

NEOGEN CORP  
Form 10-Q  
April 04, 2014  
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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 February 28, 2014.**

**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 March 31, 2014 there were 36,666,898 shares of Common Stock outstanding.



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**NEOGEN CORPORATION AND SUBSIDIARIES**

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|   | <b>February 28,<br/>2014<br/>(Unaudited)</b> | <b>May 31,<br/>2013<br/>(Audited)</b> |
|---|--|---------------------------------------|
| <b><u>ASSETS</u></b>  |  |                                       |
| <b>CURRENT ASSETS</b>   |  |                                       |
| Cash and cash equivalents   | \$ 43,277                                    | \$ 50,032                             |
| Marketable securities (at fair value, which approximates cost)                      | 25,533                                       | 35,337                                |
| Accounts receivable, less allowance of \$1,150 and \$900                            | 48,068                                       | 38,737                                |
| Inventories   | 51,861                                       | 38,315                                |
| Deferred income taxes   | 1,462  | 1,462                                 |
| Prepaid expenses and other current assets   | 5,768  | 4,564                                 |
| <b>TOTAL CURRENT ASSETS</b>   | <b>175,969</b>                               | <b>168,447</b>                        |
| <b>NET PROPERTY AND EQUIPMENT</b>   | <b>39,838</b>                                | <b>34,345</b>                         |
| <b>OTHER ASSETS</b>   |  |                                       |
| Goodwill  | 70,728                                       | 59,491                                |
| Other non-amortizable intangible assets   | 7,935  | 6,660                                 |
| Customer based intangibles, net of accumulated amortization of \$10,629 and \$9,446 | 23,610                                       | 12,345                                |
| Other non-current assets, net of accumulated amortization of \$5,800 and \$4,222    | 12,270                                       | 9,270                                 |
|   | 114,543                                      | 87,766                                |
| <b>TOTAL ASSETS</b>   | <b>\$ 330,350</b>                            | <b>\$ 290,558</b>                     |
| <b><u>LIABILITIES AND EQUITY</u></b>  |  |                                       |
| <b>CURRENT LIABILITIES</b>  |  |                                       |
| Accounts payable  | \$ 11,772                                    | \$ 9,212                              |
| Accrued compensation  | 3,166  | 3,227                                 |
| Income taxes  | 1,533  | 165                                   |
| Other accruals  | 8,063  | 5,115                                 |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>24,534</b>                                | <b>17,719</b>                         |
| <b>DEFERRED INCOME TAXES</b>  | <b>12,449</b>                                | <b>12,449</b>                         |
| <b>OTHER LONG-TERM LIABILITIES</b>  | <b>2,243</b>                                 | <b>2,103</b>                          |

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|  |                   |                   |
|--|-------------------|-------------------|
|  | 14,692            | 14,552            |
| <b>TOTAL LIABILITIES</b>   | <b>39,226</b>     | <b>32,271</b>     |
| <b>COMMITMENTS AND CONTINGENCIES (note 7)</b>  | <b>0</b>          | <b>0</b>          |
| <b>EQUITY</b>  |                   |                   |
| 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, 36,643,516 and 36,084,021 shares issued and outstanding at February 28, 2014 and May 31, 2013, respectively. | 5,862             | 5,773             |
| Additional paid-in capital   | 110,497           | 99,935            |
| Accumulated other comprehensive income (loss)  | 336               | (1,372)           |
| Retained earnings  | 174,506           | 153,885           |
| <b>TOTAL NEOGEN CORPORATION STOCKHOLDER S EQUITY</b>   | <b>291,201</b>    | <b>258,221</b>    |
| Noncontrolling interest  | (77)              | 66                |
| <b>TOTAL EQUITY</b>  | <b>291,124</b>    | <b>258,287</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>  | <b>\$ 330,350</b> | <b>\$ 290,558</b> |

