

NEOGEN CORP
Form 10-Q
October 10, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2007

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)*

620 Leshar Place
Lansing, Michigan 48912

38-2364843
*(IRS Employer
Identification Number)*

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(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 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

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 October 1, 2007, there were 14,213,000 outstanding shares of Common Stock.

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NEOGEN CORPORATION AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Interim Consolidated Financial Statements (Unaudited)****NEOGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	August 31, 2007	May 31, 2007
	<i>(In thousands, except share and per share amounts)</i>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,786	\$ 13,424
Accounts receivable, less allowance of \$525 and \$ 500	17,843	14,914
Inventories	22,295	19,116
Deferred income taxes	787	787
Prepaid expenses and other current assets	2,610	2,857
TOTAL CURRENT ASSETS	50,321	51,098
NET PROPERTY AND EQUIPMENT	16,569	16,402
OTHER ASSETS		
Goodwill	28,792	24,448
Other non-amortizable intangible assets	3,181	3,181
Customer based intangibles, net of accumulated amortization of \$1,389 and \$ 1,215	6,018	6,182
Other non-current assets, net of accumulated amortization of \$1,128 and \$ 1,290	3,953	3,973
	\$ 108,834	\$ 105,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,097	\$ 4,507
Accrued compensation	1,413	1,737
Income taxes	1,501	1,377
Other accruals	2,325	2,417
TOTAL CURRENT LIABILITIES	9,336	10,038
DEFERRED INCOME TAXES	1,395	1,441
OTHER LONG-TERM LIABILITIES	1,838	1,860
STOCKHOLDERS' EQUITY		
Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding		
Common stock, \$.16 par value, 20,000,000 shares authorized, 14,150,000 shares issued and outstanding at August 31, 2007; 14,020,000 shares issued and outstanding at May 31, 2007	2,264	2,244
Additional paid-in capital	52,914	51,698
Accumulated other comprehensive income	459	386
Retained earnings	40,628	37,617
TOTAL STOCKHOLDERS' EQUITY	96,265	91,945
	\$ 108,834	\$ 105,284

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See notes to interim unaudited consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended August 31,	
	2007	2006
	<i>(In thousands,</i>	
	<i>except per share amounts)</i>	
Net sales	\$ 22,909	\$ 20,220
Cost of goods sold	10,612	9,900
GROSS MARGIN	12,297	10,320
OPERATING EXPENSES		
Sales and marketing	4,678	4,240
General and administrative	2,330	1,804
Research and development	742	698
	7,750	6,742
OPERATING INCOME	4,547	3,578
OTHER INCOME (EXPENSE)		
Interest income	170	57
Interest expense		(11)
Other	(6)	8
	164	54
INCOME BEFORE INCOME TAXES	4,711	3,632
INCOME TAXES	1,700	1,226
NET INCOME	\$ 3,011	\$ 2,406
NET INCOME PER SHARE		
Basic	\$.21	\$.18
Diluted	\$.21	\$.17

See notes to interim unaudited consolidated financial statements

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	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital <i>(In thousands)</i>	Other	Retained Earnings	Total
Balance, June 1, 2007	14,020,000	\$ 2,244	\$ 51,698	\$ 386	\$ 37,617	\$ 91,945
Issuance of 122,000 shares of common stock under Equity Compensation Plans, including \$46,000 of excess income tax benefit	122,000	19	1,121			1,140
Issuance of Shares under Employee Stock Purchase Plan	8,000	1	95			96
Comprehensive income:						
Net income for the three months ended August 31, 2007					3,011	3,011
Foreign currency translation adjustments				73		73
Total comprehensive income (\$ 2,615,000 in the three months ended August 31, 2006)						3,084
Balance, August 31, 2007	14,150,000	\$ 2,264	\$ 52,914	\$ 459	\$ 40,628	\$ 96,265

(1) Other represents accumulated other comprehensive income.

See notes to interim unaudited consolidated financial statements

Table of Contents**NEOGEN CORPORATION SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Three Months Ended	
	August 31,	
	2007	2006
	<i>(In thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,011	\$ 2,406
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	818	777
Deferred income taxes	(46)	
Share based compensation	408	270
Income tax benefit from stock plan transactions	(74)	(261)
Other	73	209
Changes in operating assets and liabilities:		
Accounts receivable	(2,328)	(1,496)
Inventories	(1,329)	(317)
Prepaid expenses and other current assets	221	(349)
Accounts payable and accruals	(1,034)	(1,373)
NET CASH USED IN OPERATING ACTIVITIES	(280)	(134)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(564)	(1,112)
Payments for business acquisition	(6,601)	
NET CASH USED IN INVESTING ACTIVITIES	(7,165)	(1,112)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit		(9,955)
Reductions of other long-term liabilities	(22)	(24)
Net proceeds from issuance of common stock	755	14,470
Excess income tax benefit from the exercise of stock options	74	261
NET CASH PROVIDED BY FINANCING ACTIVITIES	807	4,752
INCREASE (DECREASE) IN CASH	(6,638)	3,506
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,424	1,959
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,786	\$ 5,465

See notes to interim unaudited 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 Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three month period ended August 31, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2008. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2007 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, 2007.

On July 26, 2007, Board of Directors declared a 3 for 2 stock split payable on August 17, 2007. Equity accounts and per share amounts have been adjusted to reflect the split as of the beginning of the periods presented.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on June 1, 2007. The adoption of FIN 48 had no significant effect on the financial statements. The Company has no significant accrual for unrecognized tax benefits at August 31, 2007. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, or the impact of the new Michigan Business Tax, such accruals will be reflected within income tax accounts.

2. INVENTORIES

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

	August 31, 2007	May 31, 2007
	<i>(In thousands)</i>	
Raw materials	\$ 10,644	\$ 7,884
Work-in-process	370	390
Finished goods	11,281	10,842
	\$ 22,295	\$ 19,116

3. NET INCOME PER SHARE

The calculation of net income per share follows:

	Three Months Ended August 31,	
	2007	2006
	<i>(In thousands except per share amounts)</i>	
Numerator for basic and diluted net income per share:		
Net income	\$ 3,011	\$ 2,406
Denominator:		
Denominator for basic net income per share-weighted average shares	14,052	13,595
Effect of dilutive stock options and warrants	522	348

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Denominator for diluted net income per share	14,574	13,943
Net income per share:		
Basic	\$.21	\$.18
Diluted	\$.21	\$.17

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The Company's Board of Directors has authorized the purchase of up to 1,250,000 shares of the Company's Common Stock. As of August 31, 2007, the Company has cumulatively purchased 893,000 shares in negotiated and open market transactions. No shares were purchased in the first three months of fiscal year 2008. Shares purchased under this buy-back program were retired.

5. 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, drug residues, food borne bacteria, food allergens, pesticide residues, disease infections and levels of general sanitation. The Animal Safety segment is primarily engaged in the production and marketing of veterinary instruments, rodenticides and a complete line of consumable products to veterinarians and animal health product distributors.

These segments are managed separately because they represent strategic business units that offer different products and require different marketing strategies. The Company evaluates performance based on sales and operating income of the respective segments.

Segment information for the three months ended August 31, 2007 and 2006 follows:

	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
	<i>(In thousands)</i>			
Fiscal 2008				
Net sales to external customers	\$ 13,759	\$ 9,150	\$	\$ 22,909