NEOGEN CORP
Form 10-Q
April 09, 2009
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

*(Mark One)*

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

**For the quarterly period ended February 28, 2009.**

**or**

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

**For the transition period from to**

**Commission file number 0-17988**

# Neogen Corporation

***(Exact name of registrant as specified in its charter)***

| | |
|---|---|
| **Michigan** | **38-2367843** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification Number)** |

**620 Lesher Place**

**Lansing, Michigan 48912**

***(Address of principal executive offices, including zip code)***

**(517) 372-9200**

***(Registrant s telephone number, including area code)***

**N/A**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES x 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 x |
| 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 x

As of March 1, 2009, there were 14,772,000 shares of Common Stock outstanding.

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**NEOGEN CORPORATION AND SUBSIDIARIES**

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**PART I FINANCIAL INFORMATION**

**Item 1. Interim Consolidated Financial Statements (Unaudited)**

**NEOGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| | February 28, 2009 | May 31, 2008 |
|---|---|---|
| | *(In thousands, except share and per share amounts)* | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 13,731 | $ 14,270 |
| Accounts receivable, less allowance of $550 and $500 | 21,807 | 19,384 |
| Inventories | 32,867 | 27,799 |
| Deferred income taxes | 1,225 | 1,225 |
| Prepaid expenses and other current assets | 3,502 | 2,953 |
| TOTAL CURRENT ASSETS | 73,132 | 65,631 |
| NET PROPERTY AND EQUIPMENT | 16,748 | 16,889 |
| OTHER ASSETS | | |
| Goodwill | 36,880 | 30,617 |
| Other non-amortizable intangible assets | 3,680 | 3,435 |
| Customer based intangibles, net of accumulated amortization of $2,391 and $1,988 | 5,167 | 6,139 |
| Other non-current assets, net of accumulated amortization of $1,813 and $1,373 | 4,568 | 3,646 |
| | 50,295 | 43,837 |
| | $ 140,175 | $ 126,357 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 6,070 | $ 6,505 |
| Accrued compensation | 1,762 | 2,025 |
| Income taxes | 2,101 | 302 |
| Other accruals | 1,748 | 2,304 |
| TOTAL CURRENT LIABILITIES | 11,681 | 11,136 |
| DEFERRED INCOME TAXES | 2,329 | 2,329 |
| OTHER LONG-TERM LIABILITIES | 1,273 | 1,644 |
| TOTAL LIABILITIES | 15,283 | 15,109 |
| STOCKHOLDERS EQUITY | | |
| Preferred stock, $1.00 par value, 100,000 shares authorized, none issued and outstanding | | |
| Common stock, $.16 par value, 30,000,000 shares authorized, 14,772,161 shares issued and outstanding at February 28, 2009; 14,518,277 shares issued and outstanding at May 31, 2008 | 2,364 | 2,323 |

| | | |
|---|---|---|
| Additional paid-in capital | 63,307 | 58,789 |
| Accumulated other comprehensive income | (951) | 421 |
| Retained earnings | 60,172 | 49,715 |
| TOTAL STOCKHOLDERS EQUITY | 124,892 | 111,248 |
| | $ 140,175 | $ 126,357 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| | Three Months Ended February 28 / 29 | | Nine Months Ended February 28 / 29 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | *(In thousands, except per share amount)* | | | |
| Net sales | $ 27,840 | $ 25,180 | $ 87,831 | $ 75,299 |
| Cost of goods sold | 14,813 | 12,517 | 43,875 | 36,168 |
| GROSS MARGIN | 13,027 | 12,663 | 43,956 | 39,131 |
| OPERATING EXPENSES | | | | |
| Sales and marketing | 5,422 | 4,947 | 17,053 | 15,081 |
| General and administrative | 2,769 | 2,717 | 8,382 | 7,909 |
| Research and development | 1,265 | 1,018 | 3,436 | 2,815 |
| | 9,456 | 8,682 | 28,871 | 25,805 |
| OPERATING INCOME | 3,571 | 3,981 | 15,085 | 13,326 |
| OTHER INCOME | | | | |
| Interest income | 60 | 86 | 195 | 357 |
| Other income | 542 | (84) | 852 | 115 |
| | 602 | 2 | 1,047 | 472 |
| INCOME BEFORE INCOME TAXES | 4,173 | 3,983 | 16,132 | 13,798 |
| INCOME TAXES | 1,350 | 1,325 | 5,675 | 4,875 |
| NET INCOME | $ 2,823 | $ 2,658 | $ 10,457 | $ 8,923 |
| NET INCOME PER SHARE | | | | |
| Basic | $ .19 | $ .19 | $ .72 | $ .63 |
| Diluted | $ .19 | $ .18 | $ .69 | $ .60 |