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</b> |                              | <b>Nine Months Ended</b>     |                              |
|---|-------------------------------|------------------------------|------------------------------|------------------------------|
|   | <b>February 28,<br/>2014</b>  | <b>February 28,<br/>2013</b> | <b>February 28,<br/>2014</b> | <b>February 28,<br/>2013</b> |
| <b>REVENUES</b>   |                               |                              |                              |                              |
| Product revenues  | \$ 54,623                     | \$ 44,124                    | \$ 159,198                   | \$ 135,429                   |
| Service revenues  | 7,373                         | 6,931                        | 20,945                       | 16,093                       |
| Total Revenues  | 61,996                        | 51,055                       | 180,143                      | 151,522                      |
| <b>COST OF REVENUES</b>                                   |                               |                              |                              |                              |
| Cost of product revenues                                  | 26,933                        | 20,049                       | 76,234                       | 61,063                       |
| Cost of service revenues                                  | 4,358                         | 3,693                        | 13,349                       | 9,346                        |
| Total Cost of Revenues                                    | 31,291                        | 23,742                       | 89,583                       | 70,409                       |
| <b>GROSS MARGIN</b>                                       | 30,705                        | 27,313                       | 90,560                       | 81,113                       |
| <b>OPERATING EXPENSES</b>                                 |                               |                              |                              |                              |
| Sales and marketing                                       | 11,986                        | 10,533                       | 33,529                       | 30,232                       |
| General and administrative                                | 6,320                         | 5,132                        | 18,135                       | 14,510                       |
| Research and development                                  | 2,106                         | 1,982                        | 6,496                        | 5,901                        |
|   | 20,412                        | 17,647                       | 58,160                       | 50,643                       |
| <b>OPERATING INCOME</b>                                   | 10,293                        | 9,666                        | 32,400                       | 30,470                       |
| <b>OTHER INCOME (EXPENSE)</b>                             |                               |                              |                              |                              |
| Interest income   | 28                            | 33                           | 88                           | 114                          |
| Change in purchase consideration                          | 0                             | (40)                         | 0                            | (92)                         |
| Other income (expense)                                    | (68)                          | 401                          | (610)                        | 522                          |
|   | (40)                          | 394                          | (522)                        | 544                          |
| <b>INCOME BEFORE INCOME TAXES</b>                         | 10,253                        | 10,060                       | 31,878                       | 31,014                       |
| <b>INCOME TAXES</b>                                       | 3,700                         | 3,450                        | 11,400                       | 10,950                       |
| <b>NET INCOME</b>   | 6,553                         | 6,610                        | 20,478                       | 20,064                       |
| <b>NET LOSS ATTRIBUTABLE TO NON- CONTROLLING INTEREST</b> | 22                            | 42                           | 143                          | 94                           |
| <b>NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION</b>      | \$ 6,575                      | \$ 6,652                     | \$ 20,621                    | \$ 20,158                    |

NET INCOME ATTRIBUTABLE TO NEOGEN  
CORPORATION PER SHARE

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.18 | \$ 0.19 | \$ 0.57 | \$ 0.56 |
| Diluted | \$ 0.18 | \$ 0.18 | \$ 0.56 | \$ 0.55 |

See notes to interim consolidated financial statements



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## NEOGEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

*(In thousands)*

|   | Three Months Ended   |                      | Nine Months Ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | February 28,<br>2014 | February 28,<br>2013 | February 28,<br>2014 | February 28,<br>2013 |
| Net Income  | \$ 6,553             | \$ 6,610             | \$ 20,478            | \$ 20,064            |
| Currency Translation Adjustments                                    | 497                  | (644)                | 1,708                | (166)                |
| Comprehensive Income  | 7,050                | 5,966                | 22,186               | 19,898               |
| Comprehensive Loss (Income) attributable to noncontrolling interest | 22                   | 42                   | 143                  | 94                   |
| Comprehensive Income attributable to Neogen Corporation             | \$ 7,072             | \$ 6,008             | \$ 22,329            | \$ 19,992            |

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-controlling<br>Interest | Total      |
|---|--------------|----------|----------------------------------|---|----------------------|-----------------------------|------------|
|   | Shares       | Amount   |                                  |   |                      |                             |            |
| Balance, June 1, 2013   | 36,084       | \$ 5,773 | \$ 99,935                        | (\$ 1,372)  | \$ 153,885           | \$ 66                       | \$ 258,287 |
| Issuance of shares of<br>common stock under equity<br>compensation plans, and<br>share based compensation | 542          | 86       | 9,949                            |   |                      |                             | 10,035     |
| Issuance of shares under<br>employee stock purchase<br>plan   | 18           | 3        | 613                              |   |                      |                             | 616        |
| Comprehensive income:   |              |          |                                  |   |                      |                             |            |
| Net income (loss) for the<br>nine months ended<br>February 28, 2014                                       |              |          |                                  |   | 20,621               | (143)                       | 20,478     |
| Foreign currency translation<br>adjustments   |              |          |                                  | 1,708   |                      |                             | 1,708      |
| Balance, February 28, 2014  | 36,644       | \$ 5,862 | \$ 110,497                       | \$ 336  | \$ 174,506           | (\$ 77)                     | \$ 291,124 |

