquired the assets of Sterling Test House, a leading commercial food testing laboratory based in southwest India, to serve as a base for the Company s new operations in India. Sterling Test House was incorporated in 1990, and its business has grown to include most of the food safety and water quality testing for major hotels and restaurants in its home region, as well as safety and quality analysis for the country s expanding nutraceutical market, and growing food export businesses. The laboratory is located in Cochin in the state of Kerala, which is India s leading region for the export of spices, tea, and fresh fruits and vegetables. In late fiscal 2016, Neogen transferred sales responsibility for its Food Safety products directly to sales representatives at Neogen India.

Neogen Canada. In September 2015, Neogen opened a Canadian location in Guelph, Ontario. Currently, this office is used for genomics sales and sample reception.

Dairy antibiotics distributor. Neogen s dairy antibiotics diagnostic products are distributed outside of North America, Brazil and China by Denmark based Chr. Hansen, an international supplier of natural ingredient solutions for the food, health and nutritional industries.

Other distributor partners. Outside of the Company locations and dairy antibiotics distributor mentioned above, Neogen uses its own sales managers to work closely with and coordinate the efforts of a network of approximately 140 distributors in more than 100 countries. The distributors provide local training and technical support, perform market research and promote Company products within designated countries around the world.

Animal Safety products distribution. Animal Safety has a strong presence in several key international markets with rodenticides, disinfectants, instruments, diagnostics and veterinary products. Utilizing Company personnel in Brazil, Mexico and China, as well as in-country distributors and U.S.-based exporters, these markets include Canada, Mexico and Central America, South America, the Caribbean, Australia, Europe and Asia.

Sales to customers outside the United States accounted for 33.5%, 36.7% and 38.8% of the Company s total revenues for fiscal years ended May 31, 2016, 2015 and 2014, respectively.

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RESEARCH AND DEVELOPMENT

Management maintains a strong commitment to Neogen s research and development activities. The Company s product development efforts are focused on the enhancement of existing product lines and in the development of new products that fit its business strategy. As of May 31, 2016, the Company employed 85 individuals in its worldwide research and development group, including immunologists, chemists and microbiologists. Research and development costs were approximately $9.9 million, $9.6 million and $8.3 million representing 3.1%, 3.4% and 3.4% of total revenues in fiscal years 2016, 2015 and 2014, respectively. Management currently expects the Company s future research and development expenditures to approximate 3% to 4% of total revenues.

Neogen has ongoing development projects for new diagnostic tests and other complementary products for both the food safety and animal safety markets. Management expects that a number of these products will be commercially available at various times during fiscal years 2017 to 2019.

Portions of certain technologies utilized in some products manufactured and marketed by Neogen were acquired from or developed in collaboration with affiliated partnerships, independent scientists, governmental units, universities and other third parties. The Company has entered into agreements with these parties that provide for the payment of license fees and royalties based upon sales of products that utilize the pertinent technology. License fees and royalties expensed under these agreements amounted to $1,969,000, $2,189,000 and $2,278,000 in fiscal years 2016, 2015 and 2014, respectively.

PROPRIETARY PROTECTION AND APPROVALS

Neogen uses trade secrets as proprietary protection in many of its food and animal safety products. In many cases, the Company has developed unique antibodies capable of detecting microorganisms and residues at minute levels. The supply of these antibodies, and the proprietary techniques utilized for their development, may offer better protection than the filing of patents. Such proprietary reagents are maintained in secure facilities and stored in more than one location to reduce exposure to complete destruction by natural disaster or other means.

Patent and trademark applications are submitted whenever appropriate. Since its inception, Neogen has acquired and received numerous patents and trademarks, and has several pending patents and trademarks. The patents expire at various times over the next 23 years.

A summary of patents by product categories follows:

	USA	International	Expiration
Natural Toxins, Allergens & Drug Residues	4	35	2018-2038
Bacterial & General Sanitation	18	37	2017-2028
Life Science	0	7	2024
Vaccine	2	0	2018-2028
Veterinary Instruments & Other	11	35	2017-2039
Genomics	6	2	2021-2028

The Company does not expect the near-term expiration of any patent to have a significant effect on future results of operations.

Management believes that Neogen has adequate protection as to proprietary rights for its products. However, it is aware that substantial research has taken place at universities, governmental agencies and other companies throughout the world and that numerous patents have been applied for and issued for technologies which may be used in the Company s products. To the extent some of the Company s products may now, or in the future, embody technologies protected by patents, copyrights or trade secrets of others, licenses to use such technologies may need to be obtained in order to continue to sell the products. These licenses may not be available on commercially reasonable terms. Failure to obtain any such licenses may delay or prevent the sale of certain new or existing products. In addition, patent litigation is not uncommon. Accordingly, there can be no assurance that the Company s existing patents will be sufficient to completely protect its proprietary rights.

One of the major areas affecting the success of biotechnology development involves the time, cost and uncertainty surrounding regulatory approvals. Neogen products requiring regulatory approval, which the Company currently has in place, include BotVax B, EqStim, ImmunoRegulin, Uniprim and BetaStar. The Company s general strategy is to select technical and proprietary products that do not require mandatory approval to be marketed. Neogen s rodenticide, disinfectant and insecticide products are subject to registration in the United States and internationally.

Neogen utilizes third-party validations on many of its disposable test kits as a marketing tool to provide its customers with the proper assurances. These include validation by the AOAC International, independently administered third-party, multi-laboratory collaborative studies and approvals by the U.S. Federal Grain Inspection Service and the USDA Food Safety Inspection Service for the use of Company products in their operations.

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PRODUCTION AND SUPPLY

Neogen manufactures its products in Michigan, Kentucky, Wisconsin, North Carolina, Iowa, Tennessee, California and the United Kingdom and provides genomics services in Nebraska, Scotland and Brazil. As of May 31, 2016, there were approximately 577 full-time employees assigned to manufacturing and providing of services in these locations, operating on one or two shifts; with occasional 24/7 production during high demand periods; future demand increases could be accommodated by adding shifts. Management believes it could increase the current output of its primary product lines by more than 50% using the current space available; however, to do so could require investment in additional capital equipment.

Food safety diagnostics. Manufacturing of diagnostic tests for the detection of natural toxins, pathogens, food allergens, dairy antibiotics, spoilage organisms and pesticides, final kit assembly, quality assurance and shipping takes place in the Company s facilities in Lansing, Michigan. Proprietary monoclonal and polyclonal antibodies for Neogen s diagnostic kits are produced on a regular schedule in the Company s immunology laboratories in Lansing. Generally, final assembly and shipment of diagnostic test kits to customers in Europe is performed in the Company s Ayr, Scotland facility. Assembly and shipment of electronic readers and disposable single-use samplers takes place in the Company s facilities in Lansing. Soleris instrument readers are produced by third party vendors, quality tested in Lansing, and then shipped to customers. Dehydrated culture media products are manufactured in a FDA-registered facility in Lansing and and also at Lab M in Heywood, England. Products are blended following strict formulations or custom blended to customer specification and shipped directly to customers from Lansing and Heywood.

Animal health products. Manufacturing of animal health products, pharmacological diagnostic test kits and test kits for drug residues takes place in the Company s FDA-registered facilities in Lexington, Kentucky. In general, manufacturing operations including reagent manufacturing, quality assurance, final kit assembly and packaging are performed by Neogen personnel. Certain animal health products and veterinary instruments that are purchased finished or that are toll manufactured by third party vendors are warehoused and shipped from the Company s Lexington facilities. Other veterinary instruments are produced in the Company s facilities in Lansing, and are generally then shipped to Lexington, for distribution to customers. Manufacturing and shipment of devices used for animal injections, topical applications and oral administration takes place in a Company-owned facility in Kenansville, North Carolina.

