Where *we* want to be

2016
Annual Report

NEOGEN®
CORPORATION

The mission of

Neogen® Corporation

is to be the leading company

in the development and marketing

of *solutions* for food and animal *safety*

Contents

Financial Highlights

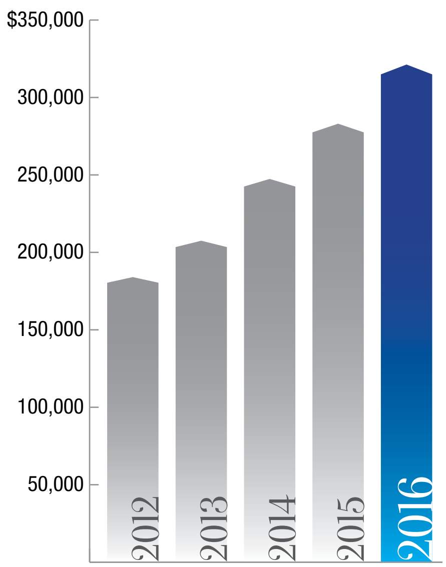
Amounts in thousands, except per share

Years Ended May 31	2016	2015	2014	2013	2012
Operations:					
Total Revenues	$ 321,275	$ 283,074	$ 247,405	$ 207,528	$ 184,046
Food Safety Sales	145,841	131,479	116,290	106,158	91,104
Animal Safety Sales	175,434	151,595	131,115	101,370	92,942
Operating Income	56,386	53,118	43,391	40,706	33,739
Net Income Attributable to Neogen	$ 36,564	$ 33,526	$ 28,158	$ 27,190	$ 22,513
Basic Net Income Per Share*	$ 0.98	$ 0.91	$ 0.77	$ 0.76	$ 0.64
Diluted Net Income Per Share*	$ 0.97	$ 0.90	$ 0.76	$ 0.75	$ 0.62
Average Diluted Shares Outstanding*	37,875	37,444	37,267	36,491	36,029

*Restated for the years 2012–2013 due to stock split

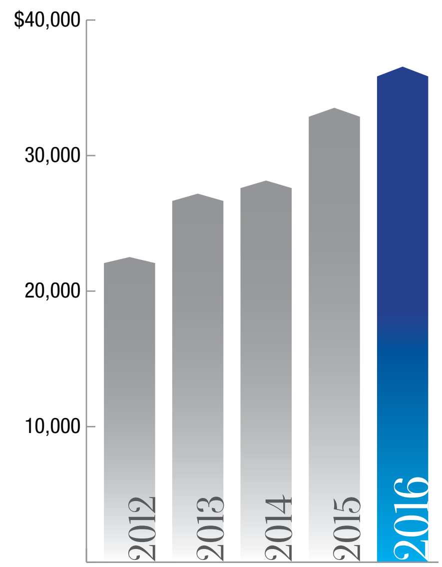
Total Revenues

Dollars in thousands



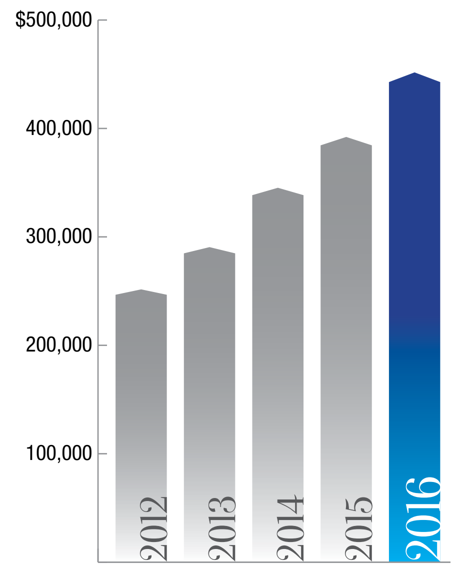
Net Income

Dollars in thousands



Total Assets

Dollars in thousands



In thousands

Year Ended May 31	2016	2015	2014	2013	2012
Financial Strength:					
Cash and Marketable Securities	$ 107,796	$ 114,164	$ 76,496	$ 85,369	$ 68,645
Working Capital	221,403	205,739	163,779	150,728	123,962
Total Assets	451,715	392,181	345,301	290,558	251,600
Long-Term Debt	–	–	–	–	–
Equity	404,161	350,963	306,300	258,287	219,054

Message *from* Management

To Our Stockholders, Employees and Friends:

Where we want to be. In one sense, the theme for this year's Annual Report can be interpreted to mean that we are pleased with where we are, financially and operationally, after our 34 years in business. But, in another sense, it can be interpreted to mean that this report is intended to provide the investment community a vision of where we want to be in the future. It's both — where we are and where we are going.

Revenues for our 2016 fiscal year, which ended May 31, were up 13% to $321.3 million — a $38 million increase. Net income for the year was $36.6 million, up 9%, compared to the prior year's $33.5 million. Earnings per share in the current year were $0.97 compared to $0.90 a year ago. Both revenues and net income were new all-time highs for the company.

The fourth quarter was the 97th quarter in the past 102 quarters that Neogen reported revenue increases as compared with the previous year. We believe this performance consistency over almost 26 years is important to Neogen investors.

Our level of revenue growth has traditionally brought a commensurate increase in net income, or as was the case in fiscal 2015, an increase in net income that exceeds our revenue growth. In the current year, we were adversely impacted by currency fluctuations, as the strength of the U.S. dollar resulted in comparatively lower values in currencies important to our business — including the euro, the British pound, the Brazilian real, and the Mexican peso. The adverse currency effect resulted in us reporting approximately $0.08 per share of earnings less than we would have reported in a neutral currency environment.

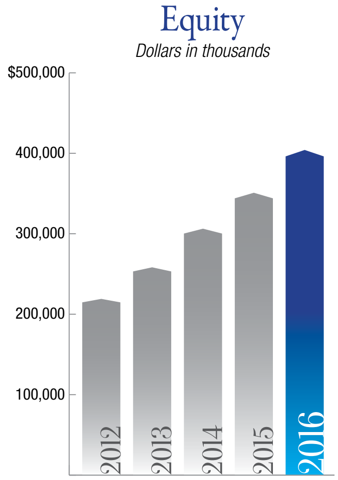
While the relative strength of the U.S. dollar created temporary financial challenges to our business, that strength also enabled us to buy British and Brazilian companies in fiscal 2016 at discounts that had not previously existed. As detailed below, we believe both companies present opportunities to expand existing core strengths.

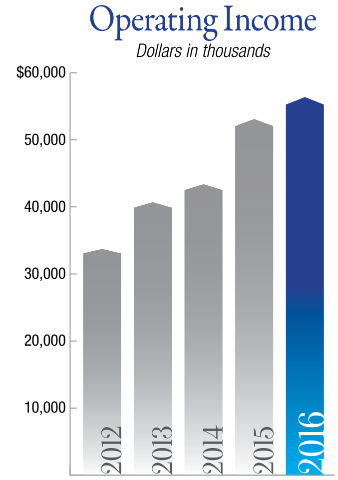
Growth through acquisition

Neogen now has more than 1,200 employees. This dedicated team has been responsible for our growth, as they develop new products and increase Neogen's share of growing markets. Our growth this year was also aided by five strategic acquisitions.

In June 2015, we acquired the assets of Sterling Test House, a leading commercial food testing laboratory based in southwest India, which will serve as a base for our new operations in India. Much as we did in China, this acquisition is intended to bolster our long-term strategy of accelerating our revenue growth in critical global food safety markets.

In August, we acquired United Kingdom-based Lab M®, a developer, manufacturer and supplier of microbiological culture media and diagnostic systems. The combination of Lab M's products with our Acumedia® product line will make Neogen a leading global company in the traditional microbiology market, as well as give us new tools we can incorporate into our food safety diagnostics to enhance our products.





In December, we acquired the rodenticide assets of the France-based Virbac Group. Acquiring these assets expanded our ability to sell our comprehensive suite of biosecurity products. Virbac's rodenticide products are proven in the marketplace, and provide Neogen access to an expanded and important agricultural customer base.

In April 2016, we acquired Brazil-based Deoxi™ Biotecnologia Ltda, a leading animal genomics laboratory in that country. The acquisition of Deoxi will help accelerate the growth of Neogen's GeneSeek® animal genomics in Brazil, which has the most cattle in the world, is only behind the United States in the production of beef, and is a leading producer of pork and chicken.

In May, we acquired the sister companies Preserve™ International and Tetradyne™, which offer the livestock and food processing industries cleaners, disinfectants, and associated products. Adding Preserve's products, complementary expertise and customer base has strengthened our cleaner and disinfectant presence. Their sales channels were almost identical to our existing animal safety distribution, and represented an easy fit with our sales and marketing operations.

Growth through research and development

In addition to the acquisitions, Neogen's growth has also been spurred by the recent development and improvement of several important products. Sales of our AccuPoint® Advanced Sanitation Monitoring System products increased 18% in fiscal 2016, as our next generation product continues to gain traction. Originally launched in 2004, recent improvements have made AccuPoint the most sensitive and consistent sanitation monitoring system available.

Our food allergen diagnostic test kit line continues to lead the way in revenue increases for our Food Safety Group. In fiscal 2016, we recorded a 20% increase in this product line, led by increases in sales of our gluten and soy tests. The line has also benefited from our newly developed product to detect up to six tree nuts with a single test.

In April, we launched a new line of Reveal® Q+ MAX mycotoxin tests that use water as the solvent in the extraction process. This innovative new technology both eliminates hazardous materials from the testing process and enables the testing of the same sample for up to six mycotoxins — which represents a significant cost and time savings for grain testers.

Revenues from our animal genomics business increased 22% in fiscal 2016, as our GeneSeek business continually enhances its technology to help livestock producers choose their best animals for breeding programs. Recent advancements included the development of high-density genetic chips that provide an unparalleled amount of information for beef cattle researchers, and an affordable genetic program that allows dairy producers to select young heifers that will make the greatest profit contribution when they enter the milking herd.

Growth through increased regulatory activity

In the U.S., the Food Safety Modernization Act (FSMA) was signed into law in January 2011, and now, five and a half years later, all seven elements of the law have finally been converted to regulations and officially released. The purpose of the law is to change the national focus from reacting to food safety recalls to preventing them. As such, the new rules require food producers and processors to look closely at their operations to ensure they are doing all they can to prevent unsafe food from entering the supply chain. We believe this implies more food safety testing in the future.

Our view is the seven fuses have been lit, and going forward, we can expect many more companies to come into compliance with the Act. Further, as the U.S. and European Union raise food safety standards, the world will likely follow suit, and open up opportunities for Neogen for years to come.

Growth through changing consumer demand

Although motivated by very different drivers, Neogen is poised to seize opportunities presented by changing consumer demands in both developing and developed nations.

In developing countries, consumers in rapidly expanding middle classes are expected to demand the high animal protein diets currently enjoyed in developed countries. For example, large populations and rapid economic growth will likely result in China and India becoming the powerhouses of middle class consumerism over the next two decades. Estimates vary, but current projections point to more than one billion additional middle class consumers in just those two countries who will demand higher quality food.

In fully developed countries, consumer demands are now turning to how food is produced and processed, including trends for more "organic" food, and "antibiotic-free" meat products. These trends have led to an increasing demand for the exact type of products and services offered by Neogen.

The increasing consumer demand for antibiotic-free products has led many poultry and pork producers to make major changes in their production programs. Our cleaners, disinfectants, rodenticides, and insecticides help strengthen a facility's biosecurity efforts and help stop the spread of disease in livestock facilities. Our simple diagnostic tests for contaminants such as mycotoxins, bacterial pathogens and drug residues help ensure feed intended for antibiotic-free animals is safe and free of antibiotics — and that their environment is also safe from potential sources of disease.

Where we want to be

We are were we want to be today, and believe that our long-term strategy will keep us in that position well into the future.

James L. Herbert
Chairman and CEO

Richard E. Calk, Jr.
President and COO

Steven J. Quinlan
Vice President and CFO

Where *we* want to be

Where we want to be — is it a statement or a question? Actually, it's both.