See notes to interim consolidated financial statements

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

*(In thousands)*

|   | <b>Nine Months Ended</b> |                  |
|---|--------------------------|------------------|
|   | <b>February 28,</b>      | <b>2013</b>      |
|   | <b>2014</b>              | <b>2013</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                          |                  |
| Net Income  | \$ 20,478                | \$ 20,064        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                  |
| Depreciation and amortization   | 6,641                    | 5,272            |
| Share based compensation  | 2,689                    | 2,198            |
| Excess income tax benefit from the exercise of stock options                      | (3,948)                  | (1,868)          |
| Changes in operating assets and liabilities, net of business acquisitions:        |                          |                  |
| Accounts receivable   | (6,789)                  | (2,607)          |
| Inventories   | (4,060)                  | (4,851)          |
| Prepaid expenses and other current assets   | (963)                    | (1,301)          |
| Accounts payable, accruals and other  | 3,114                    | 2,981            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>17,162</b>            | <b>19,888</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                          |                  |
| Purchases of property and equipment and other assets                              | (7,347)                  | (6,971)          |
| Proceeds from the sale of marketable securities                                   | 76,996                   | 50,055           |
| Purchases of marketable securities  | (67,192)                 | (56,160)         |
| Payments for businesses   | (39,265)                 | (13,318)         |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(36,808)</b>          | <b>(26,394)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                          |                  |
| Increase (decrease) in other long-term liabilities                                | 168                      | (87)             |
| Net proceeds from issuance of common stock  | 8,112                    | 4,612            |
| Excess income tax benefit from the exercise of stock options                      | 3,948                    | 1,868            |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                  | <b>12,228</b>            | <b>6,393</b>     |
| EFFECT OF EXCHANGE RATE ON CASH   | 662                      | (71)             |
| <b>DECREASE IN CASH</b>   | <b>(6,756)</b>           | <b>(184)</b>     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 50,032                   | 49,045           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$ 43,277</b>         | <b>\$ 48,861</b> |

See notes to interim consolidated financial statements



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## 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 and nine month periods ended February 28, 2014 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:

|                              | <b>February 28,<br/>2014</b> | <b>May 31,<br/>2013</b> |
|------------------------------|------------------------------|-------------------------|
|                              | <i>(In thousands)</i>        |                         |
| Raw Materials                | \$ 22,258                    | \$ 16,587               |
| Work-in-process              | 4,002                        | 3,583                   |
| Finished and purchased goods | 25,601                       | 18,145                  |
|                              | \$ 51,861                    | \$ 38,315               |

**3. NET INCOME PER SHARE**

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

|   | <b>Three Months<br/>Ended</b>                   |                              | <b>Nine Months Ended</b>     |                              |
|---|---|------------------------------|------------------------------|------------------------------|
|   | <b>February 28,<br/>2014</b>                    | <b>February 28,<br/>2013</b> | <b>February 28,<br/>2014</b> | <b>February 28,<br/>2013</b> |
|   | <i>(In thousands, except per share amounts)</i> |                              |                              |                              |
| Numerator for basic and diluted net income per share: |   |                              |                              |                              |
| Net Income attributable to Neogen shareholders        | \$ 6,575  | \$ 6,652                     | \$ 20,621                    | \$ 20,158                    |
| Denominator:  |   |                              |                              |                              |

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Denominator for basic net income per share:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Weighted average shares                       | 36,613 | 35,841 | 36,471 | 35,699 |
| Effect of dilutive stock options and warrants | 620    | 762    | 678    | 756    |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Denominator for diluted net income per share | 37,233 | 36,603 | 37,149 | 36,455 |
|--|--------|--------|--------|--------|

Net income attributable to Neogen Corporation per share:

|       |         |         |         |         |
|-------|---------|---------|---------|---------|
| Basic | \$ 0.18 | \$ 0.19 | \$ 0.57 | \$ 0.56 |
|-------|---------|---------|---------|---------|

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Diluted | \$ 0.18 | \$ 0.18 | \$ 0.56 | \$ 0.55 |
|---------|---------|---------|---------|---------|

The Board of Directors declared a 3 for 2 stock split effective October 31, 2013. All share and per share amounts in this Form 10-Q reflect amounts as if the split took place at the beginning of the periods presented.

