

NEOGEN CORP
Form 10-Q
October 08, 2009
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2009.

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)

Edgar Filing: NEOGEN CORP - Form 10-Q

Michigan
(State or other jurisdiction of

38-2367843
(IRS Employer

incorporation or organization)

Identification Number)

620 Lesher 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller Reporting Company ☐

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

As of September 1, 2009, there were 14,842,000 shares of Common Stock outstanding.

Table of Contents

NEOGEN CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Interim Consolidated Financial Statements (unaudited)</u>	2
<u>Consolidated Balance Sheets August 31, 2009 and May 31, 2009</u>	2
<u>Consolidated Statements of Income Three months ended August 31, 2009 and 2008</u>	3
<u>Consolidated Statement of Stockholders Equity Three months ended August 31, 2009</u>	4
<u>Consolidated Statements of Cash Flows Three months ended August 31, 2009 and 2008</u>	5
<u>Notes to Interim Consolidated Financial Statements August 31, 2009</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 4. <u>Evaluation of Controls and Procedures</u>	14
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	14
Item 1A. <u>Risk Factors</u>	14
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
Item 3. <u>Defaults Upon Senior Securities</u>	14
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	14
Item 5. <u>Other Information</u>	14
Signatures	15
Item 6. <u>Exhibits</u>	
<u>CEO Certification</u>	16
<u>CFO Certification</u>	17
<u>Section 906 Certification</u>	18

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

	August 31, 2009	May 31, 2009
	(In thousands, except share and per share amounts)	
	(Unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 23,564	\$ 13,842
Accounts receivable, less allowance of \$700 and \$600	24,094	23,363
Inventories	30,471	31,363
Deferred income taxes	200	200
Prepaid expenses and other current assets	2,874	2,998
TOTAL CURRENT ASSETS	81,203	71,766
NET PROPERTY AND EQUIPMENT	17,265	17,058
OTHER ASSETS		
Goodwill	38,047	39,717
Other non-amortizable intangible assets	4,139	3,730
Customer based intangibles, net of accumulated amortization of \$3,080 and \$2,861	6,142	6,143
Other non-current assets, net of accumulated amortization of \$1,648 and \$1,663	4,777	3,762
	53,105	53,352
	\$ 151,573	\$ 142,176
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 5,383	\$ 3,909
Accrued compensation	2,079	2,519
Income taxes	3,314	667
Other accruals	1,620	2,151
TOTAL CURRENT LIABILITIES	12,396	9,246
DEFERRED INCOME TAXES	2,725	2,725
OTHER LONG-TERM LIABILITIES	1,552	1,526
TOTAL LIABILITIES	4,277	4,251
STOCKHOLDERS' EQUITY		
Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding		
Common stock, \$.16 par value, 30,000,000 shares authorized, 14,842,271 shares issued and outstanding at August 31, 2009; 14,736,886 shares issued and outstanding at May 31, 2009	2,375	2,358

Edgar Filing: NEOGEN CORP - Form 10-Q

Additional paid-in capital	64,460	62,696
Accumulated other comprehensive income and minority interest	81	36
Retained earnings	67,984	63,589
TOTAL STOCKHOLDERS' EQUITY	134,900	128,679
	\$ 151,573	\$ 142,176

See notes to interim consolidated financial statements

Table of Contents

NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended August 31	
	2009	2008
	<i>(In thousands, except per share amounts)</i>	
Net sales	\$ 32,347	\$ 28,805
Cost of goods sold	15,077	14,001
GROSS MARGIN	17,270	14,804
OPERATING EXPENSES		
Sales and marketing	5,972	5,619
General and administrative	2,890	2,580
Research and development	1,464	952
	10,326	9,151
OPERATING INCOME	6,944	5,653
OTHER INCOME		
Interest income	18	65
Other income	33	140
	51	205
INCOME BEFORE INCOME TAXES	6,995	5,858
INCOME TAXES	2,600	2,125
NET INCOME	\$ 4,395	\$ 3,733
NET INCOME PER SHARE		
Basic	\$.30	\$.26
Diluted	\$.29	\$.25

See notes to interim consolidated financial statements

Table of Contents**NEOGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)**

	Common Stock		Additional Paid-in Capital		Other(1)	Retained Earnings	Total
	Shares	Amount					
(In thousands except share amounts)							
Balance, June 1, 2009	14,736,886	\$ 2,358	\$ 62,696	\$ 36	\$ 63,589	\$ 128,679	
Issuance of shares common stock under equity compensation plans, including \$342 of excess income tax benefit	97,638	16	1,605				1,621
Issuance of shares under employee stock purchase plan	7,747	1	159				160
Comprehensive income:							
Net income for the three months ended August 31, 2009						4,395	4,395
Foreign currency translation adjustments and other					45		45
Total comprehensive income (\$3,404 in the three months ended August 31, 2008)							4,440
Balance, August 31, 2009	14,842,271	\$ 2,375	\$ 64,460	\$ 81	\$ 67,984	\$ 134,900	

- (1) Other represents accumulated foreign currency adjustments of (\$318) and (\$430) at August 31, 2009 and May 31, 2009 and minority interest of \$399 and \$466 at August 31, 2009 and May 31, 2009, respectively.

See notes to interim consolidated financial statements

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

	Three Months Ended August 31,	
	2009	2008
	<i>(In thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,395	\$ 3,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,012	948
Share based compensation	525	474
Income tax benefit from stock plan transactions	(342)	(119)
Other	71	(329)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(700)	(1,917)
Inventories	910	(1,936)
Prepaid expenses and other current assets	127	296
Accounts payable and accruals	3,132	1,685
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,130	2,835
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(961)	(578)
Payments for business acquisitions		(7,672)
NET CASH USED IN INVESTING ACTIVITIES	(961)	(8,250)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Reductions of other long-term liabilities	(45)	(18)
Net proceeds from issuance of common stock	1,256	698
Excess income tax benefit from the exercise of stock options	342	119
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,553	799
INCREASE (DECREASE) IN CASH	9,722	(4,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,842	14,270
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 23,564	\$ 9,654

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 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, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2010. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2009 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, 2009.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

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, 2009	May 31, 2009
	<i>(In thousands)</i>	
Raw materials	\$ 11,322	\$ 11,183
Work-in-process	752	703
Purchased finished and finished goods	18,397	19,477
	\$ 30,471	\$ 31,363

3. NET INCOME PER SHARE

The calculation of net income per share follows:

	Three Months Ended August 31, 2009 2008	
	<i>(In thousands, except per share amounts)</i>	
Numerator for basic and diluted net income per share:		
Net income	\$ 4,395	\$ 3,733
Denominator:		
Denominator for basic net income per share weighted average shares	14,784	14,542
Effect of dilutive stock options and warrants	473	489
Denominator for diluted net income per share	15,257	15,031
Net income per share:		
Basic	\$.30	\$.26
Diluted	\$.29	\$.25

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, 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 disinfectants and offers 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 as of and for the three months ended August 31, 2009 and 2008 follows: