

REGIS CORP
Form 4
November 05, 2002

FORM 4

UNITED STATES SECURITIES AND EXCHANGE
COMMISSION
Washington, D.C. 20549

OMB APPROVAL

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response. . .0.5

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Filed By Romeo & Dye's Instant Form 4 Filer
www.section16.net

| | | | | | | | | |
|---|--|--|--|--|--|--|--|--|
| 1. Name and Address of Reporting Person* Kartarik, Mark H. (Last) (First) (Middle) | | | 2. Issuer Name and Ticker or Trading Symbol Regis Corporation (RGIS) | | | 6. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input checked="" type="checkbox"/> Officer (give title below) <input type="checkbox"/> Other (specify below) Senior Vice President | | |
| 7201 Metro Boulevard (Street) | | | 3. I.R.S. Identification Number of Reporting Person, if an entity (voluntary) | | | 4. Statement for Month/Day/Year 11/01/02 | | |
| Edina, MN 55439 (City) (State) (Zip) | | | 5. If Amendment, Date of Original (Month/Day/Year) | | | 7. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person | | |

Table I Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 & 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 & 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|------------|----------|---|--|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 11/01/02 | | M | | 550 | A | \$5.4467 | | D | |
| Common Stock | 11/01/02 | | M | | 2,250 | A | \$8.2533 | | D | |
| Common Stock | 11/01/02 | | S | | 2,800 | D | \$29.20 | 3,800 | D | |
| Common Stock | | | | | | | | 15,804 | I | By Profit Sharing Plans |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.
* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number

FORM 4 (continued) Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned

(e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 & 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 & 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Number of Derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4) | 10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4) | 11. Nature of Indirect Beneficial Ownership (Instr. 4) |
|--|--|--------------------------------------|--|--------------------------------|---|--|-----|--|-----------------|---|----------------------------|--|--|--|--|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | | | |
| Employee stock option (right to buy) | \$5.4467 | 11/01/02 | | M | | 550 | | 06/02/99 | 06/01/04 | Common stock | 550 | | 0 | | |
| Employee stock option (right to buy) | \$8.2533 | 11/01/02 | | M | | 2,250 | | 06/21/00 | 06/20/05 | Common stock | 2,250 | | 6,750 | D | |

Explanation of Responses:

By: /s/ **Bert M. Gross for David B. Kunin**

11/05/02
Date

**Signature of Reporting Person

**Intentional misstatements or omissions of facts constitute Federal Criminal Violations.
See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed.
If space is insufficient, See Instruction 6 for procedure.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.

00pt solid #000000">May 31,
2015 (Unaudited) (Audited)

ASSETS

CURRENT ASSETS

Cash and cash equivalents

\$66,862 \$66,061

Marketable securities (at fair value, which approximates cost)

58,296 48,103

Accounts receivable, less allowance of \$1,450 and \$1,300

56,156 59,208

Inventories

65,448 51,601

Deferred income taxes

2,293 1,991

Prepaid expenses and other current assets

5,885 4,231

TOTAL CURRENT ASSETS

254,940 231,195

NET PROPERTY AND EQUIPMENT

51,901 44,473

OTHER ASSETS

Goodwill

75,978 70,119

Other non-amortizable intangible assets

Edgar Filing: REGIS CORP - Form 4

9,170 9,020

Customer based intangibles, net of accumulated amortization of \$15,794 and \$14,446 at February 29, 2016 and May 31, 2015

23,065 24,170

Other non-current assets, net of accumulated amortization of \$8,187 and \$7,191 at February 29, 2016 and May 31, 2015

17,187 13,204

125,400 116,513

TOTAL ASSETS

\$432,241 \$392,181

LIABILITIES AND EQUITY

CURRENT LIABILITIES

Accounts payable

\$15,403 \$13,691

Accrued compensation

4,121 4,142

Income taxes

3,002 1,275

Other accruals

5,256 6,348

TOTAL CURRENT LIABILITIES

27,782 25,456

DEFERRED INCOME TAXES

14,478 13,711

OTHER LONG-TERM LIABILITIES

2,107 2,051

16,585 15,762

TOTAL LIABILITIES

44,367 41,218

COMMITMENTS AND CONTINGENCIES (note 7)

0 0

EQUITY

Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding

0 0

Common stock, \$0.16 par value, 60,000,000 shares authorized 37,523,740 and 37,128,269 shares issued and outstanding at February 29, 2016 and May 31, 2015, respectively.