**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 February 28, 2014 and 2013 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 2014</b>                     |                        |                          |   |              |
| Product revenues to external customers | \$ 26,627              | \$ 27,996                | \$ 0  | \$ 54,623    |
| Service revenues to external customers | 1,393                  | 5,980                    | 0   | 7,373        |
| Total revenues to external customers   | 28,020                 | 33,976                   | 0   | 61,996       |
| Operating income (loss)                | 5,969                  | 5,169                    | (845)   | 10,293       |
| Total assets                           | 110,038                | 149,202                  | 71,110  | 330,350      |
| <b>Fiscal 2013</b>                     |                        |                          |   |              |
| Product revenues to external customers | \$ 24,152              | \$ 19,972                | \$ 0  | \$ 44,124    |
| Service revenues to external customers | 1,159                  | 5,772                    | 0   | 6,931        |
| Total revenues to external customers   | 25,311                 | 25,744                   | 0   | 51,055       |
| Operating income (loss)                | 5,668                  | 4,679                    | (681)   | 9,666        |
| Total assets                           | 90,953                 | 124,899                  | 65,173  | 281,025      |

Segment information for the nine months ended February 28, 2014 and 2013 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 2014</b>                     |                        |                          |   |              |
| Product revenues to external customers | \$ 82,761              | \$ 76,437                | \$ 0  | \$ 159,198   |
| Service revenues to external customers | 3,656                  | 17,289                   | 0   | 20,945       |
| Total revenues to external customers   | 86,417                 | 93,726                   | 0   | 180,143      |
| Operating income (loss)                | 20,956                 | 13,746                   | (2,302)                                       | 32,400       |
| <b>Fiscal 2013</b>                     |                        |                          |   |              |
| Product revenues to external customers | \$ 75,278              | \$ 60,151                | \$ 0  | \$ 135,429   |

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|  |        |        |         |         |
|--|--------|--------|---------|---------|
| Service revenues to external customers | 2,259  | 13,834 | 0       | 16,093  |
| Total revenues to external customers   | 77,537 | 73,985 | 0       | 151,522 |
| Operating income (loss)                | 20,450 | 11,868 | (1,848) | 30,470  |

- (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 nine months ended February 28, 2014 follows:

|  | <b>Shares</b> | <b>Weighted-Average<br/>Exercise Price</b> |
|--|---------------|--|
| Options outstanding at June 1, 2013      | 2,091,000     | \$ 19.21                                   |
| Granted                                  | 512,000       | 36.44                                      |
| Exercised                                | (556,000)     | 13.74                                      |
| Forfeited                                | (81,000)      | 21.35                                      |
| <br>                                     |               |  |
| Options outstanding at February 28, 2014 | 1,966,000     | 25.15                                      |

During the three and nine month periods ended February 28, 2014 and 2013, the Company recorded \$993,000 and \$791,000 and \$2,689,000 and \$2,198,000 of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during fiscal 2014 and fiscal 2013, estimated on the date of grant using the Black-Scholes option pricing model was \$9.87 and \$9.20 respectively, per option. The fair value of stock options granted was estimated using the following weighted-average assumptions.

|                                 | <b>FY2014</b> | <b>FY2013</b> |
|---------------------------------|---------------|---------------|
| 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 recorded in administrative expense as of the date of purchase.

**6. NEW ACCOUNTING PRONOUNCEMENTS**

In February 2013, the FASB further amended ASC 220, Comprehensive Income, with ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (amended ASC 220), 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 on the respective lines of net income. The impact of adopting amended ASC 220 did not have a material impact on the consolidated financial statements and therefore has not been disclosed in the fiscal 2014 third quarter Form 10-Q.

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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.

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). The secondary payment was finalized in October 2013 and amounted to \$62,000. 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 purchase price allocation included current assets of \$35,000, fixed assets of \$246,000 non-amortizable trademarks of \$68,000, intangible assets of \$1,585,000 and the remainder to goodwill (deductible for tax purposes). 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 has been relocated to Lexington, Kentucky and integrated with the Company's current operation there, reporting within the Animal Safety segment.

On November 1, 2013, Neogen Corporation 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 unique 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 a secondary payment, 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 \$200,000 based on forecasted sales. The preliminary purchase price allocation included accounts receivable of \$963,000, net inventory of \$2,944,000, fixed assets of \$1,653,000, prepaid assets of \$8,000, current liabilities of \$1,840,000, secondary payment liabilities of \$200,000, non-amortizable trademarks of \$196,000, intangible assets of \$5,275,000 (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 will continue to operate in its current location and reports within the Animal Safety segment.

