

NEOGEN CORP  
Form 10-Q  
September 30, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended August 31, 2015.**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-17988**

**Neogen Corporation**

**(Exact name of registrant as specified in its charter)**

**Michigan** **38-2367843**  
**(State or other jurisdiction of** **(IRS Employer**  
**incorporation or organization)** **Identification Number)**

**620 Leshar Place**

**Lansing, Michigan 48912**

**(Address of principal executive offices, including zip code)**

**(517) 372-9200**

**(Registrant's telephone number, including area code)**

**N/A**

**(Former name, former address and former fiscal year, if changed since last report)**

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES  NO

As of August 31, 2015, there were 37,372,476 shares of Common Stock outstanding.



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**NEOGEN CORPORATION AND SUBSIDIARIES**

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Interim Consolidated Financial Statements****NEOGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(In thousands, except share and**per share amounts)*

|  | <b>August 31,<br/>2015<br/>(Unaudited)</b> | <b>May 31,<br/>2015<br/>(Audited)</b> |
|--|--|---------------------------------------|
| <b><u>ASSETS</u></b>   |  |                                       |
| <b>CURRENT ASSETS</b>  |  |                                       |
| Cash and cash equivalents  | \$ 42,326                                  | \$ 66,061                             |
| Marketable securities (at fair value, which approximates cost)   | 68,629                                     | 48,103                                |
| Accounts receivable, less allowance of \$1,350 and \$1,300   | 59,041                                     | 59,208                                |
| Inventories  | 56,107                                     | 51,601                                |
| Deferred income taxes  | 2,300                                      | 1,991                                 |
| Prepaid expenses and other current assets  | 6,958                                      | 4,231                                 |
| <b>TOTAL CURRENT ASSETS</b>  | <b>235,361</b>                             | <b>231,195</b>                        |
| <b>NET PROPERTY AND EQUIPMENT</b>  | <b>49,294</b>                              | <b>44,473</b>                         |
| <b>OTHER ASSETS</b>  |  |                                       |
| Goodwill   | 75,292                                     | 70,119                                |
| Other non-amortizable intangible assets  | 9,020                                      | 9,020                                 |
| Customer-based intangibles, net of accumulated amortization of \$14,385 and \$14,446 at August 31 and May 31, 2015 | 24,875                                     | 24,170                                |
| Other non-current assets, net of accumulated amortization of \$6,689 and \$7,191                                   | 15,544                                     | 13,204                                |
|  | 124,731                                    | 116,513                               |
| <b>TOTAL ASSETS</b>  | <b>\$ 409,386</b>                          | <b>\$ 392,181</b>                     |
| <b><u>LIABILITIES AND EQUITY</u></b>   |  |                                       |
| <b>CURRENT LIABILITIES</b>   |  |                                       |
| Accounts payable   | \$ 14,762                                  | \$ 13,691                             |
| Accrued compensation   | 3,898                                      | 4,142                                 |
| Income taxes   | 2,292                                      | 1,275                                 |

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|   |            |            |
|---|------------|------------|
| Other accruals  | 5,947      | 6,348      |
| TOTAL CURRENT LIABILITIES   | 26,899     | 25,456     |
| DEFERRED INCOME TAXES   | 14,495     | 13,711     |
| OTHER LONG-TERM LIABILITIES   | 2,086      | 2,051      |
|   | 16,581     | 15,762     |
| TOTAL LIABILITIES   | 43,480     | 41,218     |
| COMMITMENTS AND CONTINGENCIES (note 7)  | 0          | 0          |
| EQUITY  |            |            |
| Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding   | 0          | 0          |
| Common stock, \$0.16 par value, 60,000,000 shares authorized; 37,372,476 and 37,128,269 shares issued and outstanding at August 31 and May 31, 2015, respectively | 5,980      | 5,941      |
| Additional paid-in capital  | 138,234    | 131,906    |
| Accumulated other comprehensive income (loss)   | (3,155)    | (2,442)    |
| Retained earnings   | 224,892    | 215,569    |
| TOTAL NEOGEN CORPORATION AND SUBSIDIARIES STOCKHOLDERS EQUITY   | 365,951    | 350,974    |
| Non-controlling interest  | (45)       | (11)       |
| TOTAL EQUITY  | 365,906    | 350,963    |
| TOTAL LIABILITIES AND EQUITY  | \$ 409,386 | \$ 392,181 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