Veterinary biologics. Neogen maintains a Lansing-based USDA-approved manufacturing facility devoted to the production of the biologic products EqStim and ImmunoRegulin. *P. acnes* seed cultures are added to media and then subjected to several stages of further processing resulting in a finished product that is filled and packaged within the facility. The Company s BotVax B vaccine is also produced in the Lansing facility utilizing Type B botulism seed cultures and a traditional fermentation process. All completed biologic products are then shipped to Neogen s Lexington facilities for inventory and distribution to customers.

Agricultural genomic services. Neogen offers agricultural genomics laboratory services and bioinformatics at its locations in Nebraska, Scotland and Brazil. Through its laboratory services and bioinformatics (primarily in beef and dairy cattle, pigs, sheep, poultry, horses and dogs), GeneSeek empowers its customers to speed genetic improvement efforts, as well as identify economically important diseases. The Company renovated a building during fiscal 2014 to meet its current and near-term future domestic needs, and added to its processing capabilities in Scotland in fiscal 2016, while also purchasing a genomics business in Brazil to enhance its presence there.

Cleaners, disinfectants and rodenticides. Manufacturing of rodenticides and certain cleaners and disinfectants takes place in the following locations: Randolph, Wisconsin; Memphis, Tennessee; and Turlock, California. Manufacturing of rodenticides consists of blending technical material (active ingredient) with bait consisting principally of various

grains. Certain cleaners and disinfectants are manufactured in Neogen facilities, while others are purchased from other manufacturers for resale, or toll manufactured by third parties.

Pesticides. Chem-Tech Ltd. manufactures insecticides and other pesticides at its facility in Pleasantville, Iowa.

Neogen purchases component parts and raw materials from more than 800 suppliers. Though many of these supplies are purchased from a single source in order to achieve the greatest volume discounts, the Company believes it has identified acceptable alternative suppliers for most of its key components and raw materials where it is economically feasible to do so. There can be no assurance that the Company would avoid a disruption of supply in the event a supplier discontinues shipment of product. Shipments of products are generally accomplished within a 48-hour turnaround time. As a result of this quick response time, Neogen s backlog of unshipped orders at any given time has historically not been significant.

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COMPETITION

Although competitors vary in individual markets, management knows of no competitor that is pursuing Neogen s fundamental strategy of developing and marketing a broad line of products, ranging from disposable tests and dehydrated culture media to veterinary pharmaceuticals and instruments for a large number of food safety and animal safety concerns. For each of its individual products, the Company faces intense competition from companies ranging from small businesses to divisions of large multinational companies. Some of these organizations have substantially greater financial resources than the Company. Neogen competes primarily on the basis of ease of use, speed, accuracy and other similar performance characteristics of its products. The breadth of the Company s product line, the effectiveness of its sales and customer service organizations, and pricing are also components in management s competitive plan.

Future competition may become even more intense, including the development of changing technologies, which could affect the marketability and profitability of Neogen s products. The Company s competitive position will also depend on management s ability to develop proprietary products, attract and retain qualified scientific and other personnel, develop and implement production and marketing plans and obtain patent protection. Additionally, the Company must have adequate capital resources to execute its strategy.

FOOD SAFETY:

With a large professional sales organization offering a comprehensive catalog of food safety solutions, management believes the Company maintains a general competitive advantage over competitors offering only limited product lines. In most cases, Neogen sales and technical service personnel can offer unique insight into a customer s numerous safety and quality challenges, and offer testing and other solutions to help the customer overcome those challenges.

Competition for pathogen detection products includes traditional methods and antibody and genetic-based platforms. Neogen s product offerings compete across the entire spectrum of methods. Competition for natural toxins and allergen detection products include instrumentation and antibody-based tests. While the Company s offerings will not always compete on all platforms in all markets, the products that are offered provide tests that can be well utilized by most customers to meet their testing needs.

Besides its extensive product offerings and robust distribution network, the Company focuses its competitive advantage in the areas of customer service, product performance, speed and ease of use of its products. Additionally, by aggressively maintaining itself as a low-cost producer, Neogen believes that it can be competitive with new market entrants that may choose a low pricing strategy in an attempt to gain market share.

ANIMAL SAFETY:

Neogen s Animal Safety segment faces no one competitor across the products and markets it serves. In the racing industry market, the Company believes it holds a leading market share position. In the life sciences and forensics markets, the Company competes against several other diagnostic and reagent companies with similar product offerings.

In the veterinary market, Neogen markets BotVax B, the only USDA-approved vaccine for the prevention of botulism Type B in horses. The Company competes on other key products through differentiated product performance and superior customer and technical support. With some of its products, the Company provides solutions as a lower cost alternative and offers a private label option for its distributors.

Competition in the rodenticide market includes several companies of comparable size that offer products into similar market segments. The rodenticide retail market is not dominated by a single brand. While the technical materials used by competing companies are similar, Neogen uses manufacturing and bait formula techniques which the Company believes better attracts rodents to the product and thereby improves overall product performance.

Within the insecticide market, Chem-Tech products specifically focus on the area of insect control for food and animal safety applications. There are several competitors offering similar products, however, the Company has a proprietary formulation chemistry that optimizes the delivery and safe application of insecticides at the customer s location. These products are currently only sold in the U.S. through a combination of direct sales and distributors.

Several companies compete for sales in the cleaner and disinfectant product segment. Neogen s products are sold through its distributor network around the world, primarily to assist in the cleaning and disinfecting of animal production facilities.

In addition to the Company s extensive portfolio of Animal Safety products, Neogen also competes in the retail market by providing solutions to common retail problems, such as stock outs, wasted floor space and inconsistent brand identity. The Company offers planograms and reordering systems to maximize turns and profitability for its retail customers.

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GeneSeek, the leading commercial agricultural genomics laboratory in the U.S., employs cutting-edge technology in the area of genomics. The result of this technology allows the acceleration of natural selection through selective breeding of traits such as disease resistance and meat quality. Competition comes mainly from service providers whose primary focus are the human and pharmaceutical industries, as well as several smaller companies offering genomics services. GeneSeek is not involved in cloning or the development of transgenic animals.

GOVERNMENT REGULATION

A significant portion of Neogen s products and revenues are affected by the regulations of various domestic and foreign government agencies, including the U.S. Department of Agriculture, the Environmental Protection Agency, and the U.S. Food and Drug Administration. Changes in these regulations could affect revenues and/or costs of production and distribution.

Neogen s development and manufacturing processes involve the use of certain hazardous materials, chemicals and compounds. Management believes that the Company s safety procedures for handling and disposing of such commodities comply with the standards prescribed by federal, state and local regulations; however, changes in such regulations or rules could involve significant costs to the Company and could be materially adverse to its business.

The rodenticides, insecticides, cleaners, disinfectants and sanitizers manufactured and distributed by Neogen are subject to Environmental Protection Agency and various state regulations. In general, any international sale of the product must also comply with similar regulatory requirements in the country of destination. Each country has its own individual regulatory construct with specific requirements (e.g., label in the language of the importing country). To the best of the Company s knowledge, Neogen products are in compliance with applicable regulations in the countries where such products are sold.

