

NEOGEN CORP  
Form 10-Q  
March 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 February 28, 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)*

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

**38-2367843**  
*(IRS Employer*

*Identification Number)*

**620 Leshar 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)*

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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 March 1, 2011, there were 23,190,000 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**

	February 28, 2011 <i>(In thousands, except share and per share amounts)</i> (Unaudited)	May 31, 2010 <i>(In thousands, except share and per share amounts)</i> (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 47,627	\$ 22,806
Accounts receivable, less allowance of \$700 and \$600.	29,459	27,433
Inventories	31,397	31,316
Deferred income taxes	774	774
Prepaid expenses and other current assets	3,474	3,691
<b>TOTAL CURRENT ASSETS</b>	<b>112,731</b>	<b>86,020</b>
<b>NET PROPERTY AND EQUIPMENT</b>	<b>21,209</b>	<b>19,180</b>
<b>OTHER ASSETS</b>		
Goodwill	53,345	52,899
Other non-amortizable intangible assets	4,314	4,139
Customer based intangibles, net of accumulated amortization of \$5,162 and \$4,002	11,862	13,021
Other non-current assets, net of accumulated amortization of \$2,524 and \$1,822	5,696	4,974
	<b>75,217</b>	<b>75,033</b>
<b>TOTAL ASSETS</b>	<b>\$ 209,157</b>	<b>\$ 180,233</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,345	\$ 7,187
Accrued compensation	2,201	2,346
Income taxes	5,126	2,838
Other accruals	5,551	4,662
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,223</b>	<b>17,033</b>
DEFERRED INCOME TAXES	5,824	5,824
OTHER LONG-TERM LIABILITIES	4,752	4,323
	<b>10,576</b>	<b>10,147</b>
<b>TOTAL LIABILITIES</b>	<b>30,799</b>	<b>27,180</b>
<b>EQUITY</b>		

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Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding			
Common stock, \$.16 par value, 30,000,000 shares authorized, 23,189,929 and 22,625,399 shares issued and outstanding at February 28, 2011 and May 31, 2010, respectively	3,710	3,621	
Additional paid-in capital	76,736	69,550	
Accumulated other comprehensive loss	(524)	(1,676)	
Retained earnings	98,105	81,170	
Total Neogen Corporation Stockholders' Equity	178,027	152,665	
Noncontrolling interest	331	388	
TOTAL EQUITY	178,358	153,053	
TOTAL LIABILITIES AND EQUITY	\$ 209,157	\$ 180,233	

See notes to interim consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	February 28		February 28	
	2011	2010	2011	2010
	<i>(In thousands, except per share amounts)</i>			
Net sales	\$ 42,235	\$ 33,833	\$ 129,088	\$ 101,431
Cost of goods sold	21,647	16,372	63,245	48,178
<b>GROSS MARGIN</b>	<b>20,588</b>	<b>17,461</b>	<b>65,843</b>	<b>53,253</b>
<b>OPERATING EXPENSES</b>				
Sales and marketing	7,044	6,795	22,060	19,172
General and administrative	3,677	3,391	11,253	9,473
Research and development	1,802	1,526	5,240	4,687
	12,523	11,712	38,553	33,332
<b>OPERATING INCOME</b>	<b>8,065</b>	<b>5,749</b>	<b>27,290</b>	<b>19,921</b>
<b>OTHER INCOME(EXPENSE)</b>				
Interest income	13	34	70	67
Change in purchase consideration	(218)		(618)	
Other income (expense)	(17)	(2)	(164)	(1)
	(222)	32	(712)	66
<b>INCOME BEFORE INCOME TAXES</b>	<b>7,843</b>	<b>5,781</b>	<b>26,578</b>	<b>19,987</b>
<b>INCOME TAXES</b>	<b>2,900</b>	<b>1,900</b>	<b>9,700</b>	<b>7,100</b>
<b>NET INCOME</b>	<b>\$ 4,943</b>	<b>\$ 3,881</b>	<b>\$ 16,878</b>	<b>\$ 12,887</b>
<b>NET INCOME PER SHARE</b>				
Basic	\$ .21	\$ .17	\$ .74	\$ .58
Diluted	\$ .21	\$ .17	\$ .71	\$ .56