6,004 5,941

Additional paid-in capital

145,287 131,906

Accumulated other comprehensive loss

(5,694) (2,442)

Retained earnings

242,276 215,569

TOTAL NEOGEN CORPORATION STOCKHOLDERS EQUITY

387,873 350,974

Non-controlling interest

1 (11)

TOTAL EQUITY

387,874 350,963

TOTAL LIABILITIES AND EQUITY

\$432,241 \$392,181

See notes to interim consolidated financial statements

Table of Contents

NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|-----------------|--------------------------|------------------|
| | February 29/28, | | February 29/28, | |
| | 2016 | 2015 | 2016 | 2015 |
| REVENUES | | | | |
| Product revenues | \$ 64,377 | \$ 58,066 | \$ 198,131 | \$ 176,114 |
| Service revenues | 12,348 | 10,343 | 33,065 | 28,349 |
| Total Revenues | 76,725 | 68,409 | 231,196 | 204,463 |
| COST OF REVENUES | | | | |
| Cost of product revenues | 32,920 | 28,879 | 97,558 | 86,113 |
| Cost of service revenues | 8,609 | 5,827 | 22,427 | 16,363 |
| Total Cost of Revenues | 41,529 | 34,706 | 119,985 | 102,476 |
| GROSS MARGIN | 35,196 | 33,703 | 111,211 | 101,987 |
| OPERATING EXPENSES | | | | |
| Sales and marketing | 13,953 | 12,655 | 41,727 | 37,617 |
| General and administrative | 7,538 | 6,522 | 21,081 | 18,629 |
| Research and development | 2,451 | 2,366 | 7,642 | 7,245 |
| | 23,942 | 21,543 | 70,450 | 63,491 |
| OPERATING INCOME | 11,254 | 12,160 | 40,761 | 38,496 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 120 | 66 | 238 | 158 |
| Change in purchase consideration | 0 | (84) | 0 | (297) |
| Other income (expense) | 265 | (508) | (730) | (589) |
| | 385 | (526) | (492) | (728) |
| INCOME BEFORE INCOME TAXES | 11,639 | 11,634 | 40,269 | 37,768 |
| INCOME TAXES | 3,350 | 4,225 | 13,550 | 13,625 |
| NET INCOME | 8,289 | 7,409 | 26,719 | 24,143 |
| NET LOSS INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST | | | | |
| | 22 | 45 | (12) | (1) |
| NET LOSS (INCOME) ATTRIBUTABLE TO NEOGEN CORPORATION | \$ 8,311 | \$ 7,454 | \$ 26,707 | \$ 24,142 |

NET INCOME ATTRIBUTABLE TO NEOGEN
CORPORATION PER SHARE

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | \$ 0.22 | \$ 0.20 | \$ 0.71 | \$ 0.65 |
| Diluted | \$ 0.22 | \$ 0.20 | \$ 0.71 | \$ 0.65 |

See notes to interim consolidated financial statements

Table of Contents

NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|-----------|
| | February 29/28, | | February 29/28, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 8,289 | \$ 7,409 | \$ 26,719 | \$ 24,143 |
| Other comprehensive loss, net of tax: currency translation adjustments | (2,245) | (648) | (3,252) | (2,505) |
| Comprehensive income | 6,044 | 6,761 | 23,467 | 21,638 |
| Comprehensive loss (income) attributable to non-controlling interest | 22 | 45 | (12) | (1) |
| Comprehensive income attributable to Neogen Corporation | \$ 6,066 | \$ 6,806 | \$ 23,455 | \$ 21,637 |

See notes to interim consolidated financial statements

Table of Contents

NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive | Retained Earnings | Non-controlling Interest | Total |
|---|--------------|----------|----------------------------------|---------------------------------------|----------------------|-----------------------------|------------|
| | Shares | Amount | | Income (Loss) | | | |
| Balance, May 31, 2015 | 37,128 | \$ 5,941 | \$ 131,906 | \$ (2,442) | \$ 215,569 | \$ (11) | \$ 350,963 |
| Issuance of shares of common stock under equity compensation plans, and share based compensation | 377 | 60 | 12,598 | | | | 12,658 |
| Issuance of shares under employee stock purchase plan | 19 | 3 | 783 | | | | 786 |
| Comprehensive income: | | | | | | | |
| Net income for the nine months ended February 29, 2016 | | | | | 26,707 | 12 | 26,719 |
| Other comprehensive loss | | | | (3,252) | | | (3,252) |
| Balance, February 29, 2016 | 37,524 | \$ 6,004 | \$ 145,287 | \$ (5,694) | \$ 242,276 | \$ 1 | \$ 387,874 |

