

NEOGEN CORP
Form 10-Q
September 30, 2013
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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, 2013.

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
(State or other jurisdiction of
incorporation or organization)

38-2367843
(IRS Employer
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 September 1, 2013, there were 24,240,625 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**

| | August 31, 2013 (Unaudited) | May 31, 2013 (Audited) |
|--|---|---------------------------------------|
| | <i>(In thousands, except share and per share amounts)</i> | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 43,608 | \$ 50,032 |
| Marketable securities (at fair value, which approximates cost) | 40,767 | 35,337 |
| Accounts receivable, less allowance of \$900 and \$900 | 43,649 | 38,737 |
| Inventories | 43,757 | 38,315 |
| Deferred income taxes | 1,462 | 1,462 |
| Prepaid expenses and other current assets | 4,663 | 4,564 |
| TOTAL CURRENT ASSETS | 177,906 | 168,447 |
| NET PROPERTY AND EQUIPMENT | 35,813 | 34,345 |
| OTHER ASSETS | | |
| Goodwill | 63,576 | 59,491 |
| Other non-amortizable intangible assets | 7,007 | 6,660 |
| Customer based intangibles, net of accumulated amortization of \$9,376 and \$9,446 | 13,721 | 12,345 |
| Other non-current assets, net of accumulated amortization of \$5,067 and \$4,222 | 10,114 | 9,270 |
| | 94,418 | 87,766 |
| TOTAL ASSETS | \$ 308,137 | \$ 290,558 |
| <u>LIABILITIES AND EQUITY</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 11,654 | \$ 9,212 |
| Accrued compensation | 3,166 | 3,227 |
| Income taxes | 2,350 | 165 |
| Other accruals | 5,669 | 5,115 |
| TOTAL CURRENT LIABILITIES | 22,839 | 17,719 |
| DEFERRED INCOME TAXES | 12,449 | 12,449 |
| OTHER LONG-TERM LIABILITIES | 2,127 | 2,103 |
| | 14,576 | 14,552 |

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| | | | |
|--|--|-------------------|-------------------|
| TOTAL LIABILITIES | | 37,415 | 32,271 |
| EQUITY | | | |
| Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding | | 0 | 0 |
| Common stock, \$.16 par value, 60,000,000 shares authorized, 24,240,625 and 24,056,014 shares issued and outstanding at August 31, 2013 and May 31, 2012 | | 3,878 | 3,849 |
| Additional paid-in capital | | 106,238 | 101,859 |
| Accumulated other comprehensive loss | | (1,042) | (1,372) |
| Retained earnings | | 161,724 | 153,885 |
| Total Neogen Corporation Stockholders Equity | | 270,798 | 258,221 |
| Noncontrolling interest | | (76) | 66 |
| TOTAL EQUITY | | 270,722 | 258,287 |
| TOTAL LIABILITIES AND EQUITY | | \$ 308,137 | \$ 290,558 |

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | Three Months Ended | |
|---|---|-----------------|
| | August 31, | |
| | 2013 | 2012 |
| | <i>(In thousands, except share and per share amounts)</i> | |
| REVENUES | | |
| Product revenues | \$ 51,346 | \$ 44,813 |
| Service revenues | 7,202 | 4,916 |
| Total Revenues | 58,548 | 49,729 |
| COST OF REVENUES | | |
| Cost of product revenues | 23,510 | 20,318 |
| Cost of service revenues | 4,674 | 2,917 |
| Total Cost of Revenues | 28,184 | 23,235 |
| GROSS MARGIN | 30,364 | 26,494 |
| OPERATING EXPENSES | | |
| Sales and marketing | 10,324 | 9,758 |
| General and administrative | 5,536 | 4,482 |
| Research and development | 2,086 | 1,926 |
| | 17,946 | 16,166 |
| OPERATING INCOME | 12,418 | 10,328 |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 31 | 38 |
| Change in purchase consideration | 0 | (13) |
| Other income (expense) | (552) | 47 |
| | (521) | 72 |
| INCOME BEFORE INCOME TAXES | 11,897 | 10,400 |
| INCOME TAXES | 4,200 | 3,700 |
| NET INCOME | 7,697 | 6,700 |
| NET LOSS (INCOME) ATTRIBUTABLE TO NON-CONTROLLING INTEREST | 142 | 14 |
| NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION | \$ 7,839 | \$ 6,714 |
| NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION PER SHARE | | |
| Basic | \$ 0.33 | \$ 0.28 |