Today we are where we want to be. Product wise, Neogen has the widest array of animal safety products to help protect food, in the form of meat, milk and eggs, before it reaches the farm gate on its way to market. Similarly, Neogen has the widest array of food safety products to help processors detect and protect consumers from mycotoxins, pathogens, allergens, drugs, spoilage organisms, and general sanitation concerns.

Are we where we want to be ***tomorrow?*** Even though Neogen now serves more than 100 countries with its products, just 34% of Neogen's revenue comes from international sources. That percentage could double in the near future as increasing middle class populations demand healthier, higher quality food. Neogen's 85-person research and development team will continue to produce easier, faster and less expensive tools for food and animal safety. Neogen's presence in China and India is embedded in the areas where middle class populations will grow the fastest. The company's presence in Brazil, Mexico and Central America will be helpful to these major food exporters.

Since its founding in 1982, Neogen has earned its place as a leading provider of products, services and expertise that helps ensure the safety, quality and quantity of the world's food supply. Neogen provides solutions to increase the amount of safe food, protect it from known food-related concerns, and help animal and food companies satisfy the changing preferences of their increasing global consumers. In many ways, Neogen is already exactly where it wants to be.

But United Nations' researchers now project the world's population to reach 9.7 billion by 2050, and China and India alone soon expect one billion people will gain middle class status. They will demand companies satisfy their desire for higher quality food. It's clear that where Neogen is in 2016 is not where it will want to be in the future.

Where Neogen will want to be, both operationally and geographically, is constantly improving what it can offer, and where, to better serve the needs of tomorrow's consumers as they sit down to their endless variety of meals — wherever that may be.

Improving animal genomic services

Providing the highest quality and quantity of animal protein food products, including meat, milk and eggs, starts with selecting the best animals for breeding programs. Neogen's Lincoln, Nebraska-based GeneSeek operations provides everything from research and development to final implementation of molecular solutions for applications such as genetic improvement, and disease and identity management. For example, cattle producers use GeneSeek's technology to select desirable traits, such as higher milk production, more tender steaks, or better disease resistance. This results in a food supply that is safer, healthier and more environmentally efficient to produce.

Neogen offers animal genomics laboratory services and bioinformatics at locations in Nebraska, Scotland and Brazil, primarily for beef and dairy cattle, pigs, sheep, poultry, horses and dogs. Neogen's April 2016 acquisition of Brazil-based Deoxi Biotecnologia Ltda will help accelerate improved cattle production and growth of Neogen's GeneSeek animal genomics in Brazil, which is home to more than 200 million cattle.

Improving biosecurity solutions

Enhancing the quantity and quality of food produced at livestock operations often relies upon raising livestock in an environment secure from biological threats — that is, enhancing the animals' biosecurity. Neogen produces and markets a comprehensive line of agricultural biosecurity products, including rodenticides, insecticides, cleaners and disinfectants, to help protect livestock from the spread of dangerous diseases in large, integrated production facilities.

Neogen's May 2016 acquisition of sister companies Preserve International and Tetradyne further strengthened the company's biosecurity offerings. Preserve and Tetradyne offer the livestock and food processing industries cleaners, disinfectants, and associated products. These companies hold patents on innovative disinfectant technologies and more than 100 EPA/FDA registered products. They join Neogen's existing, widely used BioSentry product line.

Neogen's December 2015 acquisition of the rodenticides of the Virbac Group included a key rodenticide active ingredient that complements Neogen's existing Hacco® product group, and more than 40 regulatory approvals for a variety of formulations in the United States, Canada and Mexico.

Improving animal care

Neogen uses its own experienced sales force, and a network of distributors, to reach veterinarians and professional animal caregivers in the equine, beef, swine, poultry, and companion animal care businesses. Neogen offers these businesses veterinary instruments, pharmaceuticals, vaccines, rodenticides, disinfectants, insecticides, topicals, and diagnostic products.

In an attempt to keep herds and flocks healthy, while protecting consumers, producers use improved animal management practices, including veterinary supplements, electrolytes, and vitamins in an animal's diet. Healthy animals require less medication and are more resistant to disease. Neogen's products play a significant role in improving both animal and food safety.

Improving crop quality and safety

Neogen targets producers and processors of feed and grain, as well as millers and malters, to help ensure the safety and quality of the worldwide grain supply. Neogen offers this market the most comprehensive line of tests for mycotoxins, as well as tests for dangerous bacteria.

The effects of ingesting excessive amounts of mycotoxins (toxins produced by molds growing on grains such as corn and wheat) range from chronic health problems to death. In animals, mycotoxins have been shown to cause feed refusal, liver damage or cancer, decreased milk and egg production, blood disorders, immune system suppression and interference with reproductive efficiency. The use of Neogen's simple and quick mycotoxin tests ensures the safety and quality of grains destined for human food, and the wholesomeness of grains to be used as animal feed.

In April 2016, Neogen launched its innovative Reveal Q+ MAX line of mycotoxin testing products. The new tests use a common water-based extraction—eliminating the need for harsh chemicals—and will also enable users to test for up to six mycotoxins from the same prepared sample.

Neogen also targets producers and processors of fruits and vegetables, including fresh cut, canned, and frozen varieties. As with meat and poultry products, Neogen's tests for specific foodborne bacteria can be used in the fruit and vegetable industry to directly prevent dangerous food items from reaching consumers. Neogen's plant disease diagnostics for fruits, vegetables, and

cereals such as wheat, detect the early onset of disease, and allow for its effective treatment before it can devastate healthy and profitable crops.

Improving meat and poultry products, including products raised without antibiotics

Neogen offers processors of beef, lamb, chicken, pork, eggs, and turkey tests for foodborne bacteria, such as *E. coli*, *Salmonella*, *Listeria*, and *Campylobacter*, along with tests for sanitation and the presence of food allergens. Nowhere is the use of Neogen's testing products to prevent dangerous food items from reaching consumers more evident than through the use of the company's tests to detect the presence of specific foodborne bacteria. The company's tests are preferred because of their speed, accuracy, ease of use, and Neogen's dedicated staff of support microbiologists.

Recent consumer trends show that raised without antibiotics (RWA) products, especially poultry, is increasing at a dramatic rate, with market data showing that consumer spending on RWA chicken alone has risen above $1 billion per year. While Neogen is not opposed to the proper use of antibiotics, companies that choose to produce RWA products can greatly benefit from Neogen's products and expertise.

Improving "organic" food

According to the USDA, consumer demand for organically produced goods continues to show double-digit growth, providing market incentives for U.S. producers across a broad range of products. Organic products are now available in nearly 20,000 natural food stores and nearly three out of four conventional grocery stores. Organic sales account for over 4% of total U.S. food sales, according to recent industry statistics.

As Neogen has the opportunity to work with a number of organic food producers, it has learned that the problems faced by those producers are in many ways the same as those faced by conventional food producers and processors. However, organic producers often have fewer tools, such as pesticides, to solve their problems.

Due to the expansion of the organic industry and its popularity among consumers, this market presents additional opportunities for Neogen's comprehensive line of products, including its suite of biosecurity solutions, and numerous food safety tests, including those for pathogens, spoilage microorganisms, food allergens, drug residues, and sanitation monitoring.

Improving the quality and safety of processed food

Neogen serves manufacturers of traditional grocery items, such as bakery goods, cereal foods, natural foods, prepared meals, snacks, confections and pasta. Processed food producers use Neogen's complete line of safety testing products, including tests for dangerous bacteria, spoilage microorganisms, natural toxins, food allergens, and general sanitation levels.

Neogen's rapid test products can not only directly prevent contaminated product from being shipped to consumers, but they can also help food manufacturers establish sound manufacturing processes and comply with expanding regulation, such as the Food Safety Modernization Act. For example, a Neogen food allergen test for gluten can be used as verification that a company's sanitation program has effectively cleaned processing equipment when changing over from a gluten-containing product to a gluten-free product.

Similarly, Neogen's products for the detection of spoilage microorganisms (e.g., yeast and mold) can lengthen the shelf lives of food items by identifying products that contain excessive levels of the microorganisms, as well as helping to improve manufacturing processes that led to that contamination.

Improving dairy and beverages

Neogen serves brewers, beverage, juice and water bottlers, wineries, and dairy processors worldwide. Neogen offers these industries drug residue tests, ATP sanitation monitoring systems, water quality tests, food allergen tests, and bacteria tests.

The unintended misuse of antibiotics to treat illness in dairy cows poses known threats to human health when the cows' milk is consumed, and interferes with the further processing of the milk into cultured dairy products. Neogen's quick and easy dairy antibiotic tests directly prevent milk with dairy antibiotics from reaching the marketplace.

Improving Neogen's global reach

Neogen is headquartered in Lansing, Michigan, where it conducts various research and development, manufacturing, warehousing, sales and marketing, administrative and other functions, as well as in eight other U.S. locations.

Neogen also maintains eight company-owned locations outside of the U.S. to provide a direct presence in regions of particular importance to Neogen, and maintains an extensive network of distributors to reach countries where it does not have a direct presence. These locations include:

Neogen Europe and Lab M. Neogen Europe, located in Ayr, Scotland, provides Neogen access to the European Union (E.U.), and sells products and services to its network of customers and distributors throughout the E.U. Customers in the United Kingdom, France, Germany and the Netherlands are served by Neogen employees. In other European regions, customers are serviced by distributors managed by Neogen Europe. In August 2015, Neogen acquired the stock of Lab M, a developer, manufacturer and supplier of microbiological culture media and diagnostic systems located in Heywood, England.

Neogen Latinoamérica. Neogen's subsidiary in Mexico, Neogen Latinoamérica, is headquartered in Mexico City and distributes Neogen's products throughout Mexico and Central America.

Neogen do Brasil and Deoxi. Neogen do Brasil distributes Neogen's products throughout Brazil. Brazil is one of the world leaders in the export of numerous food commodities, including beef, poultry, soybeans, coffee, sugar and orange juice, and this operation gives Neogen direct sales representation to these important markets. Neogen also owns Deoxi Biotecnologia Ltda, a genomics testing laboratory located in Araçatuba, Brazil, which it purchased in April 2016.

Neogen China. Neogen's Chinese subsidiary, with locations in Shanghai and Beijing, employs sales representatives who sell directly to Chinese customers. China's burgeoning middle class, with its rapidly growing demand for higher quality meat and dairy products, makes the country a substantial growth opportunity for Neogen products — both for animal production on the country's farms, and in processing plants throughout China's food processing and distribution industry.

Neogen India. In June 2015, Neogen acquired the assets of Sterling Test House, a leading commercial food testing laboratory based in southwest India, to serve as a base for the company's operations in India. The laboratory is located in Cochin in the state of Kerala, which is India's leading region for the export of spices, tea, and fresh fruits and vegetables.

Neogen Canada. In September 2015, Neogen opened a Canadian location in Guelph, Ontario. The location is helpful in servicing Neogen's animal genomics business.

Distributor partners. Outside of the company locations mentioned above, Neogen uses its own sales managers to work closely with and coordinate the efforts of a network of approximately 140 distributors in more than 100 countries. The distributors provide local training and technical support, perform market research and promote Neogen's products within designated countries around the world.

Animal Safety products distribution. Animal Safety has a strong presence in several key international markets with rodenticides, disinfectants, veterinary instruments, diagnostics and veterinary products. Utilizing Neogen personnel in Brazil, Mexico and China, as well as in-country distributors and U.S.-based exporters, these markets include Canada, Mexico and Central America, South America, the Caribbean, Australia, Europe and Asia.

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 Corporation management does not provide forecasts of future financial performance. While management is optimistic about the Company's long-term prospects, historical financial information may not be indicative of future financial results.

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 Report on Form 10-K 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 but not limited to, those related to receivable allowances, inventories and 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.

The following critical accounting policies reflect management's more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue for each period presented.

Accounts Receivable Allowance

Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is charged against the allowance for doubtful accounts.