See notes to interim consolidated financial statements

Table of Contents

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

(In thousands)

| | Nine Months Ended | |
|---|--------------------------|------------------|
| | February 29/28, | |
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 26,719 | \$ 24,143 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,829 | 7,852 |
| Share based compensation | 4,007 | 3,187 |
| Excess income tax benefit from the exercise of stock options | (2,690) | (1,672) |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | 3,512 | (884) |
| Inventories | (12,770) | (3,171) |
| Prepaid expenses and other current assets | (1,699) | 1,956 |
| Accounts payable, accruals and other | 2,104 | (2,060) |
| NET CASH FROM OPERATING ACTIVITIES | 28,012 | 33,471 |
| CASH FLOWS FOR INVESTING ACTIVITIES: | | |
| Purchases of property and equipment and other noncurrent assets | (11,145) | (6,861) |
| Proceeds from the sale of marketable securities | 113,069 | 67,419 |
| Purchases of marketable securities | (123,262) | (76,262) |
| Business acquisitions, net of cash required | (16,615) | (6,554) |
| NET CASH FOR INVESTING ACTIVITIES | (37,953) | (22,258) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Exercise of stock options | 8,344 | 4,809 |
| Excess income tax benefit from the exercise of stock options | 2,690 | 1,672 |
| NET CASH FROM FINANCING ACTIVITIES | 11,034 | 6,481 |
| EFFECT OF EXCHANGE RATE ON CASH | (292) | (885) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 801 | 16,809 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 66,061 | 40,675 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 66,862 | \$ 57,484 |

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 and nine month periods ended February 29, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2016. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2015 audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2015.

2. INVENTORIES

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

| | February 29, 2016 | May 31, 2015 |
|------------------------------|------------------------------|-------------------------|
| | <i>(In thousands)</i> | |
| Raw Materials | \$ 27,874 | \$ 21,605 |
| Work-in-process | 5,019 | 3,972 |
| Finished and purchased goods | 32,555 | 26,024 |
| | \$ 65,448 | \$ 51,601 |

3. NET INCOME PER SHARE

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|-------------|---------------------------------|-------------|
| | February 29/28, 2016 | 2015 | February 29/28, 2016 | 2015 |
| | <i>(In thousands, except per share amounts)</i> | | | |
| Numerator for basic and diluted net income per share: | | | | |
| Net Income attributable to Neogen shareholders | \$ 8,311 | \$ 7,454 | \$ 26,707 | \$ 24,142 |
| Denominator: | | | | |
| Denominator for basic net income per share: | | | | |

Edgar Filing: REGIS CORP - Form 4

| | | | | |
|--|---------|---------|---------|---------|
| Weighted average shares | 37,473 | 37,006 | 37,358 | 36,907 |
| Effect of dilutive stock options and warrants | 485 | 530 | 500 | 492 |
| Denominator for diluted net income per share | 37,958 | 37,536 | 37,858 | 37,399 |
| Net income attributable to Neogen Corporation per share: | | | | |
| Basic | \$ 0.22 | \$ 0.20 | \$ 0.71 | \$ 0.65 |
| Diluted | \$ 0.22 | \$ 0.20 | \$ 0.71 | \$ 0.65 |

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 29/28, 2016 and 2015 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|--|------------------------|--------------------------|---|--------------|
| | <i>(In thousands)</i> | | | |
| Fiscal 2016 | | | | |
| Product revenues to external customers | \$ 31,975 | \$ 32,402 | \$ 0 | \$ 64,377 |
| Service revenues to external customers | 2,623 | 9,725 | 0 | 12,348 |
| Total revenues to external customers | 34,598 | 42,127 | 0 | 76,725 |
| Operating income (loss) | 6,114 | 6,149 | (1,009) | 11,254 |
| Total assets | 130,077 | 189,191 | 112,973 | 432,241 |
| Fiscal 2015 | | | | |
| Product revenues to external customers | \$ 29,348 | \$ 28,718 | \$ 0 | \$ 58,066 |
| Service revenues to external customers | 2,617 | 7,726 | 0 | 10,343 |
| Total revenues to external customers | 31,965 | 36,444 | 0 | 68,409 |
| Operating income (loss) | 6,976 | 6,087 | (903) | 12,160 |
| Total assets | 108,993 | 178,685 | 90,757 | 378,435 |

Segment information for the nine months ended February 29/28, 2016 and 2015 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|--|------------------------|--------------------------|---|--------------|
| | <i>(In thousands)</i> | | | |
| Fiscal 2016 | | | | |
| Product revenues to external customers | \$ 98,708 | \$ 99,423 | \$ 0 | \$ 198,131 |
| Service revenues to external customers | 7,604 | 25,461 | 0 | 33,065 |
| Total revenues to external customers | 106,312 | 124,884 | 0 | 231,196 |
| Operating income (loss) | 22,222 | 21,322 | (2,783) | 40,761 |
| Fiscal 2015 | | | | |
| Product revenues to external customers | \$ 87,761 | \$ 88,353 | \$ 0 | \$ 176,114 |

Edgar Filing: REGIS CORP - Form 4

| | | | | |
|--|--------|---------|---------|---------|
| Service revenues to external customers | 8,122 | 20,227 | 0 | 28,349 |
| Total revenues to external customers | 95,883 | 108,580 | 0 | 204,463 |
| Operating income (loss) | 22,688 | 18,228 | (2,420) | 38,496 |