*(In thousands, except per share amounts)*

|   | <b>Three Months<br/>Ended<br/>August 31,</b> |             |
|---|--|-------------|
|   | <b>2015</b>                                  | <b>2014</b> |
| <b>REVENUES</b>   |  |             |
| Product revenues  | \$ 65,036                                    | \$ 58,224   |
| Service revenues  | 9,824  | 9,375       |
| Total Revenues  | 74,860                                       | 67,599      |
| <b>COST OF REVENUES</b>   |  |             |
| Cost of product revenues  | 30,630                                       | 27,976      |
| Cost of service revenues  | 6,438  | 5,547       |
| Total Cost of Revenues  | 37,068                                       | 33,523      |
| <b>GROSS MARGIN</b>   | 37,792                                       | 34,076      |
| <b>OPERATING EXPENSES</b>   |  |             |
| Sales and marketing   | 13,571                                       | 12,220      |
| General and administrative  | 6,753  | 6,013       |
| Research and development  | 2,573  | 2,404       |
|   | 22,897                                       | 20,637      |
| <b>OPERATING INCOME</b>   | 14,895                                       | 13,439      |
| <b>OTHER INCOME (EXPENSE)</b>                                     |  |             |
| Interest income   | 68   | 45          |
| Change in purchase consideration                                  | 0  | 241         |
| Other income (expense)  | (524)  | (16)        |
|   | (456)  | 270         |
| <b>INCOME BEFORE INCOME TAXES</b>                                 | 14,439                                       | 13,709      |
| <b>INCOME TAXES</b>   | 5,150  | 4,800       |
| <b>NET INCOME</b>   | 9,289  | 8,909       |
| <b>NET LOSS/(INCOME) ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b> | 34   | (26)        |
| <b>NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION</b>              | \$ 9,323                                     | \$ 8,883    |

NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION PER SHARE

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 0.25 | \$ 0.24 |
| Diluted | \$ 0.25 | \$ 0.24 |

See notes to interim consolidated financial statements



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**NEOGEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

*(In thousands)*

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>August 31,</b>         |             |
|   | <b>2015</b>               | <b>2014</b> |
| Net Income  | \$ 9,289                  | \$ 8,909    |
| Other Comprehensive Income (Loss), Net of Tax: Currency Translation Adjustments | (713)                     | (219)       |
| Comprehensive Income  | 8,576                     | 8,690       |
| Comprehensive Loss (Income) attributable to non-controlling interest            | 34                        | (26)        |
| Comprehensive Income attributable to Neogen Corporation                         | \$ 8,610                  | \$ 8,664    |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)**

*(In thousands)*

|   | Common Stock |          | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Non-<br>controlling<br>Interest | Total      |
|---|--------------|----------|----------------------------------|---|----------------------|---------------------------------|------------|
|   | Shares       | Amount   |                                  |   |                      |                                 |            |
| Balance, May 31, 2015   | 37,128       | \$ 5,941 | \$ 131,906                       | \$ (2,442)  | \$ 215,569           | \$ (11)                         | \$ 350,963 |
| Issuance of shares of common<br>stock under equity<br>compensation plans, and share<br>based compensation | 235          | 38       | 5,969                            |   |                      |                                 | 6,007      |
| Issuance of shares under<br>employee stock purchase plan  | 9            | 1        | 359                              |   |                      |                                 | 360        |
| Comprehensive income:   |              |          |                                  |   |                      |                                 |            |
| Net income (loss) for the three<br>months ended August 31, 2015   |              |          |                                  |   | 9,323                | (34)                            | 9,289      |
| Other comprehensive loss  |              |          |                                  | (713)   |                      |                                 | (713)      |
| Balance, August 31, 2015  | 37,372       | \$ 5,980 | \$ 138,234                       | \$ (3,155)  | \$ 224,892           | \$ (45)                         | \$ 365,906 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

*(In thousands)*

|   | <b>Three Months<br/>Ended<br/>August 31,</b> |                  |
|---|--|------------------|
|   | <b>2015</b>                                  | <b>2014</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |  |                  |
| Net Income  | \$ 9,289                                     | \$ 8,909         |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                  |
| Depreciation and amortization   | 2,704  | 2,515            |
| Share based compensation  | 1,297  | 907              |
| Excess income tax benefit from the exercise of stock options                      | (1,880)                                      | (865)            |
| Changes in operating assets and liabilities, net of business acquisitions:        |  |                  |
| Accounts receivable   | 1,209  | 155              |
| Inventories   | (3,310)                                      | (3,933)          |
| Prepaid expenses and other current assets   | (2,725)                                      | 2,843            |
| Accounts payable, accruals and other  | 16   | (106)            |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>   | <b>6,600</b>                                 | <b>10,425</b>    |
| <b>CASH FLOWS FOR INVESTING ACTIVITIES:</b>                                       |  |                  |
| Purchases of property, equipment and other noncurrent assets                      | (2,821)                                      | (2,511)          |
| Proceeds from the sale of marketable securities                                   | 28,648                                       | 22,946           |
| Purchases of marketable securities  | (49,174)                                     | (21,765)         |
| Business acquisitions, net of cash acquired                                       | (13,126)                                     | 0                |
| <b>NET CASH FOR INVESTING ACTIVITIES</b>  | <b>(36,473)</b>                              | <b>(1,330)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |  |                  |
| Exercise of stock options   | 4,293  | 2,933            |
| Excess income tax benefit from the exercise of stock options                      | 1,880  | 865              |
| Increase (decrease) in other long-term liabilities                                | 0  | 0                |
| <b>NET CASH FROM BY FINANCING ACTIVITIES</b>                                      | <b>6,173</b>                                 | <b>3,798</b>     |
| <b>EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>                       | <b>(35)</b>                                  | <b>(111)</b>     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>(23,735)</b>                              | <b>12,782</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | <b>66,061</b>                                | <b>40,675</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$ 42,326</b>                             | <b>\$ 53,457</b> |