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, 2010	22,625	\$ 3,621	\$ 69,550	\$ (1,676)	\$ 81,170	\$ 388	\$ 153,053
Issuance of shares of common stock under equity compensation plans, and share based compensation, including \$461 of excess income tax benefit	547	86	6,771				6,857
Issuance of shares under employee stock purchase plan	18	3	415				418
Comprehensive income:							
Net income (loss) for the nine months ended February 28, 2011					16,935	(57)	16,878
Foreign currency translation adjustments				1,152			1,152
Total comprehensive income (\$12,426 in the nine months ended February 28, 2010)							18,030
Balance, February 28, 2011	23,190	\$ 3,710	\$ 76,736	\$ (524)	\$ 98,105	\$ 331	\$ 178,358

See notes to interim consolidated financial statements

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

	<b>Nine Months Ended February 28, 2011      2010 (In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>\$ 16,878</b>	<b>\$ 12,887</b>
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,941	3,147
Share based compensation	1,824	1,593
Excess income tax benefit from the exercise of stock options	(461)	(821)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,460)	(2)
Inventories	383	185
Prepaid expenses and other current assets	331	(537)
Accounts payable and accruals	2,525	5,159
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>23,961</b>	<b>21,611</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment and other assets	(5,353)	(2,444)
Payments for business acquisitions		(6,455)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,353)</b>	<b>(8,899)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increases in other long-term liabilities	301	88
Net proceeds from issuance of common stock	5,451	3,644
Excess income tax benefit from the exercise of stock options	461	821
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>6,213</b>	<b>4,553</b>
<b>INCREASE IN CASH</b>	<b>24,821</b>	<b>17,265</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>22,806</b>	<b>13,842</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 47,627</b>	<b>\$ 31,107</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 three and nine month periods ended February 28, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2011. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2010 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, 2010.

**2. INVENTORIES**

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

	February 28, 2011	May 31, 2010
	<i>(In thousands)</i>	
Raw materials	\$ 11,942	\$ 11,815
Work-in-process	2,274	1,958
Finished and purchased goods	17,181	17,543
	\$ 31,397	\$ 31,316

**3. NET INCOME PER SHARE**

The calculation of net income per share follows:

	Three Months Ended February 28, 2011		Nine Months Ended February 28 2011	
	<i>(In thousands, except per share amounts)</i>			
Numerator for basic and diluted net income per share:				
Net income	\$ 4,943	\$ 3,881	\$ 16,878	\$ 12,887
Denominator:				
Denominator for basic net income per share:				
Weighted average shares	23,149	22,536	22,923	22,366
Effect of dilutive stock options and warrants	785	652	797	646
Denominator for diluted net income per share	23,934	23,188	23,720	23,012
Net income per share:				
Basic	\$ .21	\$ .17	\$ .74	\$ .58
Diluted	\$ .21	\$ .17	\$ .71	\$ .56

The Board of Directors declared a 3 for 2 stock split effective December 15, 2009. All share and per share amounts in this Form 10-Q reflect amounts as if the split took place at the beginning of the periods presented.



**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 and provides genetic identification services. Additionally, the Animal Safety segment 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 February 28, 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 2011</b>				
Net sales to external customers	\$ 20,634	\$ 21,601	\$	\$ 42,235
Operating income (reduction)	5,516	3,063	(514)	8,065
<b>Fiscal 2010</b>				
Net sales to external customers	\$ 19,718	\$ 14,115	\$	\$ 33,833
Operating income (reduction)	4,980	1,243	(474)	5,749

Segment information for the nine months ended February 28, 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 2011</b>				
Net sales to external customers	\$ 64,226	\$ 64,862	\$	\$ 129,088
Operating income (reduction)	18,753	9,949	(1,412)	27,290
Total Assets	77,179	89,771	42,207	209,157
<b>Fiscal 2010</b>				
Net sales to external customers	\$ 55,640	\$ 45,791	\$	\$ 101,431
Operating income (reduction)	15,393	5,888	(1,360)	19,921
Total Assets	67,293	69,447	28,560	165,300