- (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 29, 2016 follows:

| | Shares | Weighted-Average Exercise Price |
|--|-----------|------------------------------------|
| Options outstanding at June 1, 2015 | 1,988,000 | \$ 31.04 |
| Granted | 549,000 | 46.98 |
| Exercised | (385,000) | 23.45 |
| Forfeited | (19,000) | 36.62 |
| Options outstanding at February 29, 2016 | 2,133,000 | 36.47 |

During the three and nine month periods ended February 29/28, 2016 and 2015 the Company recorded \$1,462,000 and \$1,228,000 and \$4,007,000 and \$3,187,000 of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during fiscal 2016 and fiscal 2015, estimated on the date of grant using the Black-Scholes option pricing model was \$13.11 and \$11.91, respectively, per option. The fair value of stock options granted was estimated using the following weighted-average assumptions.

| | FY2016 | FY2015 |
|---------------------------------|-----------|-----------|
| Risk-free interest rate | 1.2% | 1.2% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 33.3% | 36.2% |
| 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 May 2014, the FASB issued a new standard on revenue recognition. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

The FASB recently issued ASU 2015-17 as part of its Simplification Initiative. The amendments eliminate the guidance in Topic 740, *Income Taxes*, that required an entity to separate deferred tax liabilities and assets between

current and noncurrent amounts in a classified balance sheet. Rather, deferred taxes will be presented as noncurrent under the new standard. It takes effect in 2017 for public companies and early adoption is permitted.

7. BUSINESS AND PRODUCT LINE ACQUISITIONS

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

On July 1, 2013, the Company acquired the assets of SyrVet Inc., a veterinary business based in Waukee, Iowa. SyrVet offered a product line similar to Neogen's Ideal Instruments line of veterinary instruments with a strong presence in Mexico and Latin America. Consideration for the purchase was \$10,012,000 in cash and up to \$1,500,000 of a contingent consideration liability, due at the end of the first year, based on an excess net sales formula. The Company estimated the contingent consideration liability to be \$930,000, based on forecasted sales. The final purchase price allocation, based upon the fair value of these assets determined using the income

Table of Contents

approach, included accounts receivable of \$747,000, net inventory of \$2,195,000, property and equipment of \$556,000, current liabilities of \$226,000, contingent consideration liabilities of \$930,000, non-amortizable trademarks of \$790,000, intangible assets of \$4,810,000 (with an estimated life of 15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business has been relocated to Lexington, Kentucky and integrated with the Company's current operations there, reporting within the Animal Safety segment. In August 2014, the Company paid \$689,000 to the former owner for contingent consideration based upon the level of achievement of sales targets; the remaining \$241,000 of the accrual was reversed to other income.

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

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

On October 1, 2014, the Company acquired all of the stock of BioLumix, Inc., a manufacturer and marketer of automated systems for the detection of microbial contaminants located in Ann Arbor, Michigan. Consideration for the purchase was \$4,514,000 in cash. The final purchase price allocation included accounts receivable of \$499,000, other receivable of \$178,000, net inventory of \$421,000, prepaid assets of \$48,000, property and equipment of \$159,000, current liabilities of \$155,000, long-term liabilities of \$780,000, intangible assets of \$2,090,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This business has been relocated to Lansing, Michigan and integrated with the Company's operations there, reporting within the Food Safety segment.

On December 8, 2014, the Company acquired the food safety and veterinary genomic assets of its Chinese distributor Beijing Anapure BioScientific Co., Ltd. Consideration for the purchase was \$2,040,000 in cash. The final purchase price allocation included inventory of \$525,000, property and equipment of \$64,000, intangible assets of \$422,000 (with an estimated life of 5-15 years) and the remainder to goodwill. These values are Level 3 fair value

measurements. This business has been integrated into the Company's subsidiary in China and reports within the Food Safety segment.

On June 1, 2015, Neogen acquired the assets of Sterling Test House, a commercial food testing laboratory based in India. Consideration for the purchase was \$1,118,000 in cash and approximately \$150,000 of a contingent consideration liability, due in installments on the first two anniversary dates, based on an excess sales formula. The preliminary purchase price allocation included accounts receivable of \$43,000, net inventory of \$14,000, property and equipment of \$141,000 and the remainder to goodwill and other intangible assets. These values are Level 3 fair value measurements. This business continues to operate in its current location and reports within the Animal Safety segment.