Inventory

A reserve for obsolete and slow moving inventory has been established and is reviewed at least quarterly based on an analysis of the inventory, taking into account the current condition of the asset as well as other known facts and future plans. The reserve required to record inventory at lower of cost or market may be adjusted as conditions change. Product obsolescence may be caused by shelf-life expiration, discontinuance of a product line, replacement products in the marketplace or other competitive situations.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis over 5 to 25 years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired. If the Company's qualitative assessment concludes that it is more likely than not that an impairment exists, or the Company skips the qualitative assessment, then the Company performs a quantitative assessment. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations.

Long-lived Assets

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset indicate that the carrying amount of the asset may not be recoverable. In such an event, fair value is determined using discounted cash flows and, if lower than the carrying value, impairment is recognized through a charge to operations.

Equity Compensation Plans

Share options awarded to employees and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company's stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model using assumptions for inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized.

To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct one. The model applied by the Company is able to handle some of the specific features included in the options granted, which is the reason for its use. If a different model were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on the Company's equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Notes 1 and 5 to the consolidated financial statements.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carry forwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

The Company's foreign subsidiaries are comprised of Neogen Europe (wholly-owned subsidiary), Lab M Holdings (wholly-owned subsidiary), Neogen Latinoamérica (90% owned subsidiary), Neogen do Brasil (90% owned subsidiary), Neogen Bio-Scientific Technology Co (Shanghai) (wholly-owned subsidiary), Neogen Food and Animal Security (India) (wholly-owned subsidiary), Neogen Canada (wholly-owned subsidiary) and Deoxi Biotecnologia Ltda (wholly-owned subsidiary). Based on historical experience, as well as the Company's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, the Company's domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, the Company evaluates the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2016, unremitted earnings of the foreign subsidiaries were $27,880,000.

Results of Operations

Executive Overview

Total consolidated revenue for Neogen Corporation in fiscal 2016 was $321.3 million, an increase of 13% compared to revenue of $283.1 million in fiscal 2015. Net income attributable to Neogen increased 9% to $36.3 million, or $0.97 per fully diluted share, compared to $33.5 million, or $0.90 per fully diluted share, in fiscal 2015. Cash flow from operations for fiscal 2016 was $35.6 million compared to $43.8 million in fiscal 2015.

The Company's Food Safety segment revenues were $145.8 million in fiscal 2016, an increase of 11% compared to prior fiscal year revenues of $131.5 million. Animal Safety segment revenues were $175.4 million, up 16%, compared to $151.6 million in fiscal 2015. Organic sales growth for fiscal 2016 was 6% for the Food Safety segment and 14% for the Animal Safety segment, each compared to the prior fiscal year.

Revenue increases were aided by acquisitions the Company completed in the 2015 and 2016 fiscal years, which added revenue totaling $9.0 million during the fiscal 2016 year. BioLumix® was acquired in October 2014 of the prior fiscal year. In fiscal 2016, the Company acquired Sterling Test House (June 2015), a commercial food service testing laboratory in India, which was purchased as the Company's entry point into the important Indian market; Lab M (August 2015), a manufacturer and marketer of dehydrated culture media based in England; Virbac (December 2015), a line of rodenticides with a number of international product registrations; Deoxi (April 2016), a genomics lab in Brazil, to aid in the expansion of the Company's genomics efforts in that country; and Preserve/Tetradyne (May 2016), manufacturers and marketers of cleaners and disinfectants, an important component of the Company's biosecurity product offering, with particular strength in the swine and cattle markets.

International sales were $107.7 million in fiscal 2016, an increase of 4% compared to the prior fiscal year. Sales growth in the Company's international operations, which report primarily in its Food Safety segment, was adversely impacted by the strength of the U.S. dollar, which rose during the year against all currencies in which the Company conducts business. Neogen Europe recorded a 3% revenue gain in pound sterling compared to the prior year; however, these revenues resulted in a 3% decrease when converted to U.S. dollars. Neogen do Brasil had revenue increases of 49% in its local currency, the real, due to strong sales increases of its BetaStar® dairy antibiotics test kits; this was reduced to a 7% increase in dollars due to the significant devaluation of the real against the dollar in fiscal 2016. Neogen Latinoamérica recorded a revenue increase of 44% in fiscal 2016, which reduced to 20% when converted to dollars. In local currency, Neogen China increased revenues 91% in fiscal 2016, albeit off of a small base, with minimal impact due to currency conversion. On a neutral currency basis, organic growth for the Company for fiscal 2016 was 12% for the Food Safety segment; currency had no impact on organic growth in the Animal Safety segment.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Expressed as a percentage of total sales, international sales in fiscal 2016 were 33.5% compared to 36.7% in fiscal 2015. This decline as a percentage of sales was due in part to the strength of the U.S. dollar, which reduced comparative revenues in the local currency when converted to dollars; international sales were negatively impacted by $7.7 million on a comparative basis for fiscal 2016. Additionally, sales of the Company's cleaners and disinfectants to international customers declined by 28%, due to dollar strength which made these products less competitive internationally compared to products produced locally, and poor economic conditions in a number of our key international markets.

Service revenue was $47.7 million in fiscal 2016, an increase of 22% compared to prior year revenues of $39.2 million. The increase for the year was primarily due to increased business with a large customer in the poultry industry, and sales of new proprietary genomic offerings developed for the beef and dairy cattle and pork industries for both domestic and international customers. The Company also benefitted from the expansion of its genomics service capabilities at its Ayr, Scotland facilities.

Gross margins were 47.6% in fiscal 2016, versus 49.3% in fiscal 2015. The decrease was primarily the result of lower gross margins in the Food Safety segment, resulting from adverse currency impacts caused by the strong U.S. dollar, and product mix changes towards products which have lower gross margins within Food Safety. Additionally, a greater proportion of the Company's overall revenues derived from the Animal Safety segment, which has lower average gross margins than the Food Safety segment. Operating expenses rose 12% in fiscal 2016 compared to 2015; expressed as a percentage of revenues, operating expenses decreased from 30.6% in fiscal 2015 to 30.1% in fiscal 2016; the Company controlled its expense growth while incurring additional amortization and other expenses related to its recent acquisitions.

Revenues

	Year Ended				
(dollars in thousands)	**May 31, 2016**	**Increase/ (Decrease)**	May 31, 2015	Increase/ (Decrease)	May 31, 2014
Food Safety:					
Natural Toxins, Allergens & Drug Residues	**$ 63,269**	**4%**	$ 60,561	0%	$ 60,358
Bacterial & General Sanitation	**33,899**	**15%**	29,492	20%	24,652
Dehydrated Culture Media & Other	**48,673**	**17%**	41,426	32%	31,280
	145,841	**11%**	131,479	13%	116,290
Animal Safety:					
Life Sciences	**7,815**	**(10%)**	8,715	16%	7,528
Veterinary Instruments & Disposables	**42,028**	**1%**	41,740	24%	33,593
Animal Care & Other	**37,074**	**34%**	27,606	(9%)	30,366
Rodenticides, Insecticides & Disinfectants	**53,490**	**17%**	45,857	25%	36,702
DNA Testing	**35,027**	**27%**	27,677	21%	22,926
	175,434	**16%**	151,595	16%	131,115
Total Revenue	**$ 321,275**	**13%**	$ 283,074	14%	$ 247,405

Year Ended May 31, 2016 Compared to Year Ended May 31, 2015

The Company's Food Safety segment revenues were $145.8 million in fiscal 2016, an 11% increase compared to the prior year. The increase, predominantly volume related, from organic sales was 6%, with revenues from the BioLumix (October 2014), Lab M (August 2015) and Deoxi (April 2016) acquisitions contributing the remainder of the growth. Sales of Natural Toxins, Allergens & Drug Residues increased 4% in the current fiscal year compared to fiscal 2015. Natural toxin sales were flat with a 10% increase in aflatoxin sales offset by a 3% decrease in DON sales, due to outbreaks in the prior year which were not repeated in fiscal 2016. Allergen sales increased 20%, as increased consumer awareness continued to grow demand for these products, while sales of drug residue test kits decreased 5%, caused by currency conversions, as the majority of these sales are invoiced in euros.

Bacterial and General Sanitation revenues increased 15% in fiscal 2016, aided by $1.9 million in sales from the October 2014 BioLumix acquisition. Excluding BioLumix sales, the organic increase in these products was 9% over the prior year. The AccuPoint sanitation monitoring product line recorded an increase of 18% 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, increased 23% for the year (5% organic growth), with revenue increases in both equipment and disposable vials. Pathogen sales increased 4% in fiscal 2016 as compared to the prior year, primarily due to an increase in sales of *Listeria* test kits to the commercial lab market.

Dehydrated Culture Media and Other sales increased 17% in fiscal 2016. This category includes $4.8 million of Lab M sales, a business which was acquired in August 2015; excluding the impact of these revenues, the organic increase was 6%. Sales of Acumedia products into the food safety market increased 10% while sales into traditional domestic media markets increased 16%. Genomics service revenues in the Company's international operations (reported within Other) increased 4% while sales of Animal Safety products primarily to customers in Mexico, Central America and Brazil, also reported in this category, decreased 8% in U.S. dollars, due to the strength of the dollar, poor economic conditions in some of these markets and order timing from large distributors.

The Company's Animal Safety segment revenues were $175.4 million in fiscal 2016, a 16% increase, predominantly volume related, over fiscal 2015. Life Sciences sales decreased 10% in fiscal 2016 after a strong 16% increase in 2015. Sales of forensic kits to commercial labs declined as new testing requirements in Brazil for commercial drivers, originally anticipated to go into effect in late fiscal 2015, were delayed until the 4th quarter of fiscal 2016. Veterinary Instruments and Disposables increased 1%, as market share gains in disposable syringes, up 25%, and animal marking products, up 14%, were almost entirely offset by an 8% decrease in detectable needles, due to large orders in the prior year which did not recur, and an 11% decline in hoof and leg products, due to lower sales of these products to customers in the retail market.

Animal Care and Other product sales rose 34% in fiscal 2016, with the increase primarily the result of 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 growth in the Animal Care product category were increased sales of wound care products, as a key active ingredient which had been on backorder for much of fiscal 2015, became available in fiscal 2016, and veterinary antibiotics, due to a competitor exiting the business. During the fourth quarter of fiscal 2016, the Company was notified that a competitor had been granted approval on a new drug application for a competitive thyroid replacement product, effectively giving them exclusive rights to sell the product. As a result, the Company will be unable to sell its product into the domestic market effective the end of July 2016, until it is granted similar regulatory approval; this approval is expected in fiscal 2018. Sales of this product in fiscal 2016 were $6.6 million.

The Company's line of Rodenticides, Insecticides and Disinfectants rose 17% in fiscal 2016, compared to the prior year, led by a 58% increase in sales of rodenticides. This increase was in large part the result of an expansion of the Company's contract manufacturing business with a large marketer of rodenticides to the commercial and residential markets. Additionally, the Company successfully introduced a number of new products into the retail agricultural market, and also benefitted from the continued vole outbreak in the northwestern U.S. Cleaners and disinfectant revenues declined 9% compared to fiscal 2015, primarily due to lower sales to international customers as the strength of the U.S. dollar made the Company's products less competitive internationally; poor economic conditions in a number of the Company's key international markets also adversely impacted sales. The Company's line of insecticides rose 1% in fiscal 2016, as incremental revenues from new product launches were almost entirely offset by lower sales of existing products due to timing of orders and backorders caused by a vendor issue.

DNA Testing Services revenues increased 27% in fiscal 2016 compared to the same period in the prior year. Incremental business with a large poultry producer, earned in fiscal 2015, was the primary driver of the growth. The Company also continued to gain market share in fiscal 2016 with its proprietary chip technology, primarily to cattle and pig producers, and grew sample volume particularly with its largest customers. In addition, the canine testing service business grew 17% as the Company successfully commercialized new service offerings, developed in the prior fiscal year.