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)

| | Common Stock | | Additional | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Other(1) | Retained Earnings | Total |
| | *(In thousands except share amounts)* | | | | | |
| Balance, June 1, 2008 | 14,518,277 | $ 2,323 | $ 58,789 | $ 421 | $ 49,715 | $ 111,248 |
| Issuance of shares common stock under equity compensation plans, including $428 of excess income tax benefit | 240,674 | 39 | 4,222 | | | 4,261 |
| Issuance of shares under employee stock purchase plan | 13,210 | 2 | 296 | | | 298 |
| Comprehensive income: | | | | | | |
| Net income for the nine months ended February 28, 2009 | | | | | 10,457 | 10,457 |
| Foreign currency translation adjustments | | | | (1,372) | | (1,372) |
| Total comprehensive income ($8,974 in the nine months ended February 29, 2008) | | | | | | 9,085 |
| Balance, February 28, 2009 | 14,772,161 | $ 2,364 | $ 63,307 | $ (951) | $ 60,172 | $ 124,892 |

(1) Other represents accumulated other comprehensive income.

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | Nine Months Ended February 28/29, 2009 | 2008 |
|---|---|---|
| | *(In thousands)* | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 10,457 | $ 8,923 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,892 | 2,583 |
| Share based compensation | 1,543 | 1,430 |
| Income tax benefit from stock plan transactions | (428) | (493) |
| Other | | (71) |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (3,038) | (2,592) |
| Inventories | (5,720) | (4,330) |
| Prepaid expenses and other current assets | (640) | (161) |
| Accounts payable and accruals | 1,305 | 1,017 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 6,371 | 6,306 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment and other assets | (1,863) | (1,835) |
| Payments for business acquisitions | (7,672) | (10,147) |
| NET CASH USED IN INVESTING ACTIVITIES | (9,535) | (11,982) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Reductions of other long-term liabilities | (371) | (145) |
| Net proceeds from issuance of common stock | 2,568 | 2,997 |
| Excess income tax benefit from the exercise of stock options | 428 | 493 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,625 | 3,345 |
| DECREASE IN CASH | (539) | (2,331) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 14,270 | 13,424 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 13,731 | $ 11,093 |

See notes to interim consolidated financial statements

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**NEOGEN CORPORATION AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the nine month period ended February 28, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2009. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2008 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, 2008.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), on June 1, 2007. The adoption of FIN 48 had no significant effect on the financial statements. The Company has no significant accrual for unrecognized tax benefits at February 28, 2009. Should the accrual of any interest of penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts. For the majority of tax jurisdictions, the Company is no longer subject to U.S. Federal, State and local or non U.S. income tax examinations by tax authorities for fiscal years before 2006.

## 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, 2009 | May 31, 2008 |
|---|---|---|
| | *(In thousands)* | |
| Raw materials | $ 10,915 | $ 10,278 |
| Work-in-process | 646 | 598 |
| Purchased finished and finished goods | 21,306 | 16,923 |
| | $ 32,867 | $ 27,799 |

## 3. NET INCOME PER SHARE

The calculation of net income per share follows:

| | Three Months Ended February 28/29, | | Nine Months Ended February 28/29, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | *(In thousands except per share amounts)* | | | |
| Numerator for basic and diluted net income per share: | | | | |
| Net income | $ 2,823 | $ 2,658 | $ 10,457 | $ 8,923 |
| Denominator: | | | | |
| Denominator for basic net income per share weighted average shares | 14,651 | 14,359 | 14,596 | 14,226 |
| Effect of dilutive stock options and warrants | 471 | 559 | 479 | 566 |
| Denominator for diluted net income per share | 15,122 | 14,918 | 15,075 | 14,792 |
| Net income per share: | | | | |
| Basic | $ .19 | $ .19 | $ .72 | $ 63 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Diluted | $ | .19 | $ | .18 | $ | .69 | $ | .60 |

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**4. STOCK REPURCHASE**

In December 2008, the Company s Board of Directors authorized the purchase of up to 500,000 shares of the Company s Common Stock and rescinded a program under which it had cumulatively purchased 893,000 shares in negotiated and open market transactions in years prior to fiscal year 2005. Shares purchased under this buy-back program were retired. No shares were purchased in the first three quarters of 2009 or in fiscal year 2008.