Dairy products used in National Conference on Interstate Milk Shipments (NCIMS) and other milk monitoring programs are regulated by the FDA. Before products requiring FDA approval can be sold in the U.S., extensive product performance data must be submitted in accordance with the FDA approved protocol administered by AOAC Research Institute (AOAC RI). Following approval of a product by the FDA, the product must also be approved by NCIMS, an oversight body that includes federal, state and industry representatives. The Company s BetaStar U.S. dairy antibiotic residue testing product has been approved by the FDA, NCIMS, and AOAC RI. While some foreign countries accept AOAC RI approval as part of their regulatory approval processes, many countries have their own regulatory requirements.

Many of the food safety diagnostic products to detect allergens and spoilage organisms do not require direct government approval. However, the Company has pursued AOAC approval for many of the products to enhance their marketability. Products for mycotoxin detection, which are used by federal inspectors, must be approved by the USDA. Neogen has obtained and retained the necessary approvals to conduct its current operations.

Neogen s veterinary vaccine products and one pharmaceutical product require government approval to allow for lawful sales. The vaccine products are approved by United States Department of Agriculture, Center for Veterinary Biologics (USDA-CVB) and the pharmaceutical product is approved by the FDA. The products, and the facilities in which they are manufactured, are in a position of good standing with both agencies. The Company has had no warning letters based on any review or inspection, no recalls on any of these products, and knows of no reason why it could not manufacture and market such products in the future.

Other animal safety and food safety products generally do not require additional registrations or approvals. However, Neogen s regulatory staff routinely monitors amendments to current regulatory requirements to ensure compliance.

EMPLOYEES

As of May 31, 2016, the Company employed 1,235 full-time persons worldwide. None of the employees are covered by collective bargaining agreements. There have been no work stoppages or slowdowns due to labor-related problems, and management believes that its relationship with its employees is generally good. Employees having access to proprietary information have executed confidentiality agreements with the Company.

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ITEM 1A. RISK FACTORS

An investment in Neogen Corporation s common shares involves a high degree of risk. The risks described below are not the only ones that an investor faces. Additional risks that are not yet known to us or that we currently think are immaterial could also impair our business, financial condition or results of operations. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected.

Risks Relating to Our Business

Our business strategy is dependent on successfully promoting internal growth and identifying and integrating acquisitions.

Our business has grown significantly over the past several years as a result of both internal growth and acquisitions of existing businesses and their products. Management initiatives may be attempted to augment internal growth, such as strengthening our presence in select markets, reallocating research and development funds to higher growth potential products, development of new applications for our technologies, enhancing our service offerings, continuing key customer efforts, and finding new markets for our products. Failure of these management initiatives may have a material adverse effect on our operating results and financial condition.

Identifying and pursuing acquisition opportunities, integrating these acquisitions into our business and managing their growth requires a significant amount of management s time and skill. We cannot assure that we will be effective in identifying, integrating or managing future acquisition targets. Our failure to successfully integrate and manage a future acquisition may have a material adverse effect on our operating results and financial condition.

In addition, if we continue to experience growth in our business, such growth could place a significant strain on our management, customer service, operations, sales and administrative personnel, and other resources. To serve the needs of our existing and future customers we will be required to recruit, train, motivate and manage qualified employees. We have incurred and will continue to incur significant costs to retain qualified management, sales and marketing, engineering, production, manufacturing and administrative personnel, as well as expenses for marketing and promotional activities. Our ability to manage our planned growth depends upon our success in expanding our operating, management, information and financial systems, which might significantly increase our operating expenses.

We may not be able to effectively manage our future growth, and if we fail to do so, our business, financial condition and results of operations could be adversely affected.

We rely significantly on our information systems and telecommunications infrastructure to support our operations and a security breach of the Company s information systems could damage the Company s reputation and have an adverse effect on operations and results.

We rely on information systems and telecommunications infrastructure to integrate departments and functions, to enhance our ability to service customers, to improve our control environment and to manage our cost reduction initiatives. Any issues involving our critical business applications and infrastructure may adversely impact our ability to manage operations and the customers we serve. In addition, if the Company s security and information systems are compromised, or employees fail to comply with the applicable laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect the Company s reputation, as well as results of operations, and could result in litigation, the imposition of penalties, or significant expenditures to remediate any damage to persons whose personal information has been compromised.

Disruption of our manufacturing and service operations could have an adverse effect on our financial condition and results of operations.

We manufacture our products at several manufacturing facilities located in the following locations: Lansing, Michigan; Lexington, Kentucky; Randolph, Wisconsin; Kenansville, North Carolina; Pleasantville, Iowa; Memphis, Tennessee; Turlock, California; Heywood, England; and Ayr, Scotland. We offer genomics services from facilities located in: Lincoln, Nebraska; Ayr, Scotland; and Aracatuba, Brazil. These facilities and our distribution systems are subject to catastrophic loss due to fire, flood, terrorism or other natural or man-made disasters. If any of these facilities were to experience a catastrophic loss, it could disrupt our operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility and/or distribution system. If such a disruption were to occur, we could breach agreements, our reputation could be harmed, and our business and operating results could be adversely affected. Although we carry insurance for property damage and business interruption, we do not carry insurance or financial reserves for interruptions or potential losses arising from terrorism. Economic conditions and uncertainties in global markets may adversely affect the cost and other terms upon which we are able to obtain third party insurance. If our third party insurance coverage is adversely affected, or to the extent we have elected to self-insure, we may be at greater risk that our operations will be harmed by a catastrophic loss.

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Our dependence on suppliers could limit our ability to sell certain products or negatively affect our operating results.

We rely on third party suppliers to provide components in our products, manufacture products that we do not manufacture ourselves and perform services that we do not provide ourselves, including package delivery services. Because these suppliers are independent third parties with their own financial objectives, actions taken by them could have a negative effect on our results of operations. The risks of relying on suppliers include our inability to enter into contracts with third party suppliers on reasonable terms, inconsistent or inadequate quality control, relocation of supplier facilities, supplier work stoppages and suppliers failure to comply with their contractual obligations. In addition, we currently purchase some raw materials and products from sole or single sources. Some of the products that we purchase from these sources are proprietary and, therefore, cannot be readily or easily replaced by alternative sources. Problems with suppliers could negatively impact our ability to supply the market, substantially decrease sales, lead to higher costs or damage our reputation with our customers.

We rely heavily on third party package delivery services, and a significant disruption in these services or significant increases in prices may disrupt our ability to ship products, increase our costs and lower our profitability.

We ship a significant portion of our products to our customers through independent package delivery companies, such as UPS, Federal Express and DHL. We also ship our products through other carriers, including national and regional trucking firms, overnight carrier services and the U.S. Postal Service. If one or more of these third party package delivery providers were to experience a major work stoppage, preventing our products from being delivered in a timely fashion or causing us to incur additional shipping costs we could not pass on to our customers, our costs could increase and our relationships with some of our customers could be adversely affected. In addition, if one or more of our third party package delivery providers were to increase prices, and we were not able to find comparable alternatives or make adjustments in our delivery network, our profitability could be adversely affected.

Our business sells many products through distributors, which present risks that could negatively affect our operating results.