On January 2, 2014, Neogen Corporation acquired 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 secondary payment liability, due at the end of the first year, based on an excess sales formula. The Company has estimated the secondary payment liability to be \$400,000, based on forecasted sales. The preliminary purchase price allocation included accounts receivable of \$380,000, net inventory of \$4,096,000, prepaid assets of \$225,000, fixed assets of \$682,000, current liabilities of \$184,000, secondary payment liabilities of \$400,000, non-amortizable trademarks of \$662,000, intangible assets of \$7,536,000 (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 will continue to operate in its current location and reports 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 fiscal 2014 and fiscal 2013 and no balance outstanding at February 28, 2014. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.17% at February 28, 2014). 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 February 28, 2014.

**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 February 28, 2014 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 1,125,000 shares of the Company's common stock. As of February 28, 2014, 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 2014 and there were none in fiscal 2013.

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

Revenues for the Company for the third quarter ended February 28, 2014 were \$62.0 million, an increase of \$10.9 million, or 21.4%, compared to the same period in the prior year. For the year-to-date ended February 28, 2014 revenues were \$180.1 million, an increase of \$28.6 million, or 18.9%, compared to the prior year. Food Safety revenues increased by 10.7% and 11.5%, respectively, for the comparative quarter and nine-month periods ended February 28, 2014; all of that growth was organic. Animal Safety revenues rose by 32.0% and 26.7%, respectively, for the same comparative periods. Overall organic sales growth was 5.9% for the third quarter and 9.8% for the year to date, each compared to the same period in the prior year. The remainder of growth came from the following acquisitions: Macleod Pharmaceuticals (October 2012), Scidera Genomics (January 2013), Syrvet (July 2013), Prima Tech (November 2013), and Chem-Tech (January 2014).

International sales were \$22.6 million, or 36.4% of total sales, in the third quarter, compared to \$20.1 million, or 39.4% of total sales, in the prior year. For the nine months ended February 28, 2014, international sales were 39.2% of total sales compared to 39.5% of total sales for the same period in the prior year. Neogen Europe sales increased 22.0% for the third quarter and 32.4% for the year-to-date period. Neogen do Brasil and Neogen Latinoamerica continued to expand in their markets and recorded revenue gains in the third quarter of 31.3% and 30.7%, respectively. On a year-to-date basis, Neogen do Brasil sales increased 46.8% while Neogen Latinoamerica increased sales by 24.6%.

Service revenue was \$7.4 million in the third quarter, an increase of 6.4% compared to the prior year. For the nine-month period, service revenue was \$20.9 million, or 30.1% higher than the comparable prior year period. The increase for the year-to-date period was driven by sales of new proprietary service offerings introduced in the third quarter of the prior year.

Gross margin was 49.5% for the third quarter compared to 53.5% for the February 2013 quarter. The decrease in gross margin percentage for the comparative quarter was almost entirely due to the shift in overall company revenues towards Animal Safety products, due to the three acquisitions the Company has completed this fiscal year. On a year-to-date basis, gross margin was 50.3%, compared to 53.5% in the prior fiscal year. The decrease in gross margin on a year-to-date basis is due to shifts in product mix within each segment, and an overall shift in total revenues towards Animal Safety products, the result of the acquisitions. It is expected that the revenue mix will approximate its current proportion for the near term, and could affect our comparative results for the remainder of the fiscal year.

Selling, general and administrative expenses rose by 15.7% for the quarter and by 14.8 % for the year-to-date period. Operating margin decreased from 18.9% in the February 2013 quarter to 16.6% in the February 2014 quarter. On a year-to-date basis, operating margin was 18.0% compared to 20.1% in the same period of the prior year. For both the quarter and year-to-date, the decline in operating margin percentage was due to the decrease in gross margin percentage.

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Three and nine months ended February 28, 2014 and 2013:

|  | <b>Three Months ended February 28,</b> |                  |                                 |              |
|--|--|------------------|---------------------------------|--------------|
|  | <b>2014</b>                            | <b>2013</b>      | <b>Increase/<br/>(Decrease)</b> | <b>%</b>     |
|  | <i>(In thousands)</i>                  |                  |                                 |              |
| <b>Food Safety</b>                         |  |                  |                                 |              |
| Natural Toxins, Allergens & Drug Residues  | \$ 13,919                              | \$ 13,299        | \$ 620                          | 4.7%         |
| Bacteria & General Sanitation              | 6,312                                  | 5,504            | 808                             | 14.7%        |
| Dehydrated Culture Media & Other           | 7,789                                  | 6,508            | 1,281                           | 19.7%        |
|  | \$ 28,020                              | \$ 25,311        | \$ 2,709                        | 10.7%        |
| <b>Animal Safety</b>                       |  |                  |                                 |              |
| Life Sciences                              | \$ 1,650                               | \$ 1,892         | \$ (242)                        | -12.8%       |
| Veterinary Instruments & Disposables       | 8,655                                  | 4,373            | 4,282                           | 97.9%        |
| Animal Care & Other                        | 9,654                                  | 7,459            | 2,195                           | 29.4%        |
| Rodenticides, Disinfectants & Insecticides | 8,037                                  | 6,248            | 1,789                           | 28.6%        |
| DNA Testing Service                        | 5,980                                  | 5,772            | 208                             | 3.6%         |
|  | \$ 33,976                              | \$ 25,744        | \$ 8,232                        | 32.0%        |
| <b>Total Revenues</b>                      | <b>\$ 61,996</b>                       | <b>\$ 51,055</b> | <b>\$ 10,941</b>                | <b>21.4%</b> |

|  | <b>Nine Months ended February 28,</b> |                   |                                 |              |
|--|---------------------------------------|-------------------|---------------------------------|--------------|
|  | <b>2014</b>                           | <b>2013</b>       | <b>Increase/<br/>(Decrease)</b> | <b>%</b>     |
|  | <i>(In thousands)</i>                 |                   |                                 |              |
| <b>Food Safety</b>                         |                                       |                   |                                 |              |
| Natural Toxins, Allergens & Drug Residues  | \$ 44,739                             | \$ 42,419         | \$ 2,320                        | 5.5%         |
| Bacteria & General Sanitation              | 18,313                                | 15,907            | 2,406                           | 15.1%        |
| Dehydrated Culture Media & Other           | 23,365                                | 19,211            | 4,154                           | 21.6%        |
|  | \$ 86,417                             | \$ 77,537         | \$ 8,880                        | 11.5%        |
| <b>Animal Safety</b>                       |                                       |                   |                                 |              |
| Life Sciences                              | \$ 5,448                              | \$ 5,589          | \$ (141)                        | -2.5%        |
| Veterinary Instruments & Disposables       | 19,815                                | 11,619            | 8,196                           | 70.5%        |
| Animal Care & Other                        | 26,676                                | 21,336            | 5,340                           | 25.0%        |
| Rodenticides, Disinfectants & Insecticides | 24,498                                | 21,607            | 2,891                           | 13.4%        |
| DNA Testing Service                        | 17,289                                | 13,834            | 3,455                           | 25.0%        |
|  | \$ 93,726                             | \$ 73,985         | \$ 19,741                       | 26.7%        |
| <b>Total Revenues</b>                      | <b>\$ 180,143</b>                     | <b>\$ 151,522</b> | <b>\$ 28,621</b>                | <b>18.9%</b> |



The Company's Food Safety segment revenues were \$28,020,000 in the third quarter of fiscal 2014, 10.7% higher than the same period in the prior year. On a year-to-date basis, Food Safety revenues were \$86,417,000, 11.5% higher than the comparable period of the prior year. Natural Toxins, Allergens and Drug Residues increased 4.7% in the third quarter and 5.5% on a year-to-date basis, both compared to the same periods of the prior year. Allergen sales, including meat speciation kits, increased 16.5% and 23.9% for the quarter and year-to-date periods, respectively, due to increased consumer demand. Drug Residues sales growth was 5.3% for the third quarter and 4.7% for the year-to-date, both compared to the prior year. Sales of Natural Toxins test kits were down 2.2% and 2.4% for the quarter and year-to-date periods. This was due to relatively clean crops in the grain harvest in the current fiscal year and strong sales in the prior year resulting from aflatoxin and DON outbreaks in both the US and Europe.

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Bacteria and General Sanitation increased 14.7% for the quarter and 15.1% for the year, both compared to the same period in the prior year, primarily due to focused marketing programs for products in this category. The Soleris product line had sales growth of 16.9% for the quarter and 22.3% for the year while the AccuPoint line increased 11.1% and 20.2% for the same periods. Pathogen sales were up 8.3% for the third quarter compared to the prior year as the new product line ANSR gains traction. For the year-to-date, Pathogen sales were down 3.8%, primarily due to large equipment orders in the prior year.

The Dehydrated Culture Media and Other category increased 19.7% in the third quarter and 21.6% for the year-to-date period. 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 13.4% and 15.2% for the quarter and year-to-date periods, respectively, due to incremental sales at a number of larger customers, the capture of new business and targeted marketing programs.