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

Table of Contents

On December 22, 2015, the Company acquired the rodenticide assets of Virbac Corporation, the North American affiliate of the France-based Virbac group, a global animal health company. The acquired assets include a rodenticide active ingredient that complements Neogen's existing active ingredients, and more than 40 regulatory approvals for a variety of formulations in the United States, Canada and Mexico. The acquired assets also include a large retail and OEM customer base. Consideration for the purchase was \$3,525,000 in cash and up to \$300,000 of contingent consideration. The preliminary purchase price allocation included inventory of \$317,000, property and equipment of \$60,000, intangible assets of \$2,545,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The products will be manufactured at the Company's current production facility in Randolph, Wisconsin and will report through Animal Safety.

8. LONG TERM DEBT

The Company has a financing agreement with a bank providing for an unsecured revolving line of credit of \$12,000,000, which matures on September 1, 2017. There were no advances against this line of credit during fiscal 2016 and fiscal 2015 and no balance outstanding at February 29, 2016. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.18% at February 29, 2016). 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 29, 2016.

9. COMMITMENTS AND CONTINGENCIES

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company is currently expensing annual costs of remediation, which have ranged from \$47,000 to \$56,000 per year over the past five years. The Company's estimated liability for these costs of \$916,000 at February 29, 2016 and May 31, 2015, measured on an undiscounted basis over an estimated period of 15 years; \$50,000 of the liability is recorded within current liabilities and the remainder is recorded within other long-term liabilities in the consolidated balance sheet.

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

10. STOCK PURCHASE

In December 2008, the Company's Board of Directors authorized a program to purchase, subject to market conditions, up to 1,125,000 shares of the Company's common stock. As of February 29, 2016, 112,026 cumulative shares had been purchased in negotiated and open market transactions for a total price, including commissions, of approximately \$923,000. Shares purchased under the program were retired. There have been no purchases in fiscal 2016 and there were none in fiscal 2015.

Table of Contents

PART I FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Safe Harbor and Forward-Looking Statements

Forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, are made throughout this Quarterly Report on Form 10-Q. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, seeks, estimates, and similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed from time to time in the Company's reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation's results to differ materially from those indicated by such forward-looking statements, including those detailed in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Critical Accounting Policies and Estimates

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

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

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

Table of Contents**Executive Overview**

Revenues for the Company for the third quarter ended February 29, 2016 were \$76.7 million, an increase of \$8.3 million, or 12.2%, compared to the same period in the prior year. For the year-to-date period ended February 29, 2016, revenues were \$231.2 million, an increase of \$26.7 million, or 13.1%, compared to the prior year. Food Safety segment revenues increased by 8.2% and 10.9%, respectively, for the comparative three and nine-month periods ended February 29, 2016, while Animal Safety segment revenues rose by 15.6% and 15.0%, respectively, for the same comparative periods. Recent acquisitions contributed \$1.5 million of revenue for the third quarter, and \$5.5 million for the year-to-date period. Overall organic sales growth was 10.0% for the third quarter and 10.4% for the year to date, each compared to the same period in the prior year. Revenues and operating results continued to be adversely impacted by the effects of currency movements for the comparative quarters, as the U.S. dollar strengthened against the currencies in the countries in which we operate, primarily the U.K. pound sterling, the euro, the Mexican peso, and the Brazilian real. Revenues in these countries were reduced when translated into the dollar as compared to the prior year conversion. On a constant currency basis, revenues would have been \$1.8 million, or 2.4%, higher in the third quarter and \$6.3 million, or 2.7%, higher for the year-to-date period.

International sales were \$25.5 million, or 33.3% of total sales, in the third quarter, compared to \$24.9 million, or 36.4% of total sales, in the prior year. For the nine months ended February 29, 2016, international sales were 34.0% of total sales compared to 37.9% of total sales for the same period in the prior year. Revenues at Neogen Europe declined 1.3% for the third quarter (4.3% increase in local currency) and 8.2% (2.2% decrease in local currency) for the year-to-date period. Neogen do Brasil revenues increased 0.3% in the third quarter (47.6% increase in local currency), and rose 0.8% (increased 50.6% in local currency) for the year to date. Revenues for Neogen Latinoamerica increased 6.7% for the third quarter, and 19.5% for the year to date (increased 28.3% for the quarter and 45.4% year to date in local currencies, respectively).

Service revenue was \$12.3 million in the third quarter ended February 29, 2016, an increase of 19.1% compared to the prior year. For the nine-month period, service revenue was \$33.0 million, or 16.6% higher than the comparable prior year period. The increase for both periods was due primarily to incremental genomics business with a large poultry producer and increased sales in the porcine and canine markets.

Gross margin was 45.9% for the third quarter ended February 29, 2016 compared to 49.3% for the third quarter in the prior year. The decrease in gross margin percentage for the comparative quarter was due to adverse product mix toward products and services with lower gross margins within each segment, the negative impact of currency movements during the quarter, a shift in the proportion of Animal Safety segment revenues (which have lower than average gross margins) to the overall total revenues, and standard cost adjustments at our Mexican operations. On a year-to-date basis, gross margin was 48.1%, compared to 49.9% in the prior fiscal year. The decrease in gross margin percentage for the year to date was due primarily to the negative impact of currency movements, mix shift toward products and services with lower gross margins and the shift in the proportion of total revenues towards Animal Safety products.