We sell many of our products, both within and outside of the U.S., through distributors. As a result, we are dependent on these distributors to sell our products and assist us in promoting and creating a demand for our products. Our distributors sometimes offer products from several different companies, and those distributors may carry our competitors products and promote our competitors products over our own products. We have limited ability, if any, to cause our distributors to devote adequate resources to promoting, marketing, selling and supporting our products. We cannot assure that we will be successful in maintaining and strengthening our relationships with our distributors or establishing relationships with new distributors who have the ability to market, sell and support our products effectively. We may rely on one or more key distributors for a product or region, and the loss of one or more of these distributors could reduce our revenue. Distributors may face financial difficulties, including bankruptcy, which could harm our collection of accounts receivable and financial results. In addition, violations of anti-corruption laws or similar laws by our distributors could have a material impact on our business, and any termination of a distributor relationship may result in increased competition in the applicable jurisdiction. Failing to manage the risks associated with our use of distributors may reduce sales, increase expenses and weaken our competitive position, which could have a negative effect on our operating results.

The development of new products entails substantial risk of failure due to the production of non-viable products, lack of properly identifying market potential, and competitors better serving the marketplace.

Our growth strategy includes significant investment in and expenditures for product development. To execute this strategy, we are continually developing new products for which we believe there should be significant market demand. We cannot assure that we will successfully develop commercially viable products, that the products will be developed on a timely basis to meet market demand or that the relevant market will be properly identified. Our competitors may also adapt more quickly, and deliver superior technologies, price and/or service to better fit our customers requirements. If we expend substantial resources in developing an unsuccessful product, whether that lack of success is the result of our production of a non-viable product, a misidentified market, or a competitor s superior ability to meet our customers requirements, operating results could be adversely affected.

Our international operations are subject to different product standards as well as other operational risks.

In fiscal 2016, sales to customers outside of the U.S. accounted for 33.5% of the Company s total revenue. We expect that our international business will continue to account for a significant portion of our total revenue. Foreign regulatory bodies may establish product standards different from those in the U.S. and with which the Company s current products do not comply. Our potential inability to design products that comply with foreign standards could have a material adverse effect on our future growth. Other risks related to our sales to customers outside of the U.S. include possible disruptions in transportation, difficulties in building and managing foreign distribution, fluctuation in the value of foreign currencies, changes in import duties and quotas and unexpected economic and political changes in foreign markets. These factors could adversely affect international sales and our overall financial performance.

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The markets for our products are extremely competitive, and our competitors may be able to utilize existing resource advantages to our detriment.

The markets in which the Company competes are subject to rapid and substantial changes in technology and are characterized by extensive research and development and intense competition. Many of our competitors and potential competitors have greater financial, technical, manufacturing, marketing, research and development and management resources than we do. These competitors might be able to use their resources, reputations and ability to leverage existing customer relationships to give them a competitive advantage over us. They might also succeed in developing products that are more reliable and effective than our products, make additional measurements, are less costly than our products or provide alternatives to our products.

We are dependent on the agricultural marketplace, which is affected by factors beyond our control.

Our primary customers are in the agricultural and food production industries. Economic conditions affecting agricultural industries are cyclical and are dependent upon many factors outside of our control, including weather conditions, changes in consumption patterns or commodity prices. Any of these factors in the agricultural marketplace could affect our sales and overall financial performance.

Our quarterly operating results are subject to significant fluctuations.

We have experienced, and may experience in the future, significant fluctuations in our quarterly operating results. The mix of products sold and the acceptance of new products, in addition to other factors, could contribute to this quarterly variability. We operate with relatively little backlog and have few long-term customer contracts. Substantially all of our product revenue in each quarter results from orders received in that quarter. In addition, our expense levels are based, in part, on our expectation of future revenue levels. A shortfall in expected revenue could, therefore, result in a disproportionate decrease in our net income.

Our success is highly dependent on our ability to obtain protection for the intellectual property utilized in our products.

Our success and ability to compete depends in part upon our ability to obtain protection in the United States and other countries for our products by establishing and maintaining intellectual property rights relating to or incorporated into our technology and products. Patent applications filed by the Company may not result in the issuance of patents or, if issued, may not be issued in a form that will be commercially advantageous to us. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of time we may have patent protection for our products. We also cannot assure that our nondisclosure agreements, together with trade secrets and other common law rights, will provide meaningful protection for the Company s trade secrets and other proprietary information. Moreover, the laws of some foreign jurisdictions may not protect intellectual property rights to the same extent as in the United States, and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. If we encounter such difficulties or we are otherwise precluded from effectively protecting our intellectual property rights domestically or in foreign jurisdictions, we may incur substantial costs and our business, including our business prospects, could be substantially harmed.

From time to time, the Company has received notices alleging that the Company s products infringe third party proprietary rights. Whether the manufacture, sale or use of current products, or whether any products under development would, upon commercialization, infringe any patent claim will not be known with certainty unless and until a court interprets the patent claim in the context of litigation. When an infringement allegation is made against

us, we may seek to invalidate the asserted patent claim and/or to allege non-infringement of the asserted patent claim. In order for us to invalidate a U.S. patent claim, we would need to rebut the presumption of validity afforded to issued patents in the United States with clear and convincing evidence of invalidity, which is a high burden of proof. The outcome of infringement litigation is subject to substantial uncertainties, and also the testimony of experts as to technical facts upon which experts may reasonably disagree. Our defense of an infringement litigation lawsuit could result in significant expense. Regardless of the outcome, infringement litigation could significantly disrupt our marketing, development and commercialization efforts, divert management s attention and consume our financial resources. In the event that we are found to infringe any valid claim in a patent held by a third party, we may, among other things, be required to:

- Pay damages, including up to treble damages and the other party s attorneys fees, which may be substantial;
- Cease the development, manufacture, importation, use and sale of products that infringe the patent rights of others, through a court-imposed injunction;
- Expend significant resources to redesign our technology so that it does not infringe others patent rights, or develop or acquire non-infringing intellectual property, which may not be possible;
- Discontinue manufacturing or other processes incorporating infringing technology; and/or
- Obtain licenses to the infringed intellectual property, which may not be available to us on acceptable terms, or at all.

Any development or acquisition of non-infringing products, technology or licenses could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results. If we are required to, but cannot, obtain a license to valid patent rights held by a third party, we would likely be prevented from commercializing the relevant product, or from further manufacture, sale or use of the relevant product.

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We are subject to substantial governmental regulation.

A portion of our products and facilities are regulated by various domestic and foreign government agencies, including the U.S. Department of Agriculture, the U.S. Food and Drug Administration and the Environmental Protection Agency. Although less than 10% of our revenue is currently derived from products requiring government approval prior to sale, a significant portion of our revenue is derived from products used to monitor and detect the presence of residues that are regulated by various government agencies. Furthermore, the Company s growth may be adversely affected by the implementation of new regulations. The Company is not aware of any failures to comply with applicable laws and regulations; the costs of compliance or failure to comply with any obligations could adversely impact the business.

We are dependent on key employees.

Our success depends, in large part, on members of our management team. Our loss of any of these, or other, key employees could have a material adverse effect on the Company. We maintain certain incentive plans for key employees, and most of these employees have been with the Company in excess of five years. However, we have not executed long-term employment agreements with any of these employees and do not expect to do so in the foreseeable future. Our success depends, significantly, on our ability to continue to attract such personnel. We cannot assure that we will be able to retain our existing personnel or attract additional qualified persons when required and on acceptable terms.

Our business may be subject to product liability claims.