**5. SEGMENT INFORMATION**

The Company has two reportable segments: Food Safety and Animal Safety. The Food Safety segment produces and markets diagnostic test kits and related products used by food producers and processors to detect harmful natural toxins, drug residues, food borne bacteria, food allergens, pesticide residues, disease infections and levels of general sanitation. The Animal Safety segment is primarily engaged in the production and marketing of veterinary instruments, rodenticides and disinfectants and offers a complete line of consumable products to veterinarians and animal health product distributors.

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

Segment information as of and for the three months ended February 28, 2009 and February 29, 2008 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Fiscal 2009 | | | | |
| Net sales to external customers | $ 14,173 | $ 13,667 | $ | $ 27,840 |
| Operating income (reduction) | 3,017 | 857 | (303) | 3,571 |
| Total assets | $ 61,060 | $ 66,873 | $ 12,242 | $ 140,175 |
| Fiscal 2008 | | | | |
| Net sales to external customers | $ 13,835 | $ 11,345 | $ | $ 25,180 |
| Operating income (reduction) | 3,369 | 913 | (301) | 3,981 |
| Total assets | $ 61,393 | $ 50,239 | $ 8,186 | $ 119,818 |

Segment information as of and for the nine months ended February 28, 2009 and February 29, 2008 follows:

| | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| | | *(In thousands)* | | |
| Fiscal 2009 | | | | |
| Net sales to external customers | $ 45,101 | $ 42,730 | $ | $ 87,831 |
| Operating income (reduction) | 10,686 | 5,303 | (904) | 15,085 |
| Fiscal 2008 | | | | |
| Net sales to external customers | $ 42,068 | $ 33,231 | $ | $ 75,299 |
| Operating income (reduction) | 10,972 | 3,390 | (1,036) | 13,326 |

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

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**6. 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, 2009 follows:

| | Shares | Weighted-Average Exercise Price |
|---|---|---|
| Options outstanding at June 1, 2008 | 1,409,477 | $ 14.36 |
| Granted | 278,000 | 27.16 |
| Exercised | 249,437 | 10.81 |
| Forfeited | 8,740 | 14.20 |
| Options outstanding at February 28, 2009 | 1,429,300 | 17.47 |

Options outstanding at February 28, 2009 had a weighted-average remaining contractual term of 4.0 years. At February 28, 2009, the aggregate intrinsic values of options outstanding and options exercisable were $7,101,000 and $4,523,000, respectively. The aggregate intrinsic value of options exercised during the three and nine month periods ended February 28, 2009 and February 29, 2008 was $479,000 and $3,013,000 respectively. Exercise prices for options outstanding as of February 28, 2009 ranged from $3.33 to $27.28. At February 28, 2009 there was $2,908,000 of unrecognized compensation cost related to nonvested stock option compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 3.0 years. During the three and nine months ended February 28, 2009 and February 29, 2008 the Company recorded $492,000 and $1,543,000 and $459,000 and $1,430,000, respectively of compensation expense related to its share-based awards.

The grant date fair value of options granted during the nine months ended February 28, 2009 using the Black-Scholes option pricing model was $7.25 and was estimated using the following weighted-average assumptions:

| | |
|---|---|
| Risk-free interest rate | 2.3% |
| Expected dividend yield | 0% |
| Expected stock price volatility | 32.8% |
| Expected option life | 4.0 years |

The risk-free rate reflects the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatilities are based on historical volatility of the Company s stock. The Company uses historical data related to option exercises and employee terminations to determine the expected option life.

The Company has 39,000 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 as defined. The discount is expensed as of the date of purchase.

**7. NEW ACCOUNTING PRONOUNCEMENTS**

SFAS No. 141 Business Combinations (revised 2007) (SFAS 141(R)) is effective for the Company for business combinations closed on or after June 1, 2009. The revision is intended to converge rulemaking and reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160) was also issued, and is effective for the company on June 1, 2009. SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Its intention is to eliminate the diversity in practice regarding the accounting for transactions between and entity and noncontrolling interests.