The Company's Animal Safety segment revenues were \$33,976,000, an increase of \$8,232,000, or 32.0% for the quarter ended February 28, 2014, compared to the same period in the prior year. On a year-to-date basis, Animal Safety revenues were \$93,726,000, 26.7% higher than the comparable period of the prior year. Each comparative period benefitted from the five acquisitions that the Company has completed since the beginning of fiscal 2013. Organic growth for the Animal Safety segment was 1.1% and 8.1% for the three and nine month periods, respectively.

Life Sciences decreased by 12.8% for the February 2014 quarter and 2.5% for the year, both compared to the same periods in the prior year. Within this category, forensic kit sales increased 19.7% for the quarter and 19.6% for the year-to-date period primarily due to new international business and increased business from labs in the US. Offsetting these increases were the loss of some revenues transferred to Neogen Europe for improved sales support and the loss of business by a Chinese distributor for residues.

Veterinary Instruments and Disposables increased 97.9% in the third quarter and 70.5% on a year-to-date basis. These increases reflect the acquisitions of Syrvet, in July, and Prima Tech, in November; each of these businesses' focus is on veterinary instruments. Organically, the Company increased sales in this category 9.6% for the February 2014 quarter and 9.0% on a year-to-date basis, due primarily to strong performance in detectable needles. Animal Care and Other revenues increased 29.4% and 25.0% for the quarter and year-to-date periods, respectively. Sales from the fiscal 2014 acquisitions are also included in this category; growth excluding the Syrvet and Prima Tech acquisitions was 9.9% for the third quarter ended February 28, 2014 and 14.2% for the year-to-date period, compared to the same periods in the prior year. In the third quarter, there was strong growth from sales of a Botulism vaccine for horses and the Company's recently acquired Uniprim line, an antibiotic for horses, as the equine market begins to rebound and there are more foals. The Company also benefitted from strong sales of a wound care product. Partially offsetting these gains was a decline in the small animal supplements line; last year's revenues in this product line were strong due to a supply disruption in the market, the result of a competitor shutdown.

Rodenticides, Disinfectants and Insecticides increased 28.6% in the third quarter and 13.4% on a year-to-date basis, each compared to the prior year. Sales of Chem-Tech products, the Company's January 2014 acquisition, are included in this category. Excluding these revenues, sales decreased 10.9% for the third quarter and increased 1.9% on a year-to-date basis. Factors contributing to the decrease were weak rodenticide sales, due to weather, and order timing from distributors for disinfectants.

DNA Testing Service revenues increased 3.6% for the third quarter and 25.0% on a year-to-date basis, both compared to the prior year. Cattle and canine parentage tests contributed to the increase in the third quarter. This was offset by bovine customers switching to a new lower density proprietary offering that has a lower sales price than previously available technology. For the year-to-date period, increases were from new business generated by the development of

a proprietary service offering launched in the third quarter of the prior year. To a lesser extent, the Scidera acquisition, completed in January 2013, also contributed to the growth.

International sales were \$22.6 million, or 36.4% of total sales in the third quarter, compared to \$20.1 million, or 39.4% of total sales in the prior year. For the nine months ended February 28, 2014, international sales were 39.2% of total sales compared to 39.5% of total sales for the same period in the prior year. Neogen Europe sales increased 22.0% for the third quarter and 32.4% for the year-to-date period. For the third quarter, Neogen Europe's increase was driven by strong sales of Acumedia products, genomics and life sciences revenues from a number of European customers, and laboratory analysis testing for allergens and meat speciation. High demand for aflatoxin test kits in Eastern Europe and meat speciation kits throughout Europe also contributed to the revenue increase on a year-to-date basis. Neogen do Brasil and Neogen Latinoamerica continued to expand in their markets and recorded revenue gains in the third quarter of 31.3% and 30.7%, respectively. On a year-to-date basis, Neogen do Brasil sales increased 46.8% while Neogen Latinoamerica increased sales by 24.6%. Neogen do Brasil continued to penetrate the dairy market with sales of drug residue kits to detect the presence of dairy antibiotics, and also added a number of new customers for cleaners and disinfectants. On a year-to-date basis, genomics revenues have also contributed to its growth. Neogen Latinoamerica has had broad-based growth across all product categories throughout the year; additionally, sales of Soleris instruments, which are used to detect spoilage organisms in processed foods, contributed to its strong growth in the third quarter.