The manufacturing and distribution of the Company s products involve an inherent risk of product liability claims being asserted against us. Regardless of whether we are ultimately determined to be liable or our products are determined to be defective, we might incur significant legal expenses not covered by insurance. In addition, product liability litigation could damage our reputation and impair our ability to market our products, regardless of the outcome. Litigation could also impair our ability to retain product liability insurance or make our insurance more expensive. Although the Company currently maintains liability insurance, we cannot assure that we will be able to continue to obtain such insurance on acceptable terms, or that such insurance will provide adequate coverage against all potential claims. If we are subject to an uninsured or inadequately insured product liability claim, our business, financial condition and results of operations could be adversely affected.

Market prices for securities of technology companies are highly volatile.

The market prices for securities of technology companies have been volatile in the past and could continue to be volatile in the future. Fluctuations in our financial performance from period to period could have a significant impact on the market price of our common shares.

Operating results could be negatively impacted by economic, political or other developments in countries in which we do business.

Future operating results could be negatively impacted by unstable economic, political and social conditions, including but not limited to fluctuations in foreign currency exchange rates, political instability, or changes in the creation or interpretation of laws and regulations or administrative actions in each of the countries where the Company conducts business, including the United States.

These potential negative impacts include, but are not limited to: reduction of demand for some of our products, increase in the rate of order cancellations or delays, increased risk of excess and obsolete inventories, increased pressure on the prices for our products and services, and longer sales cycles and greater difficulty in collecting accounts receivable.

Additionally, the Company operates in multiple income tax jurisdictions and must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. Income tax audits associated with the allocation of income and other complex issues may result in significant income tax adjustments that could negatively impact the Company s future operating results.

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ITEM 1B. UNRESOLVED STAFF COMMENTS NONE

ITEM 2. PROPERTIES

Neogen owns 15 separate buildings located throughout Lansing, Michigan, totaling 277,500 square feet. These buildings are used for corporate offices, including accounting and human resources, manufacturing and warehousing of food safety products, food safety sales and marketing, and research and development.

Animal Safety sales and marketing, diagnostic test kit manufacturing, warehousing and distribution of certain Animal Safety products takes place from two Company-owned facilities totaling 210,000 square feet in Lexington, Kentucky.

The Company rents 26,000 square feet at a manufacturing facility in Kenansville, North Carolina at a monthly cost of $5,360. The lease automatically renews annually but can be terminated with six months notice. The Company manufactures and warehouses veterinary devices at this location.

Food Safety researchers occupy 5,400 square feet of space in St. Joseph, Michigan at a monthly cost of $3,100. The lease extends through May 2017, with two one-year extensions, at the Company s option.

Neogen Europe Ltd. operations take place in two Company-owned facilities, totaling 74,000 square feet, in Ayr, Scotland.

Lab M manufacturing and warehousing takes place in a 24,800 square foot Company-owned facility in Heywood, England.

Rodenticide and disinfectant manufacturing and warehousing is conducted in 113,000 square feet of Company-owned buildings in Randolph, Wisconsin.

The Company s GeneSeek subsidiary owns 26,000 square feet of laboratory and office space in Lincoln, Nebraska.

The Company s Chem-Tech Ltd. subsidiary manufactures and warehouses insecticides and other pesticides in 59,000 square feet of rented space in Pleasantville, Iowa. The monthly rent is $17,000 and the lease extends through December 2016.

Manufacturing and warehousing facilities for cleaners and disinfectants acquired in the Preserve International acquisition are located in Memphis, Tennessee and Turlock, California. The Memphis building, totaling 66,000 square feet, is owned by the Company. The Turlock building, at 30,000 square feet, is rented at a monthly rate of $5,960, with the lease extending through May 2020.

Neogen do Brasil rents 6,800 square feet of office and warehouse space near Sao Paulo, Brazil at a cost of approximately $2,000 per month. The lease extends to May 2021. Deoxi occupies 2,000 square feet of rented lab and office space in Aracatuba, Brazil at a cost of approximately $2,100 per month. The lease extends through October 2017.

Neogen Latinoamerica rents 27,000 square feet of office and warehouse space in Mexico City, Mexico for approximately $9,500 per month. The lease extends to November 1, 2018.

Neogen China rents 3,800 square feet of office and warehouse space in Shanghai at a cost of $5,800 per month. The lease extends to February 2019. Neogen China also rents 350 square feet of office and lab space in Beijing at a cost of

$2,000 per month. The lease extends to March 2017.

Neogen India rents 5,500 square feet of lab, office and warehouse space in Kerla, India at a cost of approximately $1,600 per month. The lease extends through June 2017.

These properties are in good condition, well-maintained, and generally suitable and adequate to carry on the Company s business.

ITEM 3. LEGAL PROCEEDINGS

Neogen is subject to certain legal proceedings in the normal course of business that, in the opinion of management, should not have a material effect on its future results of operations or financial position.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION:

Neogen Common Stock is traded on the NASDAQ Global Select Market under the symbol NEOG . The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock as reported on the NASDAQ Stock Market.

	HIGH	LOW
YEAR ENDED MAY 31, 2016		
First Quarter	$ 62.70	$ 44.90
Second Quarter	$ 59.76	$ 43.00
Third Quarter	$ 60.38	$ 45.00
Fourth Quarter	$ 53.02	$ 43.79
YEAR ENDED MAY 31, 2015		
First Quarter	$ 45.06	$ 36.78
Second Quarter	$ 44.65	$ 39.23
Third Quarter	$ 51.63	$ 43.08
Fourth Quarter	$ 51.21	$ 42.37

HOLDERS:

As of June 30, 2016, there were approximately 304 stockholders of record of Common Stock and management believes there are a total of approximately 11,736 beneficial holders.

DIVIDENDS:

Neogen has never paid cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future.

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The graph below matches Neogen Corporation s cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Medical Equipment index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from May 31, 2011 to May 31, 2016.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

May 31 of :	2011	2012	2013	2014	2015	2016
Neogen Corporation	100.00	86.84	121.48	126.42	156.36	165.15
NASDAQ Composite	100.00	103.65	128.29	160.97	194.49	190.42
NASDAQ Medical Equipment	100.00	103.31	113.10	118.81	149.55	154.08

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Issuer Purchases of Equity Securities

In December 2008, the Board of Directors authorized management to repurchase up to a total of 1,125,000 shares of its common stock in open market transactions. This authorization remains in effect; however, the Company made no purchases of common stock in fiscal years 2016, 2015 and 2014.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial data of Neogen for each of the five fiscal years ended May 31, 2016. The selected consolidated financial data presented below have been derived from the Company s consolidated financial statements. This financial data should be read in conjunction with the consolidated financial statements, related notes and other financial information appearing elsewhere in this Form 10-K.