Diluted

\$ 0.32 \$ 0.28

See notes to interim consolidated financial statements

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

| | Three Months Ended | |
|--|---|-------------|
| | August 31, | |
| | 2013 | 2012 |
| | <i>(In thousands, except share and per share amounts)</i> | |
| Net Income | \$ 7,697 | \$ 6,700 |
| Currency Translation Adjustments | 330 | 348 |
| Comprehensive Income | 8,027 | 7,048 |
| Comprehensive Loss (Income) attributable to non-controlling interest | 142 | 14 |
| Comprehensive Income attributable to Neogen Corporation | \$ 8,169 | \$ 7,062 |

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Non-controlling Interest | Total |
|---|--|----------|----------------------------------|---|----------------------|-----------------------------|------------|
| | Shares | Amount | | (Loss) | | | |
| Balance, June 1, 2013 | 24,056 | \$ 3,849 | \$ 101,859 | (\$1,372) | \$ 153,885 | \$ 66 | \$ 258,287 |
| Issuance of shares of common stock under equity compensation plans, and share based compensation, including \$1,585 of excess income tax benefit | 179 | 28 | 4,097 | | | | 4,125 |
| Issuance of shares under employee stock purchase plan | 6 | 1 | 282 | | | | 283 |
| Comprehensive income: | | | | | | | |
| Net income (loss) for the three months ended August 31, 2013 | | | | | 7,839 | (142) | 7,697 |
| Foreign currency translation adjustments | | | | 330 | | | 330 |
| Balance, August 31, 2013 | 24,241 | \$ 3,878 | \$ 106,238 | (\$1,042) | \$ 161,724 | (\$76) | \$ 270,722 |
| | See notes to interim consolidated financial statements | | | | | | |

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

| | Three Months Ended | |
|---|---|------------------|
| | August 31, | |
| | 2013 | 2012 |
| | <i>(In thousands, except share and per share amounts)</i> | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 7,697 | \$ 6,700 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,029 | 1,626 |
| Share based compensation | 789 | 682 |
| Excess income tax benefit from the exercise of stock options | (1,585) | (1,029) |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (4,069) | (1,790) |
| Inventories | (3,207) | 35 |
| Prepaid expenses and other current assets | (96) | (1,136) |
| Accounts payable, accruals and other | 3,950 | (644) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 5,508 | 4,444 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment and other assets | (2,041) | (1,923) |
| Proceeds from the sale of marketable securities | 25,732 | 18,428 |
| Purchases of marketable securities | (31,162) | (28,847) |
| Acquisition of business | (10,012) | 0 |
| NET CASH USED IN INVESTING ACTIVITIES | (17,483) | (12,342) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (decrease) in other long-term liabilities | 56 | (287) |
| Net proceeds from issuance of common stock | 3,806 | 2,494 |
| Excess income tax benefit from the exercise of stock options | 1,585 | 1,029 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 5,447 | 3,236 |
| EFFECT OF EXCHANGE RATE ON CASH | 104 | 102 |
| DECREASE IN CASH | (6,424) | (4,560) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 50,032 | 49,045 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 43,608 | \$ 44,485 |

See notes to interim consolidated financial statements

Table of Contents**NEOGEN CORPORATION AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. BASIS OF PRESENTATION**

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. The results of operations for the three month period ended August 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2014. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2013 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, 2013.