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The statement is not expected to have a material impact on the financial statements.

In 2008 the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This Statement requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand a company s use of derivative instruments and their effect on a company s financial position, financial performance, and cash flows. This Statement will become effective for the Company beginning on June 1, 2009. The statement is not expected to have a material impact on the financial statements.

**8. 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 the legal matters will not have a material effect on its future results of operations or financial position.

**9. BUSINESS AND PRODUCT LINE ACQUISITIONS**

On August 24, 2007, Neogen Corporation purchased the operating assets of Brandon, South Dakota based Kane Enterprises, Inc. Consideration for the purchase, including additional net current assets of $800,000 and subject to certain post closing adjustments, consisted of $6,600,000 of cash. The allocation of the purchase price consisted of $600,000 in accounts receivables, $1,775,000 in inventory, $55,000 in fixed assets, $4,450,000 in goodwill and other intangible assets and $280,000 in assumed liabilities.

On December 3, 2007, Neogen Corporation purchased the operating assets of Winnipeg, Manitoba based Rivard Instruments Inc., a manufacturer of veterinary instruments. Consideration for the purchase was cash of $3,469,000. The preliminary allocation of the purchase price consisted of $468,000 in inventory, $5,000 in fixed assets, $2,996,000 in goodwill and other intangible assets.

On June 30, 2008, Neogen Corporation purchased a disinfectant business from DuPont Animal Health Solutions. The products are used in animal health hygiene applications. Assets acquired include 14 different product formulations, associated registrations, patents, trademarks, and other intangibles. As a part of the acquisition the Company obtained the right to distribute certain other related DuPont products in North America. DuPont will distribute certain of the newly acquired Neogen products in other important international markets. Consideration for the purchase was $7,000,000 with potential additional payments of up to $5,000,000 based upon future revenues. On a preliminary basis, the purchase price has been assigned to intangible assets.

Each of the above acquisitions have been integrated into the Lexington, Kentucky operations and are expected to be strong synergistic fits with the Company s Animal Safety product line. Results of operations have been included as of the date of acquisition.

On June 3, 2008, Neogen Corporation formed a subsidiary in Mexico, Neogen LatinoAmerica SPA to acquire its former distributor. The new business is 40% owned by Neogen Corporation s former Mexican distributor in Mexico, with the remainder owned by Neogen. The new company will distribute the Company s food and animal safety products throughout Mexico. On a preliminary basis the consideration of $672,000 was allocated $462,000 to current assets, $30,000 to fixed assets and the remainder to intangible assets.

**10. LONG TERM DEBT**

The Company maintains a financing agreement with a bank (no amounts drawn at February 28, 2009 or May 31, 2008) providing for an unsecured revolving line of credit of $10,000,000. The interest rate is LIBOR plus 125 basis points (rate under terms of the agreement was 1.73% at February 28, 2009). Financial covenants include maintaining specified funded debt to EBITDA and debt service ratios, each of which are complied with at February 28, 2009.

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**11. Fair Value Measurements**

Effective June 1, 2008, the Company adopted the provisions of FASB Statement No. 157, *Fair Value Measurements,* for financial assets and liabilities measured on a recurring basis. This Statement applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis and establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. There was no impact to the Consolidated Financial Statements as a result of the adoption of this Statement. This Statement requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

The following table summarizes the valuation of the Company s financial instruments by the above pricing categories as of February 28, 2009 (in thousands):

| | Total | Quoted Prices In Active Markets (Level 1) | Prices With Other Observable Inputs (Level 2) | Prices With Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents (1) | $ 13,731 | $ 13,731 | | |
| | $ 13,731 | $ 13,731 | | |
| Liabilities: | $ | $ | $ | $ |
| | $ | $ | $ | $ |

(1) Cash equivalents are bank certificates of deposits in denominations of $250,000 or less and maturities of 90 days or less.

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**PART 1 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 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 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.

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

**Revenue Recognition**

Revenue from sales of products is recognized at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership, which is generally at the time of shipment. Where right of return exists, allowances are made at the time of sale to reflect expected returns based on historical experience.

**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 possible losses on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information, such as changes in overall changes in customer credit and general credit conditions. Actual collections can differ from historical experience, and if economic or business conditions deteriorate significantly, adjustments to these reserves could be required.