See notes to interim consolidated financial statements



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The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Certain amounts in the fiscal 2015 statements have been reclassified to conform to the fiscal 2016 presentation. The results of operations for the three month period ended August 31, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2016. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2015 audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2015.

**2. INVENTORIES**

Inventories are stated at the lower of cost, determined on the first-in, first-out method, or market. The components of inventories follow:

|                              | <b>August 31, 2015</b> | <b>May 31, 2015</b> |
|------------------------------|------------------------|---------------------|
|                              | <i>(In thousands)</i>  |                     |
| Raw Materials                | \$ 24,211              | \$ 21,605           |
| Work-in-process              | 4,025                  | 3,972               |
| Finished and purchased goods | 27,871                 | 26,024              |
|                              | \$ 56,107              | \$ 51,601           |

**3. NET INCOME PER SHARE**

The calculation of net income per share attributable to Neogen Corporation follows:

|   | <b>Three Months Ended</b>                       |             |
|---|---|-------------|
|   | <b>August 31,</b>                               |             |
|   | <b>2015</b>                                     | <b>2014</b> |
|   | <i>(In thousands, except per share amounts)</i> |             |
| Numerator for basic and diluted net income per share: |   |             |
| Net Income attributable to Neogen shareholders        | \$ 9,323  | \$ 8,883    |

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|   |        |      |         |
|---|--------|------|---------|
| Denominator:  |        |      |         |
| Denominator for basic net income per share:                 |        |      |         |
| Weighted average shares                                     | 37,213 |      | 36,776  |
| Effect of dilutive stock options and warrants               | 542    |      | 514     |
| Denominator for diluted net income per share                | 37,755 |      | 37,290  |
| Net income attributable to Neogen Corporation<br>per share: |        |      |         |
| Basic   | \$     | 0.25 | \$ 0.24 |
| Diluted   | \$     | 0.25 | \$ 0.24 |

**Table of Contents****4. SEGMENT INFORMATION**

The Company has two reportable segments: Food Safety and Animal Safety. The Food Safety segment produces and markets diagnostic test kits and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens and levels of general sanitation. The Animal Safety segment is primarily engaged in the production and marketing of products dedicated to animal health, including a complete line of consumable products marketed to veterinarians and animal health product distributors; the segment also provides genetic identification services. Additionally, Animal Safety produces and markets rodenticides, disinfectants and insecticides to assist in the control of rodents and disease in and around agricultural, food production and other facilities.

Segment information as of and for the three months ended August 31, 2015 and 2014 follows:

|  | <b>Food<br/>Safety</b> | <b>Animal<br/>Safety</b> | <b>Corporate and<br/>Eliminations<br/>(1)</b> | <b>Total</b> |
|--|------------------------|--------------------------|---|--------------|
|  | <i>(In thousands)</i>  |                          |   |              |
| <b>Fiscal 2016</b>                     |                        |                          |   |              |
| Product revenues to external customers | \$ 32,051              | \$ 32,985                | \$ 0  | \$ 65,036    |
| Service revenues to external customers | 2,408                  | 7,416                    | 0   | 9,824        |
| Total revenues to external customers   | 34,459                 | 40,401                   | 0   | 74,860       |
| Operating income (loss)                | 8,421                  | 7,340                    | (866)   | 14,895       |
| Total assets                           | 132,115                | 179,453                  | 97,818  | 409,386      |
| <b>Fiscal 2015</b>                     |                        |                          |   |              |
| Product revenues to external customers | \$ 28,062              | \$ 30,162                | \$ 0  | \$ 58,224    |
| Service revenues to external customers | 2,901                  | 6,474                    | 0   | 9,375        |
| Total revenues to external customers   | 30,963                 | 36,636                   | 0   | 67,599       |
| Operating income (loss)                | 7,515                  | 6,705                    | (781)   | 13,439       |
| Total assets                           | 103,637                | 176,419                  | 77,606  | 357,662      |

- (1) Includes corporate assets, consisting principally of cash and cash equivalents, marketable securities, deferred assets and overhead expenses not allocated to specific business segments. Also includes the elimination of intersegment transactions.