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:

| | August 31, 2013 | May 31, 2013 |
|------------------------------|----------------------------|-------------------------|
| | <i>(In thousands)</i> | |
| Raw Materials | \$ 18,581 | \$ 16,587 |
| Work-in-process | 3,806 | 3,583 |
| Finished and purchased goods | 21,370 | 18,145 |
| | \$43,757 | \$ 38,315 |

3. NET INCOME PER SHARE

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

| | Three Months Ended | |
|---|---|-------------|
| | August 31, 2013 | 2012 |
| | <i>(In thousands, except per share amounts)</i> | |
| Numerator for basic and diluted net income per share: | | |
| Net Income attributable to Neogen shareholders | \$ 7,839 | \$ 6,714 |
| Denominator: | | |

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| | | | |
|--|---------|----|--------|
| Denominator for basic net income per share: | | | |
| Weighted average shares | 24,106 | | 23,678 |
| Effect of dilutive stock options and warrants | 572 | | 520 |
| Denominator for diluted net income per share | | | |
| 24,678 | | | 24,198 |
| Net income attributable to Neogen Corporation per share: | | | |
| Basic | \$ 0.33 | \$ | 0.28 |
| Diluted | \$ 0.32 | \$ | 0.28 |

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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 and disinfectants to assist in the control of rodents and disease in and around agricultural, food production and other facilities.

Segment information for the three months ended August 31, 2013 and 2012 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|--|------------------------|--------------------------|---|--------------|
| | <i>(In thousands)</i> | | | |
| Fiscal 2014 | | | | |
| Product revenues to external customers | \$ 28,554 | \$ 22,792 | \$ 0 | \$ 51,346 |
| Service revenues to external customers | 1,444 | 5,758 | 0 | 7,202 |
| Total revenues to external customers | 29,998 | 28,550 | 0 | 58,548 |
| Operating income (loss) | 8,701 | 4,420 | (703) | 12,418 |
| Total assets | 98,062 | 136,687 | 73,388 | 308,137 |
| Fiscal 2013 | | | | |
| Product revenues to external customers | \$ 25,782 | \$ 19,031 | \$ 0 | \$ 44,813 |
| Service revenues to external customers | 413 | 4,503 | 0 | 4,916 |
| Total revenues to external customers | 26,195 | 23,534 | 0 | 49,729 |
| Operating income (loss) | 7,669 | 3,243 | (584) | 10,328 |
| Total assets | 89,170 | 105,769 | 65,858 | 260,797 |

- (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.

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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, 2013 follows:

| | Shares | Weighted-Average Exercise Price |
|---|------------------|--|
| Options outstanding at June 1, 2013 | 1,395,000 | \$ 28.82 |
| Granted | 319,000 | 14.65 |
| Exercised | (182,000) | 5.98 |
| Forfeited | (44,000) | 9.13 |
| Options outstanding at August 31, 2013 | 1,488,000 | 10.62 |

During the three month periods ended August 31, 2013 and 2012, the Company recorded \$789,000 and \$682,000 of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during FY-14 and FY-13, estimated on the date of grant using the Black-Scholes option pricing model was \$14.65 and \$13.81 respectively, per option. The fair value of stock options granted was estimated using the following weighted-average assumptions.

| | FY-14 | FY-13 |
|---------------------------------|--------------|--------------|
| Risk-free interest rate | 0.8% | 1.2% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 33.1% | 39.2% |
| Expected option life | 4.0 years | 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 expensed as of the date of purchase.

6. NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued an accounting standards update titled *Presentation of Comprehensive Income*. This update eliminated the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate consecutive statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, must be displayed under either alternative. The Company adopted the update in the first quarter of its fiscal 2013; the adoption affected the presentation of its financial statements, but did not have an impact on the results of the Company's operations.

In September 2011, the FASB issued an accounting standards update titled *Intangibles – Goodwill and Other: Testing Goodwill for Impairment*. This update gives the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and, in some cases, skip

the two-step impairment test. The adoption of this update did not have a material effect on the Company's consolidated financial statements.