**Inventory**

A reserve for obsolescence is established 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 amount of reserve required to record inventory at lower of cost or market may be adjusted as condition s change. Product obsolescence may be caused by shelf life expiration, discontinuation of a product line, or replacement products in the market place or other competitive situations.

**Valuation of Intangible Assets and Goodwill**

Management assesses goodwill and other non-amortizable intangible assets for possible impairment on no less often than an annual basis. This test was performed in the fourth quarter of fiscal 2008 and it was determined that no impairment exists. In the event of changes in circumstances that indicate the carrying value of these assets may not be recoverable, management will make an assessment at any time. Factors that could cause an impairment review to take place would include:

- Significant underperformance relative to expected historical or projected future operating results.
- Significant changes in the use of acquired assets or strategy of the Company.
- Significant negative industry or economic trends.

When management determines that the carrying value of intangible assets may not be recoverable based on the existence of one or more of the above indicators of impairment, the carrying value of the reporting unit s net assets is compared to the projected discounted cash flows of the reporting unit using a discount rate commensurate with the risk inherent in the Company s current business model. If the carrying amounts of these assets are not recoverable based upon a discounted cash flow analysis, such assets are reduced by the estimated shortfall of fair value to recorded value. Changes to the discount rate or projected cash flows used in the analysis can have a significant impact on the results of the impairment test.

**Equity Compensation Plans**

Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment , (SFAS 123(R)) addresses the accounting for share-based employee compensation. Further information on the Company s equity compensation plans, including inputs used to determine fair value of options is disclosed in Note 6 to the consolidated financial statements. SFAS 123(R) requires that 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.

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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 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 would 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 ones produced by the model applied and the inputs used.

**New Accounting Pronouncements**

See note 7 to Interim Consolidated Financial Statements.

**Results of Operations**

**Executive Overview**

When compared to the prior year Neogen Corporation revenues increased by 11% to $27.8 million and by 17% to $87.8 million for the quarter and nine-month periods ended February 28, 2009. Food Safety sales increased by 2% and 7% and Animal Safety sales increased by 20% and 29% in the quarter and in the nine-month periods.

Exclusive of the revenues from the Kane Enterprises, Rivard and DuPont acquisitions (see note 9 to Interim Consolidated Financial Statements in this filing), overall revenues decreased 1% in the quarter and increased 5% in nine-month period. Revenues were affected by the strengthening of the dollar versus western European currencies, inventory adjustments by distributors, and other factors. Excluding the impact of currency translation, sales growth for the third quarter and on a year-to-date basis would have been 15% and 19% respectively. Gross margins decreased from 50.3% in the February 2008 quarter to 46.8% in the February 2009 quarter and decreased from 52.0% to 50.0% on a year-to-date basis. Changes in product mix, including the effect of acquisitions, and changing currency translation rates were the biggest factors in the decreased gross margins. Operating margins decreased in the quarter from 15.8% to 12.8% and in the nine-month period from 17.7% to 17.2%. Operating margin changes were primarily the result of changes at the gross margin level.

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Revenues for the three and nine-months ended February 28, 2009, compared to the three and nine-months ended February 29, 2008 follow:

| | Three Months Ended February 28/29 | | Increase | |
|---|---|---|---|---|
| | 2009 | 2008 | (Decrease) | % |
| Food Safety | | | | |
| Natural Toxins, Allergens & Drugs Residues | $ 7,114 | $ 7,073 | $ 41 | 1% |
| Bacteria & General Sanitation | 4,249 | 3,771 | 478 | 13% |
| Dehydrated Culture Media & Other | 2,810 | 2,991 | (181) | -6% |
| | 14,173 | 13,835 | 338 | 2% |
| Animal Safety | | | | |
| Life Science & Equine Vaccines | 1,724 | 2,080 | (356) | -17% |
| Rodenticides & Disinfectants | 4,878 | 1,823 | 3,055 | 168% |
| Veterinary Instruments & Other | 7,065 | 7,442 | (377) | -5% |
| | 13,667 | 11,345 | 2,322 | 20% |
| Total Sales | $ 27,840 | $ 25,180 | $ 2,660 | 11% |