**Table of Contents****5. EQUITY COMPENSATION PLANS**

Options are generally granted under the employee and director stock option plan for five-year periods and become exercisable in equal annual installments during that period. Certain non-qualified options are granted for ten-year periods. A summary of stock option activity during the three months ended August 31, 2015 follows:

|  | Shares    | Weighted-Average<br>Exercise Price |
|--|-----------|------------------------------------|
| Options outstanding at June 1, 2015    | 1,988,000 | \$ 31.04                           |
| Granted                                | 0         | 0                                  |
| Exercised                              | (245,000) | 21.08                              |
| Forfeited                              | 0         | 0                                  |
| <br>                                   |           |                                    |
| Options outstanding at August 31, 2015 | 1,743,000 | 32.44                              |

During the three month periods ended August 31, 2015 and 2014, the Company recorded \$1,297,000 and \$907,000 of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during fiscal 2015, estimated on the date of grant using the Black-Scholes option pricing model was \$11.91, per option. No options were granted in the first quarter of fiscal 2016. The fair value of stock options granted was estimated using the following weighted-average assumptions.

|                                 | FY 2015   |
|---------------------------------|-----------|
| Risk-free interest rate         | 1.2%      |
| Expected dividend yield         | 0%        |
| Expected stock price volatility | 36.2%     |
| Expected option life            | 4.0 years |

The Company has an Employee Stock Purchase plan that provides for employee stock purchases at a 5% discount to market price. The discount is recorded in administrative expense as of the date of purchase.

**6. NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board issued a new standard on revenue recognition. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.





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**Table of Contents****7. BUSINESS AND PRODUCT LINE ACQUISITIONS**

The consolidated statements of income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the acquisition method. Goodwill recognized in the acquisitions discussed above relates primarily to enhancing the Company's strategic platform for the expansion of available product offerings.

On July 1, 2013, the Company acquired the assets of SyrVet Inc., a veterinary business based in Waukee, Iowa. SyrVet offered a product line similar to Neogen's Ideal Instruments line of veterinary instruments with a strong presence in Mexico and Latin America. Consideration for the purchase was \$10,012,000 in cash and up to \$1,500,000 of a contingent consideration liability, due at the end of the first year, based on an excess net sales formula. The Company estimated the contingent consideration liability to be \$930,000, based on forecasted sales. The final purchase price allocation, based upon the fair value of these assets determined using the income approach, included accounts receivable of \$747,000, net inventory of \$2,195,000, property and equipment of \$556,000, current liabilities of \$226,000, contingent consideration liabilities of \$930,000, non-amortizable trademarks of \$790,000, intangible assets of \$4,810,000 (with an estimated life of 15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business has been relocated to Lexington, Kentucky and integrated with the Company's current operations there, reporting within the Animal Safety segment. In August 2014, the Company paid \$689,000 to the former owner for contingent consideration based upon the level of achievement of sales targets; the remaining \$241,000 of the accrual was reversed to Other Income.

On November 1, 2013, the Company acquired the assets of Prima Tech Incorporated, a veterinary instrument company based in Kenansville, North Carolina. Prima Tech manufactures 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. Consideration for the purchase was \$12,068,000 in cash and up to \$600,000 of contingent consideration, due at the end of the first year, based on an excess net sales formula. The Company estimated the contingent consideration liability to be \$146,000 based on forecasted sales. The final purchase price allocation, based upon the fair value of these assets determined using the income approach, included accounts receivable of \$963,000, net inventory of \$2,796,000, property and equipment of \$1,653,000, prepaid assets of \$8,000, current liabilities of \$1,840,000, contingent consideration liabilities of \$146,000, non-amortizable trademarks of \$1,500,000, intangible assets of \$4,400,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and reports within the Animal Safety segment. In October 2014, the Company paid the former owners \$600,000 and recorded an additional \$454,000 for contingent consideration, charged to Other Expense, based on achievement of defined sales targets.