Sales and marketing expenses were \$14.0 million for the quarter ended February 29, 2016, an increase of \$1.3 million, or 10.3%, compared to the third quarter last year, and increased 10.9% for the year-to-date period. Increases in this category for each comparative period were from higher personnel related costs resulting from increased headcount and higher revenues, shipping, advertising and other marketing support costs. General and administrative costs were \$7.5 million for the quarter, an increase of \$1.0 million, or 15.6%, and were up 13.2% for the year-to-date period. For each comparative period, higher salary and stock based compensation expenses, and amortization of intangible assets and legal expenses from recent acquisitions drove the increase. Research and development expenses were \$2.5 million for the third quarter of fiscal 2016, an increase of 3.6% over the same period a year ago. For the year-to-date period,

research and development expenses were 5.5% higher than last year, primarily due to increased headcount and higher expenditures for product improvement and development projects. Expressed as a percentage of sales, overall operating expenses were less than the prior year for both the quarter and year-to-date periods.

Operating income was \$11.3 million, or 14.7% of revenues, in the February 2016 quarter, compared to \$12.2 million, or 17.8% of revenues, in the February 2015 quarter, and for the year-to-date period was 17.6% compared to 18.8% in the same period in the prior year. For each comparative period, the percentage decline is due primarily to the lower gross margin percentages recorded for the respective periods.

For the third quarter of fiscal 2016, the Company recorded \$385,000 of other income, comprised of \$120,000 in interest income, \$43,000 in royalty income, and \$182,000 in net currency gains, including hedges put in place to protect the Company from the strengthening U.S. dollar, partially offset by currency losses recorded at foreign subsidiaries. In the third quarter of fiscal 2015,

Table of Contents

\$526,000 was recorded to other expense including \$470,000 of currency losses, and an \$84,000 charge for additional contingent consideration payment to the former owner of Chem-Tech as sales for that business during the earnout period were higher than the threshold level. For the nine month period ended February 29, 2016, net other expense of \$492,000 is comprised of currency losses totaling \$986,000, partially offset by interest income of \$238,000 and royalty income of \$151,000. For the same period in the prior year, other expense of \$728,000 is comprised of a charge of \$454,000 recorded for additional contingent consideration for the Prima Tech acquisition, an \$84,000 charge for Chem-Tech contingent consideration, and currency losses, offset by \$241,000 of income recorded for an overaccrual of contingent consideration for the SyrVet acquisition.

The effective income tax rate for the third quarter of fiscal 2016 was 28.8%, compared to 36.3% in the prior year third quarter. For the year to date, the effective tax rate was 33.6%, compared to 36.1% for the same period last year. During the quarter, the Company completed a review of its calculations for research and development tax credits and domestic production activity deductions claimed on company tax filings; the lower effective rate recorded in the third quarter of fiscal 2016 reflects the lower expected tax provision for fiscal 2016 as well as the filing of an amended return for the Company's fiscal year ending May 31, 2012 and a return to provision adjustment for the fiscal 2015 return. The Company will file amended tax returns for fiscal years 2013 and 2014 in the fourth quarter of fiscal 2016. We expect our effective tax rate to return to the historical average of approximately 36% in fiscal 2017.

Table of Contents**Revenues**

Three and nine months ended February 29/28, 2016 and 2015:

| | Three Months ended February 29/28, | | | |
|--|---|------------------|---------------------------------|--------------|
| | 2016 | 2015 | Increase/ (Decrease) | % |
| | <i>(In thousands)</i> | | | |
| <u>Food Safety</u> | | | | |
| Natural Toxins, Allergens & Drug Residues | \$ 14,892 | \$ 14,514 | \$ 378 | 2.6% |
| Bacterial & General Sanitation | 8,243 | 7,824 | 419 | 5.4% |
| Dehydrated Culture Media & Other | 11,463 | 9,627 | 1,836 | 19.1% |
| | \$ 34,598 | \$ 31,965 | \$ 2,633 | 8.2% |
| <u>Animal Safety</u> | | | | |
| Life Sciences | \$ 1,731 | \$ 1,837 | \$ (106) | -5.8% |
| Veterinary Instruments & Disposables | 9,076 | 9,920 | (844) | -8.5% |
| Animal Care & Other | 8,368 | 6,530 | 1,838 | 28.1% |
| Rodenticides, Insecticides & Disinfectants | 13,338 | 10,431 | 2,907 | 27.9% |
| DNA Testing Service | 9,614 | 7,726 | 1,888 | 24.4% |
| | \$ 42,127 | \$ 36,444 | \$ 5,683 | 15.6% |
| Total Revenues | \$ 76,725 | \$ 68,409 | \$ 8,316 | 12.2% |