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Gross margin was 49.5% for the third quarter compared to 53.5% for the February 2013 quarter. The decrease in gross margin percentage for the comparative quarter was almost entirely due to the shift in overall company revenues towards Animal Safety products, due to the three acquisitions the Company has completed this fiscal year. On a year-to-date basis, gross margin was 50.3%, compared to 53.5% in the prior fiscal year. The decrease in gross margin on a year-to-date basis is due to shifts in product mix within each segment, and an overall shift in total revenues towards Animal Safety products, the result of the acquisitions. It is expected that the mix of revenues will remain close to its current proportion for the near term. For the year-to-date, Food Safety's gross margin percentage decreased, due primarily to lower aflatoxin test kit sales in the current year. The prior year had historically high sales of mycotoxin test kits due to several outbreaks in the US and Europe; this year's crops in the US were relatively clean, resulting in lower revenues for our kits, which are among our higher gross margin products. These conditions are likely to continue in the short term and impact our comparative results for the remainder of this fiscal year. The Animal Safety gross margin percentage declined for the quarter and year-to-date periods, due primarily to the effects of the incremental revenues, at lower margins, resulting from the acquisitions of SyrVet, Prima Tech, and Chem-Tech. This segment also benefitted in the prior year as it capitalized on a supply disruption in the market for a small animal supplement line caused by a competitor's shutdown. The competitor is now back in the market; we have retained some, but not all, of this higher margin business.

Sales and marketing expenses increased \$1.5 million, or 13.8%, compared to the third quarter last year, and increased 10.9% for the year-to-date period. Increases in this category were primarily due to increased headcount, shipping, advertising and other marketing support costs. General and administrative costs increased \$1.2 million for the quarter, or 23.1%, and were up 25.0% for the year-to-date period, primarily due to amortization of certain intangible assets from recent acquisitions, higher compensation and stock option expenses, and legal fees. Additional expenses from new locations in Colorado, North Carolina and Iowa, resulting from the acquisitions in the past year, also contributed to the increase. Research and development expenses were \$2.1 million for the third quarter of FY2014, an increase of 6.3% over the same period a year ago. For the year-to-date, research and development expenses were 10.1% higher than last year, primarily due to outside contracted services expenses for various projects. Expressed as a percentage of sales, both sales and marketing and research and development expenses were less than the prior year for the quarter and year-to-date periods, respectively.

Operating margin decreased from 18.9% in the February 2013 quarter to 16.6% in the February 2014 quarter. On a year-to-date basis, operating margin was 18.0% compared to 20.1% in the same period of the prior year. For both the quarter and year-to-date, the decline in operating margin was due to the decrease in gross margin percentage.

On a year-to-date basis, other expense of \$610,000 was largely the result of currency losses recorded at foreign subsidiaries as the Brazilian Real and Mexican Peso devalued against the U. S. dollar during the first half of fiscal 2014. For the quarter ended February 28, 2014, currency losses were minimal. Income tax expense in the prior year for the third quarter benefitted from the reinstatement of a federal research and development credit for calendar year 2013. This credit expired at the end of 2013, which has resulted in a higher effective income tax rate in the current quarter.

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**Financial Condition and Liquidity**

The overall cash, cash equivalents and marketable securities position of the Company was \$68.8 million at February 28, 2014 compared to \$85.4 million at May 31, 2013. Approximately \$17.6 million was generated from operating activities during the first nine months of fiscal 2014. Net cash proceeds of \$8.1 million were realized from the exercise of stock options and issuance of shares under the Company's Employee Stock Purchase Plan during the first nine months of fiscal 2014. The Company completed asset purchases totaling \$39.3 million in the first nine months of the year for three acquisitions (see Note 7 in the notes to Interim Consolidated Financial Statements). The Company also spent \$7.8 million for property, equipment and other non-current assets in the first nine months of 2014.

Accounts receivable increased by \$9.3 million, or 24.1%, for the first nine months of the year, due primarily to the increase in revenues. Inventory levels increased by \$13.6 million, or 35.4%, compared to May 31, 2013 levels; at February 28, 2014, the inventory balances of the acquired SyrVet, Prima Tech and Chem-Tech businesses were \$9.1 million. Management expects to rightsize inventory levels over the next few months, as product lines are rationalized and the businesses are more fully integrated into the Company.

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 February 28, 2014, 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 and the Euro. 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, 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 February 28, 2014 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 February 28, 2014 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: April 4, 2014

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

Dated: April 4, 2014

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