On January 2, 2014, the Company acquired all of the stock of Chem-Tech Ltd., a pest control manufacturing and distribution business located in Pleasantville, Iowa. Consideration for the purchase was \$17,185,000 in cash and up to \$1,000,000 of a contingent consideration liability, due at the end of the first year, based on an excess net sales formula. The Company estimated the contingent consideration liability to be \$390,000, based on forecasted sales. The final purchase price allocation included accounts receivable of \$380,000, net inventory of \$4,184,000, prepaid assets of \$100,000, property and equipment of \$807,000, current liabilities of \$184,000, contingent consideration liabilities of \$390,000, intangible assets of \$8,327,000 (with an estimated life of 5-25 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and reports within the Animal Safety segment. In February 2015, the Company paid the former owners \$474,000 and recorded an additional \$84,000 for contingent consideration, charged to Other Expense, based upon achievement of sales targets.

On October 1, 2014, the Company acquired all of the stock of BioLumix, Inc., a manufacturer and marketer of automated systems for the detection of microbial contaminants located in Ann Arbor, Michigan. Consideration for the purchase was \$4,514,000 in cash. The preliminary purchase price allocation included accounts receivable of \$499,000, other receivable of \$178,000, net inventory of \$421,000, prepaid assets of \$48,000, property and equipment of \$159,000, current liabilities of \$130,000, long-term liabilities of \$813,000, intangible assets of \$2,109,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This business has been relocated to Lansing, Michigan and integrated with the Company's operations there, reporting within the Food Safety segment.

On December 8, 2014, the Company acquired the food safety and veterinary genomic assets of its Chinese distributor Beijing Anapure BioScientific Co., Ltd. Consideration for the purchase was \$2,040,000 in cash. The preliminary purchase allocation included inventory of \$525,000, property and equipment of \$64,000, intangible assets of \$20,000 (with an estimated life of five years) and the remainder to goodwill. These are Level 3 fair value measurements. This business has been integrated into the Company's subsidiary in China and reports within the Food Safety segment.

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On June 1, 2015, Neogen acquired the assets of Sterling Test House, a commercial food testing laboratory based in India. Consideration for the purchase was \$1,118,000 in cash. The purchase price allocation included accounts receivable of \$43,000, net inventory of \$14,000, property and equipment of \$141,000 and the remainder to goodwill and other intangible assets. These are Level 3 fair value measurements. This business will continue to operate in its current location and reports within the Animal Safety segment.

On August 26, 2015, the Company acquired all of the stock of Lab M Holdings, a developer, manufacturer and supplier of microbiological culture media and diagnostic systems located in the United Kingdom. Consideration for the purchase was \$12,436,000 in cash. The preliminary purchase allocation included cash of \$285,000, accounts receivable of \$975,000, net inventory of \$1,169,000, property and equipment of \$3,337,000, other current assets of \$596,000, current liabilities of \$1,350,000, long-term deferred tax liability of \$784,000, intangible assets of \$3,918,000 (with an estimated life of 3-15 years) and the remainder to goodwill. These are Level 3 fair value measurements. This business will continue to operate in its current location and reports within the Food Safety segment.

## **8. LONG TERM DEBT**

The Company has a financing agreement with a bank providing for an unsecured revolving line of credit of \$12,000,000, which matures on September 1, 2017. There were no advances against this line of credit during fiscal 2016 and fiscal 2015 and no balance outstanding at August 31, 2015. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.20% at August 31, 2015). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at August 31, 2015.

## **9. COMMITMENTS AND CONTINGENCIES**

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company is currently expensing annual costs of remediation, which have ranged from \$47,000 to \$56,000 per year over the past five years. The Company's estimated liability for these costs of \$916,000 at August 31 and May 31, 2015, measured on an undiscounted basis over an estimated period of 15 years; \$50,000 of the liability is recorded within current liabilities and the remainder is recorded within other long-term liabilities in the consolidated balance sheet.

The Company is subject to certain legal and other 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.

## **10. STOCK PURCHASE**

In December 2008, the Company's Board of Directors authorized a program to purchase, subject to market conditions, up to 1,125,000 shares of the Company's common stock. As of August 31, 2015, 112,026 cumulative shares had been purchased in negotiated and open market transactions for a total price, including commissions, of approximately \$923,000. Shares purchased under the program were retired. There have been no purchases in fiscal 2016 and there were none in fiscal 2015.

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**PART I FINANCIAL INFORMATION**

**Item 2. 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 does not provide forecasts of future performance. While management is optimistic about the Company's long-term prospects, historical financial information may not be indicative of future financial performance.

**Safe Harbor and Forward-Looking Statements**

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 Quarterly Report on Form 10-Q. 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 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 Quarterly Report on Form 10-Q 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 those related to receivable allowances, inventories, accruals, goodwill and other 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.

There were no significant changes to our contractual obligations or contingent liabilities and commitments disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

There have been no material changes to the critical accounting policies and estimates disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.



