

NEOGEN CORP  
Form 10-Q  
December 30, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

*(Mark One)*

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

For the quarterly period ended November 30, 2011.

or

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

For the transition period from                      to

Commission file number 0-17988

**Neogen Corporation**

(Exact name of registrant as specified in its charter)

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**Michigan**  
(State or other jurisdiction of  
incorporation or organization)

**38-2367843**  
(IRS Employer

Identification Number)

**620 Leshier Place**

**Lansing, Michigan 48912**

(Address of principal executive offices, including zip code)

**(517) 372-9200**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act):

Large accelerated filer

Accelerated filer

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

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

YES  NO

As of December 1, 2011, there were 23,526,643 shares of Common Stock outstanding.



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**NEOGEN CORPORATION AND SUBSIDIARIES**

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

	November 30, 2011 <i>(In thousands, except share and per share amounts)</i> <b>(Unaudited)</b>	May 31, 2011 <i>(In thousands, except share and per share amounts)</i> <b>(Audited)</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 36,972	\$ 35,844
Marketable securities	18,634	20,239
Accounts receivable, less allowance of \$800 and \$800	31,869	28,634
Inventories	36,425	31,994
Deferred income taxes	1,044	1,044
Prepaid expenses and other current assets	5,474	4,747
<b>TOTAL CURRENT ASSETS</b>	<b>130,418</b>	<b>122,502</b>
<b>NET PROPERTY AND EQUIPMENT</b>	<b>28,888</b>	<b>22,340</b>
<b>OTHER ASSETS</b>		
Goodwill	51,634	51,584
Other non-amortizable intangible assets	5,166	5,166
Customer based intangibles, net of accumulated amortization of \$6,241 and \$5,431	11,196	12,006
Other non-current assets, net of accumulated amortization of \$3,152 and \$2,789	7,016	6,064
	75,012	74,820
<b>TOTAL ASSETS</b>	<b>\$ 234,318</b>	<b>\$ 219,662</b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,611	\$ 8,516
Accrued compensation	2,536	2,715
Income taxes	1,588	0
Other accruals	4,674	6,566
<b>TOTAL CURRENT LIABILITIES</b>	<b>18,409</b>	<b>17,797</b>
<b>DEFERRED INCOME TAXES</b>	<b>8,347</b>	<b>8,347</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>4,436</b>	<b>4,540</b>
	12,783	12,887
<b>TOTAL LIABILITIES</b>	<b>31,192</b>	<b>30,684</b>

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EQUITY		
Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding	0	0
Common stock, \$.16 par value, 60,000,000 shares authorized, 23,526,643 and 23,290,604 shares issued and outstanding at November 30, 2011 and May 31, 2011, respectively	3,764	3,727
Additional paid-in capital	84,794	81,248
Accumulated other comprehensive loss	(1,070)	(394)
Retained earnings	115,312	104,064
<b>Total Neogen Corporation Stockholders Equity</b>	<b>202,800</b>	<b>188,645</b>
Noncontrolling interest	326	333
<b>TOTAL EQUITY</b>	<b>203,126</b>	<b>188,978</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 234,318</b>	<b>\$ 219,662</b>