| | Nine Months Ended February 28/29 | | Increase | |
|---|---|---|---|---|
| | 2009 | 2008 | (Decrease) | % |
| Food Safety | | | | |
| Natural Toxins, Allergens & Drug Residues | $ 22,916 | $ 21,647 | $ 1,269 | 6% |
| Bacteria & General Sanitation | 13,813 | 12,034 | 1,779 | 15% |
| Dehydrated Culture Media & Other | 8,372 | 8,387 | (15) | 0% |
| | 45,101 | 42,068 | 3,033 | 7% |
| Animal Safety | | | | |
| Life Science & Equine Vaccines | 5,899 | 5,746 | 153 | 3% |
| Rodenticides & Disinfectants | 15,447 | 8,057 | 7,390 | 92% |
| Veterinary Instruments & Other | 21,384 | 19,427 | 1,957 | 10% |
| | 42,730 | 33,230 | 9,500 | 29% |
| Total Sales | $ 87,831 | $ 75,298 | $ 12,533 | 17% |

In the Food Safety Segment, Natural Toxins, Allergens & Drug Residue product sales increased 1% in the third quarter and 6% on the nine-month year-to-date basis. Bacteria & General Sanitation product sales increased 13% in the quarter and 15% in the nine-month period. Dehydrated Culture Media & Other product sales declined 6% in the quarter but remained unchanged in the nine-month period.

On an overall basis if currency had been converted at the same rate as the comparable prior year periods, Food Safety Segment sales would have increased $1.1 million (10%) for the quarter and $1.5 million (11%) for the nine-month period. Sales reported in Pound Sterling by Neogen Europe Ltd., the Company s Scotland based European subsidiary, increased 30% in both the quarter and the nine-month periods. The Natural Toxins, Allergens & Drug Residues category was negatively affected in the third quarter and year-to-date periods by inventory adjustments taken by an international distributor customer in December of 2008. January and February sales to this customer returned to historical patterns. The 13% quarterly and 15% year to date growth in the Bacteria & General Sanitation category was paced by impressive customer acceptance of the Soleris rapid microbial test system for spoilage organisms that grew 16% in the quarter and year-to-date periods and the AccuPoint test system that grew by 34% for the quarter and 15% year-to-date. Constant dollar sales increases were broad based with effective selling programs in place for the markets Neogen serves. In addition, Neogen s wide product offerings continue to be well accepted in the marketplace and the Company is benefitting from accelerating worldwide concerns about safety of food.

In the Animal Safety Segment, Life Sciences & Equine Vaccine product sales decreased 17% in the third quarter and increased 3% for the year-to-date periods. Rodenticide & Disinfectant sales increased by 168% in the quarter and by 92% on a year-to-date basis. Veterinary Instrument & Other product sales decreased by 5% in the quarter and increased by 10% in the first nine months of the fiscal year. Exclusive of the sales acquired in the Kane, Rivard and DuPont acquisitions, sales of Animal Safety products decreased 5% over the prior year in the third quarter and increased 3% in the nine-month period.

Life sciences & Equine Vaccines increased for the three and nine-month periods from new direct international customers and instrument placements for forensic customers. Following an outbreak of equine botulism, vaccine sales were abnormally strong in the second quarter and this second quarter performance is believed to have been a major factor in the decreased vaccine sales in the third quarter. On a year-to-date basis vaccine sales are up 9%. Rodenticides & disinfectants increased for the three-month and nine-month periods following the acquisition of the product line from DuPont. Sales of cleaning and disinfectant products acquired from DuPont have exceeded expectations and are expected to continue to provide growth opportunities going forward. Of particular note are the opportunities for marketing of a complete line of biosecurity products to DuPont s former customers. Sales of the Neogen s rodenticide products increased in both the quarter and year-to-date periods. On an overall basis and particularly in the third quarter, Veterinary Instruments & Other product sales were affected by the conscientious efforts of animal health distributors to reduce inventory levels. In addition the FDA reversed its policy on Isoxuprene and disallowed its importation into the United States and effectively removed it from sale into the equine market. Sales lost as a result of this change were $200,000 in the quarter and over $500,000 year-to-date. Important vitamin injectables were backordered by the supplier during the third quarter and Neogen had $425,000 in backordered sales as of February 28, 2009. It is not currently clear when, the vitamin injectables will be available for sale.