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**Table of Contents****Executive Overview**

Neogen Corporation revenues for the quarter ended August 31, 2015 were \$74.9 million, an increase of \$7.3 million, or 10.7%, compared to revenues of \$67.6 million in the first quarter of the prior fiscal year. Net income attributable to Neogen for the first quarter increased 5.0% to \$9.3 million, or \$0.25 per fully diluted share, compared to \$8.9 million, or \$0.24 per fully diluted share, in the first quarter of fiscal 2015.

Food Safety revenues increased by 11.3% for the first quarter, and Animal Safety revenues increased by 10.3%, both compared to the same period in the prior year. During the quarter, the Company recorded revenues of \$1.3 million from the BioLumix acquisition in October 2014, which reports within Food Safety, and revenues of \$152,000 from the Sterling Test House acquisition in June 2015, which reports within Animal Safety.

The strength of the U.S. dollar had a negative impact on comparative revenues for the Company's international operations. The dollar was higher in the current quarter against all the currencies in which the Company conducts business, compared to the first quarter last fiscal year, which resulted in lower sales when those currencies were converted to dollars. Additionally, sales in local currency were down 4.5% at Neogen Europe, based in Ayr, Scotland, due to a large genomics order and equipment placements from the prior year quarter, which were not repeated in the current year. Despite the difficult comparative currency situation, Neogen Latinoamerica, based in Mexico City, increased revenues 25.7% (53.2% in local currency) due to market share increases across most product lines and, to a lesser extent, the transfer of some customers located in Central America. These customers, previously served by sales and technical service personnel in Lansing, Michigan, were transferred in order to be better served by local sales staff. Neogen do Brasil, based near Sao Paulo, Brazil, increased revenues 16.1% (70.1% in local currency), led by increases in sales of dehydrated culture media, dairy antibiotics test kits and biosecurity products. Neogen China had a large increase off a small prior year base, on market share gains after the December acquisition of its former distributor in China. Total international sales were 32.7% of total sales in the first quarter, compared to 36.8% in the same period of the prior year.

Service revenue was \$9.8 million in the first quarter, an increase of 4.8% compared to the same quarter in the prior year. This increase is due primarily to increases at the Company's commercial agrigenomics laboratory located in Lincoln, Nebraska, which recorded an increase of 12.0%, due to incremental business from a large poultry producer and increases in services to beef and dairy cattle producers. Offsetting this increase were lower genomics revenues at Neogen Europe, due to a large order in the first quarter of fiscal 2015, which did not repeat in this year's first quarter.

Consolidated gross margins were 50.5% in the first quarter of fiscal 2016, compared to 50.4% in the same period in the prior fiscal year. Food Safety gross margin had a 30 basis point improvement while Animal Safety gross margin declined 20 basis points, each as compared to the same period in the prior year. Slight changes in product mix within each segment resulted in the comparative variances.

Overall operating expenses increased 11.0% for the first quarter, compared to the same period a year ago. Sales and marketing expense rose 11.1%. Increases in personnel related expenses such as salaries, benefits and travel, reflecting the increased headcount from the prior year, account for the majority of the increase. Other increases were shipping expense, and higher advertising and promotion costs. General and administrative expense rose by 12.3%, due to higher stock-based compensation and salary expenses, as well as higher depreciation and license expenses, primarily related to the Company's information technology infrastructure. Research and development expense increased 7.0%, reflecting higher levels of development activity and increases in personnel related expenses.

Operating income was 19.9% of sales in the first quarters of both fiscal 2016 and 2015. Other expense was \$456,000 in the first quarter of fiscal 2016, compared to other income of \$270,000 in the same period last year. Components of

other income/expense in the fiscal 2016 first quarter included \$605,000 of expense related to currency translations. Partially offsetting this was \$54,000 of royalty income and \$68,000 of interest income. The first quarter of fiscal 2015 included \$241,000 of income recorded on the settlement of contingent consideration related to the SyrVet acquisition and \$45,000 of interest income, partially offset by \$55,000 of expense related to currency translations.

The provision for income taxes was 35.7% of income before tax, higher than the 35.0% recorded in the first quarter of fiscal 2015, and similar to the 35.5% recorded for the full fiscal year of 2015.



**Table of Contents****Revenues**

|  | <b>Three Months ended August 31, 2015</b> |                  |                                 |              |
|--|---|------------------|---------------------------------|--------------|
|  | <b>2015</b>                               | <b>2014</b>      | <b>Increase/<br/>(Decrease)</b> | <b>%</b>     |
|  | <i>(In thousands)</i>                     |                  |                                 |              |
| <b>Food Safety</b>                         |   |                  |                                 |              |
| Natural Toxins, Allergens & Drug Residues  | \$ 16,382                                 | \$ 15,440        | \$ 942                          | 6.1%         |
| Bacterial & General Sanitation             | 8,076                                     | 6,134            | 1,942                           | 31.7%        |
| Dehydrated Culture Media & Other           | 10,001                                    | 9,389            | 612                             | 6.5%         |
|  | <b>\$ 34,459</b>                          | <b>\$ 30,963</b> | <b>\$ 3,496</b>                 | <b>11.3%</b> |
| <b>Animal Safety</b>                       |   |                  |                                 |              |
| Life Sciences                              | \$ 1,699                                  | \$ 2,345         | \$ (646)                        | (27.5%)      |
| Veterinary Instruments & Disposables       | 10,167                                    | 9,400            | 767                             | 8.2%         |
| Animal Care & Other                        | 8,158                                     | 5,709            | 2,449                           | 42.9%        |
| Rodenticides, Insecticides & Disinfectants | 13,125                                    | 12,708           | 417                             | 3.3%         |
| DNA Testing Service                        | 7,252                                     | 6,474            | 778                             | 12.0%        |
|  | <b>\$ 40,401</b>                          | <b>\$ 36,636</b> | <b>\$ 3,765</b>                 | <b>10.3%</b> |
| <b>Total Revenues</b>                      | <b>\$ 74,860</b>                          | <b>\$ 67,599</b> | <b>\$ 7,261</b>                 | <b>10.7%</b> |

The Company's Food Safety segment revenues were \$34.5 million for the first quarter ended August 31, 2015, an increase of 11.3% compared to the same period in the prior year. Organic growth for the segment was 7.0%. Natural Toxins, Allergens and Drug Residues revenues increased 6.1%. Within this category, sales of natural toxins rose 11.7%, the result of minor DON outbreaks in the midwestern U.S. and Europe. Allergen test kit revenues rose 16.9%, led by increased market demand for the Company's peanut, gluten, and soy detection products, and incremental sales from the Company's recently introduced product to detect the presence of treenuts. Partially offsetting these increases was an 11.4% decrease in Drug Residues revenues. These products are primarily sold in Europe, and although volume rose slightly, the decline in the average value of the euro resulted in the comparative revenue decline.

Bacterial and General Sanitation sales increased 31.7% in the first quarter compared to the same period in the prior year, aided significantly by \$1.3 million in revenue from the October 2014 acquisition of BioLumix. The existing Soleris consumable products, which consist primarily of reagent vials used to detect spoilage organisms, such as yeast and molds, rose 23.8%, and equipment sales also increased, up 14.5%. General Sanitation revenues increased 11.9%, as the Company recently introduced its next generation Accupoint system to monitor environmental sanitation. Dehydrated Culture Media and Other sales increased 6.5% over the prior year. This increase was driven by a large sale of media to a customer as part of a research product; the duration of this project is not yet known. Partially offsetting the media increase were lower genomics revenues at Neogen Europe due to a significant order in the first quarter of the prior fiscal year, which did not repeat in the current year quarter.

Animal Safety segment revenues were \$40.4 million for the first quarter of fiscal 2016, an increase of 10.3% compared to the first quarter in the prior year. The growth was led by strong increases in the Animal Care & Other product line, up 42.9% compared to the prior year. Within this category, small animal supplements increased 53.3% as

the Company benefitted from incremental business for a canine thyroid replacement therapy resulting from a supply disruption in the market; additionally, sales of an equine supplement rose significantly, as a key raw material became available, and the Company was able to fulfill outstanding open orders. Dairy supplies revenues also increased, due to a new distribution agreement with a large manufacturer of dairy equipment to supply their dealers.

Life Sciences revenues declined 27.5% for the comparative quarter, as a large order of forensic kits to commercial testing labs in the first quarter of the prior fiscal year did not repeat this year due to delays in the effective date of new laws governing drug testing of commercial drivers in Brazil. Revenues for Veterinary Instruments and Disposables rose 8.2% in the first quarter, due primarily to increases in disposable syringes, up 37.5%, and broad based increases across the instrument product line. Rodenticides, Insecticides and Disinfectants increased by 3.3% for the quarter, as compared to the same period in the prior year. Rodent control revenues increased 39.2% due to incremental revenues from a contract manufacturing relationship with a large marketer of residential rodenticides, and continuing revenues relating to the vole outbreak in the northwestern U.S. Offsetting this increase, Insecticides declined 22.1% during the first quarter, the result of a spring booking program offered to distributors in the second half of fiscal 2015, which pulled sales out of the first quarter of fiscal 2016, and moved them into the third and fourth quarters of fiscal 2015.

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DNA Testing revenues, excluding sales through international subsidiaries, increased by 12.0% for the quarter compared to the prior year. The increase resulted from incremental business with a large poultry producer and increased demand for services, primarily from the beef and dairy cattle market.

### **Financial Condition and Liquidity**

The overall cash, cash equivalents and marketable securities position of the Company was \$111.0 million at August 31, 2015, compared to \$114.2 million at May 31, 2015. Approximately \$6.6 million in cash was generated from operations during the first three months of fiscal 2016. Net cash proceeds of \$4.3 million were realized from the exercise of stock options and issuance of shares under the Company's Employee Stock Purchase Plan during the first three months of fiscal 2016. In the first quarter of the fiscal year, the Company spent a net of \$13.1 million on its acquisitions of Sterling Test House and Lab M and \$2.8 million for property, equipment and other non-current assets.

Accounts receivable balances were \$59.0 million at August 31, 2015, essentially flat compared to the \$59.2 million balance at May 31, 2015; all customer accounts are actively managed, with particular attention given to accounts in international markets, due to the volatility and uncertainty in these markets. Inventory levels increased by \$4.5 million, or 8.7%, compared to May 31, 2015. The increase is due primarily to the timing of receipts of international orders, increases in stocking levels of identified key products to ensure availability, and inventories purchased in the acquisitions.

Inflation and changing prices are not expected to have a material effect on operations, as management believes it will continue to be successful in offsetting increased input costs with price increases and/or cost efficiencies

Management believes that the Company's existing cash and marketable securities balances at August 31, 2015, along with available borrowings under its credit facility and cash expected to be generated from future operations, will be sufficient to fund activities for the foreseeable future. However, existing cash and borrowing capacity may not be sufficient to meet the Company's cash requirements to commercialize products currently under development or its plans to acquire other organizations, technologies or products that fit within the Company's mission statement. Accordingly, the Company may choose to issue equity securities or enter into other financing arrangements for a portion of its future financing needs.

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**PART I FINANCIAL INFORMATION**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company has interest rate and foreign exchange rate risk exposure. It has no long-term fixed rate investments or borrowings. Primary interest rate risk is due to potential fluctuations in interest rates for variable rate borrowings; currently, there are no short-term borrowings outstanding and there were none during the quarter.

Foreign exchange risk exposure arises because the Company markets and sells its products throughout the world. The Company also could be affected by weak economic conditions in foreign markets that could reduce demand for its products. Additionally, revenues in certain foreign countries as well as certain expenses related to those revenues are transacted in currencies other than the U.S. dollar. The Company's operating results are primarily exposed to changes in exchange rates between the U.S. dollar, the British pound sterling, the euro, the Mexican peso, the Brazilian real and the Chinese yuan. When the U.S. dollar weakens against foreign currencies, the dollar value of revenues denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs. Additionally, previously recognized revenues can be affected positively or negatively by changes in exchange rates in the course of collection. The Company uses derivative financial instruments to help manage the economic impact of fluctuations in certain currency exchange rates. These contracts are adjusted to fair value through earnings.

Neogen has assets, liabilities and operations outside of the United States, located in Scotland, Brazil, Mexico, China and India, where the functional currency is the British pound sterling, Brazilian real, Mexican peso, Chinese yuan and Indian rupee, respectively, and also transacts business throughout Europe in the euro. The Company's investments in foreign subsidiaries are considered to be long-term.

**PART I FINANCIAL INFORMATION**

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of August 31, 2015 was carried out under the supervision and with the participation of the Company's management, including the Chairman & Chief Executive Officer and the Vice President & Chief Financial Officer (the Certifying Officers). Based on the evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective.

**Changes in Internal Controls Over Financial Reporting**

There was no change to the Company's internal control over financial reporting during the quarter ended August 31, 2015 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is subject to certain legal and other proceedings in the normal course of business. In the opinion of management, the outcomes of these matters are not expected to have a material effect on its future results of operations or financial position.

**Item 6. Exhibits**

(a) Exhibit Index

|         |  |
|---------|--|
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a). |
| 31.2    | Certification of Chief Financial Officer pursuant to Rule 13a 14(a). |
| 32      | Certification pursuant to 18 U.S.C. section 1350                     |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document                              |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                |
| 101.DEF | XBRL Taxonomy Extension Definition Document                          |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                      |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document               |

**Items 1A, 2, 3, 4, and 5 are not applicable or removed or reserved and have been omitted.**

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEOGEN CORPORATION  
*(Registrant)*

Dated: September 30, 2015

/s/ James L. Herbert  
James L. Herbert  
Chairman & Chief Executive Officer  
(Principal Executive Officer)

Dated: September 30, 2015

/s/ Steven J. Quinlan  
Steven J. Quinlan  
Vice President & Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)