Year Ended May 31, 2015 Compared to Year Ended May 31, 2014

The Company's Food Safety segment revenues were $131.5 million in fiscal 2015, a 13% increase compared to the prior year. Sales of Natural Toxins, Allergens and Drug Residues were flat in fiscal 2015 as compared to the prior year. Natural toxin sales increased 5%, with strong sales of DON test kits, up 28% due to outbreaks of this toxin in crops in Eastern Europe, Canada and the U.S. This increase was offset by a 15% decline in aflatoxin test kits due to a difficult comparison to the prior year caused by high demand from aflatoxin outbreaks in Eastern Europe, and relatively clean crops in the current fiscal year relative to that toxin.

Revenues for the Company's test kits to detect allergens such as milk, gluten, soy, peanut, and egg, among others, in processed foods rose 18%, the result of higher demand resulting from increased recalls due to inadvertent allergenic contamination and higher consumer awareness of the risks of ingesting foods with allergenic components. Included within this category and partially offsetting the gains from allergen products were decreased sales of meat speciation test kits, which declined 40% in fiscal 2015, due to lower levels of testing during the year and competitor entry into the market. Sales of drug residue test kits were down 16% this year, primarily due to currency conversion and lower test kit volumes to customers in Eastern Europe due to delays in the launch of a new product in that region.

Bacterial and General Sanitation revenues increased 20% in fiscal 2015, aided by $4.0 million in revenues from the October 1, 2014 BioLumix acquisition. Excluding BioLumix sales, the increase was 4% over the prior year. The Soleris consumable product line, which consists primarily of reagent vials used to detect spoilage organisms such as yeast and molds in foods, increased 10%, while sales of the recently-launched next generation AccuPoint environmental reader increased 35%. Ampoule media and filter sales increased 14% compared to the prior fiscal year; the Company continues to gain new customers and market share, primarily in the beverage industry. Partially offsetting these gains was a 43% decline in Soleris equipment sales due to difficult comparisons caused by prior year international placements, which did not repeat in the current fiscal year.

Dehydrated Culture Media and Other sales increased 32% in the current fiscal year. Within this product category, Acumedia sales increased 5% in fiscal 2015. While sales of Acumedia products to food safety customers increased 10%, this was offset by flat sales to the traditional media market due to lower demand and continuing credit issues for some significant customers. Genomics revenues to European customers (included as Other revenues), increased 57% due to market share gains for services and the sale of new proprietary product offerings. Also included in this category were sales of Animal Safety products to customers in Mexico and Central America, transferred to the Company's Neogen Latinoamérica subsidiary which reports in the Food Safety segment, to better serve customers in those locations.

The Company's Animal Safety segment revenues were $151.6 million in fiscal 2015, a 16% increase over fiscal 2014. Life Sciences sales increased 16% in fiscal 2015 compared to the prior year, led by forensic kit sales to commercial labs to meet new testing requirements in Brazil for commercial drivers. For the year, revenues of Veterinary Instruments and Disposables increased 24%. This product category benefitted from revenues from the SyrVet ®and Prima Tech® acquisitions from fiscal 2014; these product lines were almost entirely veterinary instruments. Excluding these revenues, organic growth in this category was 14% for fiscal 2015, led by sales of detectable needles, which continued to be a strong product line with growth of 29% in fiscal 2015. Partially offsetting some of this growth was the transfer of customers and revenue in Mexico and Central America to Neogen Latinoamérica, in order to more directly serve those customers.

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Sales of Animal Care and Other products declined 9% in fiscal 2015; on an organic basis, these sales were down 15%, partially due to the transfer of some customers to Neogen Latinoamérica. Within this category in fiscal 2014, the Company recorded strong sales of a wound care product caused by a supply disruption in the market. This product was available for sale from all competitors in fiscal 2015, and revenues for this product declined. Additionally, sales of a distributed antibiotic declined due to supplier discontinuance of the product. Animal supplements rose by $1.5 million in fiscal 2015, due to strong sales of the Company's thyroid replacement offering for the canine market.

Rodenticides, Insecticides and Disinfectants sales increased 25% in fiscal 2015, largely the result of revenues gained from the Chem-Tech® insecticide business acquisition in January 2014. Excluding the contribution from this acquisition, the organic increase in this category was 4%. Rodenticide sales increased 21%, primarily due to rodent infestations in the northwestern U.S. and the capture of new business. Partially offsetting this growth was a 12% decrease in sales of cleaners and disinfectants, due to unusually high sales in the prior year caused by a porcine virus outbreak, primarily in international markets.

DNA Testing revenues, excluding sales through Neogen Europe, Neogen do Brasil and Neogen China, which are reported in the Food Safety segment, increased 21% in fiscal 2015 as compared to the prior year. Continuing improvements to a number of proprietary service offerings, primarily targeted at dairy and beef cattle markets, helped the Company increase sales to existing customers and gain market share. Additionally, there were strong sales to a new poultry customer in the current fiscal year.

Cost of Revenues

(dollars in thousands)	**2016**	**Increase**	2015	Increase	2014
Cost of Revenues	**$ 168,211**	**17%**	$ 143,389	15%	$ 124,807

Cost of revenues increased 17% in fiscal 2016 and 15% in fiscal 2015 in comparison with the prior years. This compares with revenue increases of 13% in fiscal 2016 and 14% in fiscal 2015. Expressed as a percentage of revenues, cost of revenues was 52.4%, 50.7% and 50.4% in fiscal years 2016, 2015 and 2014, respectively. For fiscal 2016, the strength of the U.S. dollar, which adversely impacted top line revenue with no corresponding decline in product cost, had the largest impact on the decline in gross margins. In addition, shifts in product mix within the Food Safety segment, in part the result of acquisitions completed in fiscal years 2015 and 2016, towards products which have lower gross margins than the segment average, and a shift in the proportion of Animal Safety revenues to the overall revenue of the Company, resulted in the decline in gross margins. For fiscal year 2015, the increase in cost of revenues, expressed as a percentage of sales, and the corresponding decline in gross margin percentage was due to the strength of the U.S. dollar, the overall shift in revenues towards Animal Safety products and product mix shifts within each segment.

Food Safety gross margins were 56.7%, 59.7% and 62.5% in fiscal years 2016, 2015 and 2014, respectively. In fiscal 2016, the lower gross margins resulted primarily from the strength in the U.S. dollar, which resulted in lower revenues and gross margins when international sales, primarily in Europe, Mexico and Brazil, were converted from local currencies to the dollar. All currencies the Company operates in weakened against the dollar in fiscal 2016, pressuring margins in this segment. Additionally, revenues from the acquisition of Lab M, which were at lower average gross margins than the rest of the segment, standard cost adjustments at Neogen Latinoamérica, and other product mix shifts within the segment, negatively impacted gross margins in Food Safety.

Animal Safety gross margins were 40.1%, 40.4% and 38.1% in fiscal years 2016, 2015 and 2014, respectively. For fiscal 2016, improved gross margins from the 58% increase in sales of rodenticides, which have higher than average gross margins within the segment, were offset by lower gross margins on revenues from the dairy distribution business initiated in August 2015, lower gross margins at GeneSeek due to the significant increase in poultry business, which has lower than average gross margins within the genomics product line, and other product mix shifts within the segment. The improved margins in fiscal 2015 compared to fiscal 2014 reflect a mix shift towards higher margin products and efficiency gains made in a number of the segment's operating units. Rodenticides had a sales increase of 21% due to a vole infestation in the northwestern U.S., and the Company's animal supplements product line experienced an increase of 16%, due to strong sales of the Company's higher margin thyroid replacement product.

Operating Expenses

(dollars in thousands)	**2016**	**Increase**	2015	Increase	2014
Sales and Marketing	**$ 57,599**	**11%**	$ 51,757	11%	$ 46,432
General and Administrative	**29,189**	**16%**	25,233	3%	24,449
Research and Development	**9,890**	**3%**	9,577	15%	8,326

Sales and marketing expenses increased by 11% in fiscal 2016 and 11% in fiscal 2015, each compared with the prior year. As a percentage of sales, sales and marketing expense was 17.9%, 18.3% and 18.8% in fiscal years 2016, 2015 and 2014, respectively. For fiscal 2016, salaries, commissions and travel expenses for the sales and marketing group, which is also comprised of technical service, customer service and product management personnel, rose 13%, primarily on increases in staffing. Other significant expense increases were sales promotions and allowances, based on higher levels of sales to the Company's largest distributors, shipping expense, up 13% and in line with the revenue increase, and shows and exhibits, which rose 22%, on increased Company participation in trade shows. In fiscal 2015, salaries and commission expense were the largest increase in this category at 15%, reflecting the increase in personnel and revenue. Other significant increases were shipping expense, which was 15% higher and commensurate with the increase in revenues, and other personnel-related expenses, such as fringe benefits and travel.

General and administrative expenses increased 16% in fiscal 2016 compared to fiscal 2015 and by 3% in fiscal 2015 compared to fiscal 2014. The increases in fiscal years 2016 and 2015, respectively, are primarily due to increased salaries, higher stock option expense and increased amortization of intangible assets resulting from the Company's recent acquisitions. In addition, legal and professional fees rose by $425,000 in fiscal 2016, the result of higher levels of acquisition activity. In fiscal 2015, legal expenses declined by $1.2 million, or 73%, primarily related to a lawsuit that was settled in October 2014; this decrease muted the overall increase in this category for that period.

Research and development expenses increased 3% in fiscal 2016 compared to fiscal 2015 and 15% in fiscal 2015 compared to fiscal 2014. Higher salaries expense, from both increases in base wages as well as increased headcount, and increases in development activities, are the drivers of the increase. These increases were partially offset by lower levels of consulting and other outside services. In fiscal 2015, the increase in expense was primarily due to higher salaries, resulting from increased headcount needed to support the Company's product development efforts, and outside services and lab supplies, due to higher levels of commercialization activities. As a percentage of revenue, these expenses were 3.1% in fiscal year 2016 and 3.4% in fiscal years 2015 and 2014; the Company expects to continue to spend 3% to 4% of total revenue on research and development annually. For those products requiring support by research and development, which are primarily Food Safety diagnostics products, the Company has spent approximately 6% of revenues for the past three years on its research and development efforts.

Operating Income

(dollars in thousands)	**2016**	**Increase**	2015	Increase	2014
Operating Income	**$ 56,386**	**6%**	$ 53,118	22%	$ 43,391

The Company's operating income increased by 6% in fiscal 2016 compared to fiscal 2015, and by 22% in fiscal 2015 compared to fiscal 2014. Expressed as a percentage of revenues, it was 17.6%, 18.8% and 17.5% in fiscal years 2016, 2015 and 2014, respectively.

The 6% increase in operating income in fiscal 2016 was due primarily to the 13% increase in revenues and lower rates of increases in operating expenses, partially offset by the 170 basis point reduction in gross margin expressed as a percentage of revenues, which was the result of the adverse currency impact of the stronger U.S. dollar, and mix shifts within and between segments. The Company controlled its expense growth while incurring additional amortization and other expenses relating to its recent acquisitions.

In fiscal 2015, the 22% increase in operating income was due to the 14% increase in revenues and lower increases in sales and marketing and general and administrative expenses, partially offset by the slight reduction in gross margin expressed as a percentage of revenues. The Company was able to increase revenues at a faster rate than expense growth in these categories due to efficiencies of scale gained from recent acquisitions.

Other Income (Expense)

(dollars in thousands)	**2016**	**Increase/ (Decrease)**	2015	Increase/ (Decrease)	2014
Other Income (Expense)	**$ (873)**	**16%**	$ (1,042)	(189%)	$ (360)

Other Income (Expense) consists principally of royalty income, interest income from investing the Company's excess cash balances, the impact of foreign currency transactions, adjustments to contingent consideration liabilities relating to acquisitions, and other miscellaneous items.

In fiscal 2016, Other Income (Expense) primarily consisted of losses on foreign currency translations of $1,338,000, the result of all foreign currencies in which we operate devaluing against the U.S. dollar. In addition, the Company recognized interest income of $322,000, and royalty income of $217,000.