	Years Ended May 31				
(in thousands, except per share data)	**2016**	**2015**	**2014**	**2013**	**2012**
Income Statement Data:					
Food Safety Revenues	$ 145,841	$ 131,479	$ 116,290	$ 106,158	$ 91,104
Animal Safety Revenues	175,434	151,595	131,115	101,370	92,942
Total Revenues	321,275	283,074	247,405	207,528	184,046
Cost of Revenues	168,211	143,389	124,807	98,034	91,621
Sales and Marketing	57,599	51,757	46,432	40,791	35,026
General and Administrative	29,189	25,233	24,449	20,216	17,024
Research and Development	9,890	9,577	8,326	7,781	6,636
Operating Income	56,386	53,118	43,391	40,706	33,739
Other Income (Expense)	(873)	(1,042)	(360)	435	100
Income Before Income Taxes	55,513	52,076	43,031	41,141	33,839
Provision for Income Taxes	18,975	18,500	15,000	14,100	11,450
Net Income	36,538	33,576	28,031	27,041	22,389
Net (Income) Loss Attributable to Non-controlling Interest	26	(49)	127	149	124
Net Income Attributable to Neogen	$ 36,564	$ 33,527	$ 28,158	$ 27,190	$ 22,513
Net Income per Share (basic)(1)	$ 0.98	$ 0.91	$ 0.77	$ 0.76	$ 0.64
Net Income per Share (diluted)(1)	$ 0.97	$ 0.90	$ 0.76	$ 0.75	$ 0.62
Weighted Average Shares Outstanding (diluted)(1)	37,875	37,444	37,267	36,491	36,029

	2016	**2015**	**2014**	**2013**	**2012**
Balance Sheet Data:					
Cash and Cash Equivalents and Marketable Securities	$ 107,796	$ 114,164	$ 76,496	$ 85,369	$ 68,645
Working Capital(2)	221,403	205,739	163,779	150,728	123,962
Total Assets	451,715	392,181	345,301	290,558	251,600
Long-Term Debt	0	0	0	0	0
Total Equity	404,161	350,963	306,300	258,287	219,054

(1) On October 30, 2013, the Company paid a 3-for-2 stock split affected in the form of a dividend of its common stock. All share and per share amounts have been adjusted to reflect the stock split as if it had taken place at the

beginning of the period presented.

(2) Defined as current assets less current liabilities.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this Management s Discussion and Analysis of Financial Condition and Results of Operations contains both historical financial information and forward-looking statements. Neogen Corporation management does not provide forecasts of future financial performance. While management is optimistic about the Company s long-term prospects, historical financial information may not be indicative of future financial results.

Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, seeks, estimates, a similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed from time to time in the Company s reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation s results to differ materially from those indicated by such forward-looking statements, including those detailed in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

In addition, any forward-looking statements represent management s views only as of the day this Report on Form 10-K was first filed with the Securities and Exchange Commission and should not be relied upon as representing management s views as of any subsequent date. While management may elect to update forward-looking statements at some point in the future, it specifically disclaims any obligation to do so, even if its views change.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the Company s financial condition and results of operations are based on the consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including but not limited to, those related to receivable allowances, inventories and intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies reflect management s more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue for each period presented.

Accounts Receivable Allowance

Management attempts to minimize credit risk by reviewing customers credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is charged against the allowance for doubtful accounts.

Inventory

A reserve for obsolete and slow moving inventory has been established and is reviewed at least quarterly based on an analysis of the inventory, taking into account the current condition of the asset as well as other known facts and future plans. The reserve required to record inventory at lower of cost or market may be adjusted as conditions change. Product obsolescence may be caused by shelf-life expiration, discontinuance of a product line, replacement products in the marketplace or other competitive situations.

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Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis over 5 to 25 years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired. If the Company s qualitative assessment concludes that it is more likely than not that an impairment exists, or the Company skips the qualitative assessment, then the Company performs a quantitative assessment. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations.

Long-lived Assets

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset indicate that the carrying amount of the asset may not be recoverable. In such an event, fair value is determined using discounted cash flows and, if lower than the carrying value, impairment is recognized through a charge to operations.

Equity Compensation Plans

Share options awarded to employees and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company s stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model using assumptions for inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized.

To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct one. The model applied by the Company is able to handle some of the specific features included in the options granted, which is the reason for its use. If a different model were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on the Company s equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Notes 1 and 5 to the consolidated financial statements.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carry forwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

The Company s foreign subsidiaries are comprised of Neogen Europe (wholly-owned subsidiary), Lab M Holdings (wholly-owned subsidiary), Neogen Latinoamerica (90% owned subsidiary), Neogen do Brasil (90% owned subsidiary), Neogen Bio-Scientific Technology Co (Shanghai) (wholly-owned subsidiary), Neogen Food and Animal Security (India) (wholly-owned subsidiary), Neogen Canada (wholly-owned subsidiary) and Deoxi Biotecnologia Ltda (wholly-owned subsidiary). Based on historical experience, as well as the Company s future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, the Company s domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, the Company evaluates the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2016, unremitted earnings of the foreign subsidiaries were $27,880,000.

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RESULTS OF OPERATIONS

Executive Overview

Total consolidated revenue for Neogen Corporation in fiscal 2016 was $321.3 million, an increase of 13% compared to revenue of $283.1 million in fiscal 2015. Net income attributable to Neogen increased 9% to $36.6 million, or $0.97 per fully diluted share, compared to $33.5 million, or $0.90 per fully diluted share, in fiscal 2015. Cash flow from operations for fiscal 2016 was $35.3 million compared to $43.8 million in fiscal 2015.

The Company s Food Safety segment revenues were $145.8 million in fiscal 2016, an increase of 11% compared to prior fiscal year revenues of $131.5 million. Animal Safety segment revenues were $175.4 million, up 16%, compared to $151.6 million in fiscal 2015. Organic sales growth for fiscal 2016 was 6% for the Food Safety segment and 14% for the Animal Safety segment, each compared to the prior fiscal year.

Revenue increases were aided by acquisitions the Company completed in the 2015 and 2016 fiscal years, which added revenue totaling $9.0 million during the fiscal 2016 year. BioLumix was acquired in October 2014 of the prior fiscal year. In fiscal 2016, the Company acquired Sterling Test House (June 2015), a commercial food service testing laboratory in India, which was purchased as the Company s entry point into the important Indian market; Lab M (August 2015), a manufacturer and marketer of dehydrated culture media based in England; Virbac (December 2015), a line of rodenticides with a number of international product registrations; Deoxi (April 2016), a genomics lab in Brazil, to aid in the expansion of the Company s genomics efforts in that country; and Preserve/Tetradyne (May 2016), manufacturers and marketers of cleaners and disinfectants, an important component of the Company s biosecurity product offering, with particular strength in the swine and cattle markets.

International sales were $107.7 million in fiscal 2016, an increase of 4% compared to the prior fiscal year. Sales growth in the Company s international operations, which report primarily in its Food Safety segment, was adversely impacted by the strength of the U.S. dollar, which rose during the year against all currencies in which the Company conducts business. Neogen Europe recorded a 3% revenue gain in pound sterling compared to the prior year; however, these revenues resulted in a 3% decrease when converted to U.S. dollars. Neogen do Brasil had revenue increases of 49% in its local currency, the real, due to strong sales increases of its BetaStar dairy antibiotics test kits; this was reduced to a 7% increase in dollars due to the significant devaluation of the real against the dollar in fiscal 2016. Neogen Latinoamerica recorded a revenue increase of 44% in fiscal 2016, which reduced to 20% when converted to dollars. In local currency, Neogen China increased revenues 91% in fiscal 2016, albeit off of a small base, with minimal impact due to currency conversion. On a neutral currency basis, organic growth for the Company for fiscal 2016 was 12% for the Food Safety segment; currency had no impact on organic growth in the Animal Safety segment.

Expressed as a percentage of total sales, international sales in fiscal 2016 were 33.5% compared to 36.7% in fiscal 2015. This decline as a percentage of sales was due in part to the strength of the U.S. dollar, which reduced comparative revenues in the local currency when converted to dollars; international sales were negatively impacted by $7.7 million on a comparative basis for fiscal 2016. Additionally, sales of the Company s cleaners and disinfectants to international customers declined by 28%, due to dollar strength which made these products less competitive internationally compared to products produced locally, and poor economic conditions in a number of our key international markets.