- (1) Includes corporate assets, consisting principally of cash and cash equivalents, 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 years and become exercisable in varying installments. Certain non-qualified options are granted for 10 year periods. A summary of stock option activity during the nine months ended February 28, 2011 follows:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Options outstanding at June 1, 2010	1,998,000	\$ 14.14
Granted	288,000	28.29
Exercised	(547,000)	11.18
Forfeited	(10,000)	11.32
<b>Options outstanding at February 28, 2011</b>	<b>1,729,000</b>	<b>17.40</b>

During the three and nine month periods ended February 28, 2011 and 2010 the Company recorded \$584,000 and \$544,000 and \$1,824,000 and \$1,593,000, respectively of compensation expense related to its share-based awards.

The weighted-average fair value of stock options granted during 2011 and 2010, estimated on the date of grant using the Black-Scholes option pricing model was \$8.60 and \$6.35 respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	<b>2011</b>	<b>2010</b>
Risk-free interest rate	1.7%	2.0%
Expected dividend yield	0%	0%
Expected stock price volatility	35.8%	37.8%
Expected option life	4.0 years	4.0 years

The Company has 11,250 outstanding warrants that are exercisable for common stock. The warrants have lives of 5 years and were expensed at fair value upon issuance.

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

**6. NEW ACCOUNTING PRONOUNCEMENTS**

Recent ASU s issued by the FASB and guidance issued by the SEC did not, or are not currently believed by management to, have a material effect on the Company s present or future consolidated financial statements.

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**7. BUSINESS AND PRODUCT LINE ACQUISITIONS**

On December 1, 2009, the Company purchased the BioKits food safety allergen test kits business of Gen-Probe Incorporated. Consideration for the purchase, which was determined through arms length negotiations, approximated \$6.5 million in cash and the assumption of trade accounts payable of \$175,000. The final allocation of the purchase price included net current assets of \$770,000, fixed assets of \$163,000 and intangible assets of \$5,522,000. The valuation of the identifiable intangible assets acquired was based on management's estimates, currently available information and reasonable and supportable assumptions. 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 represents a Level 3 fair value measurement. The acquisition has been integrated into the Food Safety segment.

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 \$13,800,000 in cash and secondary payment obligations of up to \$7,000,000. The preliminary allocation of the purchase price included amounts receivable of \$1,923,000, inventory of \$1,212,000, fixed assets of \$847,000, current liabilities of \$600,000, deferred tax liabilities of \$2,050,000, secondary payment liabilities of \$3,583,000, based upon future operating results of the GeneSeek business until 2013 and payable yearly over a three year measurement period, and the remainder to goodwill and other intangible assets (with estimated lives of 5-20 years). The secondary payment was measured at fair value, and is considered a level 3 fair value measurement under ASC 820-Fair Value Measurement and Disclosure, as it was based on unobservable inputs and involves management's judgment. The acquisition has been integrated into the Animal Safety segment. The Company recorded a charge within other income (expense) of approximately \$218,000 and \$618,000 respectively for the three and nine months ended February 28, 2011, representing the increase in fair value of the secondary payment liability. As of February 28, 2011, the balance of the secondary payment liability recorded was approximately \$4,202,000.

**8. LONG TERM DEBT AND LIABILITIES**

The Company maintains a financing agreement with a bank (no amounts drawn at February 28, 2011 or May 31, 2010) providing for an unsecured revolving line of credit of \$10,000,000. The interest rate is at LIBOR plus 100 basis points (rate under terms of the agreement was 1.26% at February 28, 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 February 28, 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 of approximately \$90,000. The Company's estimated liability for this of \$916,000 at February 28, 2011 and May 31, 2010 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 February 28, 2011, 74,684 cumulative shares had been purchased in negotiated and open market transactions for a total price, including commissions, of approximately \$923,000. There have been no purchases in fiscal year 2011 and there were none in 2010. Shares purchased under the program were retired.