In fiscal 2015, Other Income (Expense) primarily consisted of losses on foreign currency translations of $1,124,000, the result of the stronger U.S. dollar during the year. In addition, the Company recognized interest income of $228,000, royalty income of $150,000 and net expense of $297,000 resulting from contingent consideration payments made during the year for prior year acquisitions. The contingent consideration adjustments consisted of $241,000 of income for SyrVet, $454,000 of expense for Prima Tech, and $84,000 of expense for Chem-Tech; these adjustments were the difference between the liability recorded at the initial purchase of each business and the actual payment made to the former owners, and were based on the achievement of sales goals for the first twelve months of the Company's ownership.

In fiscal 2014, Other Income (Expense) consisted primarily of losses on foreign currency translations of $717,000, partially offset by $231,000 in royalty income and $115,000 in interest income.

Provision for Income Taxes

(dollars in thousands)	**2016**	**Increase**	2015	Increase	2014
Provision for Income Taxes	**$ 18,975**	**3%**	$ 18,500	23%	$ 15,000

The effective tax rate was 34.2% of pretax income in fiscal 2016, 35.5% in fiscal 2015 and 34.9% in fiscal 2014. Differences in the tax rate from the 35% statutory corporate rate were primarily due to increases from international taxes and the provision for state taxes, offset by tax credits related to domestic manufacturing and research and development activities. The effective tax rate declined in fiscal 2016 due primarily to amendments filed for the fiscal 2012, 2013 and 2014 federal income tax returns and an adjustment for fiscal 2015 relating to credits claimed for research and development activities. The Company engaged a third party in fiscal 2016 to perform a study of its research and development activities, and credits originally claimed thereon, for these prior annual periods. Based on the results of the study, the Company revised its calculations for its research and development activities for those periods, resulting in higher tax credits. The effective tax rate increased in fiscal 2015 from fiscal 2014 due to increased state tax expense resulting from the Company's presence in additional states due to recent acquisitions and a valuation allowance for deferred tax assets at Neogen do Brasil.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Income and Income Per Share

(dollars in thousands-except per share data)	**2016**	**Increase**	2015	Increase	2014
Net Income Attributable to Neogen	**$ 36,564**	**9%**	$ 33,526	19%	$ 28,158
Net Income Per Share-Basic	**0.98**		0.91		0.77
Net Income Per Share-Diluted	**0.97**		0.90		0.76

Net income increased by 9% in fiscal 2016 and increased by 19% in fiscal 2015, each compared with the prior year. As a percentage of revenue, net income was 11.4% in fiscal 2016, 11.8% in fiscal 2015 and 11.4% in fiscal 2014.

Future Operating Results

Neogen Corporation's future operating results involve a number of risks and uncertainties. Actual events or results may differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, the factors discussed below as well as those discussed elsewhere in this report. Management's ability to grow the business in the future depends upon its ability to successfully implement various strategies, including:

- developing, manufacturing and marketing new products with new features and capabilities;
- expanding the Company's markets by fostering increased use of Company products by customers;
- maintaining or increasing gross and net operating margins in changing cost environments;
- strengthening sales and marketing activities in geographies outside of the U.S.;
- developing and implementing new technology development strategies; and
- identifying and completing acquisitions that enhance existing product categories or create new products or services.

Financial Condition and Liquidity

On May 31, 2016, the Company had $55.3 million in cash and cash equivalents, $52.5 million in marketable securities and working capital of $221.4 million. For the year ended May 31, 2016, cash generated from operating activities was $35.6 million, compared to the $43.8 million generated in fiscal 2015; proceeds from stock option exercises provided an additional $12.4 million of cash. For the same period, additions to property and equipment and business acquisitions used cash of $14.2 million and $42.5 million, respectively. The Company has a financing agreement with a bank providing for an unsecured revolving line of credit of $12.0 million, which expires on September 1, 2017. There were no advances against this line of credit during fiscal years 2016, 2015 and 2014, and no balance outstanding at May 31, 2016 and 2015.

Accounts receivable at May 31, 2016 increased $8.4 million, or 14%, compared to balances at May 31, 2015, primarily due to the increase in revenues. Days sales outstanding, a measurement of the time it takes to collect receivables, decreased from 63 days at May 31, 2015 to 61 days at May 31, 2016. All customer accounts are actively managed and no losses in excess of amounts reserved are currently expected.

Inventory balances were $64.4 million at May 31, 2016, an increase of $12.8 million, or 25%, compared to $51.6 million at May 31, 2015. Approximately $4.0 million of the increase was from acquisitions completed during fiscal 2016, primarily relating to Lab M and Preserve/Tetradyne; an additional $1.0 million of the increase is due to the dairy distribution agreement entered into in fiscal 2016. The Company also increased inventory levels at its other operations to support the increases in revenues, and to ensure adequate safety stocks to minimize backorders. The Company continues to identify and rationalize redundant product offerings resulting from recent acquisitions.

Neogen has been consistently profitable from operations and has generated positive cash flow, approximating its net income, from operations during fiscal years 2014, 2015 and 2016. However, the Company's cash on hand and current borrowing capacity may not be sufficient to meet the Company's cash requirements to commercialize products currently under development or its potential plans to acquire additional businesses, technology and products that fit within the Company's strategic plan. Accordingly, the Company may be required, or may choose, to issue equity securities or enter into other financing arrangements for a portion of its future capital needs.

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

Contractual Obligations

The Company has the following contractual obligations due by period:

(in thousands)	Total	Less than one year	1–3 years	3–5 years	More than 5 years
Long-Term Debt	$ 0	$ 0	$ 0	$ 0	$ 0
Operating Leases	1,144	541	485	118	0
Unconditional Purchase Obligations	50,091	50,091	0	0	0
	$ 51,235	$ 50,632	$ 485	$ 118	$ 0

New Accounting Pronouncements

See discussion of any New Accounting Pronouncements in Note 1 to Consolidated Financial Statements.

Neogen Corporation and Subsidiaries: Consolidated Balance Sheets

Assets *(in thousands)*	May 31 2016	2015
Current Assets		
Cash and cash equivalents	**$ 55,257**	$ 66,061
Marketable securities	**52,539**	48,103
Accounts receivable, less allowance of $1,500 and $1,300 at May 31, 2016 and 2015	**67,652**	59,208
Inventories	**64,371**	51,601
Deferred income taxes	**1,775**	1,991
Prepaid expenses and other current assets	**8,407**	4,231
Total Current Assets	**250,001**	231,195
Property and Equipment		
Land and improvements	**2,659**	2,296
Buildings and improvements	**33,417**	26,925
Machinery and equipment	**56,470**	46,794
Furniture and fixtures	**3,068**	2,691
Construction in progress	**1,057**	783
	96,671	79,489
Less accumulated depreciation	**41,988**	35,016
Net Property and Equipment	**54,683**	44,473
Other Assets		
Goodwill	**88,506**	70,119
Other non-amortizable intangible assets	**9,170**	9,020
Amortizable customer-based intangible assets, net of accumulated amortization of $17,277 and $14,446 at May 31, 2016 and 2015	**30,909**	24,170
Other non-current intangible assets, net of accumulated amortization of $7,530 and $6,077 at May 31, 2016 and 2015	**18,446**	13,204
Total Other Assets	**147,031**	116,513
	$ 451,715	$ 392,181

Liabilities and Equity *(in thousands, except share and per share)*	May 31 2016	2015
Current Liabilities		
Accounts payable	**$ 15,800**	$ 13,691
Accruals		
Compensation and benefits	**4,986**	4,142
Federal income taxes	**0**	1,275
Other	**7,812**	6,348
Total Current Liabilities	**28,598**	25,456
Deferred Income Taxes	**16,533**	13,711
Other Long-Term Liabilities	**2,423**	2,051
Total Liabilities	**47,554**	41,218
Commitments and Contingencies (note 7)		
Equity		
Preferred stock, $1.00 par value - shares authorized 100,000; none issued and outstanding	**0**	0
Common stock, $0.16 par value - shares authorized 60,000,000; 37,567,689 and 37,128,269 shares issued and outstanding at May 31, 2016 and 2015	**6,011**	5,941
Additional paid-in capital	**150,000**	131,906
Accumulated other comprehensive loss	**(3,946)**	(2,442)
Retained earnings	**252,133**	215,569
Total Neogen Corporation and Subsidiaries Stockholders' Equity	**404,198**	350,974
Non-controlling interest	**(37)**	(11)
Total Equity	**404,161**	350,963
	$ 451,715	$ 392,181

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Income

(in thousands, except per share)	Year Ended May 31 **2016**	2015	2014
Revenues			
Product revenues	**$ 273,570**	$ 243,909	$ 216,148
Service revenues	**47,705**	39,165	31,257
Total Revenues	**321,275**	283,074	247,405
Cost of Revenues			
Cost of product revenues	**137,766**	120,377	106,067
Cost of service revenues	**30,445**	23,012	18,740
Total Cost of Revenues	**168,211**	143,389	124,807
Gross Margin	**153,064**	139,685	122,598
Operating Expenses			
Sales and marketing	**57,599**	51,757	46,432
General and administrative	**29,189**	25,233	24,449
Research and development	**9,890**	9,577	8,326
Total Operating Expenses	**96,678**	86,567	79,207
Operating Income	**56,386**	53,118	43,391
Other Income (Expense)			
Interest income	**322**	228	115
Royalty income	**217**	150	231
Change in purchase consideration	**0**	(297)	38
Other, net	**(1,412)**	(1,123)	(744)
Total Other Income (Expense)	**(873)**	(1,042)	(360)
Income Before Income Taxes	**55,513**	52,076	43,031
Provision for Income Taxes	**18,975**	18,500	15,000
Net Income	**36,538**	33,576	28,031
Net (Income) Loss Attributable to Non-controlling Interest	**26**	(50)	127
Net Income Attributable to Neogen	**$ 36,564**	$ 33,526	$ 28,158
Net Income Attributable to Neogen Per Share			
Basic	**$ 0.98**	$ 0.91	$ 0.77
Diluted	**$ 0.97**	$ 0.90	$ 0.76

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Comprehensive Income

(in thousands)	Year Ended May 31 **2016**	2015	2014
Net income	**$ 36,538**	$ 33,576	$ 28,031
Other comprehensive income (loss), net of tax: currency translation adjustments	**(1,504)**	(2,813)	1,743
Comprehensive income	**35,034**	30,763	29,774
Comprehensive (income) loss attributable to non-controlling interest	**26**	(50)	127
Comprehensive income attributable to Neogen Corporation	**$ 35,060**	$ 30,713	$ 29,901

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Equity

(in thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Equity
Balance, May 31, 2013	36,084,021	$ 5,773	$ 99,935	$ (1,372)	$ 153,885	$ 66	$ 258,287
Exercise of options, share based compensation and $4,757 income tax benefit	629,826	101	17,522				17,623
Issuance of shares under employee stock purchase plan	18,466	3	613				616
Net income (loss) for 2014					28,158	(127)	28,031
Other comprehensive income				1,743			1,743
Balance, May 31, 2014	36,732,313	$ 5,877	118,070	$ 371	182,043	$ (61)	306,300
Exercise of options, share based compensation and $2,475 income tax benefit	376,364	61	13,115				13,176
Issuance of shares under employee stock purchase plan	19,592	3	721				724
Net income (loss) for 2015					33,526	50	33,576
Other comprehensive loss				(2,813)			(2,813)
Balance, May 31, 2015	37,128,269	$ 5,941	131,906	$ (2,442)	215,569	$ (11)	350,963
Exercise of options, share based compensation and $2,945 income tax benefit	421,143	67	17,311				17,378
Issuance of shares under employee stock purchase plan	18,277	3	783				786
Net income (loss) for 2016					36,564	(26)	36,538
Other comprehensive loss				(1,504)			(1,504)
Balance, May 31, 2016	**37,567,689**	**$ 6,011**	**150,000**	**$ (3,946)**	**252,133**	**$ (37)**	**404,161**

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Cash Flows

(In thousands)	Year Ended May 31 **2016**	2015	2014
Cash Flows From Operating Activities			
Net income	**$ 36,538**	$ 33,576	$ 28,031
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	**12,540**	10,649	9,180
Deferred income taxes	**1,906**	496	(542)
Share based compensation	**5,468**	4,450	3,686
Excess income tax benefit from the exercise of stock options	**(2,945)**	(2,475)	(4,757)
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	**(6,002)**	(7,252)	(10,602)
Inventories	**(9,427)**	319	(3,529)
Prepaid expenses and other current assets	**(3,836)**	3,264	(2,654)
Accounts payable	**704**	412	1,970
Accruals and other changes	**385**	353	885
Net Cash From Operating Activities	**35,331**	43,792	21,668
Cash Flows Used In Investing Activities			
Purchases of property, equipment and other non-current intangible assets	**(14,222)**	(9,619)	(11,543)
Proceeds from the sale of marketable securities	**147,189**	93,662	91,207
Purchases of marketable securities	**(151,625)**	(105,944)	(91,691)
Business acquisitions, net of cash acquired	**(42,491)**	(6,554)	(39,265)
Net Cash Used In Investing Activities	**(61,149)**	(28,455)	(51,292)
Cash Flows From Financing Activities			
Exercise of stock options	**12,363**	8,558	14,851
Excess income tax benefit from the exercise of stock options	**2,945**	2,475	4,757
Net Cash From Financing Activities	**15,308**	11,033	19,608
Effect of Exchange Rate on Cash	**(294)**	(984)	659
Net Increase (Decrease) In Cash and Cash Equivalents	**(10,804)**	25,386	(9,357)
Cash And Cash Equivalents At Beginning of Year	**66,061**	40,675	50,032
Cash And Cash Equivalents At End of Year	**$ 55,257**	$ 66,061	$ 40,675
Supplementary Cash Flow Information			
Income taxes paid, net of refunds	**$ 13,413**	$ 10,454	$ 9,956

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Operations

Neogen Corporation develops, manufactures and markets a diverse line of products and services dedicated to food and animal safety.