Service revenue was $47.7 million in fiscal 2016, an increase of 22% compared to prior year revenues of $39.2 million. The increase for the year was primarily due to increased business with a large customer in the poultry industry, and sales of new proprietary genomic offerings developed for the beef and dairy cattle and pork industries for both domestic and international customers. The Company also benefitted from the expansion of its genomics

service capabilities at its Ayr, Scotland facilities.

Gross margins were 47.6% in fiscal 2016, versus 49.3% in fiscal 2015. The decrease was primarily the result of lower gross margins in the Food Safety segment, resulting from adverse currency impacts caused by the strong U.S. dollar, and product mix changes towards products which have lower gross margins within Food Safety. Additionally, a greater proportion of the Company s overall revenues derived from the Animal Safety segment, which has lower average gross margins than the Food Safety segment. Operating expenses rose 12% in fiscal 2016 compared to 2015; expressed as a percentage of revenues, operating expenses decreased from 30.6% in fiscal 2015 to 30.1% in fiscal 2016; the Company controlled its expense growth while incurring additional amortization and other expenses related to its recent acquisitions.

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REVENUES

	Year Ended				
(dollars in thousands)	May 31, 2016	Increase/ (Decrease)	May 31, 2015	Increase/ (Decrease)	May 31, 2014
Food Safety:					
Natural Toxins, Allergens & Drug Residues	$ 63,269	4%	$ 60,561	0%	$ 60,358
Bacterial & General Sanitation	33,899	15%	29,492	20%	24,652
Dehydrated Culture Media & Other	48,673	17%	41,426	32%	31,280
	145,841	11%	131,479	13%	116,290
Animal Safety:					
Life Sciences	7,815	(10%)	8,715	16%	7,528
Veterinary Instruments & Disposables	42,028	1%	41,740	24%	33,593
Animal Care & Other	37,074	34%	27,606	(9%)	30,366
Rodenticides, Insecticides & Disinfectants	53,490	17%	45,857	25%	36,702
DNA Testing	35,027	27%	27,677	21%	22,926
	175,434	16%	151,595	16%	131,115
Total Revenue	$ 321,275	13%	$ 283,074	14%	$ 247,405

Year Ended May 31, 2016 Compared to Year Ended May 31, 2015

The Company s Food Safety segment revenues were $145.8 million in fiscal 2016, an 11% increase compared to the prior year. The increase, predominantly volume related, from organic sales was 6%, with revenues from the BioLumix (October 2014), Lab M (August 2015) and Deoxi (April 2016) acquisitions contributing the remainder of the growth. Sales of Natural Toxins, Allergens and Drug Residues increased 4% in the current fiscal year compared to fiscal 2015. Natural toxin sales were flat with a 10% increase in aflatoxin sales offset by a 3% decrease in DON sales, due to outbreaks in the prior year which were not repeated in fiscal 2016. Allergen sales increased 20%, as increased consumer awareness continued to grow demand for these products, while sales of drug residue test kits decreased 5%, caused by currency conversions, as the majority of these sales are invoiced in euros.

Bacterial and General Sanitation revenues increased 15% in fiscal 2016, aided by $1.9 million in sales from the October 2014 BioLumix acquisition. Excluding BioLumix sales, the organic increase in these products was 9% over the prior year. The AccuPoint sanitation monitoring product line recorded an increase of 18% due to the continued successful introduction of an improved, next generation product line. Sales of the Soleris and BioLumix product lines, which detect spoilage organisms, increased 23% for the year (5% organic growth), with revenue increases in both equipment and disposable vials. Pathogen sales increased 4% in fiscal 2016 as compared to the prior year, primarily due to an increase in sales of *Listeria* test kits to the commercial lab market.

Dehydrated Culture Media and Other sales increased 17% in fiscal 2016. This category includes $4.8 million of Lab M sales, a business which was acquired in August 2015; excluding the impact of these revenues, the organic increase was 6%. Sales of Acumedia products into the food safety market increased 10% while sales into traditional domestic media markets increased 16%. Genomics service revenues in the Company s international operations (reported within

Other) increased 4% while sales of Animal Safety products primarily to customers in Mexico, Central America and Brazil, also reported in this category, decreased 8% in U.S. dollars, due to the strength of the dollar, poor economic conditions in some of these markets and order timing from large distributors.

The Company s Animal Safety segment revenues were $175.4 million in fiscal 2016, a 16% increase, predominantly volume related, over fiscal 2015. Life Sciences sales decreased 10% in fiscal 2016 after a strong 16% increase in 2015. Sales of forensic kits to commercial labs declined as new testing requirements in Brazil for commercial drivers, originally anticipated to go into effect in late fiscal 2015, were delayed until the 4th quarter of fiscal 2016. Veterinary Instruments and Disposables increased 1%, as market share gains in disposable syringes, up 25%, and animal marking products, up 14%, were almost entirely offset by an 8% decrease in detectable needles, due to large orders in the prior year which did not recur, and an 11% decline in hoof and leg products, due to lower sales of these products to customers in the retail market.

Animal Care and Other product sales rose 34% in fiscal 2016, with the increase primarily the result of a new distribution agreement with a large manufacturer and supplier of dairy equipment, and strong sales of the Company s line of thyroid replacement therapy for companion animals. Also contributing to growth in the Animal Care product category were increased sales of wound care products, as a key active ingredient which had been on backorder for much of fiscal 2015, became available in fiscal 2016, and veterinary antibiotics, due to a competitor exiting the business. During the fourth quarter of fiscal 2016, the Company was notified that a competitor had been granted approval on a new drug application for a competitive thyroid replacement product, effectively giving them exclusive rights to sell the product. As a result, the Company will be unable to sell its product into the domestic market effective the end of July 2016, until it is granted similar regulatory approval; this approval is expected in fiscal 2018. Sales of this product in fiscal 2016 were $6.6 million.

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The Company s line of Rodenticides, Insecticides and Disinfectants rose 17% in fiscal 2016, compared to the prior year, led by a 58% increase in sales of rodenticides. This increase was in large part the result of an expansion of the Company s contract manufacturing business with a large marketer of rodenticides to the commercial and residential markets. Additionally, the Company successfully introduced a number of new products into the retail agricultural market, and also benefitted from the continued vole outbreak in the northwestern U.S. Cleaners and disinfectant revenues declined 9% compared to fiscal 2015, primarily due to lower sales to international customers as the strength of the U.S. dollar made the Company s products less competitive internationally; poor economic conditions in a number of the Company s key international markets also adversely impacted sales. The Company s line of insecticides rose 1% in fiscal 2016, as incremental revenues from new product launches were almost entirely offset by lower sales of existing products due to timing of orders and backorders caused by a vendor issue.

DNA Testing Services revenues increased 27% in fiscal 2016 compared to the same period in the prior year. Incremental business with a large poultry producer, earned in fiscal 2015, was the primary driver of the growth. The Company also continued to gain market share in fiscal 2016 with its proprietary chip technology, primarily to cattle and pig producers, and grew sample volume particularly with its largest customers. In addition, the canine testing service business grew 17% as the Company successfully commercialized new service offerings, developed in the prior fiscal year.