See notes to interim consolidated financial statements

**Table of Contents****NEOGEN CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	<b>Three Months Ended November 30</b>		<b>Six Months Ended November 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(In thousands, except per share amounts)</i>			
Net sales	\$ 44,891	\$ 43,931	\$ 90,588	\$ 86,853
Cost of goods sold	22,234	21,443	44,954	41,598
<b>GROSS MARGIN</b>	<b>22,657</b>	<b>22,488</b>	<b>45,634</b>	<b>45,255</b>
<b>OPERATING EXPENSES</b>				
Sales and marketing	8,631	7,504	16,734	15,016
General and administrative	4,173	3,714	8,185	7,576
Research and development	1,710	1,641	3,221	3,438
	14,514	12,859	28,140	26,030
<b>OPERATING INCOME</b>	<b>8,143</b>	<b>9,629</b>	<b>17,494</b>	<b>19,225</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	26	28	48	57
Change in purchase consideration		(100)		(400)
Other income (expense)	(32)	(47)	(101)	(147)
	(6)	(119)	(53)	(490)
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,137</b>	<b>9,510</b>	<b>17,441</b>	<b>18,735</b>
<b>INCOME TAXES</b>	<b>2,900</b>	<b>3,400</b>	<b>6,200</b>	<b>6,800</b>
<b>NET INCOME</b>	<b>5,237</b>	<b>6,110</b>	<b>\$ 11,241</b>	<b>\$ 11,935</b>
<b>NET INCOME PER SHARE</b>				
Basic	\$ 0.22	\$ 0.27	\$ 0.48	\$ 0.52
Diluted	\$ 0.22	\$ 0.26	\$ 0.47	\$ 0.51

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount		(In thousands)			
Balance, June 1, 2011	23,291	\$ 3,727	\$ 81,248	\$ (394)	\$ 104,064	\$ 333	\$ 188,978
Issuance of shares of common stock under equity compensation plans, and share based compensation, including \$1,364 of excess income tax benefit	229	36	3,325				3,361
Issuance of shares under employee stock purchase plan	6	1	221				222
Comprehensive income:							
Net income (loss) for the six months ended November 30, 2011					11,248	(7)	11,241
Foreign currency translation adjustments				(676)			(676)
Total comprehensive income (\$12,794 in the six months ended November 30, 2010)							10,565
Balance, November 30, 2011	23,526	\$ 3,764	\$ 84,794	\$ (1,070)	\$ 115,312	\$ 326	\$ 203,126

See notes to interim consolidated financial statements



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

	<b>Six Months Ended November 30, 2011          2010 (In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 11,241	\$ 11,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,911	2,584
Share based compensation	1,072	1,240
Excess income tax benefit from the exercise of stock options	(1,364)	(322)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(3,235)	(215)
Inventories	(4,411)	213
Prepaid expenses and other current assets	(726)	292
Accounts payable, accruals and other	686	3,832
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>6,174</b>	<b>19,559</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment and other assets	(8,897)	(3,423)
Proceeds from the sale of marketable securities	39,804	13,034
Purchases of marketable securities	(38,199)	(30,345)
Payments for business acquisitions	(813)	0
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(8,105)</b>	<b>(20,734)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in other long-term liabilities	(854)	257
Net proceeds from issuance of common stock	2,511	4,871
Excess income tax benefit from the exercise of stock options	1,364	322
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,021</b>	<b>5,450</b>
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	<b>38</b>	<b>0</b>
<b>INCREASE IN CASH</b>	<b>1,128</b>	<b>4,275</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>35,844</b>	<b>22,806</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 36,972</b>	<b>\$ 27,081</b>

See notes to interim consolidated financial statements

**Table of Contents****NEOGEN CORPORATION AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the six month period ended November 30, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2012. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2011 audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2011.

**2. INVENTORIES**

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

	November 30, 2011	May 31, 2011
	<i>(In thousands)</i>	
Raw materials	\$ 15,475	\$ 12,125
Work-in-process	2,718	2,192
Finished and purchased goods	18,232	17,677
	\$ 36,425	\$ 31,994

**3. NET INCOME PER SHARE**

The calculation of net income per share follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2011	2010	2011	2010
Numerator for basic and diluted net income per share:				
Net income	\$ 5,237	\$ 6,110	\$ 11,241	\$ 11,935
Denominator:				
Denominator for basic net income per share:				
Weighted average shares	23,418	22,926	23,369	22,802
Effect of dilutive stock options and warrants	556	803	632	797
Denominator for diluted net income per share	23,974	23,729	24,001	23,599
Net income per share:				
Basic	\$ 0.22	\$ 0.27	\$ 0.48	\$ 0.52
Diluted	\$ 0.22	\$ 0.26	\$ 0.47	\$ 0.51