In July 2012, the FASB issued an accounting standard update titled *Intangibles - Goodwill and Other: Testing Indefinite Lived Intangible Assets for Impairment*. This update gives the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of the intangible amount is less than its carrying amount and, in some cases, skip the quantitative impairment test. The early adoption of this update did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB further amended ASC220, *Comprehensive Income*, with ASU 2013-02, *Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which was designed to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to present the effect of significant reclassifications out of accumulated other comprehensive income (AOCI) on the respective lines of net income. The only item included in AOCI for Neogen Corporation is related to foreign currency translation. As such, the amended accounting guidance did not have an impact for the Company, and therefore has not been disclosed in the FY2014 first quarter Form 10-Q.

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 purchase method.

On October 1, 2012, Neogen Corporation acquired the stock of Macleod Pharmaceuticals, Inc., of Fort Collins, Colorado. Macleod is the manufacturer of Uniprim, a leading veterinary antibiotic. The product is widely distributed throughout the U.S., and is also available in Canada through an exclusive distribution agreement. Consideration for the purchase was \$9,918,000 in net cash and \$100,000 accrued for secondary consideration. The purchase price was allocated to the fair value of these assets which included accounts receivable of \$353,000, inventory of \$1,238,000, fixed assets of \$300,000, current liabilities of \$82,000, deferred tax liabilities of \$2,054,000, secondary payment liabilities of \$100,000, intangible assets of \$5,542,000 and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. Macleod operates as a subsidiary of Neogen Corporation, reporting within the Animal Safety segment.

On January 2, 2013, Neogen Corporation acquired the assets of Scidera Genomics, LLC, an animal genomics business based in Davis, California. The company, formerly operated as MetaMorphix, Inc., or MMI Genomics, performs parentage testing and trait analysis primarily for the cattle and canine industries. Consideration for the purchase was \$3,400,000 in cash. The preliminary purchase price allocation included current assets of \$35,000, fixed assets of \$246,000, intangible assets of \$1,570,000 and the remainder to goodwill. These values are Level 3 fair value measurements. This business has been relocated to the Geneseek facility in Lincoln, Nebraska, and reports within the Animal Safety segment.

On July 1, 2013, Neogen Corporation 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 30% of their sales coming from international markets, primarily in Mexico and Latin America. Consideration for the purchase was \$10,012,000 in cash and up to \$1,500,000 of a secondary payment liability, due at the end of the first year, based on an excess net sales formula. The Company has estimated the secondary payment liability to be \$700,000, based on forecasted sales. The preliminary purchase price allocation included accounts receivable of \$747,000, net inventory of \$2,195,000, fixed assets of \$556,000, current liabilities of \$226,000, secondary payment liabilities of \$700,000, non-amortizable trademarks of \$347,000, intangible assets of \$3,010,000 (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 is currently being relocated to Lexington, Kentucky to be integrated with the Company's current operation there, reporting within the Animal Safety segment.

Goodwill recognized in the acquisitions discussed above relates primarily to enhancing the Company's strategic platform for the expansion of available product offerings.

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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, 2014. There were no advances against this line of credit during FY-2014 and FY-2013 and no balance outstanding at August 31, 2013. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.18% at August 31, 2013). 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, 2013.

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 \$50,000 to \$105,000 per year over the past five years. The Company's estimated liability for these costs of \$916,000 at August 31, 2013 and May 31, 2013, measured on an undiscounted basis over an estimated period of 15 years, 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 750,000 shares of the Company's common stock. As of August 31, 2013, 74,684 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 FY-14 and there were none in FY-13.

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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, 2013.

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, 2013.

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Executive Overview

Neogen Corporation revenues for the first quarter ended August 31, 2013 were \$58.5 million, an increase of \$8.8 million, or 17.7%, compared to the same period in the prior year. Food Safety revenues increased by 14.5% and Animal Safety revenues increased by 21.3%. Overall, organic sales growth for the quarter was 12.5%, with the remainder of the growth coming from the following acquisitions: Macleod Pharmaceuticals (October 2012), Scidera Genomics (January 2013) and Syrvet (July 2013).