| | Nine Months ended February 29/28, | | | |
|--|--|-------------------|---------------------------------|--------------|
| | 2016 | 2015 | Increase/ (Decrease) | % |
| | <i>(In thousands)</i> | | | |
| <u>Food Safety</u> | | | | |
| Natural Toxins, Allergens & Drug Residues | \$ 47,684 | \$ 45,906 | \$ 1,778 | 3.9% |
| Bacterial & General Sanitation | 24,815 | 20,975 | 3,840 | 18.3% |
| Dehydrated Culture Media & Other | 33,813 | 29,002 | 4,811 | 16.6% |
| | \$ 106,312 | \$ 95,883 | \$ 10,429 | 10.9% |
| <u>Animal Safety</u> | | | | |
| Life Sciences | \$ 5,390 | \$ 6,443 | \$ (1,053) | -16.3% |
| Veterinary Instruments & Disposables | 29,655 | 29,562 | 93 | 0.3% |
| Animal Care & Other | 26,396 | 19,299 | 7,097 | 36.8% |
| Rodenticides, Insecticides & Disinfectants | 38,375 | 33,049 | 5,326 | 16.1% |
| DNA Testing Service | 25,068 | 20,227 | 4,841 | 23.9% |
| | \$ 124,884 | \$ 108,580 | \$ 16,304 | 15.0% |
| Total Revenues | \$ 231,196 | \$ 204,463 | \$ 26,733 | 13.1% |

Revenues for the Company's Food Safety segment were \$34.6 million in the third quarter of fiscal 2016, 8.2% higher than the same period of the prior year. On a year-to-date basis, Food Safety revenues were \$106.3 million, 10.9% higher than the comparable period of fiscal 2015. Sales from the acquisition of Lab M, completed on August 26, 2015, contributed \$1.3 million to the growth in the third quarter. For the nine months ended February 29, 2016, Lab M provided \$3.0 million of sales and BioLumix, an acquisition the Company completed on October 1, 2014, contributed an additional \$1.9 million to the overall growth.

Natural Toxins, Allergens and Drug Residues increased 2.6% in the third quarter and rose 3.9% on a year-to-date basis, each compared to the same periods of the prior year. Sales of allergen test kits rose 19.1% in the third quarter and 20.0% for the year to date, as demand for this product line continued to increase due to higher consumer awareness and increased recalls due to allergenic contamination. Partially offsetting the third quarter increase, sales of natural toxin test kits decreased 3.6% in the third quarter, due to higher sales of kits to detect deoxynivalenol (DON) in the same quarter of the prior year, a result of outbreaks in Eastern Europe and Canada which did not recur this year. Despite the third quarter decline, Natural Toxin sales increased slightly on a year-to-date basis, primarily the result of higher first quarter fiscal 2016 DON revenues due to isolated outbreaks in the Midwestern U.S. and Europe.

Drug residue test kit revenues were down 5.5% in the third quarter and decreased 6.5% on a year-to-date basis, primarily due to currency translation.

Table of Contents

Bacterial and General Sanitation revenues increased 5.4% in the third quarter and 18.3% for the year to date, each compared to the same period a year ago. Excluding the BioLumix acquisition, year-to-date sales in this category rose 9.4%. The AccuPoint sanitation monitoring product line recorded increases of 13.7% for the quarter and 16.7% for the year-to-date period, due to the continued successful introduction of an improved, next generation product line. Sales of the Soleris and BioLumix product lines, which detect spoilage organisms, declined 1.2% in the third quarter, due to significant equipment placements in the third quarter of fiscal 2015 which did not recur in this year's third quarter; disposable vial sales increased 7.3% for the quarter. On a year-to-date basis, this product line recorded revenue increases of 33.2% (6.1% organic), with increases in both equipment and disposable vials. Pathogen test kit sales increased 4.8% for the quarter and 4.5% for the year-to-date period, primarily due to increases in sales of *Listeria* test kits to the commercial lab market.

Dehydrated Culture Media and Other sales increased 19.1% for the third quarter and 16.6% for the year-to-date period ended February 29, 2016, each compared to the same period in the prior year. Excluding the Lab M acquisition, which closed on August 26, 2015, sales increased 6.1% in the third quarter and 6.2% for the year-to-date period. Organic increases in this category for both the three and nine month periods were led by Acumedia dehydrated culture media sales to the traditional media market. Genomics revenues in Europe, Brazil, China and Mexico, which are recorded as Food Safety revenues in these countries, were flat in the third quarter and down 13.6% on a year-to-date basis, due in large part to prior year chip revenues in Europe which have not recurred in the current year. Additionally, sales of Animal Safety products to customers in Mexico, which are also reported in this category, decreased 20.0% in the third quarter primarily due to order timing from large distributors, and were flat on a year-to-date basis.