**Table of Contents****4. SEGMENT INFORMATION**

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

Segment information for the three months ended November 30, 2011 and 2010 follows:

	<b>Food Safety</b>	<b>Animal Safety</b>	<b>Corporate and Eliminations (1)</b>	<b>Total</b>
	<i>(In thousands)</i>			
<b>Fiscal 2012</b>				
Net sales to external customers	\$ 22,042	\$ 22,849	\$ 0	\$ 44,891
Operating income (reduction)	5,679	2,933	(469)	8,143
Total assets	84,719	101,341	48,258	234,318
<b>Fiscal 2011</b>				
Net sales to external customers	\$ 21,341	\$ 22,590	\$ 0	\$ 43,931
Operating income (reduction)	6,264	3,775	(410)	9,629
Total assets	76,790	87,914	38,971	203,675

Segment information for the six months ended November 30, 2011 and 2010 follows:

	<b>Food Safety</b>	<b>Animal Safety</b>	<b>Corporate and Eliminations (1)</b>	<b>Total</b>
	<i>(In thousands)</i>			
<b>Fiscal 2012</b>				
Net sales to external customers	\$ 45,324	\$ 45,264	\$ 0	\$ 90,588
Operating income (reduction)	12,843	5,676	(1,025)	17,494
<b>Fiscal 2011</b>				
Net sales to external customers	\$ 43,593	\$ 43,260	\$ 0	\$ 86,853
Operating income (reduction)	13,237	6,886	(898)	19,225

- (1) Includes corporate assets, consisting principally of cash and cash equivalents, marketable securities, deferred assets and overhead expenses not allocated to specific business segments. Also includes the elimination of intersegment transactions.

**Table of Contents****5. EQUITY COMPENSATION PLANS**

Options are generally granted under the employee and director stock option plan for 5 year periods and become exercisable in equal annual installments during that period. Certain non-qualified options are granted for 10 year periods. A summary of stock option activity during the six months ended November 30, 2011 follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at June 1, 2011	1,574,000	\$ 17.77
Granted	313,000	34.60
Exercised	(229,000)	11.59
Forfeited	(31,000)	14.88
 Options outstanding at November 30, 2011	 1,627,000	 21.94

During the three and six month periods ended November 30, 2011 and 2010, the Company recorded \$472,000 and \$564,000 and \$1,072,000 and \$1,240,000, respectively, of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during FY-2012 and 2011, estimated on the date of grant using the Black-Scholes option pricing model was \$10.42 and \$8.60 respectively, per option. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	FY-12	FY-11
Risk-free interest rate	1.17%	1.7%
Expected dividend yield	0%	0%
Expected stock price volatility	36.4%	35.8%
Expected option life	4.0 years	4.0 years

The Company has an Employee Stock Purchase plan that provides for employee stock purchases at a 5% discount to market price. The discount is expensed as of the date of purchase.

**6. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2011, the FASB issued an accounting standards update titled *Presentation of Comprehensive Income*. This update eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate consecutive statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, must be displayed under either alternative. The new disclosure requirements are effective for fiscal years beginning after December 15, 2011.

In September 2011, the FASB issued an accounting standards update titled *Intangibles – Goodwill and Other: Testing Goodwill for Impairment*. This update gives the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and, in some cases, skip the two-step impairment test. This standard is effective for fiscal years beginning after December 15, 2011, and early adoption is permitted.

The above ASU s issued by the FASB, upon adoption, are not expected by management to have a material effect on the Company s consolidated financial statements.