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### **PART I FINANCIAL INFORMATION**

#### **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, 2010.

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

Neogen Corporation revenues increased by 25% in the third quarter ended February 28, 2011 to \$42.2 million and by 27% to \$129.1 million for the nine-month period ended February 28, 2011, each when compared to the same periods in the prior year. Food Safety revenues increased by 5% and 15% for the comparative quarter and nine-month periods ended February 28, 2011, respectively. Animal Safety revenues increased by 53% and 42% for the quarter and nine-month periods ended February 28, 2011, respectively. Exclusive of the revenues from the BioKits and GeneSeek acquisitions, overall revenues increased 10% and 11% for the comparative third quarter and year-to-date periods, respectively. Gross margin percents of sales decreased from 51.6% for the February 2010 quarter to 48.7% for the February 2011 quarter and decreased from 52.5% to 51.0% on a comparative year-to-date basis. The decrease in gross margins was primarily a result of the impact of the GeneSeek operations, which have lower average gross margins, and to a lesser extent, changes in product mix. Operating income expressed as a percent of sales increased for the comparative quarter and nine-month periods from 17.0% to 19.1% and from 19.6% to 21.1%, respectively. These gains in operating income were the result of increased revenues, continuing cost control efforts and the effect of lower operating expenses incurred at GeneSeek.

**Revenues**

Three and Nine Months Ended February 28, 2011 Compared to Three and Nine Months Ended February 28, 2010

	<b>Three Months Ended February 28</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	\$ 9,945	\$ 10,107	(\$ 162)	(2)
Bacteria & General Sanitation	5,871	4,902	969	20
Dehydrated Culture Media & Other	4,818	4,709	109	2
	20,634	19,718	916	5
<b>Animal Safety</b>				
Life Science & Other	1,909	1,634	275	17
Vaccines	441	469	(28)	(6)
Rodenticides & Disinfectants	7,185	4,831	2,354	49
Veterinary Instruments & Other	7,034	7,181	(147)	(2)
DNA Testing	5,032		5,032	
	21,601	14,115	7,486	53
<b>Total Revenues</b>	<b>\$ 42,235</b>	<b>\$ 33,833</b>	<b>\$ 8,402</b>	<b>25</b>

	<b>Nine Months Ended February 28</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	\$ 32,615	\$ 28,835	\$ 3,780	13
Bacteria & General Sanitation	16,614	14,028	2,586	18
Dehydrated Culture Media & Other	14,997	12,777	2,220	17
	64,226	55,640	8,586	15
<b>Animal Safety</b>				

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Life Science & Other	5,862	5,248	614	12
Vaccines	1,769	1,838	(69)	(4)
Rodenticides & Disinfectants	20,747	17,420	3,327	19
Veterinary Instruments & Other	22,103	21,285	818	4
DNA Testing	14,381		14,381	
	64,862	45,791	19,071	42
Total Revenues	\$ 129,088	\$ 101,431	\$ 27,657	27



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Food Safety revenues increased 5% in the third quarter and 15% for the first nine months of fiscal year 2011 (FY-11), compared to the same periods in the prior year. Sales of Natural Toxin, Allergen and Drug Residue products decreased by 2% for the quarter and increased by 13% year-to-date, in comparison with fiscal year 2010 (FY-10). Exclusive of the BioKits acquisition, which occurred in December 2009, revenues increased by 11% in the nine month period, in comparison with the same period of the prior year. Revenues from Food Allergen tests continued their recent trend of growth with an overall increase of 16% in the third quarter and 59% in the nine months ended February 2011 due in part to the acquisition of the BioKits product line. Mycotoxin third quarter revenues decreased by 18% and increased by 4% in the nine month period, following difficult comparisons to FY-10, in which much of the United States had weather conditions conducive to the production of the mycotoxin vomitoxin. Drug residue test kits revenue increased 12% in the quarter and 4% in the first nine months of FY-11. Bacteria and General Sanitation product revenues increased by 20% for the quarter and 18% for the first nine months of FY-11, due primarily to increased placements of Soleris instruments and AccuPoint readers and the associated sales of consumable diagnostic tests. Dehydrated Culture Media and Other product revenues increased by 2% and 17% for the comparative quarter and nine-month periods, respectively.