Year Ended May 31, 2015 Compared to Year Ended May 31, 2014

The Company s Food Safety segment revenues were $131.5 million in fiscal 2015, a 13% increase compared to the prior year. Sales of Natural Toxins, Allergens and Drug Residues were flat in fiscal 2015 as compared to the prior year. Natural toxin sales increased 5%, with strong sales of DON test kits, up 28% due to outbreaks of this toxin in crops in Eastern Europe, Canada and the U.S. This increase was offset by a 15% decline in aflatoxin test kits due to a difficult comparison to the prior year caused by high demand from aflatoxin outbreaks in Eastern Europe, and relatively clean crops in the current fiscal year relative to that toxin.

Revenues for the Company s test kits to detect allergens such as milk, gluten, soy, peanut, and egg, among others, in processed foods rose 18%, the result of higher demand resulting from increased recalls due to inadvertent allergenic contamination and higher consumer awareness of the risks of ingesting foods with allergenic components. Included within this category and partially offsetting the gains from allergen products were decreased sales of meat speciation test kits, which declined 40% in fiscal 2015, due to lower levels of testing during the year and competitor entry into the market. Sales of drug residue test kits were down 16% this year, primarily due to currency conversion and lower test kit volumes to customers in Eastern Europe due to delays in the launch of a new product in that region.

Bacterial and General Sanitation revenues increased 20% in fiscal 2015, aided by $4.0 million in revenues from the October 1, 2014 BioLumix acquisition. Excluding BioLumix sales, the increase was 4% over the prior year. The Soleris consumable product line, which consists primarily of reagent vials used to detect spoilage organisms such as yeast and molds in foods, increased 10%, while sales of the recently-launched next generation AccuPoint environmental reader increased 35%. Ampoule media and filter sales increased 14% compared to the prior fiscal year; the Company continues to gain new customers and market share, primarily in the beverage industry. Partially offsetting these gains was a 43% decline in Soleris equipment sales due to difficult comparisons caused by prior year international placements, which did not repeat in the current fiscal year.

Dehydrated Culture Media and Other sales increased 32% in the current fiscal year. Within this product category, Acumedia sales increased 5% in fiscal 2015. While sales of Acumedia products to food safety customers increased 10%, this was offset by flat sales to the traditional media market due to lower demand and continuing credit issues at some significant customers. Genomics revenues to European customers (included as Other revenues), increased 57%

due to market share gains for services and the sale of new proprietary product offerings. Also included in this category were sales of Animal Safety products to customers in Mexico and Central America, transferred to the Company s Neogen Latinoamerica subsidiary which reports in the Food Safety segment, to better serve customers in those locations.

The Company s Animal Safety segment revenues were $151.6 million in fiscal 2015, a 16% increase over fiscal 2014. Life Sciences sales increased 16% in fiscal 2015 compared to the prior year, led by forensic kit sales to commercial labs to meet new testing requirements in Brazil for commercial drivers. For the year, revenues of Veterinary Instruments and Disposables increased 24%. This product category benefitted from revenues from the SyrVet and Prima Tech acquisitions from fiscal 2014; these product lines were almost entirely veterinary instruments. Excluding these revenues, organic growth in this category was 14% for fiscal 2015, led by sales of detectable needles, which continued to be a strong product line with growth of 29% in fiscal 2015. Partially offsetting some of this growth was the transfer of customers and revenue in Mexico and Central America to Neogen Latinoamerica, in order to more directly serve those customers.

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Sales of Animal Care and Other products declined 9% in fiscal 2015; on an organic basis, these sales were down 15%, partially due to the transfer of some customers to Neogen Latinoamerica. Within this category in fiscal 2014, the Company recorded strong sales of a wound care product caused by a supply disruption in the market. This product was available for sale from all competitors in fiscal 2015, and revenues for this product declined. Additionally, sales of a distributed antibiotic declined due to supplier discontinuance of the product. Animal supplements rose by $1.5 million in fiscal 2015, due to strong sales of the Company s thyroid replacement offering for the canine market.

Rodenticides, Insecticides and Disinfectants sales increased 25% in fiscal 2015, largely the result of revenues gained from the Chem-Tech insecticide business acquisition in January 2014. Excluding the contribution from this acquisition, the organic increase in this category was 4%. Rodenticide sales increased 21%, primarily due to rodent infestations in the northwestern U.S. and the capture of new business. Partially offsetting this growth was a 12% decrease in sales of cleaners and disinfectants, due to unusually high sales in the prior year caused by a porcine virus outbreak, primarily in international markets.

DNA Testing revenues, excluding sales through Neogen Europe, Neogen do Brasil and Neogen China, which are reported in the Food Safety segment, increased 21% in fiscal 2015 as compared to the prior year. Continuing improvements to a number of proprietary service offerings, primarily targeted at dairy and beef cattle markets, helped the Company increase sales to existing customers and gain market share. Additionally, there were strong sales to a new poultry customer in the current fiscal year.

COST OF REVENUES

(dollars in thousands)	**2016**	**Increase**	**2015**	**Increase**	**2014**
Cost of Revenues	$ 168,211	17%	$ 143,389	15%	$ 124,807

Cost of revenues increased 17% in fiscal 2016 and 15% in fiscal 2015 in comparison with the prior years. This compares with revenue increases of 13% in fiscal 2016 and 14% in fiscal 2015. Expressed as a percentage of revenues, cost of revenues was 52.4%, 50.7% and 50.4% in fiscal years 2016, 2015 and 2014, respectively. For fiscal 2016, the strength of the U.S. dollar, which adversely impacted top line revenue with no corresponding decline in product cost, had the largest impact on the decline in gross margins. In addition, shifts in product mix within the Food Safety segment, in part the result of acquisitions completed in fiscal years 2015 and 2016, towards products which have lower gross margins than the segment average, and a shift in the proportion of Animal Safety revenues to the overall revenue of the Company, resulted in the decline in gross margins. For fiscal year 2015, the increase in cost of revenues, expressed as a percentage of sales, and the corresponding decline in gross margin percentage was due to the strength of the U.S. dollar, the overall shift in revenues towards Animal Safety products and product mix shifts within each segment.

Food Safety gross margins were 56.7%, 59.7% and 62.5% in fiscal years 2016, 2015 and 2014, respectively. In fiscal 2016, the lower gross margins resulted primarily from the strength in the U.S. dollar, which resulted in lower revenues and gross margins when international sales, primarily in Europe, Mexico and Brazil, were converted from local currencies to the dollar. All currencies the Company operates in weakened against the dollar in fiscal 2016, pressuring margins in this segment. Additionally, revenues from the acquisition of Lab M, which were at lower average gross margins than the rest of the segment, standard cost adjustments at Neogen Latinoamerica, and other product mix shifts within the segment, negatively impacted gross margins in Food Safety.

Animal Safety gross margins were 40.1%, 40.4% and 38.1% in fiscal years 2016, 2015 and 2014, respectively. For fiscal 2016, improved gross margins from the 58% increase in sales of rodenticides, which have higher than average

gross margins within the segment, were offset by lower gross margins on revenues from the dairy distribution business initiated in August 2015, lower gross margins at GeneSeek due to the significant increase in poultry business, which has lower than average gross margins within the genomics product line, and other product mix shifts within the segment. The improved margins in fiscal 2015 compared to fiscal 2014 reflect a mix shift towards higher margin products and efficiency gains made in a number of the segment s operating units. Rodenticides had a sales increase of 21% due to a vole infestation in the northwestern U.S., and the Company s animal supplements product line experienced an increase of 16%, due to strong sales of the Company s higher margin thyroid replacement product.

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OPERATING EXPENSES

(dollars in thousands)	**2016**	**Increase**	**2015**	**Increase**	**2014**
Sales and Marketing	$ 57,599	11%			