**Table of Contents****7. BUSINESS AND PRODUCT LINE ACQUISITIONS**

On April 1, 2010, Neogen Corporation acquired GeneSeek, Inc. of Lincoln, Nebraska, a leading commercial agricultural genetic laboratory. GeneSeek's technology employs high-resolution DNA genotyping for identity and trait analysis in a variety of important animal and agricultural plant species. Consideration for the purchase was \$14,050,000 in cash and secondary payment obligations of up to \$7,000,000. The allocation of the purchase price included accounts receivable of \$1,923,000, inventory of \$1,512,000, fixed assets of \$847,000, current liabilities of \$905,000, deferred tax liabilities of \$2,530,000, secondary payment liabilities of \$3,583,000, and the remainder to goodwill (not deductible for tax purposes) and other intangible assets (with estimated lives of 5-20 years). The allocation was generally based on the fair value of these assets determined using the income approach. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 fair value measurements. The secondary payment was based upon future operating results of the GeneSeek business through 2013, and payable annually over a three year period, measured at fair value, and is considered a Level 3 fair value measurement. The Company recorded a charge within other income (expense) of approximately \$787,000 for the year ended May 31, 2011, representing the increase from its original estimate in fair value of the secondary payment liability. As of May 31, 2011, the balance of the secondary payment liability recorded was approximately \$4,370,000. A payment of \$1,856,000 was made in June, 2011 to the former owners of GeneSeek, comprised of \$1,537,000 for the first year contingent payment and an additional \$319,000 for inventory purchased post acquisition and settlement of other liabilities. The acquisition has been integrated into the Animal Safety segment.

On June 21, 2011, Neogen Corporation acquired the assets of VeroMara seafood testing laboratory for approximately \$813,000 in cash and a potential secondary payment of approximately \$200,000 from its parent company, GlycoMar Ltd. Based in Oban, Scotland, VeroMara offers testing services to the shellfish and salmon aquaculture industries. VeroMara's services include testing for shellfish toxins, general foodborne pathogens, including *E. coli*, noroviruses, and salmon husbandry. VeroMara recorded revenues of approximately \$800,000 (U.S.) in its most recently completed fiscal year. The purchase accounting for this transaction will be completed in fiscal year 2012. The acquisition is expected to provide a strong synergistic fit for the Company's Food Safety segment.

**8. LONG TERM DEBT AND LIABILITIES**

The Company has a financing agreement in place with a bank (no amounts drawn at November 30, 2011 or May 31, 2011) which, through the first quarter of fiscal 2011, provided for an unsecured revolving line of credit of \$10,000,000. Effective August 31, 2011, the Company extended the agreement by one year through November 30, 2013 and increased the total available credit to \$12,000,000. The incremental credit is to provide for flexibility for potential foreign currency hedging strategies. The interest rate is at LIBOR plus 100 basis points (rate under terms of the agreement was 1.26% at November 30, 2011). 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 November 30, 2011.

**9. COMMITMENTS AND CONTINGENCIES**

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company is currently expensing annual costs of remediation, which have ranged from \$50,000 to \$105,000 per year over the past five years. The Company's estimated liability for these costs of \$916,000 at November 30, 2011 and 2010, measured on an undiscounted basis over an estimated period of 15 years, is recorded within other long term liabilities in the consolidated balance sheet.

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

**10. STOCK PURCHASE**

In December 2008, the Company's Board of Directors authorized a program to purchase, subject to market conditions, up to 750,000 shares of the Company's common stock. As of November 30, 2011, 74,684 cumulative shares had been purchased in negotiated and open market transactions for a total price, including commissions, of approximately \$923,000. Shares purchased under the program were retired. There have been no purchases in fiscal year 2012 and there were none in 2011.

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### **Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations**

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

### **Safe Harbor and Forward-Looking Statements**

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

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

### **Critical Accounting Policies and Estimates**

The discussion and analysis of the Company's financial condition and results of operations are based on the consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including those related to receivable allowances, inventories, accruals 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.