Basis of Consolidation

The consolidated financial statements include the accounts of Neogen Corporation and its subsidiaries (collectively, the Company), all of which are wholly owned, with the exception of Neogen Latinoamérica and Neogen do Brasil, which are each 90% owned as of May 31, 2016 and 2015, respectively. The Company made an additional capital contribution on December 31, 2013 which increased its ownership interest in Neogen Latinoamérica from 60% to 90%. Non-controlling interest represents the non-controlling owner's proportionate share in the equity of these two subsidiaries; the non-controlling owner's proportionate share in the income or losses of the subsidiaries is subtracted from, or added to, Company net income to calculate the net income attributable to Neogen Corporation.

All intercompany accounts and transactions have been eliminated in consolidation.

Share and per share amounts reflect the October 30, 2013 3-for-2 stock split as if it took place at the beginning of the period presented.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Significant estimates impacting the accompanying consolidated financial statements include the allowance for uncollectible accounts receivable, inventory valuation and intangible assets.

Comprehensive Income

Comprehensive income represents net income and any revenues, expenses, gains and losses that, under U.S. generally accepted accounting principles, are excluded from net income and recognized directly as a component of equity. Accumulated other comprehensive income (loss) consists solely of foreign currency translation adjustments.

Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is charged against the allowance for doubtful accounts. No customer accounted for more than 10% of accounts receivable at May 31, 2016 or 2015, respectively. The activity in the allowance for doubtful accounts was as follows:

	Year ended May 31		
(in thousands)	**2016**	2015	2014
Beginning Balance	**$ 1,300**	$ 1,200	$ 900
Provision	**305**	337	367
Recoveries	**90**	92	8
Write-offs	**(195)**	(329)	(75)
Ending Balance	**$ 1,500**	$ 1,300	$ 1,200

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments other than cash equivalents and marketable securities, which include accounts receivable and accounts payable, approximate fair value based on either their short maturity or current terms for similar instruments.

Fair Value Measurements

Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. The Company utilizes a fair value hierarchy based upon the observability of inputs used in valuation techniques as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. Cash and cash equivalents were $55,257,000 and $66,061,000 at May 31, 2016 and 2015, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and meet the Level 1 criteria. Cash held by foreign subsidiaries was $5,320,000 and $13,277,000 at May 31, 2016 and 2015, respectively.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at May 31, 2016 consisting of short-term domestic certificates of deposit of $25,873,000 and commercial paper rated at least A-2/P-2 with maturities between 91 days and one year of $26,666,000. Outstanding marketable securities at May 31, 2016 were $52,539,000; there were $48,103,000 in marketable securities outstanding at May 31, 2015. These securities are classified as available for sale. The primary objective of the Company's short-term investment activity is to preserve capital for the purpose of funding operations, capital expenditures and business acquisitions; short-term investments are not entered into for trading or speculative purposes. These securities are recorded at fair value (that approximates cost) based on recent trades or pricing models and therefore meet the Level 2 criteria. Interest income on these investments is recorded within Other Income on the income statement.

Inventories

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

	May 31	
(in thousands)	**2016**	2015
Raw materials	**$ 29,501**	$ 21,605
Work-in-process	**4,498**	3,972
Finished and purchased finished goods	**30,372**	26,024
	$ 64,371	$ 51,601

The Company's inventories are analyzed for slow moving, expired and obsolete items no less frequently than quarterly and the valuation allowance is adjusted as required. The valuation allowance for inventory was $1,550,000 at both May 31, 2016 and 2015, respectively.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are generally seven to 39 years for buildings and improvements and three to ten years for furniture, fixtures, machinery and equipment. Depreciation expense was $7,452,000, $6,318,000 and $5,383,000 in fiscal years 2016, 2015 and 2014, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis over 5 to 25 years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired. If the Company's qualitative assessment concludes that it is more likely than not that an impairment exists, or the Company skips the qualitative assessment, then the Company performs a quantitative assessment. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable earnings multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations. The remaining weighted-average amortization period for customer-based intangibles and other intangibles are both 12 years, respectively, at May 31, 2016 and May 31, 2015.

Long-lived Assets

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset are less than the carrying value of the asset. In such an event, fair value is determined using discounted cash flows and if lower than the carrying value, impairment is recognized through a charge to operations.

Reclassifications

Certain amounts in the fiscal 2015 and 2014 financial statements have been reclassified to conform to the fiscal 2016 presentation.

Stock Options

At May 31, 2016, the Company had stock option plans which are described more fully in Note 5.

The weighted-average fair value per share of stock options granted during fiscal years 2016, 2015 and 2014, estimated on the date of grant using the Black-Scholes option pricing model, was $13.11, $11.91 and $9.87, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions:

	Year ended May 31		
	2016	2015	2014
Risk-free interest rate	**1.2%**	1.2%	0.8%
Expected dividend yield	**0%**	0%	0%
Expected stock price volatility	**33.3%**	36.2%	33.1%
Expected option life	**4.0 years**	4.0 years	4.0 years

The risk-free interest rate for periods within the expected life of options granted is based on the United States Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company's stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. The Company recognizes the fair value of stock options using the accelerated method over their requisite service periods which the Company has determined to be the vesting periods.

Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue in fiscal years 2016, 2015 and 2014.

Shipping and Handling Costs

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses incurred by the Company are recorded in sales and marketing expense; these expenses totaled $9,734,000, $8,648,000 and $7,497,000 in fiscal years 2016, 2015 and 2014, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carry forwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

The Company's foreign subsidiaries are comprised of Neogen Europe (wholly-owned subsidiary), Lab M Holdings (wholly-owned subsidiary), Neogen Latinoamérica (90% owned subsidiary), Neogen do Brasil (90% owned subsidiary), Neogen Bio-Scientific Technology (Shanghai) Co (wholly-owned subsidiary), Neogen Food and Animal Security (India) (wholly-owned subsidiary), Neogen Canada (wholly-owned subsidiary) and Deoxi Biotecnologia Ltda (wholly-owned subsidiary). Based on historical experience, as well as the Company's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, the Company's domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, the Company evaluates the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2016, unremitted earnings of the foreign subsidiaries were $27,880,000.

Research and Development Costs

Research and development costs, which consist primarily of compensation costs, administrative expenses and new product development, among other items, are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred and totaled $1,463,000, $1,371,000 and $1,344,000 in fiscal years 2016, 2015 and 2014, respectively.

Net Income Attributable to Neogen per Share

Basic net income per share is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share is based on the weighted average number of common shares and dilutive potential common shares outstanding. The Company's dilutive potential common shares outstanding during the years result entirely from dilutive stock options. The following table presents the net income per share calculations:

	Year ended May 31		
(in thousands, except per share)	**2016**	2015	2014
Numerator for basic and diluted net income per share - Net income attributable to Neogen	**$ 36,564**	$ 33,526	$ 28,158
Denominator for basic net income per share - Weighted average shares	**37,402**	36,953	36,511
Effect of dilutive stock options	**473**	491	756
Denominator for diluted net income per share	**37,875**	37,444	37,267
Net income attributable to Neogen per share			
Basic	**$ 0.98**	$ 0.91	$ 0.77
Diluted	**$ 0.97**	$ 0.90	$ 0.76

At both May 31, 2016 and 2015, the market price of the common stock exceeded the option exercise price for all outstanding options; therefore, no shares were excluded from the diluted net income per share computation. At May 31, 2014, 48,716 shares were excluded from the computation, as the option exercise prices exceeded the average market price of the common shares.

On October 30, 2013, the Company paid a 3-for-2 stock split effected in the form of a dividend of its common stock. All share and per share amounts, with the exception of par value per share, have been adjusted to reflect the stock split as if it had taken place at the beginning of the period presented. The common stock and additional paid-in capital accounts at May 31, 2013 reflect the retroactive capitalization of the 3-for-2 stock split.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board 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, 2017, and the change will be presented retrospectively. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17—Balance Sheet Classification of Deferred Taxes. As part of the FASB's accounting simplification initiative, ASU 2015-17 removes the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Instead, the update requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. ASU 2015-17 is effective for entities for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. The Company is currently evaluating the effects of ASU 2015-17 on our consolidated balance sheet and statements of income.

In September 2015, the FASB issued ASU 2015-16—Simplifying the Accounting for Measurement-Period Adjustments. Changes to the accounting for measurement-period adjustments relate to business combinations. Currently, an acquiring entity is required to retrospectively adjust the balance sheet amounts of the acquiree recognized at the acquisition date with a corresponding adjustment to goodwill as a result of changes made to the balance sheet amounts of the acquiree. The measurement period is the period after the acquisition date during which the acquirer may adjust the balance sheet amounts recognized for a business combination (generally up to one year from the date of acquisition). The changes eliminate the requirement to make such retrospective adjustments, and, instead require the acquiring entity to record these adjustments in the reporting period they are determined. The new standard is effective for public for periods beginning after December 15, 2015. The Company is currently evaluating the impact of adopting this guidance.

In July 2015, the FASB issued ASU No. 2015-11—Inventory: Simplifying the Measurement of Inventory. The update requires inventory not measured using either the last in, first out (LIFO) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The update is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact of ASU 2015-11 on our consolidated financial condition and results of operations.

In February 2016, the FASB issued ASU No. 2016-02—Leases, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Modified retrospective application is permitted with certain practical expedients. Early adoption is permitted. The Company is currently evaluating the impact of ASU No. 2016-02 on our consolidated financial condition and results of operations.

In March 2016, the FASB issued ASU No. 2016-09—Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting to provide guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of ASU No. 2016-09 on our consolidated financial condition and results of operations.

2. Goodwill and Other Intangible Assets

Management has completed the annual impairment analysis of goodwill and intangible assets with indefinite lives using a quantitative assessment as of the first day of the fourth quarter of fiscal years 2016, 2015 and 2014, respectively, and determined that recorded amounts were not impaired and that no write-down was necessary.

The following table summarizes goodwill by reportable segment:

(in thousands)	Food Safety	Animal Safety	Total
Balance, May 31, 2014	$ 16,696	$ 51,494	$ 68,190
Goodwill acquired and/or adjusted	2,110	(181)	1,929
Balance, May 31, 2015	$ 18,806	$ 51,313	$ 70,119
Goodwill acquired and/or adjusted	7,322	11,065	18,387
Balance, May 31, 2016	**$ 26,128**	**$ 62,378**	**$ 88,506**

At May 31, 2016, non-amortizable intangible assets included licenses of $569,000, trademarks of $7,377,000 and other intangibles of $1,224,000. At May 31, 2015, non-amortizable intangible assets included licenses of $569,000, trademarks of $7,227,000 and other intangibles of $1,224,000.