Animal Safety segment revenues were \$42.1 million for the quarter ended February 29, 2016, a 15.6% increase and year-to-date revenues were \$124.9 million, up 15.0%, each compared to the same period in the prior year. The growth was led by strong increases in the Animal Care and Other product line, up 28.1% in the third quarter and 36.8% for the year to date. The increase in both the three and nine month periods was primarily from revenues resulting from a new distribution agreement with a large manufacturer and supplier of dairy equipment and strong sales of the Company's line of thyroid replacement therapy for companion animals. Also contributing to the growth on a year-to-date basis were increased sales of wound care products and veterinary antibiotics, the latter due to focused marketing efforts and a competitor exiting the business.

Life Sciences sales decreased 5.8% for the quarter, and were 16.3% lower on a year-to-date basis, primarily due to lower sales of the Company's forensic kit sales to commercial labs in Brazil, the result of delayed implementation of new testing requirements in that country for commercial drivers until spring of 2016. The prior year comparative periods included sales of forensic kits to those labs, made prior to the delayed implementation date. Revenues of Veterinary Instruments and Disposables decreased 8.5% for the quarter and were flat for the year-to-date period, as sales of instruments to a large distributor decreased in the third quarter due to order timing.

Rodenticides, Insecticides and Disinfectants revenues increased 27.9% for the quarter and 16.1% on a year-to-date basis, with minimal impact from the Company's acquisition of the Virbac line of rodenticides in December 2015. Sales of rodenticides increased 60.2% in the third quarter and 55.9% for the year to date; contributing factors include the expansion of a contract manufacturing relationship with a large marketer of residential rodenticides, increases in retail market share, and continued demand relating to a vole outbreak in the northwestern U.S. Insecticide sales rose 30.0% in the third quarter, the result of strong acceptance of a spring booking marketing program and, to a lesser extent, sales of a new product. For the comparative year-to-date period, insecticide sales increased 4.0%, with third quarter gains somewhat offset by weak first quarter sales. Sales of cleaners and disinfectants declined 10.2% in the third quarter and were 15.4% lower on a year-to-date basis, primarily due to the strength of the U.S. dollar, which has made the Company's products less competitive.

DNA Testing Services revenues increased 24.4% in the third quarter and 23.9% for the year-to-date period, each compared to the same period in the prior year. For each comparative period, incremental business with a large poultry producer drove the growth. Sales to the porcine and canine markets also increased in both periods due to higher sample volume from large customers.

Table of Contents

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of the Company was \$125.2 million at February 29, 2016, compared to \$114.2 million at May 31, 2015. Approximately \$28.0 million was generated from operations during the first nine months of fiscal 2016. Net cash proceeds of \$8.3 million were realized from the exercise of stock options and issuance of shares under the Company's Employee Stock Purchase Plan during the first nine months of fiscal 2016. The Company spent \$11.1 million for property, equipment and other non-current assets and \$16.6 million for its Lab M, Virbac and Sterling Test House acquisitions in the first nine months of fiscal 2016.

Accounts receivable balances were \$56.2 million at February 29, 2016, a decline of \$3.1 million, or 5.2%, compared to \$59.2 million at May 31, 2015. Average days sales outstanding improved from 63 at May 31, 2015 to 61 at February 29, 2016. Inventory levels rose by \$13.8 million, or 26.8%, compared to May 31, 2015. The increase is due primarily to a concerted effort by the Company to improve service levels to the customer and reduce backorders. The timing of receipts of large international and bulk orders, stocking requirements for new business, and inventories acquired as a result of business acquisitions also contributed to the increase.

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 29, 2016 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.

Table of Contents

PART I FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign exchange risk exposure arises because the Company markets and sells its products throughout the world. The Company also could be affected by weak economic conditions in foreign markets that could reduce demand for its products. Additionally, revenues in certain foreign countries as well as certain expenses related to those revenues are transacted in currencies other than the U.S. dollar. The Company's operating results are primarily exposed to changes in exchange rates between the U.S. dollar, the British pound sterling, the euro, the Mexican peso, the Brazilian real, and the Chinese yuan. When the U.S. dollar weakens against foreign currencies, the dollar value of revenues denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs. Additionally, previously recognized revenues 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, Mexico, China, India, and Canada where the functional currency is the British pound sterling, Brazilian real, Mexican peso, Chinese yuan, Indian rupee, and Canadian dollar respectively, and also transacts business throughout Europe in the euro. The Company's investments in foreign subsidiaries are considered to be long-term.

PART I FINANCIAL INFORMATION

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of February 29, 2016 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 29, 2016 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

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.

Table of Contents

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.

Dated: March 31, 2016

NEOGEN CORPORATION
(Registrant)

Dated: March 31, 2016

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

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