There have been no material changes to the critical accounting policies and estimates disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

**Table of Contents****Results of Operations****Executive Overview**

Neogen Corporation revenues increased by 2.2% in the second quarter to \$44.9 million and by 4.3% to \$90.6 million for the six-month period ended November 30, 2011 each, when compared to the prior year. Food Safety revenues increased by 3.3% and 4.0% in the quarter and the six-month period ended November 30, 2011, respectively. Animal Safety revenues increased by 1.1% and 4.6% in the quarter and in the six-month period ended November 30, 2011, respectively. Exclusive of the revenues from the VeroMara acquisition, which was made in June 2011, Food Safety revenue increases were 2.8% and 3.4% in the second quarter and year-to-date periods, respectively. Gross margins decreased from 51.2% in the November 2010 quarter to 50.5% in the November 2011 quarter and decreased from 52.1% to 50.4% on a year-to-date basis. The change in margin percentage for the year to date period is primarily the result of shifts in product mix and increases in fixed manufacturing cost. Operating margins decreased in the comparative quarter and six-month periods from 21.9% to 18.1% and from 22.1% to 19.3%, respectively. The decreases were primarily the result of investments in sales and customer support personnel and infrastructure, part of a long-term strategy that management believes may result in revenue gains and efficiencies in the future.

**Revenues**

Three and six months ended November 30, 2011 compared to three and six months ended November 30, 2010:

	<b>Three Months Ended November 30,</b>			
	<b>2011</b>	<b>2010</b>	<b>Increase / (Decrease)</b>	<b>%</b>
<i>(In thousands except percents)</i>				
<b>Food Safety</b>				
Natural Toxins, Allergens & Drug Residues	\$ 11,501	\$ 11,192	\$ 309	2.8
Bacteria & General Sanitation	5,839	5,393	446	8.3
Dehydrated Culture Media & Other	4,702	4,756	(54)	(1.1)
	\$ 22,042	\$ 21,341	701	3.3
<b>Animal Safety</b>				
Life Science & Other	1,974	1,883	91	4.8
Vaccines	852	746	106	14.2
Rodenticides & Disinfectants	7,106	7,868	(762)	(9.7)
Veterinary Instruments & Other	8,986	7,484	1,502	20.1
DNA Testing	3,931	4,609	(678)	(14.7)
	22,849	22,590	259	1.1
<b>Total Revenues</b>	<b>\$ 44,891</b>	<b>\$ 43,931</b>	<b>\$ 960</b>	<b>2.2</b>

	<b>Six Months Ended November 30,</b>			
	<b>2011</b>	<b>2010</b>	<b>Increase / (Decrease)</b>	<b>%</b>
<i>(In thousands except percents)</i>				
<b>Food Safety</b>				
Natural Toxins, Allergens & Drug Residues	\$ 23,463	\$ 22,671	\$ 792	3.5
Bacteria & General Sanitation	12,274	10,743	1,531	14.3
Dehydrated Culture Media & Other	9,587	10,179	(592)	(5.8)
	\$ 45,324	\$ 43,593	1,731	4.0

**Animal Safety**

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Life Science & Other	4,071	3,953	118	3.0
Vaccines	1,339	1,328	11	0.8
Rodenticides & Disinfectants	13,730	13,561	169	1.2
Veterinary Instruments & Other	18,427	15,069	3,358	22.3
DNA Testing	7,697	9,349	(1,652)	(17.7)
	45,264	43,260	2,004	4.6
<b>Total Revenues</b>	<b>\$ 90,588</b>	<b>\$ 86,853</b>	<b>\$ 3,735</b>	<b>4.3</b>