Amortizable intangible assets consisted of the following and are included in customer-based intangible and other non-current assets within the consolidated balance sheets:

(in thousands)	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
Licenses	$ 5,189	$ 1,782	$ 3,407
Covenants not to compete	491	193	298
Patents	8,040	3,631	4,409
Customer-based intangibles	48,186	17,277	30,909
Other product and service-related intangibles	12,256	1,924	10,332
Balance, May 31, 2016	**$ 74,162**	**$ 24,807**	**$ 49,355**
Licenses	$ 4,919	$ 1,630	$ 3,289
Covenants not to compete	428	124	304
Patents	7,701	3,087	4,614
Customer-based intangibles	38,616	14,446	24,170
Other product and service-related intangibles	6,233	1,236	4,997
Balance, May 31, 2015	$ 57,897	$ 20,523	$ 37,374

Amortization expense for intangibles totaled $5,088,000, $4,331,000 and $3,797,000 in fiscal years 2016, 2015, and 2014, respectively. The estimated amortization expense for each of the five succeeding fiscal years is as follows: $5,759,000 in 2017, $5,405,000 in 2018, $5,012,000 in 2019, $4,706,000 in 2020 and $4,459,000 in 2021. The amortizable intangible assets useful lives are 5 to 20 years for licenses, 5 to 13 years for covenants not to compete, 5 to 25 years for patents, 6 to 20 years for customer-based intangibles and 5 to 20 years for other product and service-related intangibles, which primarily consist of product formulations. All definite-lived intangibles are amortized on a straight line basis with the exception of definite-lived customer-based intangibles and product and service-related intangibles, which are amortized on an accelerated basis.

3. Business Combinations

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 described 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 and liabilities determined using the income approach, included accounts receivable of $747,000, 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 and liabilities determined using the income approach, included accounts receivable of $963,000, 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 based upon the fair value of these assets and liabilities determined using the income approach,included accounts receivable of $380,000, 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, and recorded 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, based upon the fair value of these assets and liabilities determined using the income approach, 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, based upon the fair value of these assets and liabilities determined using the income approach, 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 (deductible for tax purposes). 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, the Company 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 final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $43,000, inventory of $14,000, property and equipment of $141,000, contingent consideration of $97,000, intangible assets of $345,000 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.

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, 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 (non-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 Food Safety segment.

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 the Animal Safety segment.

On April 26, 2016, the Company acquired the stock of Deoxi Biotecnologia Ltda, an animal genomics laboratory located in Araçatuba, Brazil. Deoxi was a competitor of Neogen's in the livestock genomics market and this acquisition is intended to help accelerate the growth of Neogen's GeneSeek animal genomics services in Brazil. Consideration for the purchase was $1,560,000 in cash and up to $2,552,000 of contingent consideration, due at the end of the each of the first two years, based on an excess net sales formula. The preliminary purchase price allocation included accounts receivable of $150,000, inventory of $89,000, other current assets of $6,000, property and equipment of $229,000, current liabilities of $246,000, contingent consideration liabilities of $741,000, intangible assets of $852,000 (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 will continue to operate in its current location and reports within the Food Safety segment.

On May 1, 2016, the Company acquired the stock of Preserve International and its sister company, Tetradyne LLC., manufacturers and marketers of cleaners, disinfectants and associated products to the swine, poultry, food processing and dairy markets. Preserve and Tetradyne have manufacturing locations in Memphis, Tennessee and Turlock, California. Consideration for the purchase was $24,086,000 in cash. The preliminary purchase price allocation included accounts receivable of $1,588,000, inventory of $1,964,000, other current assets of $338,000, land, property and equipment of $1,625,000, current liabilities of $756,000, long-term liabilities of $660,000, intangible assets of $10,590,000 (with an estimated life of 5–15 years) and the remainder to goodwill (partially deductible for tax purposes). These values are Level 3 fair value measurements. This business will continue to operate in its current locations and reports within the Animal Safety segment.

4. Long-Term Debt

The Company has a financing agreement with a bank providing for an unsecured revolving line of credit of up to $12,000,000, which expires on September 1, 2017. There were no advances against this line of credit during fiscal years 2016, 2015 and 2014, and no balance outstanding at May 31, 2016 and 2015. Interest is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.58% at May 31, 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 May 31, 2016 and May 31, 2015.

5. Equity Compensation Plans

Qualified and non-qualified options to purchase shares of common stock may be granted to directors, officers and employees of the Company under the terms of the Company's stock option plans. These options are granted at an exercise price of not less than the fair market value of the stock on the date of grant. Remaining shares available for grant under stock option plans were 2,457,000, 306,000 and 805,000 at May 31, 2016, 2015 and 2014, respectively. Options vest ratably over three and five year periods and the contractual terms are generally five or ten years.

(shares in thousands)	Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding at May 31, 2013 (749 exercisable)	2,092	$ 19.21	$ 6.00
Granted	512	36.44	9.87
Exercised	(643)	13.69	4.28
Forfeited	(92)	22.08	6.65
Outstanding at May 31, 2014 (577 exercisable)	1,869	25.69	7.62
Granted	536	39.79	11.91
Exercised	(380)	16.69	5.17
Forfeited	(37)	33.55	9.45
Outstanding at May 31, 2015 (639 exercisable)	1,988	31.04	9.20
Granted	549	46.98	13.11
Exercised	(427)	23.47	7.15
Forfeited	(29)	38.57	11.14
Outstanding at May 31, 2016 (656 exercisable)	**2,081**	**$ 36.71**	**$ 10.63**

The following is a summary of stock options outstanding at May 31, 2016:

(options in thousands)		Options Outstanding			Options Exercisable	
	Range of Exercise price	Number	Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number	Weighted Average Exercise Price
$	6.01–28.26	277	1.8	$ 20.67	209	$ 19.88
	28.27–32.37	321	2.1	28.67	173	28.67
	32.38–38.03	408	2.6	36.07	156	36.07
	38.04–43.75	532	4.1	39.88	118	40.10
	43.76–47.12	543	4.9	46.99	0	—
		2,081	3.4	36.71	656	29.69

The weighted average exercise price of shares that were exercisable at May 31, 2016 and 2015 was $29.69 and $24.50, respectively.

Compensation expense related to share-based awards was $5,468,000, $4,450,000 and $3,686,000 in fiscal years 2016, 2015 and 2014, respectively. Remaining compensation cost to be expensed in future periods for non-vested options was $7,335,000 at May 31, 2016, with a weighted average expense recognition period of 2.3 years.

The aggregate intrinsic value of options outstanding and options exercisable was $26,344,000 and $12,912,000, respectively, at May 31, 2016, $31,204,000 and $14,201,000 respectively, at May 31, 2015 and $22,751,000 and $10,984,000 respectively, at May 31, 2014. The aggregate intrinsic value of options exercised during the year was $12,980,000 in fiscal 2016, $10,690,000 in fiscal 2015 and $17,669,000 in fiscal 2014.

Common stock totaling 27,440 of the 337,500 originally authorized shares are reserved for issuance under the terms of the 2002 Employee Stock Purchase Plan. An additional 375,000 shares are also reserved for issuance under the terms of the 2011 Employee Stock Purchase Plan. The plans give eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period. Total individual purchases in any year are limited to 10% of compensation. Shares purchased by employees were 18,277, 19,592 and 18,466 in fiscal years 2016, 2015 and 2014, respectively.

6. Income Taxes

Income before income taxes by source consists of the following amounts:

Year ended May 31 *(in thousands)*	**2016**	2015	2014
U.S.	**$ 50,662**	$ 45,156	$ 37,568
Foreign	**4,851**	6,920	5,463
	$ 55,513	$ 52,076	$ 43,031

The provision for income taxes consisted of the following:

Year ended May 31 *(in thousands)*	**2016**	2015	2014
Current:			
U.S. Taxes	**$ 14,630**	$ 15,269	$ 14,442
Foreign	**1,756**	1,364	1,100
Deferred	**2,589**	1,867	(542)
	$ 18,975	$ 18,500	$ 15,000

The reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense is as follows:

Year ended May 31 *(in thousands)*	**2016**	2015	2014
Tax at U.S. statutory rates	**$ 19,429**	$ 18,227	$ 15,061
Section 199 domestic production deduction	**(1,143)**	(1,067)	(821)
Foreign rate differential	**(699)**	(949)	(726)
Subpart F income	**1,049**	1,396	1,143
Tax credits and other	**337**	39	(170)
Provisions for state income taxes, net of federal benefit	**779**	854	513
Amended U.S. Federal tax returns, FY12, FY13 & FY14	**(777)**	0	0
	$ 18,975	$ 18,500	$ 15,000

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax liabilities and assets are as follows:

Year ended May 31 *(in thousands)*	**2016**	2015
Deferred income tax liabilities		
Indefinite and long-lived assets	**$ (19,296)**	$ (15,906)
Prepaid expenses	**(824)**	(431)
Brazil valuation allowance	**(542)**	(542)
	(20,662)	(16,879)
Deferred income tax assets		
Stock options	**2,786**	2,234
Inventories and accounts receivable	**2,076**	1,809
Tax loss carryforwards	**813**	542
Accrued expenses and other	**229**	574
	5,904	5,159
Net deferred income tax liabilities	**$ (14,758)**	$ (11,720)

The Company had no accrual for unrecognized tax benefits at both May 31, 2016 and 2015. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts. The Company is no longer subject to U.S. Federal income tax examinations by tax authorities for fiscal years before 2011.

7. 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 expenses annual costs of remediation which have ranged from $47,000 to $57,000 per year over the past five years. The Company's estimated liability for these costs is $916,000 at May 31, 2016 and 2015, measured on an undiscounted basis over an estimated period of 15 years; $60,000 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 has agreements with unrelated third parties that provide for the payment of license fees and royalties on the sale of certain products. Royalty expense under the terms of these agreements was $1,969,000, $2,189,000 and $2,278,000 for fiscal years 2016, 2015 and 2014, respectively. Some of these agreements provide for guaranteed minimum royalty payments to be paid each fiscal year by the Company for certain technologies. Future minimum royalty payments are as follows: 2017–$572,000, 2018–$597,000, 2019–$597,000, 2020–$593,000 and 2021–$586,000.

The Company leases office and manufacturing facilities under non-cancelable operating leases. Rent expense for fiscal years 2016, 2015 and 2014 was $662,000, $736,000 and $856,000, respectively. Future fiscal year minimum rental payments for these leases over their remaining terms are as follows: 2017–$541,000, 2018–$290,000, 2019–$195,000, 2020–$96,000 and 2021 later–$22,000.

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.

8. Defined Contribution Benefit Plan

The Company maintains a defined contribution 401(k) benefit plan covering substantially all employees. Employees are permitted to defer compensation up to IRS limits, with the Company matching 100% of the first 3% of deferred compensation and 50% of the next 2% deferred. The Company's expense under this plan was $1,188,000, $1,051,000 and $954,000 in fiscal years 2016, 2015 and 2014, respectively.

9. Segment Information

The Company has two reportable segments: Food Safety and Animal Safety. The Food Safety segment is primarily engaged in the development, production and marketing of diagnostic test kits, dehydrated culture media and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens, drug residues and levels of general sanitation. The Animal Safety segment is primarily engaged in the development, production and marketing of products dedicated to animal safety, including a complete line of consumable products marketed to veterinarians and animal health product distributors; this segment also provides genomic identification and related interpretive bioinformatic services. Additionally, the Animal Safety segment produces and markets rodenticides, disinfectants, and insecticides to assist in control of rodents, insects and disease in and around agricultural, food production and other facilities.

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 total sales and operating income of the respective segments. The accounting policies of each of the segments are the same as those described in Note 1.