International sales were 42.3% of total sales in the first quarter, compared to 41.7% of total sales in the prior year. Neogen Europe sales increased 53.7% compared to the same period last year, primarily from increased sales of meat speciation kits, the result of mislabeled meat products, distributor stocking for a potential aflatoxin issue in Eastern Europe and genomics revenues from a number of European customers. Neogen Latinoamerica and Neogen do Brasil continued to expand their market presence and recorded revenue gains of 33.5% and 54.4%, respectively. Neogen Latinoamerica's increases were broad-based across all categories while Neogen do Brasil's growth was primarily driven by sales of drug residue tests for dairy antibiotics and genomics services.

Service revenue was \$7.2 million, an increase of 46.5% compared to the prior year. The increase was due to customer acceptance of new custom chips developed primarily for the beef and dairy cattle and pork industries and increased sales to international customers, particularly in Europe and Brazil.

Gross margins were 51.9% for the first quarter, compared to 53.3% for the August 2012 quarter. The decrease in margin percentage was primarily the result of a higher percentage of Animal Safety sales in the first quarter, which have lower margins than Food Safety sales. Also, within each segment, material margins declined slightly due to product mix changes. Expressed as a percentage of revenues, operating margins increased from 20.8% in the prior year to 21.2% in the quarter ended August 31, 2013, as operating expenses overall went up less than the increase in revenues. Recent acquisitions in the Animal Safety segment have been complementary to existing product lines and have been integrated with minimal incremental costs. General and administrative costs increased \$1.1 million for the quarter, primarily due to amortization of certain intangible assets from recent acquisitions and higher compensation expenses. Other expense of \$552,000 in the first quarter was largely the result of currency losses recorded at the foreign subsidiaries as the Brazilian Real and Mexican Peso devalued against the U.S. dollar during the quarter.

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Three months ended August 31, 2013 and 2012:

| | Three Months ended August 31, | | | |
|---|--------------------------------------|------------------|---------------------------------|--------------|
| | 2013 | 2012 | Increase/ (Decrease) | % |
| | <i>(In thousands)</i> | | | |
| Food Safety | | | | |
| Natural Toxins, Allergens & Drug Residues | \$ 15,875 | \$ 14,340 | \$ 1,535 | 10.7% |
| Bacteria & General Sanitation | 6,071 | 5,524 | 547 | 9.9% |
| Dehydrated Culture Media & Other | 8,052 | 6,331 | 1,721 | 27.2% |
| | \$ 29,998 | \$ 26,195 | \$ 3,803 | 14.5% |
| Animal Safety | | | | |
| Life Sciences | \$ 1,918 | \$ 1,876 | \$ 42 | 2.2% |
| Veterinary Instruments & Disposables | 4,832 | 3,577 | 1,255 | 35.1% |
| Animal Care & Other | 8,335 | 6,271 | 2,064 | 32.9% |
| Rodenticides & Disinfectants | 7,707 | 7,307 | 400 | 5.5% |
| DNA Testing | 5,758 | 4,503 | 1,255 | 27.9% |
| | \$ 28,550 | \$ 23,534 | \$ 5,016 | 21.3% |
| Total Revenues | \$ 58,548 | \$ 49,729 | \$ 8,819 | 17.7% |

The Company's Food Safety segment revenues were \$29,998,000 in the first quarter of fiscal 2014, 14.5% higher than the same period in the prior year, with increases in each major product category. Natural Toxins, Allergens and Drug Residues increased 10.7% in the first quarter of 2014 compared to the prior year. Increases in this category were led by meat speciation test sales in Europe and continuing strong growth of allergen test kits, especially gliadin, based on market demand. Aflatoxin test kits and readers were up, primarily in Eastern Europe, due to increased testing resulting from last year's contaminated crop, as well as stockpiling for anticipated outbreaks due to current crop concerns. Within this category, sales of test kits to detect drug residues in milk were down 3%, due primarily to order timing from a large international distributor.