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Food Safety revenues increased 3.3% in the second quarter and 4.0% in the first six months of FY-12, each compared to the prior year. Exclusive of the VeroMara acquisition, revenues increased by 2.8% and 3.4% in the quarter and six month periods, in comparison to the same periods of the prior year. Sales of Natural Toxin, Allergen and Drug Residue products increased by 2.8% in the quarter and by 3.5% for the year-to-date in comparison with FY-11. Within this product group, BetaStar Kits to detect drug residues increased by 7.5% in the second quarter and by 17.0% for the first six months of the fiscal year. Mycotoxin second quarter revenues declined by 0.9%, and by 5.8% for the six-month period as there were fewer incidences of Aflatoxin and DON outbreaks during the summer and fall harvest season. Revenues from Food Allergen tests increased 2.1% in the second quarter and 1.1% for the six months ended November 2011. Bacteria and General Sanitation product revenues increased by 8.3% in the quarter and 14.3% for the first six months of FY-12 compared to FY-11 primarily due to placements of Soleris<sup>®</sup> optical microbial detection systems in the current year. Dehydrated Culture Media and Other product revenues decreased by 1.1% and 5.8% in the quarter and in the six-month periods, respectively, primarily due to the loss of a significant customer due to credit issues and the closure of a plant by another significant customer.

Animal Safety revenues increased by 1.1% in the second quarter and 4.6% for the year to date period ended November 30, 2011 in comparison with the prior year. Life sciences and other revenue increased by 4.8% in the quarter and 3.0% in the six month periods, respectively. Forensic test kit revenues were up 12% in the second quarter compared with the prior year quarter and the launch of an improved substrate product led to an increase in sales of test reagents that Neogen offers to other test kit manufacturers. Vaccine revenues increased by 14.2% for the second quarter and increased by 0.8% in the first six months of FY-12, due to timing of orders and the shipment of product to large key distributors. Rodenticide and Disinfectant product revenues decreased by 9.7% in the second quarter but increased by 1.2% on a year-to-date basis. Rodenticides declined due to strong 4<sup>th</sup> quarter FY-2011 sales ahead of a June 2011 change in EPA rules regarding labeling of these products. The strong fourth quarter sales led to lower first and second quarter FY-2012 revenues. Sales of cleaners and disinfectants have increased in the comparative three and six months periods due to sales to international distributors. Veterinary Instrument and other product revenues increased by 20.1% and 22.3% in the quarter and six months, respectively, in comparison with the prior year. Increases were due to strong detectable needle revenues and significant sales increases in companion animal products, veterinary gloves and apparel products sold through key veterinary distribution channels. Revenues decreased at GeneSeek by 14.7% and 17.7% for the three months and six months ended November 30, 2011 compared to the same periods in the prior year, due primarily to business from new products and contracts earned in the prior year which were not achieved to the same extent, or did not occur, during the first half of FY2012. GeneSeek's contract business is not necessarily predictable from period-to-period as to its timing or amount.

Gross margins decreased from 51.2% in the second quarter of FY-11 to 50.5% in the second quarter of FY-12, and from 52.1% in the first six months of FY-2011 to 50.4% in the same period of FY-12. This resulted principally from changes in product mix and increased manufacturing expenses.

Operating margins decreased from 21.9% to 18.1% in the second quarter and from 22.1% to 19.3% in the first six months of FY-12 as compared to the first six months of FY-11. Sales and marketing expenses as expressed as a percentage of revenues increased from 17.1% to 19.2% in the second quarter and increased from 17.3% to 18.5% on a year-to-date basis. The increase in sales and marketing expenses is the direct effect of additional sales, marketing and customer service representatives added during the year. These positions were added to help the company capture and support available market opportunities. General and administrative expenses increased from 8.5% to 9.3% of revenues in the second quarter, and from 8.7% to 9.0% on a year to date basis. The change in general and administrative expense is due to the increased compensation costs, amortization from acquired businesses, and costs associated with increased governmental licensing and regulatory affairs. Research expense increased from 3.7% to 3.8% in the second quarter and decreased from 4.0% to 3.6% in the first six months of FY-12. While these expenses vary on a quarter to quarter basis depending on the timing of new projects and the completion of existing projects, management expects that research and development efforts will range between 4% to 5% in support of existing products and for development of future products.