Gross margins decreased from 50.3% in the third quarter of the prior year to 46.8% in the third quarter of the current year and declined from 52.0% to 50.0% for the year-to-date period. The changes principally resulted from changes in product mix including the affect of the Kane, Rivard and DuPont acquisitions. Products from these acquisitions generally have initial margins that are less than average margins of existing Company products. Management expects that recovery of margins will be in part realized as the disinfectant products acquired from DuPont transition from buy-sell to internally produced products.

Operating income decreased in the quarter and the nine-month periods from 15.8% to 12.8% and from 17.7% to 17.2% respectively. To a great degree, reduced gross margins flowed through to the operating income level during the three and nine month periods of fiscal 2009.

Sales and Marketing as a percentage of revenues decreased slightly in the second quarter from 19.6% to 19.5% and decreased on a year to date basis from 20.0% to 19.4%. The decrease in selling cost as a percent of revenue reflects the increased sales without a commensurate increase in selling and distribution costs.

General and Administrative expense as a percentage of revenues declined in the third fiscal quarter from 10.8% to 9.9% and from 10.5% to 9.5% on a year-to-date basis. Changes in administrative expense as a percentage of revenue represent increased sales without a commensurate increase in expense.

Research and Development expense as a percentage of sales as compared with the prior fiscal year increased from 4.0% to 4.5% in the three-month period and increased from 3.7% to 3.9% in the nine-month period. In June 2008 management announced that it intended to increase investment in research and development to ensure the continued development of competitive products.

Income taxes decreased slightly as percentage of income before tax in the quarter, from 33% to 32% but remained constant at 35% on a year-to-date basis. This decrease in the quarters as compared to year-to-date is the result of adjustments to reflect experience following annual tax filings.

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**Financial Condition and Liquidity**

Proceeds of $4,559,000 were realized with the exercise of 240,000 employee stock options and the issuance of 13,000 shares under the Employee Stock Purchase Plan during the nine months ended February 28, 2009. Despite increases in accounts receivable, and inventories, $6,371,000 cash was generated from operations. Management continues to be vigilant in monitoring of accounts receivable balances. With added international sales that are made on longer terms, days outstanding in accounts receivable have increased the company experienced when compared with prior periods. Actual aging statistics, however, have improved. Inventories increased from destocking at large retail customers and at distributors and experienced some increases in inventory of buy-sell items due to long lead times required to ensure adequate supply. Inflation and changing prices do not generally have a material effect on operations. Cash used in the formation of the company s Mexican subsidiary Neogen LatinoAmerica SPA and in the DuPont acquisition amounted to approximately $7,672,000.

Management believes that the Company s existing cash balances at February 28, 2009, 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 its mission statement. Accordingly, the Company may be required to issue equity securities or enter into other financing arrangements for a portion of its future financing needs.

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**PART 1 FINANCIAL INFORMATION**

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

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

Foreign exchange risk exposure arises because Neogen 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, sales in certain foreign countries as well as certain expenses related to those sales 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 and the Euro. When the U.S. dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs. Additionally, previously recognized sales in the course of collection can be affected positively or negatively by changes in exchange rates. The Company uses derivative financial instruments to manage the economic impact of fluctuations in certain currency exchange rates. The Company enters into forward currency exchange contacts to manage these economic risks. These contracts are adjusted to fair value through earnings.

Neogen has assets, liabilities and operations outside of the United States that are located primarily in Ayr, Scotland where the functional currency is the British Pound. The Company s investment in its foreign subsidiary is considered long-term.

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**PART 1 FINANCIAL INFORMATION**

**ITEM 4. 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, 2009 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 that evaluation, the Certifying Officers concluded that the Company s disclosure controls and procedures are effective to bring to the attention of the Company s management the relevant information necessary to permit an assessment of the need to disclose material developments and risks pertaining to the Company s business in its periodic filings with the Securities and Exchange Commission. There was no change to the Company s internal control over financial reporting during the three months ended February 28, 2009 that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

**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 the legal matters will not have a material effect on its future results of operations or financial position.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

In December 2008, the Company s Board of Directors authorized the purchase of up to 500,000 shares of the Company s Common Stock. 50,000 shares were purchased under this buy-back program subsequent to February 28, 2009, at an average cost of $18.53 per share.

**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, 3, 4 and 5 are not applicable 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: April 9, 2009

/s/ James L. Herbert
James L. Herbert
Chairman & Chief Executive Officer

Dated: April 9, 2009

/s/ Richard R. Current
Richard R. Current
Vice President & Chief Financial Officer

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