Animal Safety revenues increased by 53% in the third quarter and 42% for the nine months ended February 28, 2011 in comparison with the prior year. Excluding the revenues of the GeneSeek acquisition in April 2010, Animal Safety revenues increased 17% in the quarter and 10% for the first nine months of FY-11. Life Sciences and Other revenue increased by 17% and 12% for the quarter and nine months respectively. Revenue increases were broad based with increases from existing customers and new key accounts. Rodenticide and Disinfectant product revenues increased by 49% for the quarter and by 19% on a year-to-date basis. Rodenticide and Disinfectant revenues growth included strong international sales increases in cleaners and disinfectants, agronomics segment products, as well as a strong rodenticide program domestically. Veterinary Instrument and Other product revenues decreased by 2% for the quarter and increased by 4% for the nine months, respectively when compared to the prior year periods. The nine-month increase was due to strong OEM and specialty needle revenues and increased selling efforts to distributors servicing customers involved in food animal production.

Gross margins, expressed as a percentage of sales, decreased from 51.6% in the third quarter of 2010 to 48.7% in the third quarter of 2011, and for the year to date declined from 52.5% in 2010 to 51.0% in 2011. This decline in each comparative period is due primarily to lower gross margins generated by GeneSeek, which was purchased in April 2010, and, to a lesser extent, a shift in product mix toward Animal Safety products, which have lower average gross margin percentages than Food Safety products.

Primarily the result of our strong cost control efforts, operating margins in the third quarter increased from 17.0% to 19.1% and from 19.6% to 21.1% in the nine months of sales in FY-11 as compared with FY-10. Sales and marketing expenses expressed as a percentage of revenues decreased from 20.1% to 16.7% in the third quarter and decreased from 18.9% to 17.1% on a year-to-date basis. The decrease in sales and marketing as a percentage of revenues is the direct effect of the BioKits and GeneSeek acquisitions that contributed revenue dollars without commensurate increase in distribution cost. General and administrative expenses decreased from 10.0% of revenues in FY-10 to 8.7% of revenues in the third quarter of FY-11, and from 9.3% year-to-date in FY-10 to 8.7% for the first nine months of FY-11. The change in general and administrative expense, an increase in absolute dollars of \$286,000 in the quarter and \$1,780,000 fiscal year-to-date, is partially due to the cost of acquiring businesses with increased governmental licensing and regulatory affairs requirements, the cost of amortization of intangibles related to acquisitions and increased costs related to stock option expense. Research expense increased \$276,000 in absolute dollars in the third quarter and increased by \$553,000 for the first nine months of FY-11, but decreased as a percent of revenues from 4.5% to 4.3% in the third fiscal quarter and from 4.6% to 4.1% in comparison with the nine-month period. Management expects that research and development efforts will be in the 4-5% range to support the existing products and to increase the supply of future products.

### **Financial Condition and Liquidity**

For the year-to-date period ended February 28, 2011, \$23,961,000 of cash was generated from operations, primarily from net income. Despite the 27% increase in revenues for the year to date, working capital requirements have been minimal. Accounts receivable balances have only increased by \$2,026,000 or 7%, due primarily to concerted management efforts to monitor and reduce days sales outstanding. Inventories at February 28, 2011 increased by \$81,000 compared to May 31, 2010 balances, as numerous systems and procedures have been put in place by management to control inventory balances and increase inventory turnover. At February 28, 2011, cash and cash equivalents consisted of funds to support current operations and certificates of deposit and top tier commercial paper with maturities of 90 days or less. Historically, inflation and changing prices have not had a material effect on operations.

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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. It therefore 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 February 28, 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 February 28, 2011 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. For purposes of this evaluation, the impact of the acquisition of GeneSeek, Inc. which closed on April 1, 2010, on the Company's internal controls over financial reporting has been excluded.

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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

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.

**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: March 30, 2011

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

Dated: March 30, 2011

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