**Financial Condition and Liquidity**

The overall cash and marketable securities position of the company was \$55,606,000 at November 30, 2011, compared to \$56,083,000 at May 31, 2011. Approximately \$6,174,000 in cash was generated from operations during the six months ended November 30, 2011. Net cash proceeds of \$2,511,000 were realized from the exercise of stock options and issuance of shares under the Employee Stock Purchase Plan during the first six months of FY-12. Accounts receivable increased by \$3,235,000 due to increases in revenues and in the timing of receipt of payments; inventories increased by \$4,411,000 as a result of the build up for anticipated orders with large international customers and bulk purchases made to receive discounted pricing. In June, the Company closed its purchase of VeroMara for approximately \$813,000. In August, the Company completed the purchase of a 128,000 square foot office and warehouse facility in Lexington, Kentucky for \$4,950,000. This facility was purchased to accommodate the expansion of the company's animal safety operations. Inflation and changing prices are not expected to have a material effect on operations, as management believes it has and will be successful in offsetting increased input costs with price increases.

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Management believes that the Company's existing cash and marketable securities balances at November 30, 2011, along with available borrowings under its credit facility and cash expected to be generated from future operations, will be sufficient to fund activities for the foreseeable future. However, existing cash and borrowing capacity may not be sufficient to meet the Company's cash requirements to commercialize products currently under development or its plans to acquire other organizations, technologies or products that fit within the Company's mission statement. Accordingly, the Company may choose to issue equity securities or enter into other financing arrangements for a portion of its future financing needs.

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**PART I FINANCIAL INFORMATION**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company has interest rate and foreign exchange rate risk exposure and no long-term fixed rate investments or borrowings. Primary interest rate risk is due to potential fluctuations of exposure to interest rates for variable rate borrowings.

Foreign exchange risk exposure arises because the Company markets and sells its products throughout the world. The Company also could be affected by weak economic conditions in foreign markets that could reduce demand for its products. Additionally, revenues in certain foreign countries as well as certain expenses related to those revenues are transacted in currencies other than the U.S. Dollar. The Company's operating results are primarily exposed to changes in exchange rates between the U.S. Dollar, the British Pound Sterling and the Euro. When the U.S. Dollar weakens against foreign currencies, the dollar value of revenues denominated in foreign currencies increases. When the U.S. Dollar strengthens, the opposite situation occurs. Additionally, previously recognized revenues in the course of collection can be affected positively or negatively by changes in exchange rates. The Company uses derivative financial instruments to help manage the economic impact of fluctuations in certain currency exchange rates. These contracts are adjusted to fair value through earnings.

Neogen has assets, liabilities and operations outside of the United States, which are located in Scotland, Brazil and Mexico where the functional currency is the British Pound Sterling, Brazilian Real and Mexican Peso, respectively. The Company's investments in foreign subsidiaries are considered to be long-term.

**PART I FINANCIAL INFORMATION**

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of November 30, 2011 was carried out under the supervision and with the participation of the Company's management, including the Chairman & Chief Executive Officer and the Vice President & Chief Financial Officer (the Certifying Officers). Based on the evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective.

**Changes in Internal Controls Over Financial Reporting**

There was no change to the Company's internal control over financial reporting during the quarter ended November 30, 2011 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 6. Exhibits**

(a) Exhibit Index

3(i)	Restated Articles of Incorporation
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 (a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 (a).
32	Certification pursuant to 18 U.S.C. sections 1350.
99.1	Neogen Corporation 2011 Employee Stock Purchase Plan
99.2	Amended and Restated Neogen Corporation 2007 Stock Option Plan
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**Items 1A, 2, 3, 4, and 5 are not applicable or removed or reserved and have been omitted.**

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEOGEN CORPORATION

*(Registrant)*

Dated: December 30, 2011

/s/ James L. Herbert  
James L. Herbert

Chairman & Chief Executive Officer

(Principal Executive Officer)

Dated: December 30, 2011

/s/ Steven J. Quinlan  
Steven J. Quinlan

Vice President & Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)