Bacterial and General Sanitation increased 10% for the quarter, compared to the prior year. Accupoint Samplers had a strong quarter, particularly in the UK, due to increased sales and marketing focus. Sales of filters and ampoule media products were 39.1% higher in the quarter, the result of increased penetration in the beverage market.

The Dehydrated Culture Media and Other category increased 27.2% in the quarter ended August 31, 2013 compared to the same period in the prior year. Contributions from genomics service revenues to European customers, resulting from increased sales staffing and the introduction of new service offerings, led the growth in this category. Dehydrated culture media increased 16.1% in the first quarter, due primarily to incremental business at a number of larger customers.

The Company's Animal Safety segment revenues were \$28,550,000, an increase of \$5,016,000, or 21.3%, in the quarter ended August 31, 2013 compared to the same period in the prior year. The segment achieved increases in all

major product categories. Life Sciences increased 2.2% in the first quarter, led by strong sales of forensic kits. This was partially offset by a decrease in racing kits, as this industry continues to contract; additionally, state testing labs serving the racing industry continue to consolidate.

Veterinary Instruments and Disposables increased 35.1% in the period. This category experienced strong growth, particularly in international sales, due in part to the acquisition of Syrvet, a distributor of veterinary products, at the beginning of July. Additionally, the Company entered into a packaging arrangement for disposable gloves with a large distributor. The Animal Care and Other category recorded an increase of 32.9% in the first quarter of fiscal 2014 compared to the prior year. Within this category, the Company benefited from sales of the veterinary antibiotic, Uniprim, from the Macleod Pharmaceuticals acquisition in October 2012 and incremental products from the Syrvet acquisition. This category also recorded increased sales of antibiotics resulting from international outbreaks of disease in the swine industry and strong sales of a wound care product, due to a supply disruption in the market.

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Rodenticides and Disinfectants increased 5.5% in the first quarter compared to the prior year. Leading this category were sales of cleaners and disinfectants, particularly to international customers, resulting from outbreaks of disease, such as avian influenza. Offsetting this was a decrease in rodenticides, primarily due to lower vole infestations.

DNA Testing increased by 27.9% compared to the first quarter a year ago. Increases were primarily from new business generated by the development of new genomic service offerings, customized primarily for the beef, dairy and pork markets. To a lesser extent, the Scidera acquisition also contributed to the growth.

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Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of the Company was \$84,375,000 at August 31, 2013, compared to \$85,369,000 at May 31, 2013. Approximately \$5,508,000 in cash was generated from operations during the first three months of fiscal 2014. Net cash proceeds of \$3,806,000 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 FY-14. In July 2013, the Company completed the asset purchase of Syrvet Inc. for \$10,012,000 net cash (see Note 7). The Company also spent \$2,041,000 for property, equipment and other non-current assets in the first three months of 2014.

Accounts receivable increased by \$4,912,000 due primarily to the increase in revenues; \$747,000 resulted from the Syrvet acquisition. Inventory levels increased by \$5,442,000 compared to May 31, 2013; \$2,195,000 of the increase is the result of the Syrvet acquisition. Each of these items increased, on a percentage basis, by less than the rate of growth in revenues.

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, 2013, 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 and no long-term fixed rate investments or borrowings. Primary interest rate risk is due to potential fluctuations of exposure to interest rates for variable rate borrowings.

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 Brazilian Real and the Mexican Peso. 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 in the course of collection can be affected positively or negatively by changes in exchange rates. 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, which are located in Scotland, Brazil and Mexico where the functional currency is the British Pound Sterling, Brazilian Real and Mexican Peso, respectively. 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, 2013 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, 2013 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 the Company's 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, 2013

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

Dated: September 30, 2013

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