Segment information is as follows:

(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations[1]	Total
Fiscal 2016				
Product revenues to external customers	**$ 133,685**	**$ 139,885**	**$ 0**	**$ 273,570**
Service revenues to external customers	**12,156**	**35,549**	**0**	**47,705**
Total revenues to external customers	**145,841**	**175,434**	**0**	**321,275**
Operating income (loss)	**29,185**	**30,777**	**(3,576)**	**56,386**
Depreciation and amortization	**5,745**	**6,795**	**0**	**12,540**
Total assets	**142,078**	**216,599**	**93,038**	**451,715**
Expenditures for long-lived assets	**9,192**	**5,030**	**0**	**14,222**
Fiscal 2015				
Product revenues to external customers	$ 119,990	$ 123,919	$ 0	$ 243,909
Service revenues to external customers	11,489	27,676	0	39,165
Total revenues to external customers	131,479	151,595	0	283,074
Operating income (loss)	30,265	26,034	(3,181)	53,118
Depreciation and amortization	4,620	6,029	0	10,649
Total assets	110,655	179,082	102,444	392,181
Expenditures for long-lived assets	4,216	5,403	0	9,619
Fiscal 2014				
Product revenues to external customers	$ 107,959	$ 108,189	$ 0	$ 216,148
Service revenues to external customers	8,331	22,926	0	31,257
Total revenues to external customers	116,290	131,115	0	247,405
Operating income (loss)	28,009	18,571	(3,189)	43,391
Depreciation and amortization	4,181	4,999	0	9,180
Total assets	105,607	173,643	66,051	345,301
Expenditures for long-lived assets	5,999	5,544	0	11,543

(1) Includes corporate assets, including cash and cash equivalents, marketable securities, current and deferred tax accounts, and overhead expenses not allocated to specific business segments. Also includes the elimination of intersegment transactions and noncontrolling interests.

Revenues to customers located outside the United States amounted to $107,680,000 or 33.5% of consolidated revenues in fiscal 2016, $103,867,000 or 36.7% in fiscal 2015 and $96,111,000 or 38.8% in fiscal 2014 and were derived primarily in various countries throughout Europe, Canada, South and Central America and Asia. No customer represented revenues in excess of 10% of consolidated net sales in any of the three years. The United States based operations represent 89% of the Company's long-lived assets as of May 31, 2016 and 95% as May 31, 2015.

10. Stock Repurchase

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 May 31, 2016, 112,026 cumulative shares have been purchased in negotiated and open market transactions for a total price, including commissions, of approximately $923,000. There were no purchases in fiscal years 2016 or 2015. Shares purchased under the program were retired.

11. Summary of Quarterly Data (Unaudited)

	Quarter Ended			
(in thousands, except per share)	August 2015	November 2015	February 2016	May 2016
Total revenues	$ 74,860	$ 79,610	$ 76,725	$ 90,080
Gross margin	37,792	38,224	35,196	41,852
Net income	9,289	9,142	8,289	9,818
Net income attributable to Neogen	9,323	9,073	8,311	9,857
Basic net income per share	0.25	0.24	0.22	0.27
Diluted net income per share	0.25	0.24	0.22	0.26

	Quarter Ended			
(in thousands, except per share)	August 2014	November 2014	February 2015	May 2015
Total revenues	$ 67,599	68,455	68,409	$ 78,611
Gross margin	34,076	34,208	33,703	37,698
Net income	8,909	7,826	7,409	9,432
Net income attributable to Neogen	8,883	7,806	7,454	9,384
Basic net income per share	0.24	0.21	0.20	0.26
Diluted net income per share	0.24	0.21	0.20	0.25

Quarterly net income per share is based on weighted-average shares outstanding and potentially dilutive stock options for the specific period, and as a result, will not necessarily aggregate to total net income per share as computed for the year as disclosed in the consolidated statements of income.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Neogen Corporation and Subsidiaries
Lansing, Michigan

We have audited the accompanying consolidated balance sheets of Neogen Corporation and Subsidiaries (the Company) as of May 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neogen Corporation and Subsidiaries at May 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Neogen Corporation and Subsidiaries' internal control over financial reporting as of May 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated July 29, 2016 expressed an unqualified opinion thereon.

BDO USA, LLP

Grand Rapids, Michigan
July 29, 2016

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13-a-15(f) and 15d-15(f). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, an evaluation was conducted as to the effectiveness of internal control over financial reporting as of May 31, 2016, based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that internal control over financial reporting was effective as of May 31, 2016. The effectiveness of internal control over financial reporting as of May 31, 2016, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included on the following page and is incorporated into this Item 9A by reference.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred during the quarter ended May 31, 2016 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

James L. Herbert
Chairman and CEO

Steven J. Quinlan
Vice President and CFO

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Neogen Corporation and Subsidiaries
Lansing, Michigan

We have audited Neogen Corporation and Subsidiaries' internal control over financial reporting as of May 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Neogen Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Neogen Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 31, 2016, based on the COSO criteria.

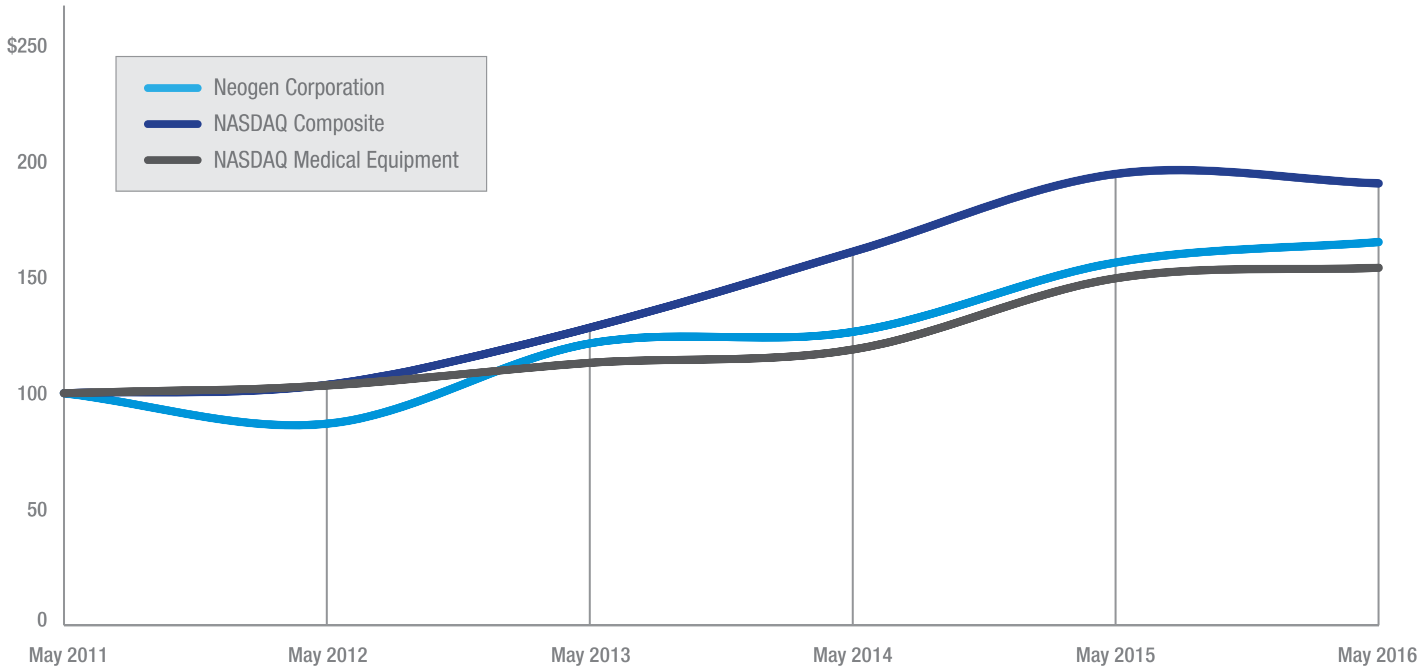
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Neogen Corporation and Subsidiaries as of May 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2016, and our report dated July 29, 2016 expressed an unqualified opinion thereon.

BDO USA, LLP

Grand Rapids, Michigan
July 29, 2016

Neogen Corporation and Subsidiaries: Comparison of Five Year Cumulative Total Return and Stock Profile Activity

The graph below matches Neogen Corporation's cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Medical Equipment index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from May 31, 2011 to May 31, 2016.



May 31 of:	2011	2012	2013	2014	2015	**2016**
Neogen Corporation	100.00	86.84	121.48	126.42	156.36	**165.15**
NASDAQ Composite	100.00	103.65	128.29	160.97	194.49	**190.42**
NASDAQ Medical Equipment	100.00	103.31	113.10	118.81	149.55	**154.08**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Market Information

Neogen Common Stock is traded on the NASDAQ Global Select Market under the symbol "**NEOG**." The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock as reported on the NASDAQ Stock Market.

			High		Low
Year Ended May 31, 2016	**First Quarter**	**$**	**62.70**	**$**	**44.90**
	Second Quarter		**59.76**		**43.00**
	Third Quarter		**60.38**		**45.00**
	Fourth Quarter		**53.02**		**43.79**
Year Ended May 31, 2015	First Quarter	$	45.06	$	36.78
	Second Quarter		44.65		39.23
	Third Quarter		51.63		43.08
	Fourth Quarter		51.21		42.37

Holders:

As of June 30, 2016, there were approximately 304 stockholders of record of Common Stock and management believes there are a total of approximately 11,736 beneficial holders.

Dividends:

Neogen has never paid cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future.

Neogen Corporation Officers and Directors

Officers

James L. Herbert
Chairman of the Board
Chief Executive Officer

Richard E. Calk, Jr.
President
Chief Operating Officer

Steven J. Quinlan
Vice President
Chief Financial Officer and Secretary

Edward L. Bradley
Vice President, Food Safety

Joseph A. Corbett
Vice President, Animal Safety Sales and Operations

Melissa K. Herbert
Vice President, Support Services

Kenneth V. Kodilla
Vice President, Manufacturing

Jason W. Lilly, Ph.D.
Vice President, Corporate Development

Terri A. Morrical
Vice President, Animal Safety

Jennifer A. Rice, DVM, Ph.D.
Vice President, Research and Development

Dwight E. Schroedter
Vice President, Animal Safety Manufacturing

Directors

James L. Herbert
Neogen Corporation
Chairman of the Board
Chief Executive Officer

William T. Boehm, Ph.D.
Kroger Company
Former Senior Vice President

President's Council of Economic Advisors
Former Senior Economist

A. Charles Fischer
Dow AgroSciences
Former President and CEO

Ronald D. Green, Ph.D.
University of Nebraska–Lincoln
Chancellor

G. Bruce Papesh
Dart, Papesh & Co.
President

Jack C. Parnell
Siller Brothers, Inc.
Chairman of the Board

Siller Helicopters, Inc.
Chairman of the Board

U.S. Department of Agriculture
Former Deputy Secretary
Former Acting Secretary

State of California
Former Secretary of Agriculture

Thomas H. Reed
Tom Reed & Associates
President

JBS Packerland
Former Senior Vice President

Michigan Livestock Exchange
Former President and CEO

MSU Board of Trustees
Former Chairman

Clayton K. Yeutter, Ph.D.
Hogan Lovells, LLP
Former Senior Advisor, International Trade

Former U.S. Secretary of Agriculture

Former U.S. Trade Representative

Chicago Mercantile Exchange
Former CEO

Form 10-K and the Company's Code of Ethics

Copies of Form 10-K and the Company's Code of Ethics will be provided upon request without charge to persons directing their request to:

Neogen Corporation
Attention: Investor Relations
620 Lesher Place
Lansing, MI 48912

Annual Meeting

October 6, 2016
10:00 a.m.
University Club at Michigan State University
3435 Forest Road
Lansing, MI 48909

Independent Registered Public Accounting Firm

BDO USA, LLP
200 Ottawa Avenue N.W.
Suite 300
Grand Rapids, MI 49503

Stock Transfer Agent and Registrar

American Stock Transfer and Trust Co.
6201 15th Avenue
Brooklyn, NY 11219

Legal Counsel

Lowe Law Firm, P.C.
2375 Woodlake Drive
Suite 380
Okemos, MI 48864

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